

The Influence of Real Earning Management On Company Value With Managerial Ownership As Moderating Variable

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ABSTRACT

This study aims to determine the impact of real earning management on company value with managerial ownership as moderating variable. The populations are consumer manufacturing companies on the Indonesian stock exchange in 2018-2020. The result of this study are: (1) Abnormal cash flow operation has a negative and significant influence on company value; (2) Abnormal discretionary expense has a negative and significant influence on company value; (3) Abnormal production cost has a positive and significant influence on company value; (4) Managerial ownership has no effect on to value company; (5) Abnormal cash flow operation with managerial ownership as a moderating has no effect on company value; (6) Abnormal discretionary expense with managerial ownership as a moderating has no effect on company value; (7) abnormal production cost with managerial ownership as a moderating has no effect to company value.

Keywords: Real Earning Management; Company Value; Managerial Ownership.

1. Introduction

1.1 Research Background

The company's financial statements contain information about the financial position that describes the company's performance for a certain period. The financial statements presented can also reflect the company's potential going concern in the future. Therefore, it is not uncommon for companies to try to present attractive financial reports through earnings management practices.

In its implementation, earnings management activities are divided into two types, namely accrual-based earnings management and real earnings management. Accrual-based earnings management can be detected through discretionary accruals and revenue discretionary, while real earnings management practices are more difficult to detect because they are based on operating cash flow, production costs, and discretionary costs.

There are several cases of real earnings management that have been carried out in several companies. In 2015, a financial statement scandal was revealed in the Toshiba company where financial statement manipulation was discovered by inflating the operating profit balance to

Rp15.85 trillion since 2008. This profit engineering was carried out using a percentage of completion where project revenues were recognized earlier. The practice of profit manipulation can also be carried out by delaying the recognition of costs and expenses that are not recognized based on accounting principles or asking suppliers to delay the issuance of debt receivables for a certain period.

One of the elements of a company's share ownership structure is managerial ownership, namely the ratio/proportion between the components of equity owned by the company compared to the amount of equity outstanding and placed by the company. Ownership of a large share value (equity) can have an impact on the flexibility of monitoring or monitoring activities. If management's share ownership is low, it will be accompanied by a potential increase in opportunistic behavior, and vice versa if the manager's share ownership is too high, managers tend to have the flexibility to maximize personal profits rather than company profits, it may even cause losses for the company such as practicing earnings management, because a manager and company owner have the same interests (Kamil and Hapsari, 2014).

Managerial ownership is seen as a factor that can moderate the relationship between real earnings management and firm value. In line with research conducted by Hasty and Herawaty (2017), Lestari and Murtanto (2018), and Aljana and Purwanto (2017) which revealed that managerial ownership can have a negative and significant influence on earnings management activities carried out by companies. Meanwhile, research conducted by Anggani (2015) and Arlita (2019) stated that managerial ownership has a positive influence on corporate earnings management.

The gap from the results of these studies opens up opportunities for further research on earnings management using the moderating variable of managerial ownership. Therefore, this study aims to analyze the factors that influence firm value based on real earnings management practices commonly carried out by various companies and to assess the effectiveness of managerial ownership as a control variable (control).

1.2. Research Problem

The focus problems discussed in the research this is as follows:

- Does Abnormal Cash Flow Operation (ABCFO) have a negative effect on firm value?
- Does Abnormal Production Cost (ABNPROD) have a negative effect on firm value?
- Does Abnormal Discretionary Expense (ABNDISEXP) have a negative effect on firm value?
- Does managerial ownership have a positive effect on firm value?
- Does managerial ownership variable moderate the relationship between Abnormal Cash Flow Operation (ABCFO) and firm value?
- Does managerial ownership variable moderate the relationship between Abnormal Production Cost (ABNPROD) and firm value?
- Does managerial ownership variable moderate the relationship between Abnormal Discretionary Expense (ABNDISEXP) and firm value?

1.3 Scope of Research

This study aims to examine the effect of the independent variable on the dependent variable and examine the effect of the independent variable on the dependent variable which is influenced by the moderating variable. The independent variable used is real earnings management which

consists of Abnormal Cash Flow Operation (ABCFO), Abnormal Production Cost (ABNPROD), Abnormal Discretionary Expense (ABNDISEXP) and the dependent variable is firm value. The object of this research is 12 manufacturing companies in the consumption sector listed on the Indonesia Stock Exchange in 2018-2020.

2. Literature Review

2.1 Agency Theory

Agency theory is a theory coined by Jensen and Meckling in 1976 which explains the relationship that exists through an agreement or cooperation contract between a manager and shareholders. The relationship in question is the delegation of authority given by the shareholders as principals to the manager as the recipient of the mandate (agent) to work and be responsible for achieving the targets that have been set.

The difference in knowledge or information possessed by a manager and owner is seen as a very beneficial thing for a manager, because in general a manager can find out all company information in an updated and detailed manner. The existence of a separation of management functions that is not balanced with the supervisory aspect causes the company manager (manager) to have the flexibility to meet their personal needs such as personal costs charged to office costs, this action is known as opportunistic action. Opportunistic actions of company managers can be suppressed through supervision carried out by owners, one of which is through managerial ownership aspects. Increasing the managerial ownership aspect can improve the balance between the interests of the manager and the interests of the owner of the company.

2.2. Real Earnings Management

Real earnings management is a profit management procedure carried out to provide the assumption that the company's profit target is achieved, and is one of the efforts to prevent losses from the company's business activities. The purpose of this activity is to fulfill the personal interests of the manager and the interests of the company. Managers' motivation to manage income is based on bonus plans, debt covenant plans, and political costs.

Sugata Roychowdhury in Ningsih (2015:101) groups three general methods commonly used in real earnings management practices, namely as follows:

- Abnormal cash flow operations through sales manipulation Profit manipulation through sales activities is one of the temporary actions taken by managers in order to increase sales throughout the period by offering discounts or credit terms relief.
- Abnormal discretionary expense through a decrease in discretionary expenses. Discretionary expenses are operational expenses that are not directly related to sales activities, so that if these expenses are not issued, sales activities will continue, even the profit generated can be higher.
- Abnormal production costs through overproduction In order to increase profits, company managers can increase the amount of production with the assumption that high production levels can lead to lower fixed costs (fixed costs) per unit.

2.3 Ownership Managerial

Managerial ownership is the percentage of share ownership owned by managers or managerial parties, namely directors and commissioners as a form of compensation given by the company to management. Managerial ownership in a company can present an interesting issue because of the assumption that an increase in the value of the company is the result of an increase in share ownership by management.

2.4 Hypotheses Development

There are two general methods used to manage real income, namely manipulating sales and reducing discretionary costs. Sales manipulation is a management effort to increase the value of sales and provide the assumption that the company's profit level is good and the company's profit goals are achieved. The second real earnings management technique is through an emphasis on discretionary costs, including selling costs and general and administrative costs. This strategy can increase the value of the company's profits and cash flows in the current period but has the risk of decreasing the value of cash flows in the next period. It is suspected that companies that practice real earnings management will experience the phenomenon of abnormal cash flow from operations and abnormal discretionary expenses which are smaller than other companies that do not practice real earnings management (Ratmono, 2015). Achieving low profits will result in low demand for shares so investors tend to offer shares at lower prices and cause share prices to fall. From the investor's point of view, low profits will make them wary of the validity and reliability of the company's financial statements as a form of fear of the risk of bankruptcy (default) so that the effective interest cost of bonds will increase while bond prices fall. The decline in stock and bond prices is the result of the low value of profits earned by the company in a certain period.

H1: Abnormal Cash Flow Operation (ABCFO) has a negative effect on firm value.

H2: Abnormal Production Cost (ABNPROD) has a negative effect on firm value.

H3: Abnormal Discretionary Expense (ABNDISEXP) has a negative effect on firm value.

It is assumed that managerial ownership can increase firm value. This indicates that the larger the proportion of shares owned by the management, the management tends to seek fulfillment of the interests of shareholders who incidentally are themselves as a form of maximizing personal profits. Improving the performance of management will certainly affect the value of the company.

H4: Managerial ownership has a positive effect on firm value.

The relationship that exists between managers and shareholders can be united if the share ownership by managers is enlarged so that managers tend not to manipulate profits for their interests. Low share ownership has a tendency to increase the opportunistic behavior of a manager. Like the research conducted by Pratiwi and Yulianto (2016) which concluded that managerial ownership is a mechanism that can limit the opportunistic behavior of a manager in the form of earnings management or other profit motives.

H5: Abnormal Cash Flow Operation (ABCFO) has a significant effect on firm value with managerial ownership.

H6: Abnormal Production Cost (ABNPROD) has a significant effect on firm value in the presence of managerial ownership.

H7: Abnormal Discretionary Expense (ABNDISEXP) has a significant effect on firm value in the presence of managerial ownership.

3. Research Methodology

3.1 Type of Research, Population, and Sample

This research is explanatory research, which is a study that has the aim of explaining the causal relationship that occurs between the independent variable (independent variable) and the dependent variable (dependent variable) through the submission of hypotheses that have been formulated previously. The population used are companies engaged in the consumption sector listed on the Indonesia Stock Exchange (IDX) for the 2018-2020 period. The sampling technique used in this study is a purposive sampling method.

3.2 Data Collection Techniques

The data used in this study is secondary data. The data used comes from the annual report or sustainability report. The data is taken from the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official websites of each company.

3.3 Conceptual and operational definitions of variables

This study uses five (5) variables consisting of three independent variables, one dependent variable and one moderating variable. The independent variables used are abnormal cash flow operations which are calculated based on the CFOt/At-1 ratio, abnormal discretionary expenses are calculated based on the DISEXPt/At-1 ratio and abnormal production costs are calculated based on the PRODt/At-1 ratio. Moderating variables are variables that affect (strengthen or weaken) the causal relationship between the independent variable and the dependent variable (Sugiyono, 2018). The moderating variable used in this study is managerial ownership which is proxied by the proportion between the number of shares owned by the management and the total shares issued.

3.4 Data Processing Techniques

This study uses panel data regression analysis on the Eviews v.11 application to test the research hypothesis. Before testing the hypothesis, the classical assumption test was carried out in the form of a multicollinearity test and a heteroscedasticity test.

4. Results

4.1 Descriptive statistics

Descriptive statistical testing in this study is described in Table 1.

Table 1. Descriptive Statistics

Description	Y	X1	X2	X3	Z
<i>Median</i>	1.088	0.095	0.019	1.079	0.022
<i>Maximum</i>	3.844	0.221	0.052	2.644	0.682
<i>Minimum</i>	0.435	-0.021	0.015	0.233	0.000
<i>Std. Dev.</i>	0.874	0.048	0.008	0.504	0.2228

<i>Skewness</i>	1.331	0.026	2.959	1.008	1.4687
<i>Kurtosis</i>	3.848	4.287	11.382	4.636	3.764

Source: data processed using Eviews

The classical assumption test used in this study uses the Ordinary Least Square (OLS) model approach so that it is sufficient to test the classical assumption on the multicollinearity test and heteroscedasticity test. The results of the multicollinearity test show that the research data is free from multicollinearity. Likewise, the results of the heteroscedasticity test show that the data is free from heteroscedasticity.

4.2 Research Model Selection

There are three models that can be used in panel data regression using the eviews test tool, namely the Common Effect Model (CEM), Fixed Effect Model (FEM) and Random Effect Model (REM). To choose the right research model, it is necessary to use a research model selection method based on three stages of testing, namely the Chow test, Hausman test and the Lagrange multiplier test.

Table 2. Chow Test

<i>Effects Test</i>	<i>Statistic</i>	<i>d.f.</i>	<i>Prob.</i>
<i>Cross-section Chi-square</i>	101.329	16.000	0.000

Source: data processed using Eviews

The result on the table above shows the probability value is $0.000 < 0.05$, so the model chosen is the fixed effect model (FEM) so it is necessary to do the next stage of testing, namely the Hausman test.

Table 3. Hausman Test

<i>Test Summary</i>	<i>Chi-Sq. Statistic</i>	<i>Chi-Sq. d.f.</i>	<i>Prob.</i>
<i>Cross-section random</i>	8.184	3.000	0.242

Source: data processed using Eviews

Table 3 above shows a probability value of $0.242 > 0.05$ so that the selected model is a random effect model (REM) then the test needs to be continued to the Lagrange multiplier test.

Table 4. Multiplier Lagrange Test

<i>Breusch-Pagan</i>	<i>Cross-section</i>	<i>Time</i>	<i>Both</i>
	(0,000)	(0,250)	(0,052)

Source: data processed using Eviews

Based on the table above, it is known that the Breusch-Pagan probability value is $0.052 > 0.05$, so it can be decided that the most ideal model for this research is the common effect model (CEM).

4.3 Hypothesis Testing

Hypothesis testing in the regression model can be known based on the acquisition of the t-count value or through the comparison of the significance value used, namely = 0.05. The conclusion in this test is if the value of t-count > from t-table or probability value <0.05 then Ho is rejected and Ha is accepted, which means that the independent variable has a significant effect on the dependent variable, and vice versa.

Table 5. Hypothesis testing result

<i>Variable</i>	<i>Coefficient</i>	<i>Std, Error</i>	<i>t-Statistic</i>	<i>Prob,</i>
C	8.170	2.004	4.076	0.000
X1	-105.716	33.081	-3.196	0.002
X2	-355.289	102.422	-3.468	0.001
X3	9.131	2.808	3.252	0.002
<i>Root MSE</i>	0.747	<i>R-squared</i>		0.256
<i>Mean dependent var</i>	1.446	<i>Adjusted R-squared</i>		0.208
<i>S,D, dependent var</i>	0.874	<i>S,E, of regression</i>		0.778
<i>Akaike info criterion</i>	2.410	<i>Sum squared resid</i>		28.432
<i>Schwarz criterion</i>	2.562	<i>Log likelihood</i>		-57.466
<i>Hannan-Quinn criter,</i>	2.468	<i>F-statistic</i>		5.385
<i>Durbin-Watson stat</i>	0.476	<i>Prob(F-statistic)</i>		0.002

Source: data processed using Eviews

Based on Table 5 above, the regression model used in this study is as follows:

$$Y = 8.170 - 105.716X_1 - 355.289X_2 + 9.131X_3 + \varepsilon \quad (1)$$

Table 6. Hypothesis Testing Result Of Moderating

<i>Variable</i>	<i>Coefficient</i>	<i>Std, Error</i>	<i>t-Statistic</i>	<i>Prob,</i>
C	6.639	2.188	3.034	0.004
X1	-86.744	36.085	-2.404	0.021
X2	-283.027	112.038	-2.526	0.015
X3	7.571	3.069	2.467	0.018
Z	16.939	11.152	1.519	0.136
X1z	-39.454	172.291	-0.229	0.820
X2z	-869.329	556.916	-1.560	0.126
X3z	3.911	14.410	0.271	0.787
<i>Root MSE</i>	0.645	<i>R-squared</i>		0.511

<i>Mean dependent var</i>	1.446	<i>Adjusted R-squared</i>	0.432
<i>S.D, dependent var</i>	0.874	<i>S,E, of regression</i>	0.659
<i>Akaike info criterion</i>	2.146	<i>Sum squared resid</i>	18.663
<i>Schwarz criterion</i>	2.449	<i>Log likelihood</i>	-46.732
<i>Hannan-Quinn criter,</i>	2.262	<i>F-statistic</i>	6.422
<i>Durbin-Watson stat</i>	0.709	<i>Prob(F-statistic)</i>	0.000

Based on Table 6 above, the moderating regression model used in this study is as follows:

$$Y = 6.639 - 86.744X_1 - 283.027X_2 + 7,571X_3 + 16,939Z - 39,454X_1Z - 869,329X_2Z + 3,911X_3Z + \varepsilon \quad (2)$$

5. Discussion

- Abnormal Cash Flow Operation (ABCFO) has a negative and significant effect on firm value. This means that the practice of real earnings management through the abnormal cash flow operation method can significantly affect and reduce the value of the company.
- Abnormal Discretionary Expense (ABNDISEXP) has a negative and significant effect on firm value. This means that the practice of real earnings management through the abnormal discretionary expense method can significantly affect and reduce firm value.
- Abnormal Production Cost (ABNPROD) has a positive and significant effect on firm value. The third hypothesis is rejected because the effect of abnormal production costs on firm value in this study is positive, where the components calculated in abnormal production costs are components that affect nominal accounts (income and expenses) so that the higher the company performs production earnings management practices through increased production costs. the value of sales and cost of goods sold will have an impact on the profits earned by the company.
- Managerial ownership has no effect on firm value. Another reason for this ineffectiveness is the low proportion of the value of shares owned by the managerial side, it causes every decision taken by the manager will not have too much impact on the profits or losses of the managerial side.
- Abnormal Cash Flow Operation (ABCFO) moderated by managerial ownership has no effect on firm value. This shows that abnormal cash flow operations moderated by managerial ownership cannot affect firm value.
- Abnormal Discretionary Expense (ABNDISEXP) moderated by managerial ownership has no effect on firm value. This shows that abnormal discretionary expenses rated by managerial ownership cannot affect firm value.
- Abnormal Production Cost (ABNPROD) moderated by managerial ownership has no effect on firm value. This shows that abnormal production costs moderated by managerial ownership cannot affect firm value. The reason for the ineffectiveness of the interaction relationship between earnings management and managerial ownership in consumption sector companies is the minimal number of shares owned by the parties. management.

6. Conclusion

Excessive profit manipulation activities can damage the quality and reliability of the reports presented so that it affects the potential for errors in decision-making, such as decisions to make investments, business expansion, and evaluations of company performance that are not on target. Consideration is needed regarding the involvement of independent parties in the company's operational activities to carry out supervision and as a form of control over excessive interference from managerial parties in implementing a policy.

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