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The Determinant of Earning Management: Evidence From Manufacturing Companies Listed on The Indonesia Stock Exchange (IDX)

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ABSTRACT: This study aims to determine the effect of information asymmetry, firm size, level of financial statement disclosure, and litigation risk on earning management from manufacturing companies listed on the Indonesian Stock Exchange (IDX). The data used is secondary data. Source of data is from the Indonesian Stock Exchange (IDX). The study included 47 manufacturing companies in 1 year and 141 manufacturing companies in 3 years, from 2014-2016. Determination of the sample used purposive sampling method. Data analysis techniques used multiple linear regression analysis with IBM SPSS 25. The results of the study indicate that information asymmetry and firm size has no significant positive effect on earnings management, level of financial statement disclosure has a significant positive effect on earnings managemenet, and risk litigation has a significant negative effect on earnings management.

Keywords: Information asymmetry, firm size, level of financial statement disclosure, risk litigation, earning management.

1 INTRODUCTION

One of the indicators used to assess the company's financial performance is the profit generated by the company. The information contained in financial statements is expected to assist creditors and investors in making decisions relatedwith the funds they invest. The tendency to see profit enables the occurrence of behavioral deviations that the management can do in terms of presenting financial statements.

Generally, the company will use accounting principles with accrual based on financial statements with the aim to adjust the cash flow for better mirroring performance and company position (Radzi et al. 2011). Financial statements which arrange using accrual base can provide more complete and comprehensive information than by using cash base. However, the use of accrual accounting can provide an opportunity for management to freely choose the accounting method as long as it does not deviate from the applicable financial accounting standards. Freedom to choose and replace this accounting method is what triggers the engineer financial information. The effort to influence this financial information is called profit management. In general, profit management is a manager's attempt to intervene or influence the financial statements by altering the information on the figure of financial statement’s component when recording and compiling the information either for values that are not material, material, or even very material. Scott (2006) in Watiningsih (2011) defined profit management as management action to select accounting policies by company management to achieve certain objectives.

Profit management is the act of management in financial statement drafting process that can raise or lower the accounting profit in accordance with its interests, Scott (1997).Meanwhile according to Fisher and Resenzweig in Sulistyanto (2008) defined profit management as actions undertaken by the manager to raise or lower the profit on the running period of a company where the manager works without causing an increase or decrease in economy profit of the company in the long term. Meanwhile the other party considers the engineering done by management does not belong to cheating, as long as using accepted accounting methods and procedures. Therefore, this research aims to know the motivation which encourages managers to perform managerial engineering activities by doing profit management.

Based on the explanation above, this study conducted tests on factors affecting profit management, based on information asymmetry, company size, financial report disclosure rate, and litigation risk on manufacturing companies in Indonesia.

2 RESEARCH METHOD

The population of this research is all manufacturing companies listed on the Indonesia Stock Exchange and samples in this study using purposive sampling methods, with criteria: A manufacturing company listed on the Indonesia Stock Exchange (IDX) continuously during the observation period, annual report continuously, published financial statements with Rupiah currency unit and has not suffered a loss during the year 2014-2016. Data analysis techniques using multiple linear regression analysis with IBM SPSS 25.

3 RESEARCH RESULT AND DISCUSSION

The data used in this study is 47 companies during 3 research periods from 2014 to 2016. It gained 141 studies sample used as the observation data.

3.1 *Descriptive Statistics*

Descriptive statistics uses to describe or provide description of data in a study that can be seen from the average value (mean) and standard deviation

Table 1. Descriptive Statistics Research Variable Description

	N	Minimum	Maximum	Mean	Std. Deviation
DA	141	-0.28802	0.80383	-0.8188167	0.11428134
Information Asymmetry	141	3.92157	174.24758	54.4934724	34.44558167
Company Size	141	21.68488	33.19881	28.4681392	1.78535846
Disclosure Level	141	30.85000	82.98000	57.6428369	10.20559751
Litigation Risk	141	25.82595	299.95862	32.5338472	22.83413486
Valid N (listwise)	141				

Source: Processed secondary data, 2019

Based on table 1 above, the five variables indicate the average value of the result is greater than the standard deviation, so that it indicates a fairly good outcome. This is because standard deviation is a reflection of a very high deviation, so that the data dissemination shows normal results.

3.2 *Regression Analysis*

Table 2.Regression Equality Model

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	B	Std. Error	Beta		
Constant	-0.0470	0.0788		-0.5958	0.5526
Asymmetry Information	8.150E-06	0.0001	0.0055	0.0573	0.9544
Company Size	-0.0011	0.0028	-0.0422	-0.4111	0.6819
Disclosure Level	0.0010	0.0005	0.2568	2.5820	0.0110
Litigation Risk	-0.0004	0.0002	-0.2002	-2.0100	0.0470

Source: Processed secondary data, 2019

Based on table 2 above, the regression equality is as follows:
$Y= -0,0470 +8,150E\text{-}06X_1 -0,0011X_2 +0,0010X_3 -0,0004X_4$

4 **HYPOTHESIS TESTING**

4.1 *The Effect of Information Asymmetry towards Profit Management*

Based on the results of the research it can be noted that information asymmetry has no significant effect on profit management. What causes information asymmetry have no significant effect on profit management is the possibility of an error in the previous financial statement that inappropriate with qualitative rules, Sulistyanto (2008) in Firdaus, Ilham (2013).

The result of this research is not in line with agency theory because in agency theory explained that agent and principal have different interests. The results showed that information asymmetry has no significant effect on profit management due to errors in previous financial reporting inappropriate with qualitative rules, so that the possibility of information owned by the manager is also inaccurate, it makes the action opportunities such as profit management that the manager will do also cannot be achieved.

The research is in line with research conducted by Maiyusti (2014) and Barus, Setiawati and Andreani (2015) stated that information asymmetry has no significant effect on profit management, different with the research conducted by Manggau (2016) and Yustiningarti and Asyik (2017) stated that the information asymmetry significantly positively affected the profit management.

4.2 *The Effect of Company Level Towards Profit Management*

Based on the results of this research that have been conducted can be noted that the size of the company has no significant effect on profit management. The thing that causes the size of the company has no significant effect on profit management is the size of the company does not become the sole consideration for investors in investment decision making, but there are still other factors in investment decision making such as profit level, company business prospects in the future and so on. The nature of Indonesian investors is speculative and tends to capital gain, moreover the condition of companies in Indonesia with the magnitude of assets, have not guaranteed the existence of a good company performance, (Faozi, 2003) in (Lusi, 2014) in (Husna, 2015).

This research is in line with research conducted by Manggau (2016) and Gunawan, et al (2015) stated that the size of the company has no significant effect on profit management, different with the research conducted by Kumala (2016) and Tarigan (2011) suggested that the size of the company affects profit management.

4.3 *The Effect of Financial Statement Disclosure Level towards Profit Management*

Based on the results of the research, it can be noted that the level of statement disclosure has no significant effect on profit management. What causes the level of financial statements disclosure has no significant effect on profit management is when the company presents full and complete company financial information will likely cause excessive information. The excessive information is dangerous because the detailed presentation and unimportant information actually obscure the significant information and make financial statements difficult to interpret.

The result of this research is not in line with agency theory, because high levels of disclosure will be harmful, because the detailed presentation and unimportant information obscure the significant information and make financial statements difficult to interpret, so that the imbalance information owned between investors and managers will also be greater and the profit management practice is also increasingly greater.

This research is in line with research conducted by Puspita and Kusumaningtyas (2017) statedthat the level of financial statements disclosure has positive effect on profit management, different with the research conducted by Rahmi(2017) suggestedthat the level of financial statements disclosure negatively affects profit management.

4.4 *The influence of risk litigation towards earnings management*

Based on the results of this research it can be noted that the litigation risk has significant negative effect on profit management. What causes a significant negative litigation risk to profit management is a good regulation in the protection for investor will cause the quality of profit become higher, and with the litigation risk also expected to suppress profit management practices. The company will try its best to minimize the existence of lawsuits, because when it happens it will lower the company's image in the eyes of people, investors, and creditors as well as other external parties.

The result of this research is in line with agency theory, where there are different interests among managers and shareholders, but with the litigation risk faced by the company it will affect the management behavior, because manager will avoid any risks.

This research is in line with research conducted by Sari (2015) stated that litigation risk negatively affects profit management, different with the research conducted by Kirana, Hasan and Hardi (2016) and Puspita, Kusumaningtyas (2017) stated that the litigation risk has a positive effect on profit management.

5 CONCLUSIONS

Information asymmetry and size of the company have no significant effect on profit management. Meanwhile the level of financial statements disclosure has a significant positive effect on profit management and the litigation risk significantly negatively affects profit management. This research only uses manufacturing companies as samples of the research, the results of this research show information asymmetry variable, company size, the level of financial statements disclosure and the litigation risk only affects for 5.7% and a period of only 3 years. Further studies can use other models in calculating profit management, such as healy models, de Angelo model, Jones models, etc.

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