ANALYSIS OF FACTORS AFFECTING ON THE EARNINGS MANAGEMENT (EMPIRICAL STUDY ON THE MANUFACTURING COMPANY GO PUBLIC IN INDONESIA)

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ABSTRACT

Profit management or earnings management is management measures in the form of intervention in the financial reporting process with a view to improve their well-being individually and to enhance shareholder value. The earnings management report is intervened it. He manipulated the earnings management for his own benefit. This research is a replication of previous research that is aimed to analyze the factors that influence earnings management. The sample was manufacturing companies that went public listed in the Indonesian Stock Exchange during 2000-2015. The number of samples that meet the criteria is 35 companies. The main conclusion that can be drawn from the analysis of the companies doing IPOs during 2000-2015 is the size of the company, leverage, company's age, the value of the stock offering (proceeds), auditor's reputation, and the amount of the board of directors do not affect earnings management.

Keywords: Earnings management, Manufacturing company, Go public, Initial Public Offerings (IPOs), Factors affecting earnings management.

ABSTRAK

Manajemen profit atau manajemen laba merupakan tindakan manajemen yang berupa campur tangan dalam proses pembuatan dan penyusunan laporan keuangan dengan maksud untuk meningkatkan kesejahteraannya secara individu maupun untuk meningkatkan nilai perusahaan. Manajemen laba diduga muncul atau dilakukan oleh manajer atau para pembuat laporan keuangan dalam proses pelaporan keuangan suatu organisasi karena mereka mengharapkan suatu manfaat dari tindakan yang dilakukan. Penelitian ini merupakan penelitian replikasi dari penelitian sebelumnya dan bertujuan untuk menganalisis faktor-faktor yang mempengaruhi manajemen laba. Sampel penelitian ini adalah perusahaan manufakturing yang listing atau go public di Bursa Efek Indonesia dari tahum 2000-2015. jumlah sampel yang memenuhi kriteria tersebut ada 35 perusahaan. Kesimpulan utama yang bisa ditarik dari hasil analisis terhadap data perusahaan yang melakukan IPO selama tahun 2000-2015 adalah bahwa ukuran perusahaan, leverage, umur perusahaan, nilai penawaran saham (proceeds) reputasi auditor dan jumlah dewan direksi tidak mempengaruhi manajemen laba.

Kata kunci: Manajemen laba, Perusahaan manufakturing, Go public, Initial Public Offerings (IPOs), Faktor-faktor yang mempengaruhi earnings management.

BACKGROUND

The financial report is a medium of communication that is used to connect parties interested in the company. Importance financial statements also disclosed. Financial statements are means to account for what was done by the manager on the resource owner. One important parameter in the financial statements used to measure management performance is profit. According to Statement of Financial Accounting Concepts (SFAC) No. 1, information gain is a major concern for assessing the performance or accountability management. Besides earnings information also helps the owner or other party in the assessing the earnings power of companies in the future. Presence This tendency to pay more attention to profits realized by the management, in particular manager whose performance is measured based on that information, thus encouraging the emergence of deviant behavior (dysfunctional behavior), which is one of its forms is earnings management. There is no clear definition of earnings management.

Schroeder (2005) defines earnings management as the attempt by corporate officers to influence short-term reported income. Scott (2012) defines earnings management is the choice by a manager of accounting policies, or real actions, affecting earnings so as to achieve some specific reported earnings objective. Earnings management can be viewed from both a financial reporting and a contracting perspective. From a financial reporting perspective, managers may use earnings management to meet analysis earnings forecast, thereby avoiding the reputation damage and strong negative share price reaction that quickly follows a failure to meet investor expectations.

RESEARCH QUESTIONS

Based on the background that has been described above, the researcher has formulated the research problem:

1. Is size of the manufacturing company that has been go public affect earnings management?
2. Is the leverage on manufacturing company that have to go public affect earnings management?
3. Is the age of the manufacturing company that has been go public affect earnings management?
4. Is the value offering (proceeds) of company when listing of the manufacturing company affect earnings management?
5. Is the auditor's reputation on manufacturing company that has been go public affect earnings management?
6. Is the amount of the board of directors at the manufacturing company that has been go public affect earnings management?

RESEARCH PURPOSE

This research aimed to examine the effect of variables such as size of the company, firm age, leverage, the auditor's reputation, amount of the board of directors and the value offering (proceeds) of company when the IPO to earnings management of the manufacturing company that has been go public (IPO).

RESEARCH CONTRIBUTION

1. For science

a. This research could be used complement previous studies in connection with the discretionary accruals as well as the quality of disclosure, especially manufacturing companies in Indonesia.

b. This research to be able determine the factors affecting earnings management in manufacturing companies that go public in Indonesia

c. The research is to increase knowledge and add the references for students in relation to earnings management.

2. For the capital market researcher

a. This data is could be able to add a reference or knowledge of one the symptoms in the Indonesian capital market.

b. This research can continued to get a model that can be used for among capital market participants.

3. For investors

a. The results could be used as an input in stock investment decisions, particularly in assessing the quality earnings reported in the financial statements.

b. This research could be able to add a reference or knowledge in earnings management to take decisions on a company's investment in Indonesia.

LITERATUR REVIEW

Agency Theory

Based Scott (2012), two important types of contracts that have implications for financial accounting theory. These are employment contracts between the firm and its top manager and lending contracts between the firm manager and the bondholder. In these contracts, one of the parties as principal and the other is the agent. For example, in an employment contract, the firm owner is the principal and the top manager is the agent hired to run the firm on the owner's behalf. This type is called agency theory.

Scott (2012) defines agency theory as branch of game theory that studies the design of contracts to motivate a rational agent to act on behalf of a principal when the agent's interests would otherwise conflict with those of the principal. Actually, agency theory contracts have characteristics of both cooperative and non-cooperative games. They are non-cooperative in that both parties choose their actions non-cooperatively. The two parties do not specifically agree to take certain actions, rather the actions are motivated by the contract itself. Nevertheless, each party must be able to commit to the contract, that is to bind him or herself to play by the rules. For example, it is assumed that the manager in an employment contract will not grab the total firm profits and head for a foreign jurisdiction. Such commitment may be enforced by the legal system, by use of bonding or escrow arrangements, and by ethical behavior and reputations of the contracting parties.

Earnings Management

Earnings management can be viewed from both a financial reporting and a contracting perspective. From a financial reporting perspective, managers may use earnings management to meet analysis earnings forecast, thereby avoiding the reputation damage and strong negative share price reaction that quickly follows a failure to meet investor expectations. Also they may record excessive write offs or emphasize earnings constructs other than net income, such as pro-forma earnings. Some of these tactics suggest that managers do not fully accept securities market efficiency.

Scott (2012) defines earnings management is the choice by a manager of accounting policies, or real actions, affecting earnings so as to achieve some specific reported earnings objective. Thus, earnings management includes both accounting policy choices and real actions. It should be mentioned that choice of accounting policies is interpreted quite broadly. While the dividing line is not clear-cut, it is convenient to divide accounting policy choices into two categories. One is the choice of accounting policies, such as straight-line versus declining-balance amortization, or policies for revenue recognition. The other category is discretionary accruals, such as provisions for credit losses, warranty costs, inventory values, timing and amounts of low-persistence items such as write offs, and provisions for restructuring.

Hypothesis Development

Size of Company

The Company is an organization or institution that is changing expertise and material (economic resources) into goods or services for satisfy the needs of the buyer, and is expected to make a profit for the owners. Due to get this information at the expense of small scale enterprises have this level of earnings management is higher. Hence the hypothesis that can be raised is:

H 1 = Size of the company affects earnings management.

Leverage of Company

Leverage is defined as the ability of the enterprise settle all liabilities and equity. Companies that do not have significant leverage using their own capital to finance its investments, one of which for the purchase of assets. Hence the hypothesis that can be raised is:

H 2 = Leverage of company affects earnings management

Age of Company

Age of company demonstrate the ability of the company can survive and carry out its operations. Under normal conditions, the company will have a long-standing corporate publications which is more than the companies that are still new. Hence the hypothesis that can be raised is:

H 3 = Age of company affects earnings management

Value Offering (Proceeds) of Company

At the moment the company offers new shares, then there is a cash inflow from proceeds (revenues from the issuance of shares). Proceeds shows the size of the offering at the time of the IPO. Hence the hypothesis that can be raised is:

H 4 = Value offering (proceeds) of company affects earnings management

Auditor's Reputation of Company

The term of auditing is used to describe a broad range of activities in our society. According to (Boynton, 2006), auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users. Hence the hypothesis that can be raised is:

H 5 = Auditor’s reputation of company affects earnings management

Amount of the Board of Directors of Company

The amount of the board of directors affect the effectiveness of monitoring the performance of managers (CEO). According to Jensen (1993) the number of the board of directors relatively little can help improve their performance in monitoring manager. Hence the hypothesis that can be raised is:

H 6 = Amount of the Board of Directors of company affects earnings management

RESEARCH METHODOLOGY

Type of Research

This research is classified as quantitative research. Sekaran (2013) defines quantitative research as generally through structured questions. The systematic empirical investigation of observable phenomena via statistical, mathematical of computational techniques.

Population and Sample

The population used for this study was data a manufacturing company doing an IPO in 2000 until in 2015 at the Bursa Efek Indonesia (BEI). The criteria used to select the sample in this research is:

1) The Company is a group of companies manufacturing. The reason for choosing to use a manufacturing company because the accrual rate between different industries depending on the characteristics industry.

2) The company manufactures the IPO through the Bursa Efek Indonesia

during the period 2000-2015.

3) Issuing financial statements during the years of observation and displays

the data required. Financial statements use year 2010 until 2015.

Based on the above criteria, the selected sample of 35 companies. Of 35 companies all fulfill the criteria will the research sample. A description of the characteristics of the sample used can be seen in table 1 below:

Table 1: Table Sample Research

Description	Number of companies
Manufacturing companies go public in 2000	2
Manufacturing companies go public in 2001	6
Manufacturing companies go public in 2002	1
Manufacturing companies go public in 2003	0
Manufacturing companies go public in 2004	1
Manufacturing companies go public in 2005	1
Manufacturing companies go public in 2006	0
Manufacturing companies go public in 2007	2
Manufacturing companies go public in 2008	4
Manufacturing companies go public in 2009	2
Manufacturing companies go public in 2010	7
Manufacturing companies go public in 2011	4
Manufacturing companies go public in 2012	3
Manufacturing companies go public in 2013	2
Manufacturing companies go public in 2014	0
Manufacturing companies go public in 2015	0
Total company go public 2010-2015	35

Source: *www.idx.co.id*

Data Sources and Data Collection Methods

The data used in this research is secondary data form:

1) The names of the companies sampled taken from the Gallery Investment Indonesia Stock Exchange (IDX) University of Brawijaya and download from http // www.idx.co.id.

2) The financial statements of companies sampled for the financial year ended 31 December 2010 to 2015. Financial reporting data used by the public (to determine the percentage of shares still detained holder old shares, the company's assets, the age of the company, and financial ratios required in this study. This data was obtained from the Indonesia Stock Exchange (BEI)

Research Variables

Dependent Variables : Earnings Management

The dependent variable in this research is earnings management. Accrual basis of agreed as a basis preparation of financial statements due to the accrual basis is more rational and fair compared to a cash basis. Measured by earnings management using Discretionary Accruals (DA). Model measurement of the accrual in this study described the measures as follows:

1. Total accruals

Total accruals represents the difference between operating cash operating income flow. Total accruals for firm i in year t can be determined by formula:

$$\text{TA} = \frac{NI_t - CFO_t}{A_{it-1}}$$

Where:

TA = Total accruals firm i in year t

NI_t = Net operating income (N0I) of firm i in year t

CFO_t = Cash flow from operating activities (cash flow from operating activities) of firm i in year t

A_{it-1} = Total assets of the company i year before t

2. Non-discretionary Accruals

Non-discretionary accruals (NDA) is a component of the accrual outside the policy manager. NDA is calculated by the following formula:

$$NDA_{it} = Median\ (TA_{tIND})$$

Where:

NDA_{it} = Non - discretionary accruals in year t

(TA_{tIND}) = Total Accruals (IPO companies and non IPO) in year t

3. Discretionary Accruals

The meaning of discretionary accruals are accrual components that could be affected by the policy manager. The use of discretionary accruals as a proxy earnings management, also because of discretionary accruals is now widely used to test the hypothesis of earnings management. An indication that there has been a demonstrated earnings management by DA positive coefficient. Conversely, if a negative DA means there are indications that management has made efforts to raise profits through income - increasing discretionary accruals. How to calculate DAt (Discretionary Accruals company i in year t) using a model that has been chosen.

$$DA_t = TA_t - NDA_{it}$$

Where:

DA_t = Discretionary Accruals in year t

TA_t = Total Accruals in year t

NDA_{it} = Non - discretionary accruals in year t

Independent Variables :

a. Size of the company

The size of the company is a scale which can small companies large classified according to a variety of ways, among others: total assets, market value of shares, and others..

b. Leverage of Company

Leverage is the ratio that indicates how much assets financed with debt, thus indicating a risk for the buyer loan. Leverage is important to analyze because it is associated with company performance. This variable is measured by the ratio of total debt to total assets.

c. Age of Company

Age companies demonstrate the ability of the company can survive and carry out its operations. Under normal conditions, the company will have a long-established publications companies more than companies that are still new.

d. Value Offering of Company

This variable is measured by the value of company stock offering at the time of the IPO. The share offer values can be calculated the offering price multiplied by the number shares issued.

e. Auditor's Reputation of Company

This variable is a dummy variable, using a scale of 1 to auditors scale of 0 to prestigious and non - prestigious auditors. researchers make tabulation of sample firms and auditors doing the rating is based on the frequency of the auditor to audit the company's financial statements sample. Reputation Measurement Auditors use a dummy variable, where the auditors of repute that KAP Indonesia which partners with The Big Ten will have a value of 1. Meanwhile, KAP are not partner with The Big Ten considered disreputable to obtain a value of 0. KAP Indonesia which partners with The Big Ten by (www.accountingtoday.com):

f. Amount of the Board of Directors of Company

This variable is also a dummy variable. Companies that have large numbers of board of directors less than 7 (1-7 people) were given a scale of 1 (presumably optimal control management) and more than 7 people were given a scale of 0 (allegedly not optimal in management control).

Data Analysis Method

Classical Assumptions Test

Theoretically the model used in this study will produce a presumption of a valid parameter when filled with assumptions normality and there is no autocorrelation, multicollinearity, and heteroscedasticity.

Normality Test

This test is performed to determine whether the data were normally distributed or no. Testing normality of the data statistically using modification of kosmogrov-smirnov test. If the value sig (2-tailed) more from 0.05 then the data is normally distributed. If sig (2-tailed) less than 0.05 then the data is not normally distributed.

Multicollinearity Test

Multicollinearity indicates a perfect linear relationship or certainly among several variables or all variables independent of existing models. Multicollinearity can lead to bias in the specifications for the regression coefficients becomes infinite. Methods for testing can multicollinearity seen from the tolerance value or variance inflaction factor (VIF). Tolerance limit value is 0.10 and inflaction variance factor (VIF) is 10, if the tolerance value above 0.1 or variance inflaction value (VIF) under 10 then it does not happen multicollinearity.

Heteroscedasticity Test

Heteroscedasticity means variance of variables in the model do not the same (constant). Heteroscedasticity not undermine the consistency of estimates, but make the minimum variance estimator does not have or does not efficient. The method used to detect heteroscedasticity is used to plot the graph between the bound (ZPRED) with the residue (SRESID). Whether or not there is a detection heteroscedasticity to see whether or not certain regular patterns in the chart scatterplot between SRESIS with ZPRED where the Y axis is Y which had been predicted and the X axis is the residue. If there is a pattern particular, it indicates that there heteroscedasticity. If the significance value is greater than the significance level (0.05), then it indicates that did not happen heteroscedasticity.

Autocorrelation Test

Autocorrelation or serial correlation is defined as the correlation that occurs in among members of observation located in rows (if record time series) or the correlation between the adjacent (if the data cross sectional). To detect the presence or absence of autocorrelation test was used Durbin Watson of SPSS. If the value of the Durbin Watson greater than upper limit (du) and less than (4-du), then there is no autocorrelation.

Partial Test (T-Test)

Testing the partial regression relationship of the independent variables on the dependent variable. To determine the level of significance of variables influence the size of the company, firm age, leverage, debt, the auditor's reputation, amount of the Board of Directors and the value of offering (proceeds) during the IPO to earnings management can be partially seen from the t test or the magnitude of sig t. t sig if the magnitude is greater than the alpha level is used, it will not effect the independent variable on the dependent variable or hypothesis was rejected by the data. But conversely, if sig t is smaller than the level of alpha ($\alpha = 0.05$), which is used, then the hypothesis supported by the data.

Significance level was set at 5% ($\alpha = 0.05$), Requirements for prove the hypothesis or reject Ho, namely:

• If the p-value <α (5%), the Ha accepted, meaning that the independent variables significant effect on the dependent variable.

• If the p-value> α (5%) then Ha is not accepted, meaning that the independent variables no significant effect on the dependent variable.

Empirical Models and Hypothesis Operational

The formulation of the hypothesis in this research as follows:
Ho 1: $\beta 1 \neq 0$ (size of company does not have a negative impact on earnings management)
Ha 1: $\beta 1 = 0$ (size of company has a negative effect on earnings management)
Ho 2: $\beta 2 \neq 0$ (leverage does not have a negative impact on earnings management)
Ha 2: $\beta 2 = 0$ (leverage has a negative effect on earnings management)
Ho 3: $\beta 3 \neq 0$ (age of company does not have a negative impact on earnings management)
Ha 3: $\beta 3 = 0$ (age of company have a negative impact on earnings management)
Ho 4: $\beta 4 \neq 0$ (value of the stock offering does not have a positive effect on earnings management)
Ha 4: $\beta 4 = 0$ ((the value of the stock offering have a positive effect on earnings management)
Ho 5: $\beta 5 \neq 0$ (auditor's reputation does not have a negative impact on earnings management)
Ha 5: $\beta 5 = 0$ (auditor's reputation has a negative effect on earnings management)
Ho 6: $\beta 6 \neq 0$ (amount of the board of directors does not have a negative impact on earnings management)
Ha 6: $\beta 6 = 0$ (amount of the board of directors has a negative effect on earnings management)

Empirical model used to calculate the H1, H2, H3, H4, H5, H6 is by using multiple regression analysis, with models such as the following:

$Y = a + b1X1 + b2X2 + b3X3 + b4X4 + b5X5 + b6X6 + e$

Where :

Y	= Discretionary Accrual
a	= Constant
b1 - b6	= Regression coefficient of each independent variable
X1	= Independent variable of company size
X2	= Independent variable of company leverage
X3	= Independent variable of company age
X4	= Independent variable of value stock offering
X5	= Independent variable of company auditor's reputation
X6	= Independent variable of Board of Directors
e	= Error term

RESULT AND DISCUSSION

Normality Test

Normality test is done to see if the data distribution normal or not and to determine whether the data is feasible or not to analyzed. The test results for normality using the Kolmogorov-Smirnov the variables showed that all variables normal distribution (2-tailed sig> 0.05).

Hypothesis Testing, Normality Test, and Classical Assumptions

	One-Sample Kolmogorov-Smirnov Test			
	N	KSZ	Significant	α
Size	35	0.687	0.733	0.05

Source: Data processed

Multicollinearity Test

Multicollinearity Test

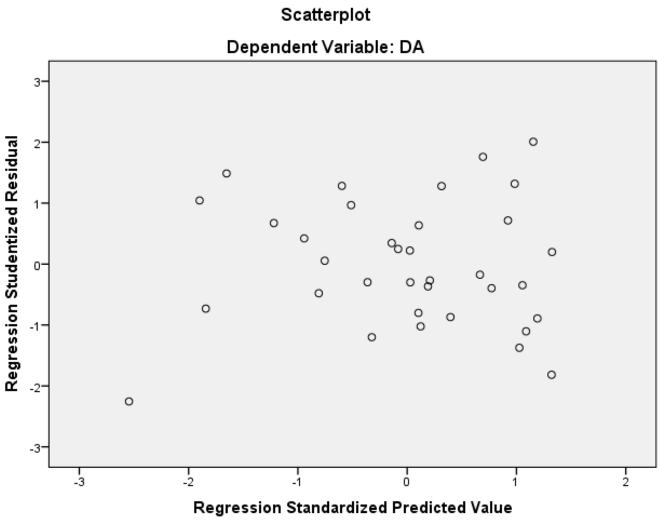
	Collinearity Statistics	
	Tolerance	VIF
Size	0.612	1.635
Leverage	0.926	1.080
Age	0.892	1.120
Proceeds	0.845	1.183
Board of Director’s	0.720	1.388

Source: Data processed

Statistical test results in Table indicate that all the variables have VIF under 10 and the tolerance value above 0.1. Thus it can be said that it does not happen multicollinearity the independent variables used in the regression model.

Heteroscedasticity Test

Graph Scatterplot - Heteroscedasticity Test



Source: Data processed

From the chart above we can see that the dots are there spread above and below the number 0 on the Y axis and there are no specific pattern, so it does not happen heteroscedasticity. Due scatterplot graph have significant drawbacks, so in this research, the heteroscedasticity test supported by glejser test. Glejser of the test can be seen that the value of the significance of all the variables is greater than 0.05, it can be said that it does not happen heteroscedasticity.

Glejser Test – Heteroscedasticity Test

	Signifi cant	α
Size	0.883	0.05
Leverage	0.795	0.05
Age	0.168	0.05
Proceeds	0.627	0.05
Board of Director’s	0.111	0.05

Source: Data processed

Autocorrelation Test

Autocorrelation Test

N	k	α	dl (bottom limit)	du (upper limit)	Durbin Watson	(4-du)
35	6	0.05	1.097	1.884	2.055	2.116

Source: Data processed

In the table DW (n = 35; x = 6; α = 5%) have dl = 1.097 and du = 1.884. DW test results showed the number 2.055. DW values 2.055 greater than the upper limit (du) 1.884 and less than (4-du) that is 2.116 and it can be concluded that there is no autocorrelation.

Partial Test (T-Test)

Table 7: Summary of Hypothesis Test

	B	T statistics	Significant	Decision
Constant	-0.062	-0.048	0.962	
Size	0.014	0.148	0.883	Ha not accepted
Leverage	-0.029	-0.262	0.795	Ha not accepted
Age	0.000	-1.414	0.168	Ha not accepted
Proceeds	-0.278	-0.491	0.627	Ha not accepted
Auditor's Reputation	-0.178	-1.649	0.110	Ha not accepted
Board of Directors	0.279	1.644	0.111	Ha not accepted
df = 28 α = 0.05 t-table = 2.048				

Source: Data processed

From the data processing, obtained the figures, when transformed in multiple linear regression into: DA = -0062 + 0.014 Size + -0.029 Leverage + 0.000 Age + -0.278 Proceeds + - 0.178 Auditor's Reputation + 0.279 Number of BOD + e

Discussion

According with the results of the regression analysis for the research, said that the aggregate variable company size, company leverage, company age, value stock offering (proceeds) when the IPO, the reputation of the auditor and the number of board of directors, there are real explanatory factor for the dependent variable. Variable company size, company leverage, company age, value offering, auditor reputation and the amount of the board of directors has no effect on earnings management.

From the above findings could be used by potential investors who want to invest their shares as one of the inputs in stock investment decisions, particularly in assessing the quality of earnings reported in the financial statements.

CONCLUSION AND SUGGESTION

Conclusion

This research aimed to investigate the effect of several variables that influence earnings management that occurred in the Indonesian Stock Exchange (BEI) in the period of 2000-2015 with a sample of 35 companies. Independent variables used in this research there were six (6), which is the size of the company, leverage, firm age, the value of stock offering (proceeds), the auditor's reputation and the amount of the board of directors. While the dependent variable is earnings management. Model analysis used multiple linear regression.

Based on the results of the analysis described in the previous chapter, it can be concluded, among other things:

1. By looking at the results of a statistical test, The main conclusion that can be drawn from the analysis of the companies doing IPOs during 2000-2015 is the size of the company, leverage, company's age, the value of the stock offering (proceeds), auditor's reputation, and the amount of the board of directors do not affect earnings management.
2. The small contribution of independent variables in explaining the phenomenon of earnings management, indicating that investors in making investment less attention to the fundamental aspects of the company and the signs are there.

Research Suggestion

After doing the analysis in this research, there are some suggestions that can be used as input for investors, issuers, and other researchers will review about the factors that influence earnings management in the future, among other things:

1. Researchers who are interested in doing research in the same field can use other variables that are expected to affect the earnings management. These variables are not only for micro factors but also macro factors.

2. This research only uses the observation period from the year 2000 to 2015, therefore, for further research is recommended to use a longer observation period to be able to generate more accurate data.

3. The researcher does not pay attention to the economic, political and natural that occurred in Indonesia, further research are expected to also consider the special conditions above.

4. The results of the research if it can be used as a reference for other researchers to develop and correct and make improvements as necessary.

Research Limitation

Based on the research results obtained in this research it is expected beneficial bias of many parties. From this research is expected to be a reference for:

1. Investors

   Given this research, investors can be more selective in choosing the company that will be a place for investment. One consideration that can be drawn from this research is that investors can see which companies are distributing dividends every year, where the dividend is very influential on the future earnings growth of the company.

2. For Management of Company

   This research could be a reference for the management of the company can take the dividend payment policy. Dividend payments to shareholders will greatly affect the investors and shareholders, in addition to the dividend also affect the company's future earnings growth, so the company's management is expected to be more careful in deciding what amount of dividend to be distributed.

3. For Parties of Academic

   Given this research, the academic parties can use the results as a reference for similar research and could further develop research that will be used.

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