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THE IMPACT OF LEVERAGE, SIZE, PROFITABILITY AND OWNERSHIP STRUCTURE ON EARNING MANAGEMENT IN INDONESIA BANKING SECTOR

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ABSTRACT

This research aims to analyze the influence of leverage, size, profitability and ownership structure to earning management in Indonesia banking sector. We used institutional ownership and managerial ownership for ownership structure. Data was collected from 40 banking companies in 2014 until 2019 as the sample and used purposive sampling. This study used multiple linear regression analysis techniques to determine the effect of each independent variable on the dependent variable. We found that leverage and profitability have a significant impact on earnings management, and size and ownership structure have no significant impact on earning management.

Keywords: Earning management, banking sector, ownership structure.

1. INTRODUCTION

Managers have control over the accounting system and financial records used in preparing financial statements as long as they do not deviate from the rules of applicable financial accounting standards. Information that can be generated through financial statements, especially profit information, becomes the center of attention and the basis for decision making by interested parties. These problems happened because there are asymmetry of information between managers and owners, it known by agency theory.

The existence of separation of ownership and management has a negative side where the owner does not have sufficient information about the manager's performance. Because of the wide range of the demands of the manager is motivated to take action against the management of earnings figures commonly referred to as an act of earnings management.

Financial statements are a form of accountability that is the main communication medium from managers to company owners. This is supported by agency theory, which illustrates the importance of separating owners and managers. According to Hery (2017) agency theory is a contractual relationship between company owners and management as agents.

Banking companies obtain most of their funds from the public and companies that trust the bank. Therefore, banks are required to carry out their roles properly, accountability or information disclosure is needed to maintain public trust. Banks in carrying out their activities often face various risks. Therefore, banks must be managed carefully by implementing a sound, strong and efficient banking system to create financial system stability and encourage national economic growth. The characteristics of banking companies are different from other companies. Banking companies have stricter regulations. In Indonesia, banking companies are regulated by Bank Indonesia, which uses financial statements as the basis for determining the status of a bank, including their healthy.

Bank Indonesia (BI) uses financial statements to assess whether leverage is in accordance with BI's requirements. Bank Indonesia Regulation Number 13/1/PBI/2011 concerning the assessment of the soundness of banks. This causes the manager to take earnings management actions to meet the assessment required by BI. Agustina and Suryani (2018), Buadianti and Sulistyawati (2019), Suheny (2019) and Mahdalena et al (2019) found that leverage have an effect to earnings management. But the research of Purnama (2017), Rahyuningsih and Ayem (2020) and Yofianto and Darmawan (2020) get the opposite result, there no effect between leverage and earnings management.

Larger companies have greater pressure from stakeholders, so that the company's performance is in line with the expectations of its investors. The larger the size of the company in banking will increase the trust of customers in saving their funds. The size of the company can lead to earnings management to meet the expectations of various parties. The size of the company in banking is one of the indicators used by customers and investors before depositing their funds. Research conducted by Budianti and Sulistyawati (2019) shows that company size has an effect on earnings management. Meanwhile, Sari and Astuti (2015) and Purnama (2017) found that the size of the bank significantly affects earnings management in a negative direction. However, research by Agustia and Suryani (2018) and Yofianti and Darmawan (2020) shows that firm size has no effect on earnings management.

Profitability can motivate management to take earnings management actions, Purnama (2017) found that profitability has a positive effect on earnings management and Yofianti and Darmawan (2020) found that profitability has a significant negative effect on earnings management. However, the opposite result produced by Agustia and Suryani (2018) states that profitability has no effect on earnings management.

The higher institutional ownership will lead to greater effort on the part of institutional investors so that it can hinder earnings management behavior. Institutional parties will review shareholder managers in making quality financial reports so that management will be motivated to prepare quality financial reports. According to Sari and Astuti (2015) institutional ownership has an effect on earnings management which is known that the greater institutional ownership will suppress earnings management practices in accordance with their function as monitoring agents. Suheny (2019) and Yofianti and Darmawan (2020) found that institutional ownership has a negative effect. In contrast to the research conducted by Astari (2015), Purnama (2017), Budianti and Sulistyawati (2019), Senja and Nurbaiti (2019) and Mahdalena, et al. (2019) showed that institutional ownership has no effect on earnings management. Hence, the purpose of this study is to examine the impact of leverage, size, profitability and ownership structure on earnings management in Indonesia banking sector.

2. LITERATURE REVIEW

2.1 Agency Theory

According to Godfrey in Hery (2017) Agency theory is a contractual relationship between the owner of the company (principal) and management (agent), where the owner of the company authorizes management to carry out the company's operational activities. The owner of the company expects that management can utilize existing resources optimally for the welfare of the principal in the short and long term.

Agency relationships can lead to conflicts *of interest due* to unequal goals. Owners or shareholders have the aim of increasing their interests through the distribution of dividends. The management has the aim of increase its self-interest through compensation. This situation causes management to make decisions that benefit themselves but are not effective for the company (Hery, 2017).

2.2 Earnings Management

National Association of Certified Fraud Examiners states that earnings management is a deliberate error or omission in making reports regarding material facts or accounting data so that it is misleading when all the information is used to make judgments which will eventually cause people who read it to replace or change opinion or decision. Lewis stated that earnings management is accounting flexibility to match business innovation. Fraud obscures true financial volatility to cover the consequences of the manager's decisions (Sulistyanto, 2008).

2.3 Financial Ratios

Type of financial ratios divided into the following (Kashmir, 2019): 1) Liquidity Ratio. This ratio is the ratio that describes the company's ability to meet obligations (debt) short-term. 2) Activity Ratio. A ratio used to measure the effectiveness of the company in using its assets. 3) Leverage Ratio. a ratio used to measure the extent to which the company's assets are financed with debt. 4) Bank Profitability Ratio. This ratio is used to measure the level of business efficiency and profitability achieved by the bank.

2.4 Size Company

Kusmawardhani (2012) is a scale that can be classified the size of a company that can be measured in various ways, including: total assets, log size, sales and stock market value. Basically the size of the company is divided into three categories, namely (Hery, 2017): large companies (large firms), medium companies (medium firms), small companies (small firms). Banking companies obtain most of their funding sources from the public. The larger companies will easier for companies to obtain funding from investors and the public. Larger companies make more disclosures. The greater the company's assets will increase the size of the company, so the company is considered to have greater ability in managing the company. The total amount of assets is transformed into the form of Natural Logarithm (Ln).

2.5 Ownership Structure

Institutional Ownership is the percentage of shares owned by institutional investors (Kusumawardhani, 2012). Institutional ownership has an important role in monitoring the company's management because institutional ownership is owned by external parties so that internal parties can monitor more optimally. The high levels of institutional ownership will efforts by institutional investors so that it can prevent opportunistic behavior of managers. Managerial ownership of shares is one way for owners to reduce agency costs. Management who is given a portion of the company's shares will be more careful in managing the company. Managers will participate in determining policies and making decisions on accounting methods applied to managed companies.

3. PLATFORM DESIGN IDEAS

3.1 The Impact of Leverage on Earnings Management

Banks obtain most of their funds from customer deposits, in other words, banks obtain their source of funds through debt. The greater the debt owned, the more the bank gains the trust of its customers. Leverage is a ratio used to measure the company's ability to meet its financial obligations. Leverage is a measure of securities with debt in the capital structure of banking companies. Bank Indonesia (BI) uses financial reports such as through Bank Indonesia Regulation Number 13/11/PBI/2011 concerning the assessment of the soundness of banks. This causes the manager to take earnings management actions to meet the assessment required by BI as a healthy bank. Suheny (2019), Mahdalena et al (2019), Agustia and Suryani (2018) and Budianti and Sulistyawati (2019) found that leverage impact on earnings management.

3.2 The Impact of Size on Earnings Management

The size of the company in banking, which is called the size of thebank, is one of the indicators used by customers and investors before depositing their funds. Larger companies have greater pressure from stakeholders, so that the company's performance is in line with the expectations of its investors. The larger the size of the company in banking will increase the trust of customers in saving their funds. Kusumawardhani (2012), Sari and Astuti (2015), Budianti and Sulistyawati (2019) and Purnama (2017) found that size impact on earnings management.

3.3 The Impact of Profitability on Earnings Management

Purnama (2017) in her research found that profitability has a positive effect on earnings management. Where the actions of company management tend to carry out earnings management in various ways according to the goals they want to achieve. Profitability can motivate management to take earnings management actions, as research conducted by Yofianti and Darmawan (2020) states that profitability has a significant negative effect on earnings management.

3.4 The Impact of Institutional Ownership on Earnings Management

According to Sari and Astuti (2015) institutional ownership has an effect on earnings management which is known that the greater institutional ownership will suppress earnings management practices in accordance with their function as *monitoring agents*. Suheny (2019) and Yofianti and Darmawan (2020) found that institutional ownership has a negative effect, because the institution as the largest shareholder in the bank has the power to replace managers who commit fraud.

3.5 The Impact of Management Ownership on Earnings Management

Sari and Astuti's research (2015) states that management ownership factors affect earnings management in a positive direction which states that the more shares owned by management increase management behavior to use the information they have on earnings reporting. Purnama's research (2017) found that managerial ownership has a negative effect on earnings management which shows that the greater the managerial ownership, the lower the earnings management action with the selection of accounting methods in preparing quality financial reports.

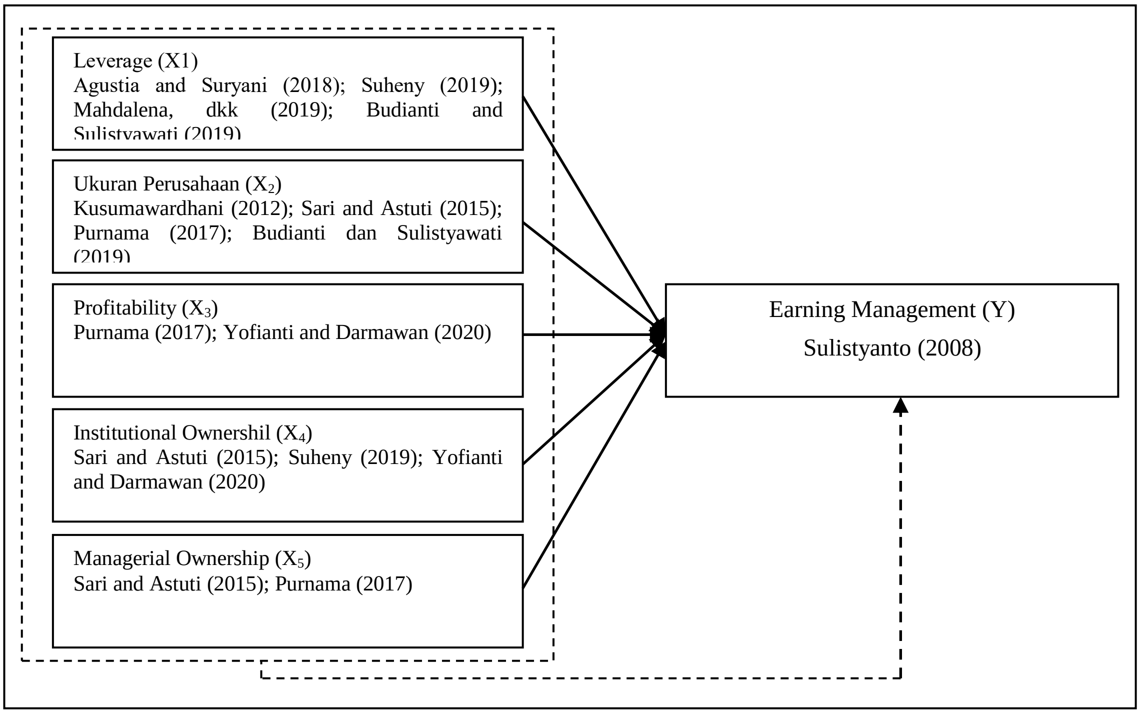

Figure 1. Platform Desain Ideas

4. THE CONTENTS OF PLATFORM CONTRUCTION

4.1 The Sample

The population in this study is banking companies listed on the Indonesia Stock Exchange (IDX) from 2015 to 2019. Based on statistical data from the Indonesia Stock Exchange (IDX) there are 40 banks listed from 2015 to 2019 as the samples.

4.2 Construct Regression Model

Table 1. Regression Model

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-0.189	0.158		-1.191	0.236
	Leverage	-0.011	0.004	-0.288	-3.126	0.002
	Sixe	0.008	0.006	0.154	1.350	0.179
	Profitability	-2.545	1.073	-0.252	-2.372	0.019
	Institutional Ownership	-0.031	0.068	-0.040	-0.454	0.651
	Management Ownership	1.089	1.470	0.062	0.741	0.460

a. Dependent Variable: Earnings Management

Based on Table 1 regression model of this study are Y = -0,189-0,011X1+0,008X2-2,545X3-0,031X4+1,089X5+e

4.3 Discussion of Impact of Leverage on Earnings Management

The result found that leverage impact earnings management, leverage can suppress earnings management because banks are supervised by regulations from Bank Indonesia such as in Bank Indonesia Regulation Number 13/1/PBI/2011 concerning Assessment of Bank Soundness Levels for banks that are declared healthy or not, thus making management careful to maintain credibility.

This research in line with Mahdalena, el al (2019) and Suheny (2019) that the higher the company's earnings level, the higher the level of earnings management. Long-term liabilities and compared to the ability of *assets* and capital owned with a level of leverage high means the company has a high level of liability thereby increasing the risk of bankruptcy. Agustia and Suryani (2018) and Budianti and Sulistyawati (2019) found that the higher the company's debt, the more opportunities the company has to practice earnings management, so *leverage* is one of the factors that influence earnings management practices. But Purnama (2017), Rahyuningsih and Ayem (2020), Yofianti and Darmawan showed that *leverage had* no effect on earnings management.

4.4 Discussion of Impact of Size on Earnings Management

The results of this study indicate that firm size does not affect earnings management. This shows that large companies collect more funds from the community and distribute them back to the community. So that large companies can carry out earnings management because of the attention of many parties that make management carry out earnings management to meet expectations so that it is in line with what investors expect and maintains credibility.

This result supported Agustia and Suryani (2018) and Yofiana and Darmawan (2020) whose said the size of the company does not affect the company due to strict supervision from the government, analysts and investors so that if there is earnings management, it will damage the credibility of the company. But Kusumawardhani (2012) and Sari and Astuti (2015) found that there is a significant influence between company size and earnings management where large companies lack the drive to carry out earnings management because they are seen as critical by outsiders.

4.5 Discussion of Impact of Profitability on Earnings Management

Based on the results of the study which showed that profitability had a negative effect on earnings management. This means that profitability can suppress earnings management because a bank that has high profitability means that the profit earned is also high, so high profits have created confidence in many parties. The higher the profitability, the higher the profit earned.

This statement is in line with Purnama (2017) in his research which states that profitability has a positive effect on earnings management. Where the actions of company management tend to carry out earnings management in various ways according to the goals they want to achieve. Profitability can motivate management to perform earnings management actions, such as studies conducted Yofianti and Darmawan (2020) which also states that the profitability has a significant negative effect on earnings management. However, the opposite result produced by Agustia and Suryani (2018) states that profitability has no effect on earnings management because investors tend to ignore earnings information.

4.6 Discussion of Impact of Institutional Ownership on Earnings Management

This study gives the result that institutional ownership has no effect on earnings management. The larger or smaller the shares owned by the institution cannot have an influence on the company in carrying out earnings management actions. Whereas institutional ownership should be a monitoring agent for management and have voting rights in decision making and institutions as the largest shareholder have the power to replace the management who commits fraud.

These results supported Astari (2015), Purnama (2017), Senja and Nurbaiti (2019), Mahdalena, et al (2019) and Budianti and Sulistyawati (2019), they found that higher institutional ownership or the number of shares owned by the institution does not reduce or prevent the practice of earnings management. The higher or lower of ownership institutional shares are not very meaningful as a monitoring tool. The changes in institutional ownership are not always followed by changes in earnings management. Institutional ownership has no effect on earnings management, it does not affect how much the company performs earnings management actions.

Opposite by the last research, Sari and Astuti (2015), Suheny (2019) and Yofianti and Darmawan (2020) found that institutional ownership has effect on earnings management because the institution as the largest shareholder in the bank has the power to replace managers who commit fraud.

4.7 Discussion of Impact of Management Ownership on Earnings Management

In this study, the results show that managerial ownership has no effect on earnings management actions. This is because in the sample of this study the number of managerial ownership of shares is low and even some companies do not provide shares to the managerial party. In fact, the presence of managerial stock ownership is expected to reduce earnings management actions. As a company manager, management will encourage to create optimal company performance and act carefully in determining policies and making decisions on accounting methods to be applied because otherwise management will also bear the consequences of the decisions taken.

Budianti and Sulistyawati (2019), Suheny (2019, Senja and Nurbaiti (2019), Mahdalena, et al (2019) and Rahyuningsih and Ayem (2020) found the same result with this study, there are no impact between management ownership to earnings management. The lower the managerial ownership, the more earnings management is because managers do not share in the decisions taken. The lower ownership of managerial shares can lead to the emergence of human nature based on motivation so that management uses accounting methods that will benefit the management.

This study doesn't support the research of Sari and Astuti (2015) and Purnama (2017) that found managerial ownership has a negative effect on earnings management which indicates that the greater the managerial ownership, the lower the earnings management action with the selection of accounting methods in preparing quality financial reports.

5. CONCLUSION

The conclusion of this study are (1) leverage and profitability impact on earnings management and (2) size and structure of ownership (institutional and managerial ownership) doesn't have significant impact on earnings management in Indonesian Banking Sector during 2014 until 2019.

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