

EARNINGS MANAGEMENT AS A BASIS OF CORPORATE VALUE MODEL IN AUTOMOTIVE COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

YUSDIANTO^{1*}, DWI SIHONO RAHARDJO² and LUQMAN HAKIM³

^{1,2,3}Faculty of Economics and Business - Postgraduate Doctor of Management Science, Universitas Persada Indonesia Y.A.I- Jakarta.

Email: ¹yusdianto@upi-yai.ac.id (*Corresponding Author), ²dwi.sihono.raharjo@upi-yai.ac.id,

³luqman.hakim@upi-yai.ac.id

Abstract

This study is intended to analyze and answer the research gap that occurs among researchers and the phenomenon that occurs where Firm value is a problem that needs to be researched using Earnings Management (DCA) as an intervening variable. This study is a type of quantitative research with a multiple regression analysis method of panel data with the object of research being automotive sector companies listed on the Indonesia Stock Exchange. By using the purposive sampling method, a cross section of fifteen companies was obtained as observations, in addition, this study also uses a time series for 5 years. Furthermore, the results of this study are expected to produce maximization of Firm value through DCA. The approach used in this study is to use two research models that are integrated into one and each goes through the stages of model selection testing, namely the Chow Test, the Hausman Test. The results of the study on the first model using the endogenous DCA variable, in addition to the interest rate variable, all exogenous variables can explain their influence significantly on DCA with the highest level of sensitivity in the Firm Size variable. The results of the second model study using Firm value as an endogenous variable are that in addition to Leverage (DAR) and Interest Rate (SB), all exogenous variables can explain their influence significantly on Firm value (Q) with the highest sensitivity level in the Earnings Management variable. These results are expected to help as a guideline for capital market players to be able to get investment in companies that are able to maximize Firm value.

Keywords: Firm Value, Earnings Management, Firm Size, Leverage, Exchange Rate, Interest Rate.

I. INTRODUCTION DAN LITERATURE REVIEW

Company size is proxied by price informativeness. Large companies are considered to have more information than small companies. The more informative the price, the less information content about the earnings announcement. The market reaction is not too big to the earnings announcements of large companies that often appear in the news and mass media.

In previous studies, namely according to Eny Kusumawati (2019), Henny Medyawati and Astri Sri Dayanti (2016), Idil Rakhmat Susanto (2017), Ratna Wijayanti (2012), that company size affects Profit management.

In its development, the Automotive and component industry is seen from the growth of assets in the last 7 (seven) years, namely in 2016 amounting to IDR 102 trillion and although there was a decline during the Covid-19 outbreak, it did not affect the total assets affected in 2020 amounting to IDR 118.8 trillion

Leverage is a research variable where the use of assets and sources of funds by companies that have fixed costs is intended to increase the potential profit of shareholders. Companies that have high leverage, profits will flow more to creditors so that good news on profits will be given to creditors than shareholders.

Accounting profit is one of the many pieces of information used by investors to estimate the value of a stock. In addition to these variables, it also uses the exchange rate variable which is the value of a currency relative to another currency Hanafi (2014).

According to Arifin (2009) the exchange rate is a currency against another currency or the value of a currency against the value of another currency. The exchange rate is a comparison of the price or value of a country's currency measured in the currency of another country. In foreign exchange, the exchange rate plays a very important role. Because the exchange rate is a tool that translates various prices with foreign currencies. Another term for the exchange rate is the currency exchange rate. Many areas of life that require exchange rates are transaction activities involving two foreign currencies, activities in the foreign exchange market (forex), and export-import activities are routines carried out in the object of this study.

There are two sides to changes in the exchange rate, namely appreciation and depreciation, with the explanation that appreciation is a change in the addition of a currency to another foreign currency. This happens because there is a very strong attraction between demand and supply in the foreign exchange market. Export activities will be expensive and imports will be cheap if the currency of another country experiences a change in appreciation against the currency of another country.

The other side of the change is depreciation which is a decrease in the exchange rate of the currency against a foreign currency. This condition is the opposite of appreciation. Export activities become cheaper while imports will be expensive. This is because the local currency experiences a depreciation process against foreign currencies.

Depreciation of the domestic currency exchange rate against foreign currencies can encourage an increase in export volume. This can increase the company's ability to generate profits (profitability) which then increases the company's stock price if market demand is elastic enough and affects the return that will be received by investors Kewal (2012).

In its development, the exchange rate (Rate) encourages the formation of foreign exchange profit and loss which directly has an account post placement in the company's profit and loss report. One of the reasons is that the depreciation of the Rupiah currency causes companies that have liabilities in foreign currencies, especially USD, to have to recognize exchange rate differences (RSK) in the income statement as regulated in the Financial Accounting Standards Statement (PSAK) No. 10. Which regulates that transactions in foreign currencies must be recorded using the exchange rate at the time the transaction occurs, and on each balance sheet date, monetary asset and liability items in foreign currencies are reported in rupiah using the balance sheet date exchange rate.

Likewise, the interest rate stated in financial instruments is based on a certain percentage amount that is calculated in line with economic theory where the higher the level of money circulating in the market is directly proportional to the rate of inflation. Which will directly increase the percentage of interest rates so that the investment climate and the decline in food prices in the market have implications for people who prefer to save money in banks with high interest rates and relatively low risks, compared to using it for consumption or choosing other investment instruments that are low risk. At the same time, interest rates that are too high will have an impact on the present value of the company's cash flow so that investment opportunities. High interest rates can also cause investors to withdraw their investments in stocks and move them to investments in the form of savings or deposits.

According to the statement of Anoraga and Pakarti (2008), changes in interest rates will affect the fundamental conditions of the company, because almost all companies that list their shares on the stock exchange enjoy bank loans. Interest rates have a negative impact on stock prices and stock returns. At high loan interest rates, credit interest expenses increase and can cause a decrease in net profit. On the other hand, an increase in deposit interest rates can cause investors to sell their shares to invest in deposits. This causes stock prices to fall due to massive stock sales Samsul (2006).

Financial reports are information media that summarize all company activities. If this information is presented correctly, the information is very useful for anyone to make decisions Harahap (2009). According to IAI (2009), the purpose of financial reports is to provide information regarding the financial position, performance, and changes in the financial position of a company that is useful for a large number of users in making economic decisions.

The report that is often used by investors is the income statement. Earnings are a measure of a company's performance or success and are used by investors and creditors to consider investment decisions. Profits that do not show true information about management performance can mislead users of the report Naimah (2008).

In general, earnings management can be done because the basis for recording transactions used is accrual, namely recording transactions that are carried out without having to be accompanied by cash receipts and/or cash disbursements. Accrual-based accounting attempts to record all financial influences that occur in a transaction and event that has cash consequences for the period in question, not only when cash is received or paid in cash.

Accrual-based accounting uses accrual, deferral, and allocation procedures that aim to link revenues, costs, gains, and losses during a certain period, even though cash has not been received or disbursed. So the essence of using accrual accounting lies in the effort to match all revenues and costs (matching of costs and revenues) to measure company performance.

Conceptually, financial statements prepared using the accrual basis can provide more complete and comprehensive information than financial statements using the cash basis. The reason is, in accrual-based accounting all transactions and events carried out by the company during a certain period, both cash and non-cash. This is what makes financial statements more relevant to the needs of users of this information compared to cash-based financial statements.

Because basically users of financial statements want to know the performance that has been achieved by the company concerned in full. The results of research in Ronal A. Dye (1988), that earnings management is influenced by various costs that have an impact on profitability and have implications for leverage. Other research results by Aziatul Waznah Ghazali, Nur Aima Shafie, Zuraidah Mohd Sanusi (2015), that earnings management is influenced by various costs of company profit management.

Profit management is influenced by when the company is in a financially healthy condition and the high profit of the company which has an impact on leverage. Idil Rakhmat Susanto, Jamaluddin Majid (2017), based on the results of data testing, it was obtained that simultaneously the variables of company size, auditor reputation, managerial ownership, institutional ownership, Financial Leverage, and the level of education of the president director have an effect on Profit Management.

Partially, managerial ownership has a significant negative effect on Earnings Management, while company size, auditor reputation, institutional ownership, Financial Leverage, and the level of education of the president director do not have a significant effect on Earnings Management.

In Putu Wirawati, Asri Dwija Putri, Nyoman Badera (2020), company size has no significant effect on Firm Value. This means that the size of the company does not affect Firm Value while the Leverage variable has a positive and significant effect on Firm Value, on the contrary by Hertina, Hidayat, Mustika (2019), Company size has a negative effect on Firm Value.

The results of other studies in Oktaviarni, Murni and Supyayitno (2019), profitability proxied by Return on Assets (ROA), liquidity proxied by Current Ratio (CR), has an effect on Firm Value while leverage proxied by Debt to Equity Ratio

II. HYPOTHESIS

- H1: There is an influence of Firm Size (SIZE) on Earnings Management (DCA).
- H2: Leverage (DAR) has an effect on Earnings Management (DCA).
- H3: There is an influence of the Exchange Rate (NK) on Earnings Management (DCA).
- H4: Interest Rate (SB) influences Earnings Management (DCA).
- H5: There is an influence of Firm Size (SIZE) on Firm Value (Q)
- H6: Leverage (DAR) has an effect on Firm Value (Q).
- H7: There is an influence of the Exchange Rate (NK) on Firm Value (Q).
- H8: Interest Rate (SB) influences Firm Value (Q).
- H9: There is an influence of Earnings Management (DCA) on Firm Value (Q)

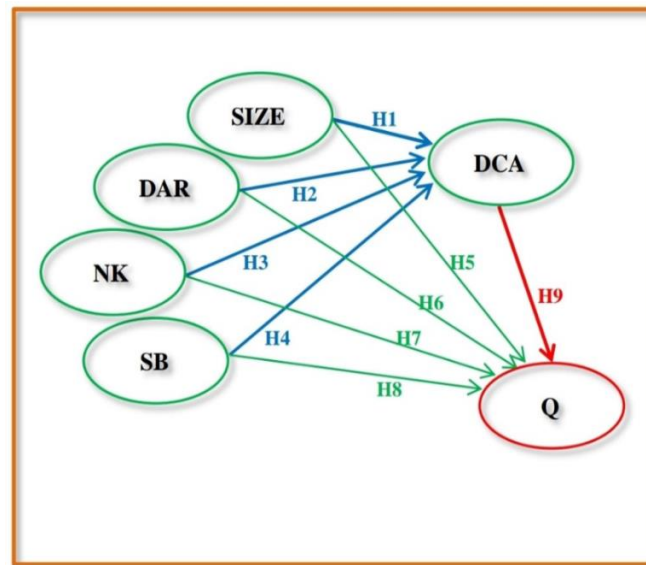


Figure 1: Research Framework

III. RESEARCH METHODS

This study uses a quantitative approach using the multiple linear regression analysis method of panel data and using a combination of five-year time series data or the period 2016 - 2020 and a cross section of 15 selected companies as research samples.

This study uses objects of companies in the automotive sector listed on the Indonesia Stock Exchange with a population of all companies listed in the automotive sector.

Operational Variables:

Table 1: Operational Variables

No	Variables	Notation	Formulas
1	Firm Value	Q it	$Q = \frac{(EMV+D)}{(EBV+D)}$ <p>Notes: Q = Firm Value EMV = Market value of equity EBV = Book value of total assets D = Book value of total debt</p>
2	Earnings Management	DCA it	$\frac{\text{Debt}}{\text{Equity}}$
3	Firm Size	SIZE it	Natural Logarithm of Total Assets
4	Leverage	DAR it	$\frac{\text{Total Debt}}{\text{Total Assets}}$
5	Exchange Rate	NK	$\frac{\text{Selling Rate} + \text{Buying Rate}}{2}$
6	Interest Rate	SB	$\frac{\sum \text{SBI per tahun}}{12}$

Panel Data Multiple Regression Estimation

Multiple regression estimation of panel data is needed to ensure the availability of a combination of time series data and cross-section data. The approach that can be taken in conducting the analysis between time series data and cross-section data can use analysis.:

- 1) Common Effect Model (CEM)
- 2) Fixed Effect Model (FEM)
- 3) Random Effect Model (REM)

Testing of the Model to be selected

The use of the three basic analyses above can further carry out three model suitability testing procedures to select the best panel data multiple regression model as follows:

Chow Test

F-statistic as a standard used to determine the choice between the Common Effect model or the Fixed Effect model. Acceptance or rejection of the hypothesis is based on the level of $\alpha = 5\%$ on the null hypothesis (H_0) and alternative hypothesis (H_a). Each of the two models above will technically compare the calculation of the F-statistic with the F-table. The results of the F count < from the F table will reject the null hypothesis (H_0) and vice versa will accept the alternative hypothesis (H_a). Thus the appropriate model to be used is the Fixed Effect Model, the decision will be taken otherwise if the results will be different.

Hausman Test

The Hausman test will determine the choice of Fixed Effect Model or Random Effect Model. The use of the Chi-Square statistical distribution with a degree of freedom of k as the number of exogenous variables as the basis for testing.

The results will accept the null hypothesis (H_0) and reject the alternative hypothesis (H_a) for the next model will be said to be fit and use the Random Effect Model, but on the contrary will use the Fixed Effect Model if the statistical hypothesis rejects the null hypothesis (H_0) and accepts the alternative hypothesis (H_a).

Panel Data Regression Model

Structural Equation of Research Model 1,

$$DCA_{it} = \alpha + \beta_1 SIZE_{it} + \beta_2 DAR_{it} + \beta_3 NK_{it} + \beta_4 SB_{it} + \epsilon_{it} \dots\dots\dots(1)$$

$$i = 1, 2, \dots, N; \quad t = 1, 2, \dots, T$$

Structural Equation of Research Model 2,

$$Q_{it} = \alpha + \beta_1 SIZE_{it} + \beta_2 DAR_{it} + \beta_3 NK_{it} + \beta_4 SB_{it} + \beta_5 DCA_{it} + \epsilon_{it} \dots\dots\dots(2)$$

$$i = 1, 2, \dots, N; \quad t = 1, 2, \dots, T$$

Notes:

SIZE	=	Firm Size		ε	=	Error component
DAR	=	Leverage		β	=	Slope
NK	=	Exchange Rate		α	=	Intercept
SB	=	Interest Rate		N	=	Number of Observations
DCA	=	Earnings Management		T	=	Lots of time
Q	=	Firm Value (Tobin's Q)		NxT	=	Number of Panel Data

IV. RESEARCH RESULTS AND DISCUSSION

A. Results

Descriptive Statistics and Model Fit Test

Table 2: Descriptive Statistics

	Q	SIZE	DAR	NK	SB	DCA
Mean	5.345201	4.501223	4.202171	13502.23	4.250021	4.210341
Median	3.563223	3.245720	3.219433	13201.42	4.250023	3.561823
Maximum	6.453431	5.267124	17.20143	14502.23	6.000064	4.923161
Minimum	3.142621	2.781053	1.021886	13100.32	3.750002	1.357102
Std. Dev	1.564213	1.003410	1.924502	0.921112	0.751432	1.237827
Skewness	2.468921	5.068935	1.368903	13.178921	4.728901	3.168943
Kurtosis	14.72153	13.38012	13.19412	13.52301	4.902412	13.82012
Jarque-Bera	350.4054	243.4054	2.019343	0.98213	0.80123	2.086122
Sum	343.1223	234.2101	4.234101	210.1035	5.02312	311.1810
Sum Sq. Dev.	1756.297	2130.233	3095.126	2081.292	2198.321	1801.231
Observations	75	75	75	75	75	75

Source: Processed data

Earnings Management and Firm Value as Endogenous Variables in the Suitability Testing of Research Models 1 & 2

Table 3: Chow Tests

Research Model 1 Common Effect Vs Fixed Effect Endogenous Variable: DCA				Research Model 2 Common Effect Vs Fixed Effect Endogenous Variable: Q			
Effects Test	Statistic	d.f.	Prob.	Effects Test	Statistic	d.f.	Prob.
Cross-section F	14.6404	(17,86)	0.0000	Cross-section F	13.21172	(19,36)	0.0000

Source: Processed data

The test results of the Chow-test in Research Model 1 and Research Model 2 produce statistical hypotheses: rejecting the null hypothesis (H_0) and accepting the alternative hypothesis (H_a) at the level of $\alpha = 5\%$. It can be said that the Fixed Effect Model is more appropriate to use than the Common Effect Model. (Table-3)

Table 4: Hausman Tests

Research Model 1 Fixed Effect Vs Random Effect Endogenous Variable: DCA				Research Model 2 Fixed Effect Vs Random Effect Endogenous Variable: Q			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	13.872287	4	0.0077	Cross-section random	12.21062	5	0.0362

Source: Processed data

The results of the Hausman-test in Research Model 1 and Research Model 2 produce statistical hypotheses: rejecting the null hypothesis (H_0) and accepting the alternative hypothesis (H_a) at the level of $\alpha = 5\%$. This can be interpreted that the Fixed Effect Model is more appropriate to use than the Random Effect Model. (Table-4).

Table 5: Endogenous Variable: Earnings Management (DCA)

Total pool (balanced) observations: 75

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.070240	0.064722	1.085256	0.2808
SIZE	0.004927	0.001470	3.351706	0.0012
DAR	0.000452	0.000193	2.339669	0.0216
NK	0.003060	0.001527	2.003412	0.0483
SB	0.005240	0.091446	-0.932140	0.3539
Adjusted R-squared	0.797736			
F-statistic	21.09583; Prob (F-statistic): 0.000000			

Source: Processed data

Table 6: Endogenous Variable: Firm Value (Q)

Total pool (balanced) observations: 75

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.082792	1.755509	1.756067	0.0827
SIZE	0.226924	0.066449	3.415001	0.0010
DAR	-0.056455	0.079020	-0.714445	0.4769
NK	0.335924	0.157727	2.129782	0.0361
SB	-0.011421	2.478509	-0.004608	0.9963
DCA	5.919811	2.265092	2.613497	0.0106
Adjusted R-squared	0.893864			
F-statistic	41.96080; Prob (F-statistic): 0.000000			

Source: Processed data

- 1: Firm Size (SIZE) significantly influences Earnings Management (DCA) with a positive correlation (Table 5).
- 2: Leverage (DAR) significantly influences and positively correlates with Earnings Management (DCA) (Table 5).
- 3: Exchange Rate (NK) significantly influences and positively correlates with Earnings Management (DCA) (Table 5).
- 4: Interest Rate (SB) insignificantly influences Earnings Management (DCA) (Table 5).
- 5: Firm Size (SIZE) significantly influences and positively correlates with Firm Value (Tobin's Q) (Table 6).
- 6: Leverage (DAR) insignificantly influences Firm Value (Tobin's Q) (Table 6).
- 7: Exchange Rate (NK) significantly influences and positively correlates with Firm Value (Tobin's Q) (Table 6).
- 8: Interest Rate (SB) insignificantly influences Firm Value (Tobin's Q) (Table 6).
- 9: Earnings Management (DCA) has a significant influence and positive correlation with Firm Value (Tobin's Q) (Table 6).

B. Discussion

The results of the study on the first research model using the endogenous variable Earnings Management (DCA) are that in addition to the exogenous variable Interest Rate (SB), all exogenous variables used can explain their influence on DCA with the highest sensitivity level in the Firm Size variable.

While in the results of the study in the second research model, there are exogenous variables Leverage (DAR) and Interest Rate (SB) that cannot explain their influence on the endogenous variable Firm Value (Tobin's Q), on the other hand the highest sensitivity level is in the intervening variable Earnings Management (DCA).

From the results of the explanation above in the second paragraph, the intervening variables can also function to mediate the influence of exogenous variables on the endogenous variable Firm Value (Tobin's Q). Thus, the market reaction that contributes to firm value will depend on DCA in automotive sector companies.

V. CONCLUSION

Findings: The results of this study conclude that Earnings Management (DCA) as an intervening variable has a significant effect on Firm Value (Tobin's Q) which means that market reaction as part of Tobin's Q will depend on DCA. In addition, among the exogenous variables used and the highest level of sensitivity is the DCA variable. This is also a suggestion for further researchers and especially for capital market authorities regarding the importance of paying attention to the DCA variable as a key variable in the Automotive sector on the Indonesia Stock Exchange.

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