RESEARCH ARTICLE

CORRECTORY FACTORS WITH REAL EARNINGS MANAGEMENT.

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Manuscript Info

Abstract

This study aims to determine whether information asymmetry, firm size, profitability, and leverage have a relationship to real earnings management. The sample used in this research is manufacturing company of consumer industry sector listed on Indonesia Stock Exchange (IDX) starting year 2010-2014 selected by purposive sampling method. Based on the predetermined criteria, the number of samples of 19 companies listed in the Indonesia Stock Exchange (IDX) is so that for the period 2010 - 2014 there are 95 data obervasi. The results of this study indicate that information asymmetry of -0.352 with a significance level of 0.011, then the variable asymmetry of information correlated linearly to real earnings management. Variable company size with coefficient value of -0.172 with a significance level of 0.248, then the variable size of the company does not significantly correlate linearly to real earnings management. Profitability (ROA) obtained coefficient value of 0.321 with a significance level of 0.036, then linear correlation significantly correlated to real earnings management. Leverage variable has coefficient value equal to -0.185 with significance level equal to 0,129, hence leverage variable not significant linear correlation to real earnings management.

Introduction:-

The Financial Statement as a communication medium is a collection of information compiled by the management of a company concerning the income statement, statement of changes in equity, statement of financial position, cash flow statement, notes to the financial statements in one accounting period used by the internal and external parties of the company in the taking decisions to generate profits for the company in the next period, and reflect the responsibility of management in the use and processing of company resources (Ikatan Akuntansi Indonesia, 2012).

The information in the financial statements can provide stakeholder feedback on past conditions so that it can be used in estimating future profits, and the report is reliable which means free from material bias or mistakes (Budihardjo, Ali and Harry, 2009).

The earnings information should reflect the actual economic and financial condition of the company, but in fact this information is often the target of management engineering by increasing the reported profit so that the performance of the company looks good in the eyes of stakeholders (Philips et al., 2002). The act deliberately done by management to increase profit is called earnings management (Astuti, 2009). According Sulistyanto (2008: 6),

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earnings management is the actions of corporate managers to influence the information in the financial statements with the aim to fool stakeholders who want to know the company's performance.

The Agency Teory says there is a separation of duties that will lead to information asymmetry, where managers have more information about firms than investors, so that it can be detrimental to investors because management can be opportunistic by manipulating financial statements for personal gain (Ujiyantho, 2007). If in a condition where the management fails to achieve the specified profit target then management can utilize the flexibility allowed in the accounting standard (Halim, 2005). Earning management is done so as if the company's profit has a good and stable profit quality, in the hope that reported earnings will get a positive response from the market (Kusindratno and Sumarta, 2005). The results of Schipper's (1989) and Warfield et al (1995) conclude that there is high information asymmetry when stakeholders do not have much information and knowledge about the actual state of the company so that it can not detect any earnings management performed in the financial statements. Richardson (1988) also concluded in his research that there is a significant relationship regarding information asymmetry that is considered to affect the level of probability of earnings management.

The size of a company that shows the size of a company's assets can also be attributed to earnings management. Research conducted by Ali et al. (2008) found that the effect of firm size on earnings management practices, large companies are considered to have maximum resources and corporate governance more systematic than small companies. This research refers to research of Wiyadi et al (2016) with difference of variable that is company size and company which become sample is industrial company of consumption sector.

Theoretical Framwork:-
Information asymmetry is a situation where managers have more information about the future of a company that is not owned by an outsider. If both groups (agents and principals) are people who seek to maximize their utility, then there is a strong reason to believe that the agent will not always act best for the principal's interests (Jensen and Meckling, 1976). Agency problems are also faced by capital market participants. One of the capital market participants is dealers or market makers. The uncertainty that dealers face is caused by information imbalance (information asymmetry). The magnitude of the information imbalance that dealers deal with will be reflected in the spread it determines. Dealers always try to determine the spread reasonably by considering certain events or conditions or any information that gives a signal about the securities held. Bid-ask spread is the difference between the highest purchase price and the lowest selling price of the trader's stock. Stoll (1989) also states that bid ask spread is a function of three cost components derived from stock holding (inventory holding), order processing, asymmetry information. While the cost of information asymmetry was born because of two parties traders who are not the same in having and accessing information.

Rahmawati et al (2006) research on bid-ask spreads states that there is a component of spread that contributes to the losses experienced by the dealer when transacting with the trader. Richardson in Rahmawati et al (2006) found that information asymmetry will encourage managers to present inaccurate information especially if the information is related to performance measurement of managers. Ifonie research (2012) states that the existence of information asymmetry can cause in determining the amount of stock prices in a company. Bhattacharya et al's research (2003) suggests that an increase in information asymmetry will cause shareholders to increase their selling prices and lower their buying prices because they want to take cover from potential losses. Bhattacharya et al (2003) concluded that information asymmetry would affect the three dimensions of the equity market, ie the rate of return on shareholder demand, the number of shares held by the investor, and the number of shareholders following the stock trading.

Basically the size of the company is divided into three categories: large firms, medium firms, and small firms, (Suwito and Herawaty, 2005). Halim's research, et al (2005) concluded that firm size has a positive effect on earnings management. The results of Defond's (1993) study in Veronica and Bachtiar (2003) also conclude that firm size has a positive correlation with earnings management. Large companies have considerable incentives for earnings management, as large firms must be able to meet the expectations of investors or shareholders. The result of Linciani (2013) study indicates that firm size has significant influence to earnings management, small company or big company have the same goal that is avoid negative profit. Some research results that use firm size as a variable affecting earnings management conclude that large firms have the greatest influence in profit management, large firms have a greater incentive to make smoothing profits because firms of large size are more often viewed by investors (Widyaningdyah, 2001). Profitability ratios projected in this research is ROA (Return on Asset). ROA is related to earnings management, because high ROA indicates that the company has conducted an effective activity

in generating profit through its perngopersian assets. The leverage ratio measures the company's ability to fund its business by comparing its own paid-in funds with the loan amount from the creditor (Madli, 2014 in Wiyadi et al, 2016). The ratio of leverage in this study proxies with debt to equity ratio, which is total debt divided by total equity (Wiyadi et al, 2016).

Earnings management as an effort of the company and certain parties involved in changing and fabricating the company's financial statements so that it is different from the actual state of the company to gain personal profit (Subhan, 2012). Bagnoli and Watts (2000) believe that managers make earnings management because they assume that other companies are doing the same. Thus, the performance of these competitors can also lead to managers in making earnings management because investors and creditors will compare between companies and choose companies that have a good rating and high. This is what causes managers to make earnings management by changing the company's financial position in various ways so that corporate presentations are good in the eyes of investors and make investors want to invest or buy shares of the company. According to Scott (2009), earnings management is an option made by management in determining accounting policies to achieve certain goals. While Schipper (1989) defines earnings management as a process of taking steps to bring the desired level of income management, but in accordance with general limits of accounting principles applicable. Schipper (1989) states that earnings management is an intervention or intervention by managers in the preparation of financial statements that aim to maximize the manager's personal advantage. Earnings management arises because of various accounting methods recognized and accepted in accounting standards, as well as generally accepted accounting principles (Sulistyanto, 2008). According to Rezaee (2009), earnings management occurs because of managerial discretion practices, or management takes unilateral decisions in executing the company's operating strategy and chooses accrual estimates in managing short-term earnings.

Factors Affecting Earnings Management:-
Motivations that encourage management to earn earnings management there are several kinds, Watts and Zimmermann (1986) in Astuti (2009) said there are three factors driving the action of earnings management, namely: (1) Bonus Program (the bonus plan). Bonus motivation encourages managers to choose accounting procedures that can shift profits from the period to come to the current period; (2) Debt Agreement (the debt covenant). The debt covenant motivation is due to the emergence of contractual agreements between managers and companies based on managerial compensation. The debt agreement encourages management to shift the period of income from the period to come into the current period, this is related to the covenant, if the covenant is violated, it allows for penalties, such as a dividend restriction or an additional restriction on the loan. (3) Political Cost (the political cost).

Some examples of prior research relating to the relationship between factors that may affect earnings management. Research conducted by Putra et al (2014), which examines the effect of information asymmetry and firm size on earnings management practices in manufacturing firms listed on the Indonesia Stock Exchange, concludes that there is a significant positive effect of information asymmetry on earnings management. Research Wiyadi et al (2016) also concluded that information asymmetry significantly affects earnings management. But leverage and profitability have no effect on earnings management. Bhattacharya (2007) believes that information asymmetry can affect market equity; (1) will increase the risk of estimation of the investor who will assess the company; and (2) an increase in information asymmetry will lead to an increase in adverse selection of investors in the event of an equity swap. Richardson (1988) in his study found a significant relationship between information asymmetry shown through bid-ask spread measurement of earnings management. The results showed that the greater the asymmetry of information available to shareholders and management, the higher the level of earnings management accruals that occur. Schipper (1989) and Warfield et al (1995) in Richardson (1988) in his research mentioned that the higher the level of information asymmetry it will be more difficult for investors to prevent or detect earnings management that occurred. The result of the research shows that information asymmetry has an effect on earnings management.

Linciani (2013) also concluded that company size is one of the foundations of earnings management, because the size of the company is an internal condition of the company that reflects the condition of the company. According Richardson (1988) in his research found a significant relationship between information asymmetry shown through the measurement of bid-ask spreads to earnings management. The results showed that the greater the asymmetry of information available to shareholders and management, the higher the level of earnings management accruals that occur. According to Halim, et al (2005) found that firm size has a positive effect on earnings management. Defond (1993) in Veronica and Bachtiar (2003) found that firm size correlated positively with earnings management.

According to Rezaee (2009) states earnings management occurs because of the practice of managerial discretion or can be said that the managerial take a unilateral decision in running the company's operating strategy and choose the accrual estimates in managing the short-term profit of the company. The difference of this study with previous studies is located on the dependent variable that is real earnings management.

Hypotheses:-
Hypothesis is a concise statement concluded from the study of theory, previous research, the hypothesis in this study are:
H_1: Information asymmetry correlates with real earnings management
H_2: Firm size correlates with real earnings management
H_3: Profitability correlates with real earnings management
H_4: Leverage correlates with real earnings management

Research Methods:-
Types of research:-
This research is a quantitative research with hypothesis test method that aims to know the relationship of information asymmetry, firm size, profitability, leverage with earnings management. The unit of analysis in this study is a company engaged in the consumption industry sector registered on the BEI in the period 2010 to 2014.

Conceptual and Operational Definitions Variable:-
In this study the dependent variable is real earnings management, while the independent variables are information asymmetry, firm size, profitability and leverage. Earnings management (Y) is defined as the choice by management in determining the accounting policies to achieve certain goals. The dependent variable in this study is real profit management using abnormal CFO analysis, abnormal discretionary expenses, and abnormal production costs calculated by Roychowdhury (2006).

Information Asymmetry (X1) is an imbalance of information held between management and investors, where management as an internal company knows more about the state of the firm than its shareholders (Ifonie, 2012). The asymmetry of information in this study uses a relative bid-ask spread (Rahmawati et al., 2006 in Wicaksono (2014)) with the following formula:
$SPREAD = (ask_{i,t} - bid_{i,t}) / \{(ask_{i,t} + bid_{i,t}) / 2\} \times 100$
Information:
$Ask_{i,t}$: highest ask price of stock of company i that happened on day t
$Bid_{i,t}$: the lowest bid price of the company stock i that occurred on the day t

Company size (X_2) is based on the total assets of the company. Profitability (X_3) which proxied in this research is ROA (Return on Asset), that is net profit divided by total assets. ROA is related to earnings management, because high ROA indicates that the company has conducted an effective activity in generating profit through its perngopersian assets. The leverage ratio (X4) measures the company's ability to fund its business by comparing its own paid-in funds with the loan amount from the creditor (Madli, 2014 in Wiyadi, 2016). The ratio of leverage in this study proxies with debt to equity ratio, which is total debt divided by total equity (Wiyadi et al, 2016).

Population and Sample:-
In this study, the population and sample are consumer industry companies during the period 2010-2014 listed on the Indonesia Stock Exchange. Sampling technique by using method of Purposive Sampling.

Types and Data Sources:-
The type of data used in this study is documentary data using secondary data obtained from the Indonesia Stock Exchange. The data used in this study is the company's financial statements, while the data source used in this study through the homepage of the Indonesia Stock Exchange with the website address www.idx.co.id.

Method of collecting data:-
Data collection method used in this research is documentation method. In this method, secondary data collection is conducted using published literature review of financial statements as well as data obtained from the Indonesia Stock Exchange through the Indonesian Stock Exchange homepage.

Data analysis method:-
In this research, the data analysis method used is to perform statistical correlation test to see whether or not there is a significant relationship between independent variables, that is information asymmetry, firm size, profitability, leverage with dependent variable that is real profit management.

Results And Discussion:-
Normality test, conducted to determine whether the existing variable is normally distributed or not so it can be done the right test to know the correlation of both variables with itself or with other variables. The following test results normality using Kolmogorov - Smirnov test presented in table 4.1.

Table 4.1:- Normality Test after Data Transformed

	Kolmogorov-Smirnov^			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
AsymLog	.096	47	.200*	.978	47	.528
SizeLog	.149	47	.011	.942	47	.021
ROALog	.153	47	.008	.877	47	.000
LevLog	.079	47	.200*	.973	47	.343
* This is a lower bound of the true significance						
^ Lilliefors Significance Correction						

Source: Processed data, 2017.

Based on the above table 4.1, the sig value for AsymLog and LevLog above 0.05 is 0.2 indicating that the data has been transformed into normally distributed data, but SizeLog and ROALog have not changed the distribution despite transformation. Differences in distribution show different test differences.

Pearson test is used to measure the correlation of each independent variable with the normal distributed dependent variable. The sig value between AsymLog and Real Earnings Management below 0.05 is 0.011, meaning that there is a significant linear correlation between information asymmetry (after logarithmic transformation) with real earnings management. Pearson test results can be seen in the table - table below:

Correlation between information asymmetry and real earnings management:-
Table 4.2:- Correlation between AsymLog and Real Earnings Management

		Real Earnings Management	AsymLog
Real Earnings Management	Pearson Correlation	1	(.352)*
	Sig (2-tailed)		.011
	N	75	52
AsymLog	Pearson Correlation	(.352)*	1
	Sig (2-tailed)	.011	
	N	52	52
*Correlation is significant at the 0.05 level (2-tailed)			

The correlation between leverage and real earnings management.
Table 4.3:- Correlation between LevLog and Real Earnings Management

		Real Earnings Management	LevLog
Real Earnings Management	Pearson Correlation	1	(.185)*
	Sig (2-tailed)		.129
	N	70	69
LevLog	Pearson Correlation	(.185)*	1
	Sig (2-tailed)	.129	
	N	69	69
*Correlation is significant at the 0.05 level (2-tailed)			

The sig value between LevLog and Real Earnings Management above 0.05 is 0.129, meaning there is no significant linear correlation between leverage (after logarithmic transformation) with real earnings management. The absence of correlation can be due to the amount of some data on unequal leverage variables (outliers) resulting in an unbalanced average. To analyze more on the data of outliers and the influence of data on the model, it is done by Cook's Distance test which then do the data selection to ignore the outliers. After done analysis of Cook's Distance obtained result like table 4.4 which mean there is no significant linear correlation between leverage with real earnings management (sig = 0.145). Cook's Distance test results can be seen in Table 4.4.

Table 4.4:- Results of LevLog correlation and Real Earnings Management after ignoring outliers

		Real Earnings Management	LevLog
Real Earnings Management	Pearson Correlation	1	(.219)*
	Sig (2-tailed)		.145
	N	47	46
LevLog	Pearson Correlation	(.219)*	1
	Sig (2-tailed)	.145	
	N	46	46
*Correlation is significant at the 0.05 level (2-tailed)			

Spearman test conducted to know the correlation between independent variables with dependent variable, the data is not normally distributed. Spearman test results can be seen in the table - table below:

Correlation between Return on Assets with Real Earnings Management:-
Table 4.5:- Correlation between ROALog and Real Earnings Management

		Real Earnings Management	ROALog
Spearman's rho Real Earnings	Correlation Coefficient	1.000	.321*
Management	Sig (2-tailed)		.036
	N	47	43
ROALog	Correlation Coefficient	.321*	1.000
	Sig (2-tailed)	.036	
	N	43	43
*Correlation is significant at the 0.05 level (2-tailed)			

Source: processed data, 2017

The sig value between ROALog and Real Earnings Management below 0.05 is 0.036, meaning that there is a significant linear correlation between information asymmetry and real earnings management. The correlation obtained is positive 0321 so that the value of real earnings management will be directly proportional to return on assets.

Correlation between Company Size and Real Earnings Management:-
In Table 4.6 shows the sig value between the SizeLog and the Real Earnings Management above 0.05 is 0.248, meaning there is no significant linear correlation between firm size and real earnings management. Based on the results of the test there is no data outliers on the variable size of the company, only the data are not regular but still produce a balanced average so that no analysis required Cook's Distance. That is, there is no significant linear correlation between company size and real earnings management.

Table 4.6:- Correlation between SizeLog and Real Earnings Management.

		Real Earnings Management	SizeLog
Spearman's rho	Correlation Coefficient	1.000	(.172)
Real Earnings Management	Sig (2-tailed)		.248
	N	47	47

SizeLog Coorrelation	Coefficient	(.172)	1.000
	Sig (2-tailed)	.248	
	N	47	47
*Correlation is significant at the 0.05 level (2-tailed)			

Source: Secondary data processed, 2017

This study has four hypotheses as the basis for researching real earnings management of some companies go public in Indonesia. The first hypothesis of H_1 is the information asymmetry correlated to real earnings management. From result of Pearson test where AsymLog coefficient value is -0.352 with significance level equal to 0,011 (p <0,05) hence variable asymmetry information correlated linearly to real earnings management. The second hypothesis H_2 is the size of the company correlated to real earnings management. From Spearman test result, coefficient of SizeLog is -0.172 with significance level equal to 0,248 (p> 0,05) hence firm size variable is not significant linear correlation to earnings management. The third hypothesis of H_3 is profitability correlated to real earnings management. From Spearman test results obtained ROALog coefficient value of 0.321 with a significance level of 0.036 (p <0.05), then linear correlation significantly correlated to real earnings management. The fourth hypothesis H_4 is a correlated leverage to real earnings management. From result of Pearson test obtained by value of coefficient of LevLog equal to -0.185 with level of significance equal to 0,129 (p> 0,05), hence leverage variable not significant linear correlation to real earnings management.

Interpretation Result:-
Based on the tests performed, the results of this study indicate that the asymmetry of information is linearly correlated significantly to real earnings management. While Halim's research, et al. (2005) who found that the lower level of information disclosure will increase the chances of managers to take earnings management measures in line with opportunistic behavior (Opportunistic Earnings Management) perspective with real earningst management practices. This study is different from the results of research Rahmawati (2006) who found that the partial variable asymmetry of information has a positive and significant influence on earnings management. Company size with Real Profit Management, based on the tests performed, the results of this study indicate no significant effect between firm size and real earnings management practices. This is in contrast to Halim's research, et al. (2005) found that firm size had a significant effect on real profit management. However, it is consistent with the research of Suwito and Herawaty (2005) who found no significant effect between company size and real earnings management. Profitability to Real Earnings Management, based on testing conducted, the results of research indicate a significant positive effect between profitability with real earnings management practices. In this case, it can be concluded that the higher the return of the desired or expected assets, the higher the real earnings management practice will be opened. It is a real example of the personal needs of management.

Leverage to Real Earnings Management, based on the tests conducted, the results showed that there was no significant effect between leverage and real earnings management practices. Astuti (2004) that emerged the influence of leverage on earnings management. They believe, equity and debt is one of the factors of management to practice real earnings management. Halim, et al. (2005) also supports the results in which leverage affects earnings management. In this case, total debt is not a factor in the occurrence of earnings management practices because it is believed that management more often performs earnings management practices in the statements of comprehensive income rather than on the statement of financial position.

Conclusions And Recommendations:-
The results of this study indicate that information asymmetry correlates linearly with real earnings management. Company size with Real Profit Management shows no significant correlation between firm size and real earnings management practices. Profitability to Real Earnings Management, indicates a significant positive correlation between profitability and real earnings management practices. In this case, it can be concluded that the higher the return of the desired or expected assets, the higher the real earnings management practice will be opened. It is a real example of the personal needs of management. Leverage to Real Earnings Management shows that there is no significant influence between leverage and real earnings management practices. In this case, total debt is not a factor in the occurrence of earnings management practices because it is believed that management more often performs earnings management practices in the statements of comprehensive income rather than on the statement of financial position.

Limitations in this study is the object of research only on a particular company that is manufacturing industry sector consumption industry, so the results can not be generalized research. Taking into account the limitations of the research, the recommendation for further research is to increase the number of samples and research objects in order to obtain more accurate test results and prolong the study period so that changes that occur in the long term can be compared with short-term periods, thus the predictions will be obtained more accurate for the period that will datan and add other variables that if relevant and more dominant influence earnings management. This research uses only information asymmetry variable, firm size, ROA and leverage, for further research is expected to add variable.

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