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EVALUATION OF EARNINGS MANAGEMENT IN RELATION TO THE QUALITY OF FINANCIAL REPORTING: A COMPARATIVE ANALYSIS OF THE AGRICULTURE AND MANUFACTURING SECTORS

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SUMMARY

This study investigates earnings management and its determinants in the agricultural and manufacturing sectors, with the aim of promoting the quality of financial reporting. The sample includes 1,381 actively operating companies in AP Vojvodina, Republic of Serbia, in the period from 2019 to 2021. Earnings management activities are identified using discretionary accruals computed with modified Jones model. Panel data analysis reveals that profitability and company size exert a positive and statistically significant influence on earnings management practices. Conversely, sales growth demonstrates a negative and statistically significant impact on earnings management. Furthermore, the analysis across the studied years indicates statistically significant differences in the prevalence of earnings management practices. However, the study found no significant differences in earnings management practices between the agriculture and manufacturing sectors. The significance of this study lies in its potential to provide valuable insights for investors, regulators, and financial analysts, helping them in making informed decisions. Moreover, it contributes to refinement of financial reporting standards and enforcement mechanisms, and enables a more accurate assessment of the financial health and performance of companies in both industries. The research also endeavors to identify sector-specific factors influencing earnings management dynamics, with the aim of enhancing transparency and optimizing decision-making processes in the financial environment.

Key words:

earning management, modified Jones model, firm-specific factors, financial reporting quality, panel analysis, Vojvodina

Abbreviations:

AP - Autonomous Province

INTRODUCTION

The primary objective of the financial reporting system is to provide a timely, objective, true and accurate presentation of the reporting entity's performance. Accounting, being crucial in financial reporting, serves as a primary source of economic information for decision makers. Investors are interested in financial reports when assessing a company's success or failure, as growing economic value for investors is a direct effect of a company's financial success (Supardi & Asmara, 2019). Earnings management is a complex and diverse phenomenon, present in all companies regardless of the business sector, size or country in which their headquarters are located (Strakova, 2020). Identifying earnings management activities poses a challenge given the wide range of approaches in use. Earnings manipulation can be carried out through accruals or through alteration of real activities (Pajuste et al., 2020). The objective of earnings management, when grounded in real transactions, is to directly impact the basic

operational activities of the organization in order to achieve the desired financial outcomes. This may involve modifying the terms of sales or purchases to influence the timing and value of the calculated revenues and expenses. Earnings manipulation through accruals refers to deliberate activities taken within the limits of accounting regulations to achieve desired outcomes. It involves deliberate alteration of financial statements and use of different accounting techniques to hide certain accounting information or make it difficult to detect. The objective of such measures is to generate misinformation regarding the financial prosperity of the company (Miletić & Vučković Milutinović, 2020). Earnings management is the conscious selection of specific methods for handling accounting transactions and making economic decisions that may affect company's financial flows, investments or production (Tica et al., 2023). The primary objective of these actions is thus to demonstrate inaccurate figures of income and profit as presented in the financial statements. The goal of these actions is to alter the information and gain influence over the decision makers who depend on such financial information (El Diri, 2018). In other words, earnings management is the practice of management characterized by subjective assessments in recording business transactions and alterations in financial statements (Siekelova et al., 2020), aimed to mislead stakeholders regarding the financial performance of companies. This practice is motivated by the intention to influence negotiations that rely on accounting information. The underlying motives for these manipulative activities may vary widely (Goel, 2018). Hence, financial performance management serves not only as a topic of scientific investigations, but also as a legitimate and favored approach to business growth employed by corporate executives (Thanh et al., 2020).

This research aims to determine the impact of firm-specific variables on earnings management and to investigate potential differences in earnings management practices between the agricultural and manufacturing sectors. There are several reasons why earnings management levels may differ in the agriculture and manufacturing sectors. Agricultural activities often have a seasonal nature, characterized by intensive operations during specific periods of the year such as planting and harvesting. Consequently, fluctuations in income throughout the year may necessitate adjustments in the approach to earnings management. Furthermore, agriculture is highly sensitive to climate conditions, as unpredictable factors such as droughts or floods can significantly impact yields and profitability. Earnings management may be useful in adjusting financial reports to unexpected changes. Moreover, agriculture is often subject to fluctuations in raw material prices (e.g. grain prices, livestock feed), which can affect overall production costs, potentially motivating earnings management to balance financial reports.

The research framework in this study is developed in four phases. The initial phase involves a review and comparative evaluation of the findings from prior studies regarding earnings manipulation. The second chapter provides an overview of the data structure, a summary of the variables and a description of the methods employed. The third section of the paper presents the research findings, together with discussion of their implications and their relation to prior research. The final phase of the paper includes the research conclusions, its limitations and recommendations for future studies.

LITERATURE REVIEW

Earnings management is one of the most extensively discussed topics and continues to be a subject of sustained interest in accounting literature (Durana et al., 2022). The effects of firm characteristics on earnings management practices have been extensively examined among scholars. However, studies conducted in developing countries, including the Republic of Serbia, remain relatively sparse. The economy of the Republic of Serbia witnessed substantial growth owing to diligent efforts of the government to enhance the business climate. However, the economy is still partially dependent on other countries, and the capital market is in early stages of development. The stock market is limited in scope and concentrated on individual stock exchanges, while the bond market is minor, insufficient, and oriented towards state authorities as issuers. All these factors pose significant challenges to the quality of financial reporting.

Research dealing with detection of earnings management through discretionary accrual models has contributed to significant progress in prevention of manipulative actions. Jones (1991) is one of the pioneering scholars who introduced profound change in this domain by trying to control for non-discretionary variables using regression analysis. This author investigated the linear relationship between total accruals and changes in selected factors such as sales revenue and the value of tangible fixed assets (Kliestik et al., 2021). Dechow et al. (2012) presented modifications to the Jones model, diverging from its original framework. They introduced a new dimension in the modified model – the change of claims, which they recognized as an important aspect in identifying potential manipulations. In particular, they highlighted activities that would affect sales, such as changes in payment terms and client-approved terms of sale. Although a wide range of models and methodologies are currently available in the literature, the modified Jones model stands out as the most widely applicable model. This model has gained the status of preferred tool in various fields and industries due to its efficiency and adaptability (Lee & Vetter, 2015).

Earnings management is a challenging and important area of finance and corporate governance. Considering the economic effects that earnings management can have on both corporations and the market as a whole, this area is gaining increasing attention. The following literature review aims to present previous research findings on the impact of financial indicators on earnings management, providing deeper understanding of the motivation for creative behavior.

Profitability demonstrates a company's capacity to generate profit and it is one of the most widely used indicators of financial analysis among investors and analysts. The relationship between profitability and earnings management is complex, exhibiting different dynamics in different organizations and industries. Profitability can be both a motivation and a constraint for earnings management, therefore requiring careful analysis. If profitability is low, management may face greater pressure to improve financial results, potentially resulting in more incentive for earnings management to show better business results. On the other hand, companies with high profitability may be subject to stricter regulatory standards and oversight. Firnanti et al. (2019) investigated performance management factors in a sample of 64 listed manufacturing companies, finding that profitability has a positive and statistically significant effect on earnings management. These findings align with analyses conducted by Lin et al. (2012), Agrawal & Chatterjee (2015), Das et al. (2018) and Chen et al. (2020). On the other hand, Iatridis & Kadorinis (2009), Supardi & Asmara (2019), Cudia et al. (2021) concluded that profitability has a negative yet statistically insignificant effect on earnings management.

In alignment with the review of findings of existing research, the following hypothesis is formulated:

Hypothesis 1: *Profitability significantly affects earnings management, with higher profitability resulting in less earnings management.*

Liquidity refers to the degree of availability of cash or short-term funds that can be used to pay due obligations. Liquidity may influence various aspects of earnings management practices. Companies with limited liquidity must resort to credit lines to obtain additional resources. Consequently, they may strategically manage earnings to improve their creditworthiness. In addition, investors' perceptions and requirements regarding liquidity may vary. In a study examining 14 banks listed on the Tehran Stock Exchange, Moghaddam & Abbaspour (2017) demonstrated that liquidity has a positive and significant effect on application of manipulative actions related to the company's financial result. Conversely, in an investigation into the earnings management motivations of 239 UK-based companies listed on the London Stock Exchange, Iatridis & Kadorinis (2009) revealed a positive yet statistically insignificant influence of liquidity on earnings management.

Based on the examination of previous research data, the following hypothesis is formulated:

Hypothesis 2: *Liquidity significantly affects earnings management, with greater liquidity resulting in less earnings management.*

Company size, as measured by asset size, could be an important determinant of performance management. Large companies typically have more financial resources and capacity to manage earnings compared to small companies. This includes greater availability of financial experts, IT systems and data analysis tools. On the other hand, large companies that are listed on the stock exchange or operate in international markets are more subject to compliance with international financial reporting standards, which can result in closer control of manipulative practices. Moreover, corporations often develop systems of internal control and oversight to monitor and suppress earnings management, including measures to prevent manipulation of financial statements. Supardi & Asmara (2019) suggested that an increase in company size could reduce earnings management practices, based on the results of a panel analysis showing a negative and significant effect of company size on manipulative activities. On the other hand, in a study conducted in the real estate sector, Cudia et al. (2021) found a positive and statistically significant effect of company size, implying that large real estate companies tend to apply less conservative accounting techniques, with a motive of income equalization in order to avoid fluctuation or reduction of reported earnings. Lin et al. (2012), in their study on the impact of tax policies on earnings management incentives in emerging markets, also concluded that company size positively and significantly affects discretionary accruals, which is consistent with the results of Khanh & Thu's (2019). However, Das et al. (2018), Firnanti et al. (2019) and Agrawal & Chatterjee (2015) argue that company size is not a significant factor influencing earnings management.

In accordance with the outcomes of the research that has already been conducted, the following hypothesis has been developed:

Hypothesis 3: *Company size significantly affects earnings management, with larger company size resulting in more earnings management.*

The capital structure refers to the extent of borrowed funds in company's sources of financing. Companies with more debt in their capital structure may be more exposed to financial risks. Capital structure can influence the availability of funds for investment, as companies with more equity may have better opportunities for investment in business growth and development. On the other hand, when the capital structure is dominated by borrowed sources accompanied by clauses that impose restrictions on companies, such as maintaining the level of certain financial indicators, the management may decide to accounting manipulation to keep the value of the indicators within the desired limits. Furthermore, excessive indebtedness can increase financial risks, including bankruptcy risks. Therefore, in order to maintain the confidence of investors and the market in general, companies may resort to earnings management to mask instabilities. In a study investigating the influence of capital structure and bank liquidity on financial performance management in Tehran, Moghaddam & Abbaspour (2017) demonstrated a positive and statistically significant relationship between capital structure and manipulative behavior, which is consistent with the findings by Lin et al. (2012), Das et al. (2018) and Khanh & Thu (2019). However, Firnanti et al. (2019) reported a negative impact of capital structure on earnings management, while Cudia et al. (2021) and Agrawal & Chatterjee (2015) found capital structure to be non-significant in determining discretionary accruals. The following hypothesis is developed in accordance with the findings of the research that has already been conducted:

Hypothesis 4: *Capital structure significantly affects earnings management, with larger capital structure resulting in more earnings management.*

Lastly, it is necessary to analyze how growth of sales revenue affects the need for manipulation. In general, higher revenues provide a company with a favorable financial outlook, without the need to manage accounting data. On the other hand, if management's earnings or bonuses are linked to the level of sales achieved, it can lead to manipulation in months or years when certain targets are not met. Khanh & Thu (2019) analyzed 241 joint-stock companies, revealing a negative and statistically significant impact of sales revenue growth compared to the previous year. They posit that the improvement of this indicator is usually associated with good business performance, which reduces the pressure on managers to achieve the goals. Furthermore, the authors suggest that managers can limit manipulative tactics aimed at increasing revenue after a certain level, as these can lead to further expectations of higher profitability, putting pressure on future performance. These results are in accordance with the findings by Firnanti et al. (2019).

The following hypothesis is developed in accordance with the evaluation of previous research:

Hypothesis 5: *Sales growth significantly affects earnings management, with greater sales growth resulting in less earnings management.*

In the realm of scientific inquiry, considerable attention has been directed towards examining disparities in earnings management practices across different sectors. Numerous scientific investigations have delved into the nuanced variations in earnings management strategies, seeking to unravel the distinct patterns and factors shaping these practices within and between sectors. Valaskova et al. (2021) concluded that sector is a crucial driver of earnings management. Their analysis identified income-decreasing earnings management patterns within A, C, D, G, and L sectors. Goel & Kapoor (2022) employed panel data to investigate the significance of sector categorization in relation to engagement in earnings management, revealing that the industry's relative structure has a substantial influence on the prevalence of earnings management activities. Gajdosikova et al. (2022) explored the direction and extent of earnings management across different sectors, as per NACE 2 classification, determining notable distinctions in earnings management practices across diverse industries. Durana et al. (2022), utilizing cluster analysis to estimate earnings management in Slovak, Czech, Hungarian and Polish firms across 19 industries over a 5-year period, identified the dependencies among industries.

Based on the assessment of prior research, the subsequent hypothesis is formulated:

Hypothesis 6: *There are significant differences in the practice of earnings manipulation between agriculture and manufacturing industry.*

MATERIAL AND METHODS

The research aims to empirically explain the influence of financial indicators on the earnings management among companies based in the Autonomous Province of Vojvodina, operating according to NACE Rev. 2 classification (Office for Official Publications of the European Communities), within the sectors of Agriculture, Forestry and Fishing (sector A) and within the Manufacturing Industry (sector C). The data sources comprise disclosed official financial reports collected from the official websites of the Serbian Business Registers Agency. The sample includes

1,381 actively operating companies headquartered in AP Vojvodina for the period from 2019 to 2021, yielding 4,143 observations. The final distribution of the sample companies by sector, size and legal form is shown in Table 1 below. Notably, the sample is dominated by medium-sized legal entities operating in the processing industry and structured as limited liability companies.

Table 1. Distribution of research sample by sector and firm size

Distribution of sample	Number of companies in APV	%
Sector		
Agriculture, forestry and fishing (sector A)	448	32.44
Manufacturing (sector C)	933	67.56
Total	1,381	100.00
Firm size		
Large	289	20.93
Medium	793	57.42
Small	299	21.65
Total	1,381	100.00
Firm legal form		
Limited liability company	1,154	83.56
Joint-stock company	66	4.78
Entrepreneur	161	11.66
Total	1,381	100.00

In line with the research objective, the empirical analysis aims to determine the impact of financial indicators on earnings management. The Jones Model is considered suitable for calculating discretionary accruals owing to its systematic approach in distinguishing between normal business-related accruals and those potentially stemming from managerial decisions aimed at influencing reported earnings. It focuses on separating accruals into discretionary and non-discretionary components. The discretionary accruals are those which surpass explanations offered by economic factors. By isolating discretionary accruals, the Jones Model helps analysts and researchers to identify instances of potential earnings management or manipulation by management. The model often involves time-series analysis, examining changes in accruals over multiple periods to identify patterns or abnormal behaviors. The formulation of the Jones model for discretionary accrual is, as proposed by Kliestik et al. (2021), as follows:

$$TA_{it} = \Delta REC_{it} + \Delta INV_{it} + \Delta PAY_{it} - DEP_{it}$$

$$\frac{NDA_{it}}{A_{it-1}} = \frac{TA_{it}}{A_{it-1}} = +\alpha_0 \frac{1}{A_{it-1}} + \alpha_1 \frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} + \alpha_2 \frac{PPE_{it}}{A_{it-1}} + \varepsilon_{it}$$

Where:

TA_{it} - the total accruals of the company i in year t

ΔREC_{it} - the annual change in the value of the company's receivables i in year t

ΔINV_{it} - the value of the company's inventory i in year t

ΔPAY_{it} - the amount of liabilities to the company's suppliers i in year t

DEP_{it} - the amount of depreciation of the company i in year t

NDA_{it} - non-discretionary accruals of the company i in year t

A_{it-1} - the total assets of the company i in year $t-1$

ΔREV_{it} - the annual change in the value of the company's income i in year t

PPE_{it} - the value fixed assets of the company i in year t

ε_{it} - the random error.

Table 2 below provides detailed descriptions of dependent and independent variables used for testing the regression model.

Table 2. Overview of model variables

Type	Name	Abbreviation	Formulation	Predicted effect
Dependent	Discretionary accruals	DCA	According to Modified Jones model	
Independent	Profitability	ROA	Net Profit / Total Assets	-
	Liquidity	LIQ	Short-term assets / Short-term liabilities	-
	Size	SIZE	Ln (Total Assets)	+
	Capital structure	CS	Total Debt / Total Assets	+
	Growth	SALES	$(\text{Sales}_t - \text{Sales}_{t-1}) / \text{Sales}_t$	-

Assessing the effects of the determinants on the dependent variable will be carried out using panel data analysis. Accordingly, the regression equation will be examined in the study. Furthermore, variance analysis will be employed to explore the presence of statistically significant differences in earnings management between companies from sector A and sector C.

RESULTS AND DISCUSSION

Statistical examination of the reliability of financial disclosure in terms of earnings management begins by examining descriptive statistics of financial metrics. Descriptive statistics offer a comprehensive analysis of the basic attributes of a dataset prior to conducting statistical analyses for model evaluation. Table 3 presents the findings of the descriptive statistical analysis. Given the presence of extremes in the dataset, it is more appropriate to evaluate the median values as indicators of the general trend rather than the numeric mean. The central value of the earnings management indicator is negative, suggesting that the majority of the enterprises in the sample engage in declining financial earnings. The median profitability, measured by return on assets, stands at 2.5%, thus falling below the expected benchmark of 10 percent. This figure suggests a limited level of financial success among the sampled enterprises. There is an insufficient degree of liquidity, as indicated by the average value of the current ratio, which is recorded at 1.479, significantly below the referent value of 2. This indicates that the businesses have a diminished capacity to fulfill their short-term debts by using accessible funds. Furthermore, the examination of the financial structure reveals that the investigated firms predominantly follow traditional funding practices by maintaining an appropriate balance of equity and debt. The findings suggest that the capital structure is barely skewed towards internal resources, as evidenced by a median figure of 0.444. The median number of the sales growth measure reflects a favorable increase in turnover up to 6.5%, indicative of a tendency towards sustainability.

Table 3. Findings of the descriptive statistical analysis

Variable	Median	Mean	Minimum	Maximum	Standard deviation
Discretionary accruals	-0.006	-0.000	-0.696	2.332	0.133
Profitability	0.025	0.033	-0.980	0.705	0.085
Liquidity	1.479	3.694	0.005	291.888	11.957
Size	14.467	14.763	12.767	20.031	1.380
Capital structure	0.444	0.657	0.001	54.870	1.588
Growth	0.065	0.182	-1.000	89.223	2.096

Estimating the course of the linear relationship among the variables is determined by the Pearson's correlation coefficient matrix presented in Table 4. The matrix identifies a positive and significant connection between earnings smoothing measured by discretionary accruals and the profitability and firm size, while a negative linear association is identified between discretionary accruals and sales growth. Common to both earnings management and profitability is the application of various strategies to increase revenue. Effective organization of these aspects could contribute to increased sales. Additionally, larger companies often have more complex financial structures and operations. Earnings management may be more demanding in such complex environments, which would create a greater tendency for manipulation. In addition, larger firms may have more resources at their disposal, including financial experts and access to financial reporting and accounting techniques, which could be used for earnings manipulation. Regarding the negative correlation between manipulative actions and sales revenue growth, it is observed that when a firm achieves growth in sales, it consequently experiences a rise in revenue. This could

mitigate the necessity of actively managing earnings to meet objectives or expectations, as growth inevitably leads to increased earnings.

Table 4. Results from the Pearson's correlation matrix

Variable	Discretionary accruals	Profitability	Liquidity	Size	Capital structure	Growth
Discretionary accruals	1.000					
Profitability	0.1679**	1.000				
Liquidity	-0.0154	0.1679**	1.000			
Size	0.0419**	-0.0154	-0.0128	1.000		
Capital structure	-0.0002	0.0419**	-0.0618**	-0.1104**	1.000	
Growth	-0.0330*	-0.0002	0.0082	-0.0076	-0.0011	1.000

Statistical significance: ** - 1%, * - 5%

Before proceeding to the empirical section concerning the utilization of the panel data method, it is of vital importance to assess potential violations of the presumptions inherent to using this methodology. It is essential to conduct tests to verify one of the fundamental assumptions, namely, the absence of interrelationships among the independent factors. Table 5 presents the outcomes of the Variance Impact Factors test.

Table 5. Evaluation the evidence of multicollinearity

Variable	Variance Impact Factor
Profitability	1.01
Liquidity	1.01
Size	1.02
Capital structure	1.02
Growth	1.00

It may be inferred that there are no instances of multicollinearity in the model since all the variables' VIF coefficients are under 10. In addition, two other core panel study premises – the existence of heteroskedasticity and autocorrelation must be confirmed. Table 6 displays the test findings.

Table 6. The examination of autocorrelation and heteroskedasticity presence

Test	t test	p value
Wooldridge test	0.099	0.752
Breusch-Pagan / Cook-Weisberg test	61.87	0.000

A p-value exceeding 5% significance threshold of the Wooldridge test confirms the absence of autocorrelation. The Breusch-Pagan Cook-Weisberg test is carried out to determine the presence of heteroskedasticity in the collected data. Heteroskedasticity is identified when the p-value falls below 5% significance threshold. Consequently, it becomes necessary to alter the regression model to incorporate the estimation of robust standard errors. The outcomes of the altered panel regression models are presented in Table 7.

Table 7. Results of the panel regression model after transformation

Variable	Coefficient	p value
Profitability	0.212	0.022
Liquidity	0.000	0.573
Size	0.184	0.000
Capital structure	-0.002	0.742
Growth	-0.007	0.000
Const	-2.719	0.000
No. of observations	4,143	
F test	15.220	
p value	0.000	

The results obtained by evaluating the transformed model reveal that profitability has a positive and statistically significant effect on earnings management, thereby rejecting Hypothesis 1. These results are consistent with the findings by Lin et al. (2012), Agrawal & Chatterjee (2015), Das et al. (2018), and Firnanti et al. (2019). Although this impact is expected to be negative, given the assumption that profitable companies do not need to engage in manipulative activities, there are several reasons that corroborate the analysis results. Firstly, in highly profitable

companies, it is sometimes easier to hide unfavorable financial results, as it is possible to neutralize losses of certain business segments with high revenues from other business segments. Secondly, high profitability typically maintains a positive market reputation of the company and high share prices. This could motivate management to continue manipulative activities to maintain confidence among investors and other market participants. In addition, earnings management in profitable companies may be less obvious because profits are seen as a natural consequence of successful operations, making irregularities difficult to detect. High profitability provides the company with more opportunities to manage the financial results without attracting attention.

Furthermore, the analysis results revealed a positive and statistically significant association between firm size and discretionary accruals, thus refuting Hypothesis 3. This observation aligns with previous research by Liu et al. (2012), Khanh & Thu (2019), and Cudia et al. (2021). Larger firms typically have more resources available, including more financial and accounting professionals, which may facilitate application of earnings management practices. Also, larger firms often have more complex financial structures and operations, such as accounts, transactions, and data, which may provide more opportunities for earnings management. In addition, large companies may operate in multiple business segments or geographic regions, which can facilitate potential transfer of earnings between these segments or locations. Furthermore, in large organizations, financial data are reviewed at multiple management levels before public disclosure, so longer reporting chains may provide managers with more opportunities for manipulation. The primary motivation for management to engage in earnings management is often related to the contracted compensations, which are directly dependent on the level of achieved financial performance. Regarding the growth indicator, the empirical results revealed a negative and statistically significant effect on earnings management, confirming Hypothesis 5. This finding is consistent with Firnanti et al. (2019) and Khanh & Thu (2019). Sales growth typically does not positively affect earnings management because it involves unethical practices that can compromise transparency, trust and long-term financial growth of the company. Companies achieving sales growth often focus on growth strategies, prioritizing ethical financial reporting practices and building trust with investors and stakeholders.

To further illustrate the disparities in earnings management between Agriculture and Manufacturing sectors within AP Vojvodina, as well as potential variations across the examined years, Table 8 presents the findings of the variance analysis.

Table 8. Findings of the variance analysis.

Test	Partial SS	df	MS	F	Prob > F
Model	0.522	5	0.104	5.93	0.000
Sector	0.010	1	0.010	0.57	0.452
Year	0.456	2	0.228	12.97	0.000
Sector/Year	0.042	2	0.021	1.19	0.303
Residual	72.785	4,137	0.018		

The p-value for the sector effect is 0.452, exceeding the significance threshold of 5%, indicating no significant difference in the earnings management practices between companies operating in the agriculture and manufacturing sectors. Therefore, Hypothesis 6 is rejected. On the other hand, the p-value for the effect of years is 0.000, falling below the significance threshold, suggesting significant differences in the earnings management of companies from both sectors across the observed years. Finally, the p-value of the sector/year effect is 0.303, i.e. above the significance threshold, indicating that the influence of sector on earnings management does not differ significantly over the years. In other words, the relationship between sector and earnings management remains consistent across different years of analysis.

CONCLUSION

When evaluating the quality of financial reporting, it is necessary to investigate earnings management, which refers to the use of various accounting techniques for manipulating financial statements in order to achieve certain financial or reporting goals. Empirical investigations of companies operating in the agricultural and manufacturing sectors within the Autonomous Province of Vojvodina reveal a prevalent trend of downward earnings management among the examined firms. Assessment of firm-specific factors influencing earnings management indicates that both profitability and company size have a positive and statistically significant impact on earnings management. This suggests that larger and more profitable companies within the sector face stronger pressure to maintain consistent market expectations, leading them to present a more favorable picture of their financial performance. Moreover, the extensive resources and sophisticated management structures of such companies provide them with the capacity to employ complex accounting techniques, facilitating earnings manipulation to align with strategic objectives. On the

other hand, the empirical findings indicate a negative and statistically significant correlation between sales growth and earnings management behaviors. As companies experiencing rapid growth are subject to close scrutiny by investors and analysts, management may put more effort to build and maintain credibility. For this reason, they may adopt a more conservative approach to financial reporting to mitigate perceived risks that could potentially compromise the positive trend of turnover growth. This conservative reporting can lead to a negative relationship between sales growth and earnings management because earnings management involves unethical practices that can undermine transparency, trust, and long-term financial growth of the company.

Furthermore, the research identified no statistically significant differences in earnings management between the analyzed sectors. However, differences in earnings management practices within the sectors were observed across different years, highlighting the dynamic nature of earnings management strategies.

Despite the contributions of this study, it is important to acknowledge certain limitations. The study may not have fully accounted for the influence of changing economic, regulatory or other factors on earnings management. This limitation may hinder the generalization of the findings to different time periods or economic contexts. In addition, exclusive reliance on financial indicators may overlook other relevant factors, such as corporate governance, ethical practices or social responsibility, which could also impact earnings management.

In light of the foregoing, future research should also assess the impact of the pandemic on manipulative behaviors within the sector, considering the unique challenges and disruptions brought about by the global health crisis. In addition, future research should thoroughly explore sector-specific nuances influencing earnings management.

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