Analysis of Factors Affecting the Earnings Management on The Consumer Goods Industry Issuers on the IDX

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ABSTRACT

This study aims to analyze and test the effect of factors in diamond fraud theory on earnings management actions in the issuers of the consumer goods industry sector. These factors consist of pressure (financial stability, leverage, personal financial need, financial targets), opportunity (nature of industry, ineffective monitoring), rationalization, capability. The sampling technique in the study used purposive sampling. The research sample is 80 financial data from 20 listed companies during the 2015-2018 period based on established criteria. Data analysis methods in this study used descriptive statistics, data quality tests, classic assumption tests, and hypothesis testing which consisted of multiple linear regression analysis methods, coefficient of determination test, F test, and t test. The results showed that leverage and financial targets affect the earnings management actions, while financial stability, personal financial needs, nature of industry, ineffective monitoring, rationalization, and capability do not affect earnings management.

1. INTRODUCTION

An increasingly advanced era will bring great developments to the development of business organizations. Competition is one of them, because organizational growth is increasing and diverse. When business organizations are unable to compete with scientists, it can be predicted this business organization will decline.

Each company has different abilities and expertise, where each company needs to maximize efforts to achieve the desired position. Besides attracting investors and creditors to the financial statements is also an important aspect. The existence of various factors requires management to present financial statements properly, so actions to display the company's profits with careful consideration are needed. Therefore, earnings management needs to be done in a company to avoid the worst things in the industry.

Zimbelman et al., (2017) states that based on the experience of the author as an expert witness, large industrial companies that are more fraudulent in financial statements, it can be interpreted that earnings management is also mostly done by industrial companies. This opinion was strengthened by the results of the 2016 fraud survey which showed that fraud in the industrial world was 3.5%. Based on the percentage of the data obtained, this study will use a data sample of the consumer goods industry sector. Indonesia has 45 issuers of the consumer goods industry sector in 2019, where these issuers will become the people's basic needs and are likely to develop in the future.

Based on previous research there are still many inconsistent research results, where some research results show that among the factors that influence earnings management actions are influential and there are some research results that have no effect. Previous studies using the cheating variable with the proxy for earnings...
management, the existence of fraud or earnings management has several factors in common. Basically earnings management is something important in financial accounting that is often associated with adverse negative efforts such as earnings manipulation, but there are other things that cause earnings management to be done deliberately because it aims to select accounting methods. This was done because of the first few considerations, to minimize political costs, maximize the welfare of managers, minimize funding cash.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

Positive Theory (Positive Theory)

Positive accounting theory is to explain and predict accounting practices. Explanation means giving reasons for the observed practice. Prediction of accounting practices means that the theory predicts an unobservable accounting phenomenon (Amin, 2018). An unobservable phenomenon is not just a phenomenon of the future; the phenomena in question include existing phenomena which occur but systematic evidence has not yet been collected so as yet unknown. Positive accounting theory is considered important because it can help make better decisions than other theories about accounting policies (company / agent management, public accounting, loan officers, investors, financial analysis, regulators) with predictions and explanations for the consequences of their decisions (Watts and Zimmerman, 1986).

Diamond Fraud Theory

Diamond fraud theory is a new form of refinement of the fraud triangle theory (Dechow et. al. 1995). Diamond fraud theory has four conditions that can encourage earnings management, namely pressure, opportunity, rationalization, and capability. Fraud diamond theory has 7 variables from the theory of fraud triangle with one more variable added which is capability.

1. Relationship of Financial Stability to Earnings Management

Positive theory explains that accounting figures influence the level of valuation adjusted for the level of risk (Watts and Zimmerman, 1986). Financial stability is mentioned in the diamond theory of fraud being one of the factors that can detect fraudulent financial statements (Putriasih et al. 2016). In this study, financial stability is proxied by changes in assets in a company. When a company has a large amount of assets, the attention of the community will be higher, so the company cannot act freely. That is why a large increase in assets has suddenly prompted companies to manage their profits to avoid the people's assumptions by reducing their assets using earnings management techniques.

2. Relationship of Leverage to Earnings Management

Positive theory explains that lenders or investors must weigh the implications of various accounting procedures in making decisions to provide credit and invest (Watts and Zimmerman, 1986). Fraud diamond theory explains the existence of an external pressure relationship with the proxy of leverage against fraudulent financial statements (Putriasih, et al. 2016), so it also relates to earnings management which in this study is proxied with debt. The amount of debt will affect the company in displaying information presented to creditors. Because when a company has a large amount of debt, creditors will tend to supervise how the company develops to find out the level of profit that creditors will get from loans (Skousen, et al 2009). If the company's sales level is low, the lender will try to withdraw the debt given, but conversely if the company's sales level increases, the lender will be more loyal to lend, thereby affecting the company's desire to display good information to give creditor confidence with the aim so that it is not constantly monitored.

3. Relationship of Personal Financial Needs to Earnings Management

Positive theory explains companies with many profitable investment opportunities and a smaller proportion of their assets more managerial to make decisions than companies with relatively few profitable investment opportunities (Watts and Zimmerman, 1986). Personal financial need is a pressure factor that can detect fraud in diamond theory fraud (Putriasih, et al. 2016), so it also relates to earnings management. Personal financial need in

Development of Hypotheses
this study is proxied by share ownership. Share ownership presentation will influence the company in managing company policy. If management has a large share ownership presentation, then management is more free to take earnings management actions to get more profit (Suyono, 2017). Conversely, if the percentage of management share ownership is small, then management will try to minimize earnings management actions so that they do not take responsibility if there is a loss in the company.

4. Relationship of Financial Targets to Earnings Management

Positive theories explain accounting figures affect the level of valuation adjusted for the level of risk (Watts and Zimmerman, 1986). Financial targets have an influence on financial statement fraud based on diamond theory fraud (Putriasih, et al. 2016). Listyaningrum, et al (2017) stated in their research that the high level of ROA set by the company made management more vulnerable to manipulation. Companies with ROA levels obtained are lower than those set by the company, so the earnings management will be even greater to avoid pressure. Conversely, if the level of ROA produced is equal to the target or exceeds the target, the smaller the earnings management actions within the company.

5. Relationship of Nature of Industry to Earnings Management

Positive theory explains accounting figures affect the level of valuation adjusted for the level of risk (Watts and Zimmerman, 1986). Diamond theory Fraud said that Nature of Industry tends to have an influence on the occurrence of fraudulent financial reporting (Putriasih, et al. 2016). Nature of industry is a situation where a company experiences a pleasant position without pressure or threats that can worsen the company in industrial competition (Tiffani and Marfuah, 2015). When the company has a lot of receivables, the level of risk that the company has is also getting bigger. This will encourage management to take earnings management actions to reduce the level of sales to reduce the risk of possible uncollectible receivables at maturity. Conversely, if the company has a small amount of receivables, the company will take earnings management actions by increasing the level of sales to maintain the condition of the company’s industry.

6. Relationship of Ineffective Monitoring to Earnings Management

Positive theories explain managers and accountants who act to maximize their own well-being (Watts and Zimmerman, 1986). Ineffective monitoring in the diamond fraud theory is one of the factors determining cheating because there are opportunities (Mark et al. 2017). Ineffective monitoring in this study is proxied by the number of board of directors in numbers with earnings management. The number of board of commissioners in the company will affect the actions of earnings management in the company, compilation of the number of board of directors owned by the company the more the company will increasingly facilitate earnings management actions because the profits are smaller and issued to be suspected of ever greater (Kuncoro, 2011). What if the number of the company’s board of commissioners is small, then the company will do more earnings management because it is bigger and more flexible without suspected problems.

7. Relationship of Rationalization to Earnings Management

Positive theory explains managers and accountants acting to maximize their own well-being (Watts and Zimmerman, 1986). Rationalization is a factor that is able to detect fraud based on diamond theory fraud (Putriasih, et al. 2016), so it also relates to earnings management which in this study is proxied by auditor changes. The existence of a new auditor causes management misgivings when making earnings management and then causes management to reduce earnings management or it could be the change of auditors because new auditors do not understand the company, so management is free to make management earnings. This means that the change in auditor triggers the ups and downs of management earnings.

8. Relationship of Capability to Earnings Management

Positive theory explains that profit-oriented company managers will be more likely to choose procedures that will improve current income (Watts and Zimmerman, 1986). Capability is the final factor in fraud diamond theory that can detect fraud as a refinement of the previous theory, namely fraud triangle theory (Putriasih et al. 2016). Capability in this study is proxied by changes in directors in the company. Changes in directors within the company occur to improve company performance. Board of directors who are no longer competent or experience a decline due to age, will soon be
replaced by a new board of directors and this will trigger earnings management actions to generate higher wages or bonuses (Susianti and Yasa, 2015). If the company’s board of directors is still competent and able to achieve company goals, then the earnings management actions will tend to be smaller.

Figure 1. Research Model

3. RESEARCH METHOD

This research is a type of quantitative research that tests using variables from the theory of fraud diamonds and uses data in the form of numbers and analyzes data with statistical procedures (Indriantoro and Supomo, 2014). The process of testing and measuring research data uses the IBM SPSS Statistics version 21 tool. Hypothesis testing in this study uses multiple linear regression analysis. Methods is the sufficient information for the reader to follow the research flow well, so that the reader who will examine or develop similar research obtains the description of the research steps. This section describes the types of research and data types, population and sample, operational research variables, the data used (types and sources), data collection technique, and data analysis technique (model analysis).

4. RESULT AND DISCUSSION

Table 1 (Appendix) shows a general description of the data for each variable used to test all samples of consumer goods industrial companies that have been obtained from the results of the selection based on the criteria specified in the previous chapter. Based on the data above, it is
obtained a valid N value of 80 from the entire sample used, which means that all samples have an influence on earnings management.

Table 1. Descriptive Statistical Test Results

<table>
<thead>
<tr>
<th>Source: Output of SPSS</th>
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<tbody>
<tr>
<td>Earnings Management (Y)</td>
</tr>
<tr>
<td>ACHANGE (X1)</td>
</tr>
<tr>
<td>LEVERAGE (X2)</td>
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<tr>
<td>OSHP (X3)</td>
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<tr>
<td>ROA (X4)</td>
</tr>
<tr>
<td>RECEIVABLE (X5)</td>
</tr>
<tr>
<td>IND (X6)</td>
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<tr>
<td>AUDCHANGE (X7)</td>
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<tr>
<td>DCHANGE (X8)</td>
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<tr>
<td>Valid N (listwise)</td>
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</tbody>
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Table 2. Hypothesis Test Results

<table>
<thead>
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<th>Source: Output of SPSS</th>
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<tbody>
<tr>
<td>(Constant)</td>
</tr>
<tr>
<td>ACHANGE (X1)</td>
</tr>
<tr>
<td>LEVERAGE (X2)</td>
</tr>
<tr>
<td>OSHP (X3)</td>
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<tr>
<td>ROA (X4)</td>
</tr>
<tr>
<td>RECEIVABLE (X5)</td>
</tr>
<tr>
<td>IND (X6)</td>
</tr>
<tr>
<td>AUDCHANGE (X7)</td>
</tr>
<tr>
<td>DCHANGE (X8)</td>
</tr>
</tbody>
</table>

Table 1 shows that earnings management has the lowest yield of -0.20 and the highest result is 0.77 with an average of -0.0034 and std. deviation 0.11295. The financial stability variable obtained a minimum value of 0.000000 and a maximum value of 0.000006 with an average of 0.0000001 and std. deviation 0.0000001. External pressure variable produces a minimum value of 0.10 and a maximum value of 0.73 with an average of 0.3475 and std. deviation 0.16417. The personal financial need variable produces a minimum value of 0.00 and a maximum value of 0.38 with an average of 0.0466 and std. deviation 0.10166. The financial target variable produces a minimum value of 0.03 and a maximum value of 0.92 with an average of 0.1537 and std. deviation 0.14041. The nature of industry variable gets a minimum value of 0.000001 and a maximum value of 0.000004 with an average of 0.000001 and std. deviation 0.000001. The ineffective monitoring variable got the lowest value 0.20 and the highest value 0.80 with an average of 0.4298 and std. deviation 0.12499. The rationalization variable produces a minimum value of 0.00 and a maximum value of 1.00 with an average of 0.6500 and std. deviation 0.47998. Capability variable obtained a minimum value of 0.00 and a maximum value of 1.00 with an average of 0.7500 and std. deviation 0.43574.

Effect of Financial Stability Variables on Earnings Management

Based on Table 2. (Appendix) the results of the t test against (H1) the significance value obtained from testing the ACHANGE variable is equal to 0.182> significance level 0.05 and the value of t arithmetic is 1.346> t table is 1.994, it can be concluded that the financial stability variable has no influence on the existence of earnings management actions. This can be interpreted that the influence of the pressure caused management to take earnings...
management actions so that the resulting financial statements are more appropriate, to reduce the pressure that can make bad assumptions on the company.

**Effect of Variable Leverage on Earnings Management**

Based on Table 2, t test results to (H2) the significance value obtained from testing the LEVERAGE variable is equal to 0.011< significance level 0.05 and the value of t arithmetic is -2.595 < t table of 1.994, it can be concluded that the external pressure variable has influence on the existence of earnings management actions. This can be interpreted that the influence of the pressure caused management to take earnings management actions so that the resulting financial statements are more appropriate, to reduce the pressure that can make bad assumptions on the company.

**Effect of Personal Financial Need Variables on Earnings Management**

Based on Table 2, t test results to (H3) it is known the significance value of the OSHIP variable testing is 0.790< significance level 0.05 and the calculated t value is 0.267< t table is 1.994, it can be concluded that the personal financial need variables do not have influence on the existence of earnings management actions. This can be interpreted that the size of the total shares owned by manufacturing companies in the consumer goods industry sector does not affect earnings management actions.

**Effect of Financial Target Variables on Earnings Management**

Based on Table 2, t test results to (H4) it is known the significance value of the ROA variable test is 0.000 < significance level 0.05 and the value of t arithmetic is 5.746 < t table of 1.994, it can be concluded that the financial target variable has an influence on the existence of earnings management actions. This can be interpreted that the management is experiencing considerable pressure because the targets made by the company cannot be achieved will affect management to take earnings management actions.

**Effect of Nature of Industry Variables on Earnings Management**

Based on Table 2, t test results to (H5) it is known that the significance value of the RECEIVABLE variable test is 0.503> significance level 0.05 and the value of t arithmetic is -0.673> t table is 1.994, it can be concluded that the nature of industry variable does not affect the earnings management actions. This can be interpreted that the condition of the industry which is affected by the size of the changes that occur in a company's accounts receivable account does not affect the earnings management actions. Because the existence of large receivables does not always reflect that the company is in good industrial condition because the risk to be borne by the company will also be greater, so that when the company has a low level of receivables, the company will be more free from the presence of risk.

**Effect of Ineffective Monitoring Variables on Earnings Management**

Based on Table 2, t test results to (H6) obtained the significance value of the IND variable testing that is equal to 0.549> significance level 0.05 and the calculated t value is -0.603> t table is 1.994, it can be concluded that the ineffective monitoring variable has no effect on the existence of earnings management actions. This can be interpreted that the ineffectiveness of supervision in the company may not necessarily be said that the company is doing earnings management. This study shows that the existence of an independent board of commissioners in a company may not necessarily reduce the actions of earnings management in a company, because it is likely that what happens is that the company does not have the aim to seek an independent board of commissioners to supervise but only to meet the formal needs of a company.

**Effect of Rationalization on Earnings Management**

Based on Table 2, t test results to (H7) obtained significance value from testing the AUDCHANGE variable that is equal to 0.763> and significance level 0.05 and the value of t arithmetic amounting to 0.303> t table of 1.994, it can be concluded that the rationalization variable has no effect on the existence of earnings management actions. This can be interpreted that the change of auditors by manufacturing companies manufacturing consumer goods can not always be associated with earnings management actions. This study explains that the replacement of auditors conducted by the company is intended only to meet formal rules
that apply or only to improve the quality of the company's financial statements because of a decrease in trust in the auditor who has been trusted previously.

**Effect of Capability on Earnings Management**

Based on Table 2, t test results to (H8) obtained a significance value from testing the DCHANGE variable that is equal to 0.826> significance level 0.05 and the calculated value of t is 0.220> t table of 1.994, so it is concluded that the capability variable has no effect on the actions earnings management. This can be interpreted that changes in the board of directors that occur in manufacturing companies manufacturing consumer goods can not always be associated with earnings management actions. Changes in directors are likely to occur because the performance level has indeed declined and replacement directors are needed to achieve company goals.

5. **CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS**

Summary of research results from the SPSS test in the previous chapter can be concluded that the variables of financial stability, personal financial need, nature of industry, ineffective monitoring, rationalization, and capability, have not been proven to have a significant effect on earnings management actions. While leverage and financial targets show that it is proven to have a significant positive effect on earnings management actions.

The following are the limitations that exist in the study, what is meant is:

1. The research sample focuses on companies in the consumer goods industry sector that are not indicated to commit fraudulent financial statements, so that the research results obtained are less than optimal.

2. The study period was conducted for four years using secondary data, so the results obtained did not match the reality on the ground. It is the closing of the article which reflects the essence and reasoning of the research by the writer. It is also logically based on the evidence taken from, and presented by the writer in paragraphs. Implication, limitations, and suggestions are also presented in paragraphs without numbering.

Some suggestions that need to be considered for advanced research on earnings management, including the following:

1. The use of research samples that are different from researchers, so that the research results obtained can reinforce the results of research that has been done.

2. The use of other variables besides the diamond theory fraud variables include incorporating elements of organizational culture.

**REFERENCES**


