THE EFFECT OF MANAGERIAL AND INSTITUTIONAL OWNERSHIP TOWARDS EARNINGS MANAGEMENT WITH PROFITABILITY AS MODERATING VARIABLE

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ABSTRACT
This research aims to predict the effect of managerial ownership and institutional ownership towards earnings management with profitability as moderating variable. The population of this research is 52 consumer goods industrial companies that are listed in Indonesia Stock Exchange year 2016-2018. The sample of this research consists of 18 consumer goods industrial companies which are chosen using purposive sampling method. Technique of data analysis carried out in this research are multiple linear regression analysis and moderated regression analysis. The result of the research states that managerial ownership does not affect negatively towards the earnings management. That is because the managerial ownership is not capable to be the media of the corporate governance which could decrease interest disharmony between management with owner or shareholder. Besides, the percentage of managerial ownership in Indonesia is still low. So does institutional ownership does not negatively affect the earning management. It is because there are many institutions that less active in giving pressure to management activity and lacks of supervision towards the management’s work. Meanwhile, profitability with return on assets proxy is not able to weaken the effect of managerial ownership and institutional ownership towards earnings management. From the result of the research, it can be concluded that companies should increase the implementation of good corporate governance to decrease the practice of earning management. Besides, investors should be careful in their investments activities of a company.

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BACKGROUND OF RESEARCH
The establishment of a company generally aims to earn profit or benefit. Profit is one of the indicators used to measure the success of a company. The manager uses profit information to take decisions related to the financial performance of the company in a certain period. The manager has more information related to profit information so that they have flexibility in processing the profit that is earned. Information asymmetry that is getting higher makes information difference received
by managers and shareholders. Therefore, manager tries to give stable profit information to attract investor’s interest. Profit information becomes the factor to predict earnings power in the future and measure the company’s performance (Mamu and Damayanti, 2018). Earnings management is used to give information on a stable company’s performance.

Cases of profit manipulation happened in Indonesia. The latest profit manipulation case is PT Garuda Indonesia Tbk in 2019. There was an ineptness on the financial report of Garuda Indonesia in 2018. The company earned Rp. 11,33 billion of net profit with the increase of other operating revenues (Sugianto, 2019). The company receivables were admitted as earnings by the management that increase the company earnings. There was also a case of inflated funds of PT Tiga Pilar Sejahtera Food Tbk in 2019. Investigation report by Ernst & Young to the new management found out that prior directors inflated the profit of Rp. 662 billion, EBITDA of Rp. 329 billion and cash flow of Rp. 1.78 trillion through various schemes from AISA group to affiliated parties with prior management (Wareza, 2019).

One of the ways to decrease conflict of interest between managements and shareholders can be done by separating ownership and company control (Jensen and Meckling, 1976). Company ownership structure might affect the activity of earnings management in the company. Company ownership can be owned by the management or institution or even public. Managerial ownership in company stock that is owned by the company management while institutional ownership is company stock which is owned by a certain agencies or institutions. The existence of managerial ownership is expected to be able to do supervision towards the company activity to fit the interests between management and shareholder. Besides, institutional ownership also becomes the mechanism to supervise operational activity (Mahariana and Ramantha, 2014).

One of the way investor does in their investments activity is using the benchmark of company profitability. Profitability is the company ability to manage the asset in earning the profit. Company stocks that will be owned by the investor related to the profitability of the amount of return from the investments. The greater the profitability earned by the company will increase the return of the investments (Arilaha, 2009).

Previous studies mostly researched earnings management, as done by Zakia et al. (2019) and Maswadeh (2018) which stated that managerial ownership and institutional ownership did not affect earnings management and profitability positively affected the earnings management. Arthawan and Wirasedana (2018) have different findings which stated that managerial ownership negatively affected the earnings management, while Arlita et al. (2019) explained in their research that institutional ownership and managerial ownership positively affected earnings management. Next, Shaikh et al. (2019) in their research found that pyramid control and control chain mechanisms in a company were significantly positive with accrual earnings management and real income.

As seen from the previous research, there are many result differences so that it needs more research. This research carries out profitability as a moderating variable between managerial ownership and institutional ownership towards earnings management. Profitability can be a signal for investors in considering their investment’s activities. Information related to profitability is a signal that can affect the reaction of capital market players. Previous research showed that profitability possess a positive relationship with earnings management which among them is research done by Hasty and Herawaty (2017); Khanh and Khuong (2018); Zakia et al. (2019); Diana and Mawardi (2019) and Pasaribu et al (2019) which were signals for management in doing the earnings management.

This research is done in consumer goods industrial manufactures that are listed in Indonesia Stock Exchange in 2016-2018. Consumer goods industrial company is chosen as the research object because it continuously grows every year and provides components to measure accrual earnings management.
LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

Agency theory first discovered by Jensen and Meckling (1976) that explains agency relationship. This theory relates to the presence of a bonded relationship between manager and company owner. Company owner gives responsibility to the manager to manage the company. Duties, rights, and authorities of the manager and company owner are regulated in the employment contract that has been negotiated. Bonding between manager and company owner creates a problem between the two parties. Delegation of duty and authority towards manager means that the company owner must pay the chosen manager to manage the company. Besides, the company manager has more company internal information than the company owner, so that manager can take advantage for their interest. The manager can also act as they wish that they become neglectful to the employment contract and it creates moral hazard.

According to Scott (2015) the practice of earnings management is affected by the contract relation between the company owner with the manager that is created because of the desire to maintain the company image and the prosperity that is expected. Earnings management is one of the company act that is resulted from information asymmetry in a company. Manager takes the benefit from information excess that they have to do the practice of earnings management. The practice of earnings management that is done by the manager is motived to get bonuses, political motives, to save tax, CEO change, Initial Public Offering (IPO), and the importance of giving information to the investor (Scott, 2015). Therefore, this practice gives a disadvantage for the company owner.

The agency problem between company owner and manager can be minimized by separating ownership and company control. Improvement of the company managerial ownership will encourage the manager to improve company performance (Jensen and Meckling, 1976). Manager will acknowledge the direct advantage or disadvantage from the shareholding that they have in a company. Besides, company shareholding by institutional investors improves the supervision of the company owner. Institutional investor usually acts as shareholder majority so that they have the encouragement to do strict supervision to the company management by the manager. Therefore, the existence of managerial ownership and institutional ownership in a company will lessen the agency conflict between company owners and managers. Besides, it could cut down the practice of earnings management that is done by the company manager.

Signaling Theory

Signaling theory first proposed by Spence (1973) that explains about Job Market Signaling. This theory relates to information asymmetry in the labor market. Hence, the company must give a clue about the company prospect. According to Brigham and Houston (2001), hint or signal is a clue for investors to know the company prospect given by the company management. Management will give signal to the company stakeholder to know the company prospect. Information related to company prospects could affect investment’s decision done by the investor. Precise, accurate, relevant and complete information is very needed by the investor as an analysis tool to make their investment’s decision (Jogiyanto, 2013)

Information asymmetry causes the company management to give information related to company prospects. Sartono (2001) stated that information asymmetry could happen between two external conditions which are minor information differences so that it does not affect the management or significantly different information which affects the management. Information related to company profitability becomes one of the information that must be given by the manager to an investor. The highs or the lows of profitability produced by the company could affect the manager’s decision in informing the outsiders. Information asymmetry makes the manager to be able to manage the company profit to be seen good in each period. This is what usually called as earnings management. Therefore, information related to company profitability becomes the signal for the management to do the practice of earnings management.
Earnings Management

Earnings management is the manager’s action in choosing the policy to affect the company profit (Scott, 2015). Earnings management is done by the manager as one of the problem solving to protect the company from uncertainty which is created from economic change and contractual factors. Earnings management practice covers the manager’s intention to gain personal benefit in form of incentives with the adoption of accrual earnings management or real earnings (Ghaleb and Kamardin, 2018). Manager could do earnings management practice in a company using accrual earnings management or real earnings management. Financial reports could have less quality because of the practice of earnings management that changes the real situation (Arlita et al. 2019). According to Scott (2015), the motives of earnings management practice is bonus motives, political motives, saving tax, CEO change, capital market motives and the importance of giving information to the investors. The scheme of earnings management can be done by admitting cost for the coming period in the current period (taking a bath), maximizing company profit (income maximization), minimizing company profit (income minimization), and reporting stable profit growth (income smoothing).

Managerial Ownership

Managerial ownership is personal shareholding of an issuer by the management. This ownership is shown in the stock owner percentage by the manager in the financial report. This is information for the financial report user so that it is disclosed in the financial report’s notes up (Christiawan and Tarigan, 2007). Shareholding that is owned by the company management will decrease the rate of opportunistic action in the company. Jensen and Meckling (1976) stated that managerial ownership in a company could reduce agency problems between the owner and the company’s agent. Managerial ownership will improve the company performance for personal interest for the sake of gaining high returns. However, this also will positively affect the other shareholders because it is oriented to improve the company performance to increase return.

Institutional Ownership

Institutional ownership is a shareholding of an issuer that is owned by either domestic or foreign agency or institution. Institutional ownership has a role in shareholders meeting that they could join the decision making related to employee policy and incentive allotment for a manager (Kholis, 2014). A company that is owned by the institution will affect the supervision of company management performance. The higher the institutional ownership in a company, the higher the supervision that is done in the company so that it encourages the management to optimize the company performance and fit them with the shareholders’ goals. The institution that owns stock in a company can affect financial reports making that accrualization might have existed which corresponds to the management interest (Boediono, 2005).

Profitability

Profitability is a ratio to measure a company’s ability in looking for benefits or earnings in a certain period (Kasmir, 2011). This ratio has an aim and benefit for internal or external company parties. Profitability is one of the benchmarks for managers to measure the company performance. High or low profitability produced by the company becomes the management benchmark in managing the company. Company management tries to give stable or increasing profitability information to the company. Besides, information related to profitability becomes important information for the company external party especially for an investor as one of their considerations in doing their investment’s activity. Profitability can be measured using return on assets which is measuring the ability of assets management in gaining profit. Profitability becomes one of the considerations for the company manager in doing the earnings management. Therefore, profitability can be one of the signals for the manager to do the practice of earnings management.

Relationship of Managerial Ownership with Earnings Management

According to agency theory, the company has an agency problem related to a contract between manager and company owner. Agency conflict in a company can be minimized by shareholding by
the management. Shareholding by the management can correspond to the interests between the shareholder and manager so that it could reduce agency problems (Jensen and Meckling, 1976). Research done by Mahariana and Ramantha (2014); Utari and Sari (2016); Aryanti et al. (2017); Arthawan and Wirasedana (2018); and Anwar and Buvanendra (2019) stated that managerial ownership negatively affect the earnings management. The higher shareholding by manager encourages them to improve company performance to increase return so that it lessens the agency conflict and there is harmonized interests between shareholder and manager.

H₁: Managerial Ownership negatively affect Earnings Management

**Relationship of Institutional Ownership with Earnings Management.**

Agency conflict is created by bonding contracts between managers and shareholders of the company. This conflict can be disadvantageous for one of the parties that are under contract especially shareholders as the principal side. Shareholders will appoint agent as company manager so that it produces agency cost, information asymmetry and manager’s moral hazard. Shareholding by institutions has an important role in decreasing agency conflict (Jensen and Meckilig, 1976). Institutional ownership can improve the supervision to the company management. Research done by Rad et al. (2016); Utari and Sari (2016); Reyna (2018); Anwar and Buvanendra (2019) and Kusumaningtyas et al. (2019) stated that institutional ownership negatively affect earnings management. The higher the institutional ownership in a company, the higher the supervision that is done towards the company management. Therefore, it could encourage the management to improve the company performance so that it harmonizes with the shareholders’ interests.

H₂: Institutional Ownership negatively affect Earnings Management

**Relationship of Managerial Ownership and Institutional Ownership towards Earnings Management with Profitability as Moderating Variable**

Profitability is one of the management benchmark in measuring the company performance. Shareholding by company management considers the return given by the company so that profitability can be signal in shareholding by the management. Profitability information become one of considerations for investor to do investment. The higher the profitability produced by the company, the higher the return produced from the investment that is done by the investor so that profitability becomes the signal for investors to own the company’s stock. Besides, profitability becomes a signal for company management in doing earnings management practice. Earnings management practice is done by observing profit rate that is earned by company so that it could decide the earnings management scheme that is used.

Research from Purnama and Nurdiniah (2018) explained that profitability affect positively to earnings management. It also corresponds to the research done by Khanh and Khuong (2018); Fitri et al. (2018); Zakia et al. (2019); and Pasaribu et al. (2019). Profitability weakens the relationship between managerial ownership and institutional ownership towards earnings management. The higher the managerial ownership and institutional ownership, the better the profit management is done by managers so that it harmonizes aim with shareholders.

H₃: Profitability weakens the effect of managerial ownership and institutional ownership towards earnings management.
Research Model
Independent Variable

\begin{align*}
X_1: \text{Managerial Ownership} & \quad H_1 (-) \\
X_2: \text{Institutional Ownership} & \quad H_2 (-) \\
\end{align*}

Dependent Variable

\begin{align*}
Y: \text{Earnings Management} \\
\text{Profitability} \\
\end{align*}

Moderating Variable

Picture 1. Research Model

RESEARCH METHODOLOGY

This research carries out a quantitative approach by predicting the relationship between independent variables towards the dependent variable by adding a moderating variable. The population of this research is 52 consumer goods industrial companies that are listed in the Indonesia Stock Exchange year 2016-2018. The sampling method used in this research is purposive sampling method which is choosing samples by certain criteria. Criteria used in this research are companies that published audited financial report year 2016-2018, companies that did not experience profit loss, and companies that had managerial ownership and institutional ownership data so that there are 18 companies as the sample of this research.

Table 1. Sample Selection

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Amount of Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer goods industrial manufacture company year 2016 – 2018</td>
<td>52</td>
</tr>
<tr>
<td>Company which did not issue audited financial report year 2016 – 2018</td>
<td>(11)</td>
</tr>
<tr>
<td>Company which experienced profit loss</td>
<td>(11)</td>
</tr>
<tr>
<td>Company which did not have managerial ownership and institutional ownership data</td>
<td>(12)</td>
</tr>
<tr>
<td>Company used as sample</td>
<td>18</td>
</tr>
</tbody>
</table>

Operational Definition and Research Variable

Earnings Management

Earnings management is manager activity in choosing policy to affect company profit (Scott, 2015). Measurement of internal earnings management uses Modified Model Jones (Dechow et al. 1995) with the following formula:
1. Calculating the total accrual with the following equation:

\[ TAC = N_{it} - CFO_{it} \]  

Annotation:
\[ N_{it} = \text{net profit of i company in t period} \]
\[ CFO_{it} = \text{cash flow from operational activity of i company in t period} \]

2. Calculating the accrual value with the following equation:

\[ \frac{T\!A_{it}}{A_{it-1}} = \beta_1(1/A_{it-1}) + \beta_2(\Delta\!Re_{it}/A_{it-1}) + \beta_3(PPE_t/A_{it-1}) + e \]  

Annotation:
\[ T\!A_{it} = \text{total accrual of i company in t period} \]
\[ \beta = \text{regression coefficient} \]
\[ A_{it-1} = \text{total assets of i company in t-1 period} \]
\[ \Delta\!Re_{it} = \text{income change of i company in t period} \]
\[ \Delta\!Re_{it} = \text{receivables change of i company in t period} \]
\[ PPE_t = \text{fixed assets of the company in t period} \]
\[ e = \text{error} \]

3. Calculation non-discretionary accruals with the following equation:

\[ NDA_{it} = \beta_1(1/A_{it-1}) + \beta_2(\Delta\!Re_{it}/A_{it-1} - \Delta\!Re_{it}/A_{it-1}) + \beta_3(PPE_t/A_{it-1}) \]  

Annotation:
\[ NDA_{it} = \text{non discretionary accruals of i company in t period} \]
\[ \beta = \text{regression coefficient} \]

4. Calculating discretionary accruals with the following equation:

\[ DA_{it} = \frac{T\!A_{it}}{A_{it-1}} - NDA_{it} \]  

Annotation:
\[ DA_{it} = \text{discretionary accruals of i company in t period} \]

Managerial Ownership
Managerial ownership is a personal shareholding of an issuer by the management. According to Arlita et al. (2019), the measurement of managerial ownership uses the following formula:

\[ \text{Managerial Ownership} = \frac{\text{Amount of Stockholding by Management}}{\text{Amount of Shares Outstanding}} \times 100\% \]

Institutional Ownership
Institutional ownership is shareholding by an issuer that is owned by either domestic or foreign agency or institution. According to Arlita et al. (2019), the measurement of institutional ownership uses this following formula:
Institutional Ownership = \(\frac{Amount \ of \ Stockholding \ by \ Institution}{Amount \ of \ Shares \ Outstanding}\) x 100%

**Profitability**

Profitability is the company ability in gaining profit which could be done by the utilization of assets, capitals, or investments. According to Lestari and Wulandari (2019), the measurement is proxied by Return on Assets (ROA) using the following formula:

\[
Return \ on \ Assets = \frac{Net \ Profit \ after \ Tax}{Total \ Asset} \times 100\%
\]

**Technique of Data Analysis**

The technique of data analysis carried out in this research covers descriptive statistics, classical assumption test, multiple linear regression test, and moderated regression analysis (MRA). Descriptive statistics depicts characteristics of the research data. Those characteristics are minimum value, maximum value, mean and standard deviation from the data. Classical assumption test consists of normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. If regression model has complied with the tests, it will be continued to step of multiple linear regression tests. Multiple linear regression analysis is done to predict the effect of managerial ownership and institutional ownership towards earnings management by model accuracy test, coefficient test, coefficient of determination test, and individual parameter significance test. Next, this research uses interaction test or moderated regression analysis (MRA) to test the moderation towards the dependent variable. Regression equation model used in this research is assumed linear and tested with a 5% significance level.

**RESULT AND DISCUSSIONS**

**Descriptive Statistics Data Analysis**

The following table is the result of descriptive statistical analysis of the research data:

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>DA</td>
<td>-0,160</td>
<td>0,027</td>
<td>-0,04996</td>
<td>0,044053</td>
</tr>
<tr>
<td>KM</td>
<td>0,000</td>
<td>0,380</td>
<td>0,07080</td>
<td>0,116282</td>
</tr>
<tr>
<td>KI</td>
<td>0,051</td>
<td>0,945</td>
<td>0,66304</td>
<td>0,205198</td>
</tr>
<tr>
<td>ROA</td>
<td>0,009</td>
<td>0,467</td>
<td>0,09232</td>
<td>0,086723</td>
</tr>
</tbody>
</table>

Data Source: SPSS data processing, 2020

a. **Discretionary Accruals**

Based on the data distribution test result by descriptive statistics method shown in table 2 shows that discretionary accruals in consumer goods industrial company year 2016-2018 has a minimum value of -0,160 and a maximum value of 0,027. The mean of discretionary accruals which values -0,04996 smaller than the standard deviation which values 0,044053.

b. **Managerial Ownership**

Based on the result of data distribution result by descriptive statistics method shown in table 2 shows that the variable of managerial ownership in consumer goods industrial companies in 2016 – 2018 has a minimum value of 0,000 and maximum value of 0,380. The mean of managerial ownership values 0,07080 smaller than standard deviation which values 0,116262.

c. **Institutional Ownership**

Based on the results of data distribution test by descriptive statistics method shown in table 2 shows that the variable of institutional ownership in consumer goods industrial company in
2016 – 2018 has minimum value of 0.051 and maximum value of 0.945. The mean of institutional ownership values 0.66304 greater than standard deviation which values 0.205198.

d. Return on Assets

Based on the result of data distribution value by descriptive statistics method shown in table 2 shows the return on assets variable in consumer goods industrial manufacture in 2016 – 2018 has minimum value of 0.009 and maximum value of 0.467. The mean of return on assets values 0.09232 greater than the standard deviation which values 0.086723.

Classical Assumption Test

A classical assumption test is done to fulfill the requirement to do the multiple linear regression test. This test consists of a normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. Based on the classical assumption test appendix, the normality test in this research uses kolmogorov-smirnov test that gets significance value 0.200 greater than 0.05 which means the research data is normally distributed. Multicollinearity test result in this research shows that all variables has tolerance value of more than 0.10 and VIF value less than 10 which means multicollinearity does not happen. Heteroscedasticity test in this research uses glejser test which is obtained the significance value of all variables greater than 0.05 which means heteroscedasticity does not happen. The result of autocorrelation test in this research using durbin-watson test is the dw value is 2.066 greater that du value and less than 4-dl so that autocorrelation does not happen.

Model Accuracy Test (F Test)

This test is done to know the simultaneous effect from the independent variable towards the dependent variable. Besides, it is used to know whether the regression model is proper to be used in this research.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>0.009</td>
<td>2</td>
<td>0.005</td>
<td>5.757</td>
<td>0.006</td>
</tr>
<tr>
<td>Residual</td>
<td>0.033</td>
<td>40</td>
<td>0.001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>0.042</td>
<td>42</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data Source: SPSS data processing, 2020

Based on the F test table, it shows that the value of significance is 0.006 greater than 0.05 so that the regression model is proper to be used in this research. Besides, variables of managerial ownership and institutional ownership simultaneously affect the earnings management.

Determination Coefficient Test

This test is done to know how much the effect given by the independent variable towards the dependent variable.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.473</td>
<td>0.224</td>
<td>0.185</td>
<td>0.028572</td>
</tr>
</tbody>
</table>

Data Source: SPSS data processing, 2020

Based on the determination coefficient test table, it shows that Adjusted R Square values 0.185 or 18.5% which means the variables of managerial ownership and institutional ownership affect the earnings management of 18.5% and the rest is 81.5% which is affected by other variables.

Individual Parameter Significance Test (t Test)

This test is done to test the effect of the variables of managerial ownership and institutional ownership towards earnings management. The multiple linear regression test result is shown in the table below:
Table 5. t Test

<table>
<thead>
<tr>
<th>Model</th>
<th>B</th>
<th>Std. Error</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-0.115</td>
<td>0.022</td>
<td>-5.174</td>
<td>0.000</td>
</tr>
<tr>
<td>KM</td>
<td>0.137</td>
<td>0.053</td>
<td>2.583</td>
<td>0.014</td>
</tr>
<tr>
<td>KI</td>
<td>0.098</td>
<td>0.029</td>
<td>3.382</td>
<td>0.002</td>
</tr>
</tbody>
</table>

Data Source: SPSS data processing, 2020

Level of Significance: 0.05

Based on table 5, it can be known that the first regression model equation is the following:

\[ DA = -0.115 + 0.137\text{KM} + 0.098\text{KI} \]

The t-test result shows that the variable of managerial ownership has regression coefficient of 0.137 with positive direction and significance value of 0.014 < 0.05 which means managerial ownership affects positively towards earnings management. This shows that the first hypothesis which states that managerial ownership affect negatively is rejected. Besides, the variable of institutional ownership has regression coefficient of 0.098 with positive direction and significance value of 0.002 < 0.05 which means institutional ownership affect positively towards earnings management. This shows that the second hypothesis which states that institutional ownership affect negatively is rejected.

The Effect of Managerial Ownership Towards Earnings Management

The result of the individual parameter significance test shows that managerial ownership affect positively towards earnings management, this opposes the proposed hypothesis. Therefore, this positive relationship shows that higher managerial ownership in a company impacts in the increase of the company earnings management. A relatively small percentage of managerial ownership is not able to lessen agency conflict between owner and manager so that the practice of earnings management is not yet reduced (Wiyardi and Sebrina, 2013). According to Boediono (2005), a company that has low managerial ownership tends to report their false economic condition with accounting method that increases profit caused by pressure from the capital market.

The result of this research opposes the agency theory that shareholding owned by company’s manager could lessen the practice of earnings management with the corresponding of interests between company management and shareholder. However, the result of this research suits the positive accounting theory that company’s manager has motives for bonuses plan, receivables agreement, and political cost to practice earnings management (Watts and Zimmerman, 1986). The result of this research supports the research of Arlita et al. (2019) which explained that managerial ownership affects positively towards earnings management. Nevertheless, the result of this research opposes the research from Mahariana and Ramantha (2014); Utari and Sari (2016); Aryanti et al. (2017); Arthawan and Wirasedana (2018) and Anwar and Buvanendra (2019) which stated that managerial ownership affect negatively towards earnings management.

The Effect of Institutional Ownership Towards Earnings Management

The result of individual parameter significance test shows that institutional ownership affects positively towards earnings management, this opposes the proposed hypothesis. Therefore, this positive relationship shows that higher institutional ownership in a company will increase the practice of company earning management. A company that has high institutional ownership has an ability to intervene the company management and financial report making so that the company manager does earnings management practice to fulfill company owner’s desire (Boediono, 2005). Concentrated ownership proportion depicts that the right of company control is fully held by majority owner so that minority owner does not have authority to the control of the company. Therefore, company management tries to fulfill company owner’s desire.

This opposes the agency theory which states that shareholding by institution could improve
supervision towards company management operational activity so that it lessen the practice of earnings management. The result of this research supports the research from Arlita et al. (2019) which stated that institutional ownership affects positively to the earnings management. However, the result of this research opposes the research from Rad et al. (2016); Reyna (2018); Anwar and Buvanendra (2019) and Kusumaningtyas et al. (2019) which stated that institutional ownership affects negatively towards the earnings management.

**Moderated Regression Analysis Test**

This test is done to test the interaction between variables of managerial ownership and institutional ownership moderated by return on assets towards earnings management. The result of interaction is shown in the table below:

<table>
<thead>
<tr>
<th>Model</th>
<th>$\beta$</th>
<th>Std. Error</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-0.169</td>
<td>0.048</td>
<td>-3.945</td>
<td>0.001</td>
</tr>
<tr>
<td>KM</td>
<td>0.159</td>
<td>0.126</td>
<td>1.263</td>
<td>0.214</td>
</tr>
<tr>
<td>KI</td>
<td>0.169</td>
<td>0.058</td>
<td>2.902</td>
<td>0.006</td>
</tr>
<tr>
<td>ROA</td>
<td>0.755</td>
<td>0.497</td>
<td>1.519</td>
<td>0.137</td>
</tr>
<tr>
<td>KMxROA</td>
<td>-0.107</td>
<td>1.336</td>
<td>-0.080</td>
<td>0.936</td>
</tr>
<tr>
<td>KIxROA</td>
<td>-1.062</td>
<td>0.593</td>
<td>-1.792</td>
<td>0.081</td>
</tr>
</tbody>
</table>

Data Source: SPSS data processing, 2020

Based on table 8, it can be known that the second regression model equation is the following:

$$DA = -0.169 + 0.159KM + 0.169KI + 0.755ROA - 0.107KMxROA - 1.062KIxROA$$

**The Effect of Profitability as A Moderating Variable towards The Relationship between Managerial Effect and Earnings Management**

The result of moderated regression analysis shows that profitability could not weaken the relationship between managerial ownership and earnings management. This shows that profitability is not able to lower the manager’s decision in practicing the earnings management in the company. The practice of earnings management in a company is not only regarding to the factor of company profit only, but also other things such as income, assets, and receivables of the company. Therefore, manager is not only considering the company profitability in doing the practice of company earnings management. According to Damayanti and Kawedar (2018), return on assets becomes the stakeholder’s main focus so that manager has a small chance of doing the earnings management practice by utilizing the return of assets. This does not suit the signaling theory that profitability could be a signal for the company management in doing the practice of earnings management.

**The Effect of Profitability as A Moderating Variable towards The Relationship between Institutional Ownership and Earnings Management**

The result of moderated regression analysis shows that profitability is not able to weaken the relationship between institutional ownership and earnings management. This shows that profitability could not lower the institution investor’s decision which most of them are majority shareholders in a company is doing the practice of earnings management. According to Muhammadinah (2016), information related to return on assets tends to be abandoned by the investor so that company does the practice of earnings management by utilizing return on assets. The practice of earnings management in a company using accrual earnings management method is not only considering the level of company profitability, but also other accrual accounts in the financial report that can be manipulated. Therefore, institution investors which are mostly the company owner will consider things related to the accrual earnings management methods. This result does not suit the signaling theory which stated that profitability can be a signal to do the practice of earnings management.

**CONCLUSION**
Based on the data analysis that is done, this research concludes that managerial ownership and institutional ownership affect positively towards earnings management so that it opposes the proposed hypothesis. It is because the managerial ownership is not able to be the company management media that could lessen the interest difference between management and company shareholders. Besides, the percentage of managerial ownership in Indonesian company is still low. There are many institutions that less active in giving pressure to management activity and lack of supervision from institutional parties to management work. Meanwhile, profitability with return on assets proxy is not able to weaken the relationship between managerial ownership and institutional ownership towards earnings management. Besides, by the result of this research, there is practical implication that can be used as consideration for concerned parties. First, company should improve the implementation of good corporate governance to cut down the practice of earnings management. Second, investor should be more careful to do investment activity in a company that has significantly stable or increasing profit every period because it might be possible that the profit comes from the practice of earnings management which maximizes the company manager’s received compensation.

Suggestion
This research has limitation in which the sample of the research only uses companies that do not experience profit loss during the research period. Besides, further research could develop this research in order to depict the real condition of the factors that affect earnings management in consumer goods industrial company. It is expected for further research to add more research sample and observation period in order to represent research’s result in longer period. Further research can also add variables that might have effects towards earnings management such as good corporate governance, bonus compensation, debt policy, dividend policy, tax planning and audit quality because this research’s result shows that ownership structure in consumer goods industrial company increases the practice of earnings management.

REFERENSI


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