DETERMINATION OF EARNINGS MANAGEMENT IN INDONESIA PROPERTY AND REAL ESTATE FIRM

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ABSTRACT

The goals of this research is to analyze the impact of information asymetry, intellectual capital and investment opportunity set on EM and also the results of mediation between information asymmetry and IC and IOS on earnings management. The sample used in this study were 58 property & real estate firm which listed on the Indonesia Stock Exchange (ISE) which presented complete financial statements from 2013-2016. Data analysis was done using Smart PLS. This study proves that first, information asymmetry affects EM. Second, IC has a positive impact on earnings management. Third, investment capital affects earnings management. Fourth, there is an indirect influence between information asymmetry on earnings management mediated by IC. Fifth, there is an indirect effect between information asymmetry on earnings management and is mediated with the IOS.

Key words: Information Asymmetry (IA), Earnings Management (EM), Intellectual Capital (IC), Investment Opportunity Set (IOS)

INTRODUCTION

One function of financial statements that is often used is to provide financial information that is used both for internal parties and parties outside the company, financial statements are used by companies to assess financial position and company performance. The general financial statements used so far are composed of balance sheets, income statements and changes in equity reports prepared on the basis of cash.

For management in general and in the finance department in the company in general, the work of making financial statements is through a stage and process, one of the stages and processes that must be passed is the management's decision to use the type of accounting method, on this occasion the company leader also given the opportunity to provide an explanation of the operational activities carried out within the company, this explanation is given both to management and shareholders, even this accuracy is also used to convince shareholders so that management can implement EM in the company.

LITERATURE REVIEW AND HYPOTHESES

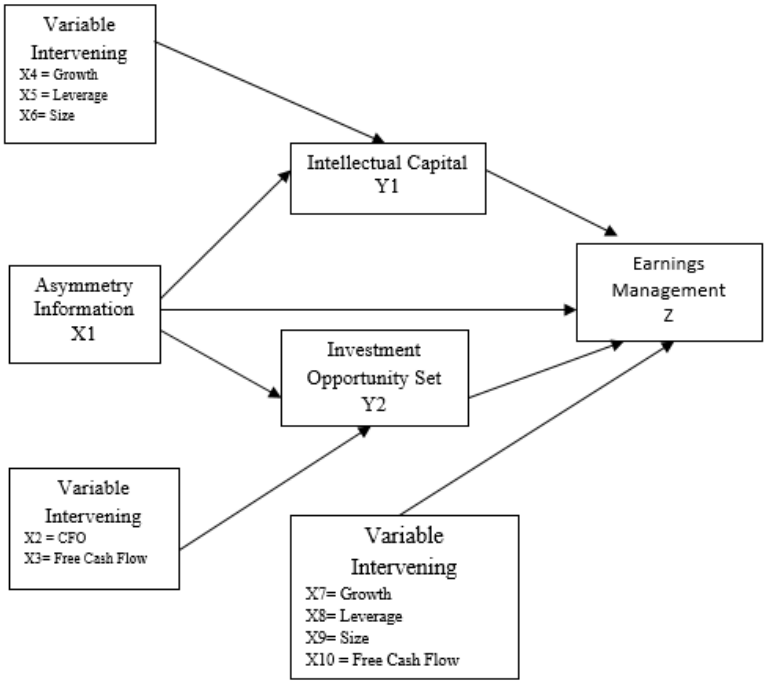
The goals of this research is to analyze the impact of IA, IC and IOS on EM and also the results from the mediation between IA and IC and IOS on EM. Halim et al. (2005) showed that property and real estate companies, including the LQ-45 Index, were seen applying EM actions. EM is significantly influenced by information asymmetry, current and future performance, leverage factors, and firm size. Company size can be an indicator that the company has a broader interest, so that if the company issues regulations or policies can have a greater impact or influence on the public interest, and vice versa when compared with small companies.

In this study, agency theory is the grand theory underlying this research. Agency theory uses the assumption which every individu is solely willingness by self-interest, provide more to a contra of willingness between the principal and the agent. The interests of holders or principals in implementing contracts to think of their interests with high profitability Agents want to maximize their economic and psychological needs, including investments, loans, and compensation contracts. Opportunistic behavior of agents is a problem of agency, namely management behavior to maximize its welfare alone, where it is contrary to the interests of principals. They are prefer probably to apply the method of accounting to show that their performance is good in order to get a bonus from the principal.

IA is the cause of EM. The opinion that there is a systematic relationship between IA and EM, so that IA will tend to present incorrect information, especially if the information is related to the evaluation of company performance. The management of the company is not rigid in overseeing earnings can be reduced by providing reliable information to external parties. Research on the relationship between IA and EM was carried out by Richardson (1998) and Chia-Hsin Cheng (2006). Richardson's research found that IA has the significant and positive linkage with EM.

Therefore the research question proposed in this study are first, there is the influence of IA on IC. Second, there is influence of IA on EM. Third, there is an Asymmetry influence on information on investment capital sets. Fourth, there is an influence of the CFO on EM. Sixth, there is an influence of the CFO on investment capital sets Ha6: There is an effect of FCF on EM. Seventh, there is an effect of FCF on investment capital sets. Eighth, there is the influence of Growth on IC. Ninth, there is an influence of Growth on EM. Tenth, there is an influence of IC on EM. Eleventh, there is an influence of leverage on IC. Twelve, there is an influence of leverage on EM. Thirteenth, there is an effect of Set capital investment on EM. Fourteenth. There is influence of Size on IC. Fifteenth, there is influence of Size on EM.

Figure 1. Framework Relationship between IA, IC and IOS on EM



RESEARCH METHOD

The population used in this study is the whole of the objects to be studied. The population used in this research is the financial statements in 2013 - 2016, the companies studied were the property and real estate firm that listed on the Indonesia Stock Exchange, which numbered around 58 companies. The data to be used in this research are quantitative data obtained from Thomson Reuters in 2013 - 2016. The data that will be included in this research are obtained from annual financial reports are balance sheets, income statements, and cash flow statements. Techniques the processing of data is used by the SEM method based on Partial Least Square (PLS) require two phases assessment of Fit Model from the research model (Ghozali, 2006).

RESULT

The output of processing using Smart PLS summarized in table 1. The exceotional amount of the model or linkage between the constructs with each variable has a value of loading factor above 0.60, so that the construct for all variables is nonexistent eliminated from the model. Some indicators of research variables are not used in testing hypotheses, so that in the presentation of descriptive statistical analysis also will not be included. Descriptive statistics are provided to explain the data more detail based on the ouput get from respondents' answers to every variable measuring indicator. Descriptive statistical analysis can be seen in table 2.

The test of inner model or model of structure is done to look the linkage between constructs, values of significance and R square of the research model. The model of structural tested by using R square to the dependent construct of the t test and the significant of the structural phase parameter coefficients.

Table 1. Loadings Exception (Model of Measurement)

	Information asymmetry	CFO	FCF	Growth	Intellectual capital	Leverage	EM	Set capital invests	Size
CFO		1.00							
DA							1.00		
EPR								1.00	
FCF			1.00						
Growth				1.00					
Lev						1.00			
SPREAD	1.00								

	Information asymmetry	CFO	FCF	Growth	Intellectual capital	Leverage	EM	Set capital invests	Size
Size									1.00
VAIC					1.00				

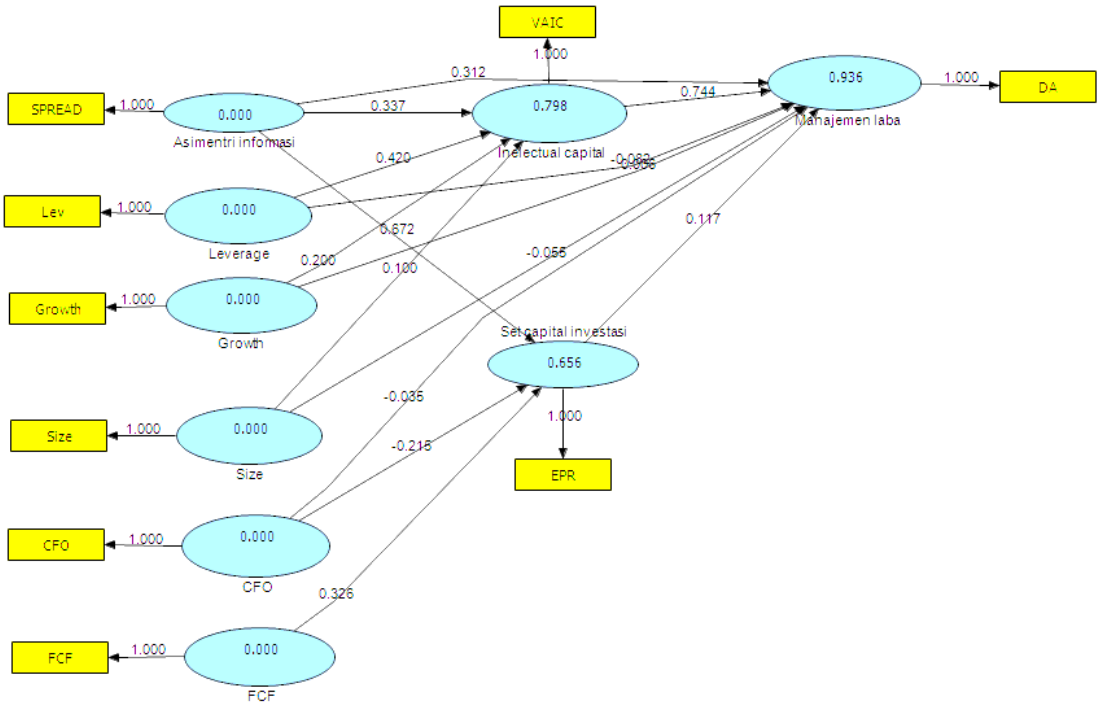
Table 2. Statistics Deskriptive

	Mean	Median	Std. Deviation	Minimum	Maximum
EPR	.087	.068	.219	-1.274	1.371
Lev	.444	.456	.168	.032	1.000
Growth	.226	.081	.851	-.999	8.433
Size	16.049	15.523	2.552	11.223	23.728
SPREAD	.357	.173	.593	-2.571	2.632
VAIC	.644	.659	2.897	-8.754	9.490
FCF	11.708	11.683	1.693	6.627	15.030
DA	-.079	-.065	.166	-.686	.468
CFO	11.640	11.641	1.761	6.110	14.931

Table 3. Reliability of Composite and Average Variance Extracted

	AVE	Composite Reliability	R Square	Cronbachs Alpha	Communality	Redundancy	redundancy
Asymmetry information	1.000	1.000		1.000	1.000		
CFO	1.000	1.000		1.000	1.000		
FCF	1.000	1.000		1.000	1.000		
Growth	1.000	1.000		1.000	1.000		
Intellectual capital	1.000	1.000	0.798	1.000	1.000	0.397	0.397
Leverage	1.000	1.000		1.000	1.000		
Earnings Management	1.000	1.000	0.936	1.000	1.000	0.447	0.447
Set capital invests	1.000	1.000	0.656	1.000	1.000	0.619	0.619
Size	1.000	1.000		1.000	1.000		

Figure 2. Structural Model



In the testing of the model with PLS it begin with see at the R-square for every dependent latent variable. Table IV is a result of Rsquare estimation using SmartPLS.

Table 4. R Square

	R Square
Intellectual Capital	0.798
EM	0.936
Set Capital Investment	0.656

Basically , this reseacrh used 3 (dependent) variables which are impact by other variables, known as the Intelectual variable is influenced by spread (IA), EM variables are influenced by growth, leverage, size. Variable Set capital investment is influenced by spread (IA).

Table 4 summarized the R-square value for the Intelectual capital variable obtained at 0.798, this indicates that 79.8% of the IC variable can be influenced by information Asssimetry variables, leverage, growth and size. EM variables obtained at 0.936 indicate that 93.6% of variable EM can be influenced by variable IC, investment set capital, growth, leverage, size. and CFO. These results indicate that 65.6% of the investment capital set variable can be influenced by the variable information asssimetry, CFO and FCF.

The significant of the projections basic assumption provides most important information of the linkage amoong the research variables. The baseline used in asses hypotheses is the amount found in the ouput for inner weight output. Table 5 provides estimated output for testing sthe models of structure.

Based on the test results obtained, IA has the significantly of impact on EM, By beta coefficient of 0.212 that means that every increase in IA of one unit will increase EM by 0.212, the output of this research are allign to the previous study from Richardson (1998) and Chia- Hsin Cheng (2006), in his research that IA has a positive and significant relationship with EM.

Based on the test results obtained, IC has a significant impact on EM, by a beta coefficient of 0.228 that means that every increase in IA of one unit will increase EM by 0.228, the output of this researh are still allignt with previous studies from Richardson (1998) and Chia- Hsin Cheng (2006), in his research that IC has a positive and significant relationship with EM.

Based on the test results obtained, the investment capital set has a significant effect on EM, with a beta coefficient of -0.168

which means that each increase in IA by one unit will reduce EM by -0.168, the results of this study are consistent with previous research by Richardson (1998) and Chia-Hsin Cheng (2006), in his research that investment capital set has a positive and significant relationship with EM.

Based on the test results obtained, IA significantly influences EM with IC as an intervening variable, with a beta coefficient of 0.039 which means that every increase in IA mediated by IC of one unit will increase EM by 0.039, the results of this research are still allignt with previous study by Richardson (1998) and Chia-Hsin Cheng (2006), who in his research that IA has a positive and significant relationship with EM mediated by IC.
Based on the test results obtained, IA significantly influences EM with investment capital set as an intervening variable, with beta coefficients of 0.043 which means that every increase in IA mediated by a set of investment capital of one unit will increase EM by 0.043, research results this is consistent with previous research by Richardson (1998) and Chia-Hsin Cheng (2006), who in his research that IA has + and significant linkage to EM mediated by investment capital sets.

Table 5. Ouput For Inner Weights

	Original Sample (O)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)	Meanings
IA -> IC	0.337	0.156	0.156	2.158	Accepted
IA -> EM	0.642	0.294	0.294	2.181	Accepted
IA -> IOS	0.672	0.274	0.274	2.454	Accepted
CFO -> EM	-0.060	0.077	0.077	0.781	Rejected
CFO -> IOS	-0.215	0.109	0.109	1.969	Accepted
FCF -> EM	0.038	0.065	0.065	0.591	Rejected
FCF -> IOS	0.326	0.240	0.240	1.359	Rejected
Growth -> IC	0.200	0.266	0.266	0.752	Rejected
Growth -> EM	0.155	0.314	0.314	0.495	Rejected
IC -> EM	0.744	0.244	0.244	3.054	Accepted
Leverage -> IC	0.420	0.170	0.170	2.470	Accepted
Leverage -> EM	0.230	0.201	0.201	1.146	Accepted
Set capital invest -> EM	0.117	0.154	0.154	0.760	Accepted
Size -> IC	0.100	0.046	0.046	2.166	Accepted

Size -> EM	0.019	0.039	0.039	0.486	Rejected

CONCLUSION

The results of hypothesis testing conducted shows that, first a significant direct and positive impact between IA on EM. The 2nd testing of hypothesis, indicate a direct and positive influence between IC on EM. The 3rd hypothesis of testing, indicate a direct and positive impact between the IOS on EM. The 4th testing hypothesis indicate there is an indirect impact between IA on EM mediated by IC. Finally, the 5th testing of hypothesis results, shows there is an indirect impact between IA on EM mediated by the IOS

The implementation of the study still has several limitations, namely the data used are property listings in 2015 and 2016, so that for other industry sectors not included in this research. Based on the limitations in this research, it is expected that future research should extend the year of research and also to involve other sectors, so that conclusions can be more generalized for all industry sectors

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