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The Factors Influencing the Earnings Management in Indonesian State-Owned Enterprise Listed on the Indonesia Stock Exchange from 2016-2020

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ABSTRAK

Upaya manajer untuk memberikan nilai tambah bagi perusahaan dapat menimbulkan konflik kepentingan antara agen (manajer) dan prinsipal (pemilik). Masalah mungkin terjadi ketika pemilik cenderung mengandalkan manajer untuk mengendalikan perusahaan dalam rangka meningkatkan kinerja perusahaan. Penelitian ini bertujuan untuk menguji faktor-faktor yang mempengaruhi manajemen laba. Jenis penelitian ini adalah kuantitatif dengan menggunakan eksplanatori (Explanatory Research). Populasi dalam penelitian ini adalah Badan Usaha Milik Negara (BUMN) yang terdaftar di Bursa Efek Indonesia. Sampel penelitian ini adalah 20 BUMN yang terdaftar di Bursa Efek Indonesia tahun 2016-2020. Teknik pengambilan sampel yang digunakan adalah purposive sampling. Teknik yang digunakan untuk menganalisis data yaitu analisis statistic inferensial. Hipotesis penelitian diuji dengan menggunakan analisis regresi data panel. Hasil penelitian menunjukkan bahwa profitabilitas dan leverage berpengaruh positif terhadap manajemen laba, sedangkan ukuran tidak berpengaruh terhadap manajemen laba. Temuan ini menunjukkan bahwa faktor penghasil laba dan debt-holding oleh BUMN memotivasi manajemen untuk melakukan manajemen laba sehingga perusahaan tampak berkinerja baik bagi pemegang sahamnya.

ABSTRACT

Managers' efforts to provide added value to the company can lead to conflicts of interest between agents (managers) and principals (owners). Problems may occur when relying on managers to control the company to improve company performance. This study aims to examine the factors that affect earnings management. This type of research is quantitative by using explanatory (Explanatory Research). The population in this study is State-Owned Enterprises (BUMN) listed on the Indonesia Stock Exchange. The sample of this research is 20 BUMN listed on the Indonesia Stock Exchange from 2016-2020. The sampling technique used is purposive sampling. The technique used to analyze the data is inferential statistical analysis. The hypotheses were tested using panel data regression analysis. The results showed that profitability and leverage positively affected earnings management, while size did not affect earnings management. This finding shows that SOEs' profit-generating factors and debt ownership motivate management to carry out good earnings management for their shareholders.

1. INTRODUCTION

One of the aims that a company must achieve in order to persuade investors to invest their capital is by increasing the value of the company. The value of the listed company is represented in the price of shares listed on the stock market (Ananda et al., 2021; Ramanathan & Muyldermans, 2010). The value of the company can be done by increasing the value of the shares. The higher the stock price is, the greater a company's values become (Asmirantho & Somantri, 2017; Nugraha & Riyadhi, 2019). A company's high stock price not only affects investors' perceptions towards its worth, but it may also raise market confidence in the company's future performance and prospects (Zhang & Du, 2017; Zhu et al., 2022). By doing so, all principals want high corporate value since it promotes the welfare of the principals. Financial statements can be used to evaluate the overall performance of the company. Financial statements are also required by investors to evaluate the company's performance (Polii et al., 2019; Stuebs et al., 2022).

Delegating management to an agent, or in this case is a manager, is one approach to add value to a company. However, practically, manager's effort to add value to the company might lead to a conflict of

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interest between agents (managers) and principals (owners). Agency theory is a theory used to explain the conflict of interest between the owners and the agents (Ma et al., 2022; Solomon et al., 2021). A problem might occur when the owners tend to rely on managers to control the company in order to improve company performance. Managers typically use their authority to act for their own benefit at the expense of the owner (Leigh et al., 2021; Lin et al., 2022). Earnings management is one of the practices related to agency theory.

Earnings management is a deliberate technique to decrease or increase earnings in order to minimize instability within its earnings report, thus the company appear more stable (Dian et al., 2019; Sugiyanto & Candra, 2019). Earnings management as management's effort to keep company profits relatively stable over time (Chang et al., 2022; Hu et al., 2022). This attempt is done by manipulating the current period's income and expenses either higher or lower than the actual income or costs. Earnings management with income smoothing refers to management actions taken to lessen fluctuations in earnings by shifting income to periods of low income (Aharony et al., 2010; Rani et al., 2018).

Due to anomalies in information related to company's profits, users of financial statements are unable to make appropriate decisions as a consequence of the practice of earnings management (Luthan et al., 2016; Yang & Tang, 2021). Earnings management is a common practice that has been carried out in many countries (Suripto, 2022; Wilson et al., 2022). However, this may mislead or cause investors not to get sufficient and reliable information about the company's earnings that is used to re-evaluate the returns and risks of their portfolio. Earnings management will probably put investors at a disadvantage since they will be unable to understand the company's financial status and fluctuations precisely. Although, according to some experts, as long as income smoothing is implemented without fraud, this practice is not a problem (Haryadi et al., 2018; Kusmiyati & Hakim, 2020). Companies are not suggested to perform earnings management in order to prevent the possibly harming partners that have an interest in company profit information and those who use earnings information as a reference for financial statement users (Haryadi et al., 2018; Putriasih et al., 2016).

In 2001, several earnings management phenomena occurred in one of Indonesian's State Enterprises (SOEs) in the manufacturing sector, specifically PT. Kimia Farma Tbk. Based on the findings of a research conducted by the Ministry of SOEs and BAPEPAM, there was a discrepancy in net income reported by the company through KAP Hans Tuanakotta and Mustofa. The company first reported a net profit of Rp. 132 billion, but following a re-examination by KAP Hans Tuanakotta and Mustofa, it was found that the net profit create during that period was just Rp. 99 billion. Errors in PT Kimia Farma Tbk's financial statements due to manipulating the company's inventory price list in order to make the company seem stable are found as a result of this issue (Pratiwi & Handayani, 2014). Another issue related to income smoothing operations is the case of the PT. Perusahaan Listrik Nasional (PLN) which managed to post a net profit of Rp. 11.56 trillion in 2018 (Haryadi et al., 2018; Kusmiyati & Hakim, 2020). According to the reports, PLN's profit for that year rose by 162.30%. This amount has almost tripled compared to the Rp. 4.42 trillion profit figure reported in 2017. In fact, based on accounting statistics, PLN pocketed Rp. 18.48 trillion in the third quarter due to a foreign exchange loss of Rp 17.32 trillion. The deposit of compensation income of Rp. 23.17 trillion that emerged in the financial statements, which previously did not appear on the balance sheet of the financial statements in 2017, was the element that caused the growth in PLN's profit in that year. Furthermore, net other income rose by 359.34% from Rp. 3.40 trillion in 2017 to Rp. 15.66 trillion 2018, backed by government total revenue as debts from the government of Rp. 7.45 trillion, which did not appear in the balance sheet in 2017 (Haryadi et al., 2018; Kusmiyati & Hakim, 2020).

Earnings management is a method for a company's manager to affect the financial statement information in order to attract investors or improve the reputation of the directors so that they appear to have high performance after year (Boachie & Mensah, 2022; Hussain & Akbar, 2022). Profitability is one of the internal aspects that might increase or reduce earnings management. Profitability is the capability of a company to generate a profit by utilizing all of the potential of its resources. Profitability is also a key source of information for investors since the higher the profitability, the better a company's performance, so that the company's earnings management appears excellent. The findings of the research revealed that profitability has a beneficial impact on earnings management (P. E. P. Dewi & Wirawati, 2019; Harsono, 2021). This indicates that the higher the company's profitability is the more likely management to flatten or lower profits for the next year. In addition, leverage is an external issue that can affect the company's earnings management in addition to internal variable (Damayanti & Wulandari, 2021; Paredes Gómez et al., 2016). A high amount of leverage increases the company's risk in repaying its debts, which can lead to decreased investor trust. This indicates that the higher the leverage, it will encourage the company's management to manage better earnings.

The size of the firm is another internal aspect that might influence earnings management (Chandra et al., 2020; P. A. C. Dewi & Sedana, 2019). Business size refers to a comparison of the size of the company as determined by the number or total sales, total assets, log size, and stock market value (Hove-Sibanda et al., 2017; Minutolo et al., 2019). In terms of earnings management, large companies have fewer opportunities than small companies. This is because large companies have superior internal control and face more risk in managing earnings, compared to small companies. Conversely, because small companies have inadequate internal control, they have more opportunity to manage earnings (Dian et al., 2019; Hongkong, 2017). The research discovered the influence of profitability on earnings management at banks listed on the IDX from 2016 to 2018, since higher levels of Return on Assets (ROA) disclosure increase earnings management practices in banking (Lestari & Wulandari, 2019). The influence of profitability on earnings management in manufacturing on the IDX from 2010 to 2015, this is because company management actions are more likely to carry out earnings management, mostly through income minimization (profit minimization) or income maximization (profit maximization) (Purnama, 2017).

However, the findings of a study discovered that profitability had no effect on earnings management of cosmetic and household companies listed on the Bursa Efek Indonesia between 2013 and 2017 (Dwiarti & Hasibuan, 2019). It is assumed that the ROA has almost no effect since investors choose to dismiss the ROA information, leaving management unmotivated to control earnings through profitability variables.

On the other hand, discovered that the leverage ratio had a beneficial influence on earnings management in non-financial companies listed in the 2011-2016 Corporate Governance Perception Index (CGPI) evaluation (P. E. P. Dewi & Wirawati, 2019). This contrasts with the findings discovered that the leverage ratio had no effect on earnings management in manufacturing companies listed on the BEI from 2010 to 2014 (Dimarcia & Krisnadewi, 2016). Other research discovered a beneficial influence of company size on earnings management in mining companies listed on the BEI from 2016 to 2019 (Sakdiyah et al., 2020). The higher the company's overall assets, the lower the degree of earnings management. The scale of the company does not necessarily reduce the occurrence of of earnings management. Large-scale companies have a greater quantity of assets and the possibility for assets that are not well managed. This allows for inaccuracies in reporting the company's total assets.

Because prior research' conclusions were inconsistent, this study will re-examine past studies on the influence of profitability, company size, and debt on corporate earnings management. The research period is what distinguishes this study from other studies. Previous study focused on the years 2014–2018. This study examines at the years 2016 until 2020. This research also includes state-owned enterprises as samples; state-owned companies should have high governance and very low profit-making methods. The purpose of this study is to analyze how relevant the selected variables are in influencing the earnings management of State-Owned Enterprises (BUMN) so that they can be used as a reference in the development of the company in the future. The expected results of this study can contribute to the theoretical contribution of the elements that affect earnings management in state-owned enterprises (BUMN). This study is intended to provide information to investors to help them understand the aspects that affect earnings management in companies.

2. METHODS

This type of research is quantitative by using explanation (Explanatory Research). The explanatory method, which is a type of research in which the variables in this study are processed and the results are clearly explained about the impact of each variable (Sugiyono, 2011). The independent variables in this research are profitability, leverage, and company size. Meanwhile earnings management is the dependent variable in this research. The population in this study is State-Owned Enterprises (SOEs) listed on the Bursa Efek Indonesia. The data is collected from the company's annual report, which is available on the BEI's official website. This research's population consists of State-Owned Enterprises (SOEs) registered on the Bursa Efek Indonesia. The sampling technique employed was purposive sampling, with the following sample selection criteria in Table 1.

Table 1. Sample Selection Criteria

No	Criteria	Total
1	State-Owned Enterprises (SOEs) listed on the Bursa Efek Indonesia	22
2	IPO before 2016	0
3	Non-chief and non-affiliated State-Owned Enterprises (SOEs)	(2)
4	Actively report financial statements from 2016 - 2021	0
	Total Sample	**20**
	Observation Period (Year)	**5**
	Number of data observations (sample * year)	**100**

This analysis was conduct because the data contained a combination of time series and cross section data. Panel data regression is a regression technique that combines cross-sectional and time-series data, therefore it has more observations than cross-sectional and time-series data only. The constructed hypothesis is tested using panel data regression in this research. As a result, several tests were conducted in order to identify the best model for each hypothesis. First, the Chow Test was used to choose between the Fix Effect Model (FEM) and the Common Effect Model (CEM), with the FEM model being chosen if the result probability alpha (0.05) was less than 0.05. The second is the Hausman Test, which is used to choose between the Fix Effect Model (FEM) and the Random Effect Model (REM), with the FEM model being chosen if the result probability is alpha (0.05) or below. The third test is the Lagrange Multiplier Test, which is used to choose between the Common Effect Model (CEM) and the Random Effect Model (REM), with the REM model being chosen if the result probability is alpha (0.05), and vice versa.

3. RESULTS AND DISCUSSIONS

Results

Descriptive statistical data is used to identify the minimum value, maximum value, average value, and standard deviation of each variable indicator. The results of the data description of the research variables are as shown in Table 2.

Table 2. Descriptive Statistics

	Min	Max	Mean	Std. Dev
Earnings Management	-83.521	0.908	-1.776	11.988
ROA	-5.700	20.680	3.027	4.746
DER	0.080	11.400	2.738	2.782
Size	25,620	33,201	28,378	1,661

The minimum number for earnings management is -83.521. The highest possible number is 0.908. Earnings management has an average number of -1,776 and a standard deviation of 11,988. A standard deviation number higher than the average shows that the data distribution is diverse or heterogeneous. The lowest number of ROA is -5,700. The maximum possible number is 20,680. The average ROA number is 3.027, showing that the average state-owned enterprise is profitable because the average ROA is above 1 . 4.746 is the standard deviation. A standard deviation number higher than the average shows that the data distribution is diverse or heterogeneous.

The smallest number of DER is 0.080. The maximum possible number is 11,400. DER has an average value of 2.738 with a standard deviation of 2.782. A standard deviation number higher than the average shows that the data distribution is diverse or heterogeneous. he minimum number for size is 25.620. The maximum possible number is 33,201. The average profit size is 28.378 with a standard deviation of 1.611. The standard deviation is less than the average, indicating that the data distribution is less diverse or homogeneous. The suitable regression model is chosen using three tests: the Chow test, the Hausman test, and the Lagrange multiplier test, showed in Table 3.

Table 3. Regression Model Selection

Chow Test		
Effect test	Statistic	Prob.
Cross-section F	6.802	0.000
Cross-section Chi-square	45.611	0.000
HausmanTest		
Test Summary	Chi-Sq. Statistic	Prob.
Cross-section random	2.832	0.725
Langrange Multiplier Test		
	Cross-section	Prob.
Breusch-Pagan	20.459	0.000

Based on the results, the chow test conducted to select a suitable model between CEM and FEM, the probability coming from the chow test of 0.000 is less than (0.05), it means that the fix effect model (FEM) is suitable to use. Moreover, the Hausman test was conducted to select a suitable model between FEM and REM. Because the Hausman probability test result of 0.099 is higher than (0.05), the random effect model (REM) is the best choice. To finish the previous test, the Hausman test was used to select a good model between FEM and REM. Since the Hausman probability test result of 0.099 is higher than (0.05), the random effect model (REM) is the best choice.

The results of the three tests performed above indicate that the random effect model (REM) is the best model that may be employed. REM is a method that employs the Generalized Least Squares (GLS) method, with the notion that this method no longer requires classical assumptions because they are irrelevant if it is used. Panel data regression was used based on the suitable model for each hypothesis to verify the validity of the hypothesis that was constructed, notably the direct impact between variables. Table 4 shows the findings of the analysis.

Table 4. Hypothesis Test Results

Independent Variable	Dependent Variable	*Coefficient*	*t-Statistic*	*Prob.*
ROA	Earnings Management	0.021	3.860	0.000
DER		0.002	2.556	0.000
SIZE		-0.028	-0.165	0.869
R-square			**0.341**	

The t-count value is 3.860 based on the calculation of the t-test (partial) return on assets, where the t-count > t-table (3.860 > 1.984). The significance value is 0.000, which is less than 0.05 (0.000 0.05). The presence of a positive t value shows that assets return has a positive impact on earnings management. As a result, it can be concluded that return on asset has a positive impact on earnings management, and the research findings support the hypothesis that return on assets has a positive effect on earnings management. As a conclusion, hypothesis 1 is approved.

The t-test (partial) debt equity ratio calculation yielded a t-count value of 2.556, it means that the t-count > t-table (2.556 > 1.984). The significance value is 0.000, which is less than 0.05 (0.000 0.05). The positive t value indicates that the debt equity ratio improves earnings management. As a result, the research findings are in accordance with the hypothesis that the debt equity ratio has a positive effect on earnings management. As a conclusion, hypothesis 2 is approved.

The t-test (partial) of company size (Size) yielded a t-count value of -0.165, where the value of t-table (-0.165 1.984). The significance value is 0.0869, which is more than 0.05 (0.869 > 0.05). T count has a negative value. As a result, it is possible to conclude that the research findings do not support the idea that company (Size) has a positive impact on earnings management. As a result, hypothesis 3 is dismissed. The R-Square value in the research model is 0.341, showing that the independent variable has a 34.1% impact on the dependent variable, with the remains influenced by variables outside the model.

Discussion

Return on assets has a positive effect on earnings management. This indicates that the higher the company's ROA, the more probably management is to pursue earnings management actions. These findings confirm the hypothesis, and the findings of this research are consistent with research claims that return on assets has a considerable positive impact on earnings management. ROA measures a company's ability to profit from its assets (Lestari & Wulandari, 2019; Purnama, 2017). The higher a company's or issuer's ROA, the better it is able to make profits from its assets. Profit is one of the factors that influence investors' decisions to buy stocks (Andrés et al., 2015; Lubis et al., 2021). The higher the profit, the more successful management is in expanding shareholder wealth as expected. The company's high level of profit might be the result of managers engaging in earnings management methods. Profit earned by the company during the current year may be used to predict the occurrence of earnings management activities in the company. Earnings management is often used to manipulate profit and loss components in a company's financial statements (Dian et al., 2019; Sugiyanto & Candra, 2019). These attempts are done with the aim of manipulating financial information. Earnings management may be done by a variety of acts, including income smoothing, income increasing, income decreasing, and taking bath. These findings show that whether the company's performance is poor or excellent, managers would act opportunistically by raising or lowering accounting profits depending on the state of the company's performance.

The debt equity ratio improves earnings management. As a result, the larger the quantity of debt owned by the company, the higher the tendency of managers to execute earnings management activities. These findings were in accordance with the idea that has been developed. The Debt to Equity Ratio (DER) measures a company's ability to meet all of its obligations by indicating how much of its own capital is utilized to pay debts (Gustmainar et al., 2018; pami Hemastuti, 2014). The findings of this study found that leverage, as proxied by DER, has a positive impact on earnings management (P. E. P. Dewi & Wirawati, 2019; Tala & Karamoy, 2017; Yasa et al., 2020). The use of debt, according to the trade-off theory of capital structure, can increase the value of the company to its optimal point. When the use of debt surpasses the ideal point, the value of the company decreases as the ratio of debt in its capital structure increases. The more the debt of the company, the higher the risk faced by investors, thus investors will demand a higher amount of profit. As a result of these situations, the company will likely engage in earnings management (Chang et al., 2022; Sugiyanto & Candra, 2019). Another reason companies use earnings management is to avoid breaking debt agreements; this may be seen in the company's ability to pay down its debts using its assets. Companies with a high debt-to-equity ratio are accused of using income smoothing since the company is threatened with default, thus management implements practices that enhance income.

Meanwhile, companies will report higher profits in general in order to maintain the company's reputation in the public (Savagar, 2021; Yasa et al., 2020). This action is done because a high leverage ratio makes it harder to borrow additional funds from third parties, because third parties will determine that the company will fail to meet its debts. The higher the level of leverage, the higher the chance of the company failing to pay its debts, which will have an impact on investor trust. The quantity of debt held by the company (leverage) might influence earnings management actions used to improve the trust of associated parties (Damayanti & Wulandari, 2021; P. E. P. Dewi & Wirawati, 2019). High leverage can also be caused by management errors in managing company finances or the execution of ineffective management practices. As a result, management will take advantage of opportunities, such as earnings management, to maintain its performance in the perspective of shareholders and also public.

Company size has no impact on earnings management. This means that the size of the company does not affect management's decision to take earnings management actions. The findings of this research contradict the theory that was developed. The empirical findings of this research supports the results of The larger a company or the more its assets, the less probable it is to engage in earnings management (Myers et al., 2007; Suripto, 2022). Since more interested parties are paying attention to the company, huge companies will likely to be more attentive in reporting the company's financial statements. Smaller companies or companies with fewer assets, on the other hand, will tend to engage in earnings management because the company's goal is to prove that the company's condition is improving so that investors and other parties are interested in the company because the company's reported condition is good. However, the findings of this study differ in how a large company's size does not necessarily prohibit earnings management.

The larger the company, the easier it is to obtain credit since huge enterprises can be relied on to earn profits, eliminating the need for earnings management. As a result, investors prefer constant profit growth over fluctuating profit growth. This is because supervision will limit managers' ability to carry out earnings management because there is a high probability that it will be quickly detected by the government and third parties. According to research findings, ROA and DER have a positive influence on earnings management for investors. Because of the potential for earnings management practices, investors should think twice before investing in companies with high ROA and DER values. Earnings management is not an illegal practice; nonetheless, earnings management practices are considered damaging to investors since the information obtained by investors is not accurate. For the company or management, the performance of earnings and debt has a huge impact on the implementation of earnings management, which can be considered negative. This negative perspective might undermine investors' trustworthiness and relationship of trust.

The limitation in this study is that the R-Square value of the research model is quite low in this research, indicating that the research model is still not good. This can be influenced by variables other than the research model. The following limitation is the company's characteristic factor, which is solely indicated by the company's size and has no effect. Suggestions for future research include expanding this study to include a larger and more diverse sample (non BUMN). Subsequent research might incorporate other company characteristics factors into the model, such as company age, because, according to a literature review, these variables can affect earnings management, leading in a better model. According to the results of a study, the performance of earnings and debt has a significant impact on the implementation of earnings management, and earnings management is seen negatively by shareholders. As a result, study proposals for future research might include company value variables to examine the impact of earnings management practices.

4. CONCLUSION

Earnings management actions remain in the gray area, which means that they are either permitted by accounting standards or an act of fraud. Earnings management occurs due to the existence of competing interests. Several conclusions can be drawn from the results, including: first, return on assets has a positive impact on earnings management. Second, the debt-to-equity ratio improves earnings management. Third, the size of the company has no impact on earnings management.

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