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DISCRETIONAL ACCRUAL AND OWNERSHIP ON CORPORATE PERFORMANCE WITH FIRM VALUE AS MEDIATION: EVIDENCE FROM CONSUMPTION GOOD AND BASIC INDUSTRY CHEMISTRY IN INDONESIA STOCK EXCHANGE

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Abstract

This study analyzes and empirically examines the impact of earnings management, managerial ownership and public ownership on corporate performance and corporate value in food and beverage companies and basic chemical industries in the Indonesian stock exchange. Data analysis with multiple linear regression and path analysis with a population of consumer goods companies and basic chemical industries listed on the Indonesian stock exchange in 2018-2019 with a sample of 115 companies. The results showed that the variables of earnings management, corporate governance (managerial ownership and public ownership) had a significant effect on corporate value and corporate performance. Future research is expected to increase the research and macroeconomic and CSR variables that provide a comprehensive picture of the research results. Minimizing earnings management is expected to improve corporate performance and corporate value. As well as the effect of ownership can also increase corporate performance and corporate value.

INTRODUCTION

One of the most obvious effects in Enron's case was the loss to investors from the dramatic drop in share value from US $ 30 per share to only US $ 10 in two weeks. The Enron case was very tragic. Enron declared bankruptcy just after the company's financial audit results were declared "unconditional fair." The case that occurred in Indonesia PT. Lippo Tbk and PT. Kimia Farma Tbk also involves financial reporting that begins with the detection of manipulation (Gideon, 2005); this impacts stock prices in Indonesia. The economic crisis in Indonesia in 1997 had an impact on the decline in stock prices on the Indonesian stock exchange. As well as the case of the

2016 economic crisis in Greece, the impact of falling share prices. And finally, the existence of Covid 19 in 2020 also brought a crisis for companies in Indonesia and the world. By looking at the case above, it is essential to implement good corporate governance effectively. The issue of good corporate governance arises because of the separation between ownership and management of the company. This separation gives the fund manager the authority or signal to make company decisions on behalf of the owners. In other words, good corporate governance is a key element to improve economic efficiency and effectiveness, which is a series of relationships between company management, the board of commissioners, shareholders, the audit committee, institutional and managerial ownership structures, and the public. So good corporate governance provides targeting facilities for monitoring company performance.

Good corporate governance mechanisms can be carried out by 1) increasing share ownership by management and the public (Jensen and Meckling 1976), 2) institutional ownership as a party that monitors and controls agents (Moh'd et al., 1998). Agency cost because institutional investors will have power in management decision-making and as controlling shareholders. 3) there is a monitoring role by the board of directors, Dechow et al., (1996), who has the ability to monitor the financial reporting process.

Earning management applies accounting methods by increasing or decreasing profit, smoothing income, and retaining profit (taking a bath). Profit increasing practice consists of the manager's actions to report good performance for bonus distribution purposes, market considerations capital at the initial offering (IPO), contractual motivation. Meanwhile, the practice of reducing profits is carried out by managers to obtain tax savings, get around government regulations such as minimizing the number of fines or obtaining government facilities, consideration of competitive conditions to prevent the entry of new competitors. The practice of income smoothing is the thing most preferred by investors.

Earning management is the manager's intervention when recording and reporting external finances for the manager or company's personal benefit (shareholders). Earning management is one factor that can cause financial statements to be more useful for users of financial statements who believe that the profit figures resulting from earning management are profit figures without engineering (Scott, 2003).

Generally Accepted Accounting Principles (GAAP) provides flexibility for managers to choose the accounting method used in preparing financial reports (Veronica, 2003: 328). The motivation for earning management is also the desire of the manager or company to minimize costs (Scott, 2003), which includes the transfer of wealth that must be borne by the company concerning antitrust laws, regulations, government subsidies, tax savings, and so on (Watts and Zimmerman, 1978). Other triggers are incentives between managers and shareholders which can cause managers to use the flexibility allowed in accounting standards to perform opportunistic earnings management or management's desire to convey information to outsiders excessively to increase external party trust in companies known as informative earnings management (Gul, et., al, 2003). Manager's choice of earnings management illustrates that the investment opportunity set (IOS) affects contractual events, influencing managers' choice of accounting methods (Watts and Zimmerman, 1986). Good corporate governance and earnings management is expected to improve the company's financial performance, and it is hoped that the company's value will also increase. Research on earnings management and ownership of company performance and value has been conducted by Maesaroh (2015); Fitriani (2014), with significant results. Different results were carried out by Darwis (2012); Anggraini (2009), that earnings management and ownership do not have a significant effect on firm value.

LITERATURE REVIEW

Earnings Management

Watts and Zimmerman (1986) say that there are 3 motivations for managers to carry out earnings management, namely: bonus plan hypothesis, debt contract hypothesis, political cost hypothesis, tax motivation, change of leadership, IPO, information communication with investors. In connection with the bonus plan hypothesis, Healy (1985) examined the effect of giving bonuses based on profit. Healy (1985) is the first researcher to produce a manager's discretionary accrual estimation equation. Research by Healy (1985) shows that bonus contracts affect the accrual policy chosen by managers and changes in accounting procedures associated with bonus contract modifications.

This study used a sample of 1527 company years of observation and succeeded in proving the hypothesis. The first hypothesis proves that managers increase profits to increase bonuses because the bonus amount is affected by reported earnings. But if the profit has reached the upper limit (there is no additional bonus even though the profit increases), the manager tends to keep the profit for the coming period, which gave rise to the term taking a bath strategy. The second hypothesis successfully proves that managers make changes in accounting methods to manipulate their profits. But if the profit target has exceeded the upper limit, management will even out the profit.

The debt contract hypothesis begins with Defond and Jiambalvo's (1994) research, which examines accrual manipulation by companies under investigation for breaching debt contracts. Debt contracts affect the choice of a company's accounting policy. This can be seen in choosing the company's accounting policies for the period before and during the period when the credit agreement was violated. Using a sample of 94 companies (1985-1988), Defond and Jiambalvo (1994) succeeded in proving their hypothesis.

Sweeney (1994) examined changes in accounting methods of 130 firms suspected of violating credit covenants. The hypothesis is that the credit contract affects the company's accounting policies. The results of the study show a significant effect, especially in the year it occurred and the year after the contract violation. Genther (1994) also proved that companies with high leverage tend to increase their accrual rate. The political cost hypothesis is a hypothesis that assumes that management tends to reduce profits to minimize the transfer of corporate wealth to outsiders related to legal action or government regulations. Research on political costs has been carried out by Jones (1991) with a sample of 23 manufacturing companies to obtain import facilities. The results show evidence that political costs tend to reduce profits to obtain import facilities. The political hypothesis also relates to tax savings that the company reduces its accruals for tax savings. With earnings management that maximizes profits, it means that the coefficient of profit response will be high. On the other hand, if the manager minimizes profits, the profit response coefficient will also below. But investors are more than happy with an income smoothing.

Profit engineering techniques can be grouped into 3 groups, namely:

a. Take advantage of opportunities for alternatives in determining accounting estimates. For example, estimated uncollectible receivables, estimated period of depreciation of fixed assets or amortization of intangible assets, estimated warranty costs, etc.
b. Changing accounting methods. Changes in the accounting method used to record a transaction, for example, changing the depreciation method for fixed assets or amortization of intangible assets, from depreciation method based on year numbers to the straight-line method.

c. Shifts the period of expense or income. This engineering is in the form of manipulation of operational decisions, such as engineering cost or revenue periods, namely accelerating or delaying research and development costs, promotional expenses, sending invoices, shipping products, selling securities to manipulate profit levels, selling unused fixed assets, recording inventories with the LIFO assumption and engineering earnings through controlling inventory balances (Bartov, 2000).

Earnings management practice can be carried out by choosing an accounting method that increases earnings or choosing an accounting method that reduces earnings. Earnings management practices by increasing earnings are for the following purposes:

a. Avoiding violation of debt contracts, which has been researched by Defond and Jimbalvo (1994), tested 94 companies violating credit agreements using the Jones 1991 model. The results prove that one period before the breach, the company tried to manipulate accruals by increasing profits. Sweeney also researched 130 companies that violated credit agreements. The results proved that the tendency of increasing profits in companies was detected as having violated debt contracts. These results are consistent with the 1994 research of Defond and Jimbalvo.
b. In the face of compensation covenants, which Healy (1985), the results show that compensation based on accrual data is an incentive for managers to choose an accounting method that maximizes the bonuses to be earned.
c. Initial public offering, research conducted at the Jakarta stock exchange on the detection of earning management of 81 companies that conducted IPOs from 1995 to 2005 found evidence that the company was doing income increasing in the period before and two years before the IPO.
d. Maintaining control of the company, which Christie and Zimmerman (1994) researched in Setiawati and Naim (2000), companies tend to choose the depreciation method of inventory recording methods that increase profits.

Earning management practices by reducing profits for:

a. Considering the company's competitors, to reduce the attractiveness of an industry or prevent the entry of new entrants to an industry, to dominate the industry's market, the company chooses the accounting method that reduces the level of profit reported in the financial statements.
b. Tax considerations, it has been researched by Guenther (1994) that companies reduce accruals to maximize tax savings. Guenther has succeeded in proving that large companies tend to reduce their accruals compared to small companies (political cost hypothesis).
c. Considering the prevailing regulations, Jones's (1991) research proved that domestic producers facing import relief investigations by the United States International Trade Commission decreased their profits during the investigation to obtain import protection. Cahan (1992) proved that companies subjected to investigations of monopolistic practices or violations of antitrust laws attempted to reduce profits during the investigation period. Operating profit was deliberately reduced to avoid or reduce penalties for alleged violations of antitrust laws.

Al Najjar and Belkoui (2001) tested 339 years of companies to see whether companies with high growth rates had the motivation to reduce profits. A high growth rate is indicated by a high level of IOS, while a high IOS level will be reflected in a high level of profitability. Regulators can read a high profitability level as a profit level that is too high and indicates a tendency to practice monopolistic practices. Their findings prove that companies with high IOS are actually engineering to reduce profits. Belkoui (2003) also found evidence that companies with high IOS tend to reduce profits to avoid monopolistic practices to avoid violating antitrust laws.

Good Corporate Governance (GCG)

Syakarosa (2002) defines good corporate governance as a system used by the board to direct and control and supervise the management of organizational resources efficiently, effectively, economically, and productively (E3P) with the principles of transparency, accountability, responsibility, independence and fairness to achieve organizational objectives and with the existence of an independent board of commissioners, an independent audit committee, institutional ownership structures by the majority, minority and managerial and public.

The board of commissioners has a critical role in managing the company, especially in monitoring top management (Fama and Jansen, 1983). The board of commissioners is seen as the center for solving agency problems between managers and effective shareholders (Fama and Jensen, 1983, as stated in Pratana, 2002). The proportion of the commissioners' board must be such that it enables effective, precise, and fast decision making and can act independently. To implement good corporate governance, a listed company is required to have an independent board of commissioners whose number is proportional to the number of shares owned by non-controlling shareholders, provided that the number of independent commissioners is at least 30% of the total number of commissioners.

Definition of an audit committee is a group of people elected by a larger group to do certain jobs or perform special tasks. The benefit of the audit committee being formed as a special company committee is to optimize the supervisory function, which was previously the full responsibility of the commissioners' board. The audit committee is owned by a company with at least 3 people supervised by at least 30% of the board of commissioners so that good corporate management can be implemented. This close relationship between the audit committee and the board of commissioners is also evident in the audit committee's reporting obligations. The audit committee is responsible to the board of commissioners for implementing its predetermined tasks and is obliged to make a report to the board of commissioners on any given usage.

Ownership Structure (Institutional and Managerial)

Based on agency theory, it is stated that the majority of bondholders and shares (principal) control the responsibilities of the manager (agent) in managing the company. To reduce conflict of interest (Conflict of interest) between shareholders and managers, shareholders control the manager in the company's operations. The difference between the owner's and the manager's interests can be reduced if the manager shares the company. Sometimes information asymmetry arises because the owner does not own the information. The minority owner usually experiences this. The difference between the interests of owners (bondholders and stockholders) and managers (managers) can be reduced if the managers share in the company (insider ownership).

La Porta et al. (1999) in Gunarsih (2003) stated that the ownership structure of companies is different in many countries, spread ownership occurs in countries with excellent legal protection to owners, while in poor protection, company ownership tends to be concentrated, even in many cases ownership tends to be controlled by the family or the State. Prowsen (1998) in Gunarsih (2003) states that agency conflicts arise between owners and managers of companies, while problems in concentrated ownership mainly occur between majority owners and minority owners. The majority owner participates in the company's control so that they tend to protect the interests of the minority owners.

The ownership structure in Indonesia is still concentrated on shareholders who control the majority of shares and control the company. This makes it easier for owners to control various company strategies and policies, such as funding policies, investments, and dividend payments. The total number of going public companies in Indonesia shows that families control 67.1%, while the rest is in the public's hands. And only 5.1% owned by managers. The concentration of family ownership is still strengthened by the fusion of management ownership, where management is in family members' hands (Claessens et al., 2000 in Sudarma, 2004). The authority to manage the company owner's funds and decision-making is in the hands of the manager. This will create a conflict of interest between the manager and the company owner, which will give rise to agency costs.

These agency costs can be reduced by:

a. Increase managerial ownership of shares (Jensen and Meckling, 1967).
b. Increasing funding with debt (Jensen et al., 1998).
c. Increase funding by investing in stocks or dividend policy with a dividend payout ratio (Crutley and Hansen, 1989).
d. Institutional investors as parties monitoring agents (Mohhammadi et al., 1998).

Ownership structure can influence investment decisions that can affect firm value through funding policies and dividend policies (Hasnawati, 2006; and Agrawal 1994 in Wahyudi and Hartini, 2006). Purbawangsa and Anom (2007) examined "The Effect of Ownership Structure and Composition of the Board of Directors and the Board of Commissioners on Dividend Policy and Company Value in the Manufacturing Industry on the JSE." The study results conclude that first, the ownership structure (controlling / majority shareholder and the public) cannot affect the board of directors' membership composition and the board of commissioners.

The controlling shareholder cannot intervene in the existence of an independent board of commissioners. These findings indicate that good corporate governance has begun to be implemented in companies. Both ownership structures have a positive and significant effect on firm value. The three compositions of the board of commissioners have a positive and significant effect on firm value. In Indonesia, the foundation for the formation of the board of commissioners is evident and strong. Both Bapepam and JSX have required the formation of boards of commissioners for public companies.

Each independent member of the board of commissioners is expected to increase monitoring effectiveness because it can reduce agency costs and increase firm value. This value can also be indicated as company performance.
Financial performance is the result achieved by a company in its operations in the financial sector which can be measured by return on equity (ROE) and return on assets (ROA). Company value is the company's shares, namely the share price in a certain period times the number of shares outstanding. The higher the stock price, the higher the company value.

CONCEPTUAL FRAMEWORK AND HYPOTHESES

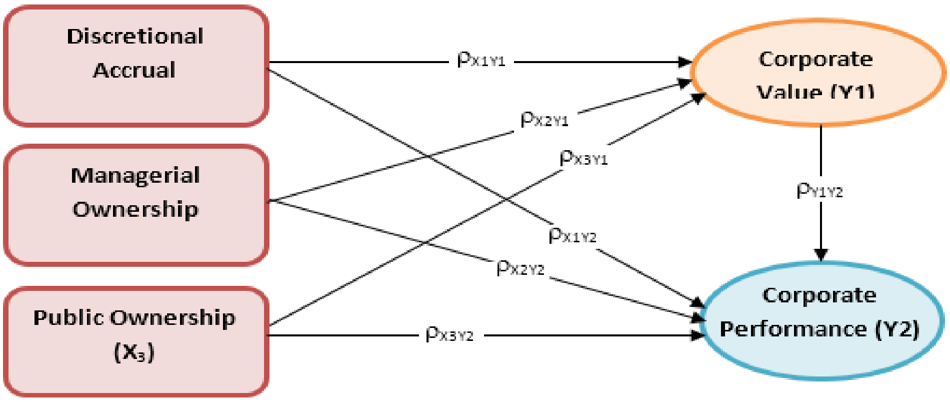

Figure 1. Concept Research Model

***Hypothesis*:**

H1: Discreitional accruals have a positive effect on corporate value
H2: Managerial ownership has a positive effect on corporate value
H3: Public ownership has a positive effect on corporate value
H4: Corporate value has a positive effect on corporate performance
H5: Discreitional accruals have a positive effect on corporate performance
H6: Managerial ownership has a positive effect on corporate performance
H7: Public ownership has a positive effect on corporate performance

METHODOLOGY

This type of research is quantitative applied research that implements and explains earnings management and institutional ownership, and managerial ownership on corporate value with corporate performance as mediation for consumer goods companies and the basic chemical industry.

This study uses a population of consumer goods companies and basic chemical industries listed on the IDX in 2018-2019, with a sample of 115 companies taken by purposive sampling. This research uses secondary data and is collected in documentation from companies' audited financial statements on the Indonesian stock exchange from 2018-2019. Methods of data processing and data analysis used in this study are moderate multiple linear regression and path analysis with classical assumption and hypothesis testing.

The path model that will be sought to explain the functional relationship of Discretional Accrual (X1), Managerial Ownership (X2) and Public Ownership (X3) Corporate Performance (Y2) either directly or through the Corporate Value (Y1) variable as an intermediary variable is as follows: following:

$Y1 = \rho_{X1Y1} X_1 + \rho_{X2Y1} X_2 + \rho_{X3Y1} X_3 + e$ …………………… (1)
$Y2 = \rho_{X1Y2} X_1 + \rho_{X2Y2} X_2 + \rho_{X3Y2} X_3 + \rho_{Y1Y2} Y1 + e$......….. (2)
Note:
X_1 = Discretional Accrual
X_2 = Managerial Ownership
X_3 = Public Ownership
Y_1 = Corporate Value
Y_2 = Corporate Performance
e = Contribution other variable (error)
ρ_{xiyi} = Path coefficient from exogen to endogen

RESULTS AND DISCUSSION

Following the formulation of the problem, research objectives, hypotheses, and types of data collected, the analysis method used in this study is Path analysis by testing classical assumptions. Path analysis is used to determine the direct influence between exogenous variables on the endogenous or indirect influence between exogenous variables on endogenous variables through intermediate variables.

Descriptive Analysis of Research Data

Table 1. Frequency Distribution Research Variable

Variable	Minimum	Maximum	Average	Std. Deviation
Discretional accrual (X1)	-0,57	1,02	0,071	0,185
Managerial ownership (X2)	19,50	99,77	73,919	15,562
Public ownership (X3)	0,23	80,50	26,274	15,710
Corporate value (Y1)	-763,51	6368,65	90,903	622,341
Corporate performance (Y2)	-330,51	268,48	7,746	45,602

Based on the Table 1, the respondent's description can be seen based on the size of data concentration (Central Tendention). In the Discretional Accrual (X1) variable, it is known that the Minimum value is -0.57, the maximum value is 1.02, the average value (Mean) is 0.071, the Standard Deviation value is 0.185. In the Managerial Ownership (X2) variable, it is known that the Minimum value is 19.5, the maximum value is 99.77, the Mean value is 73.919, the Standard Deviation value is 15.562. In the Public ownership (X3) variable, it is known that the Minimum value is 0.23, the maximum value is 80.5, the Mean value is 26.274, the Standard Deviation value is 15.71. In the Corporate Value (Y1) variable, it is known that the minimum value is -763.51, the maximum value is 6368.65, the Mean value is 90.903, the Standard Deviation value is 622.341. In the Corporate Performance (Y2) variable, it is known that the minimum value is -330.51, the maximum value is 268.48, the Mean value is 7.746, the Standard Deviation value is 45.602.

Hypothesis Testing

In this study, the analysis used to test the hypothesis that has been proposed is using path analysis. Path analysis is used to determine the direct influence between exogenous variables on the endogenous or indirect influence between exogenous variables on endogenous variables through intermediate variables. In detail, to find out how the hypothesis test results can be seen in detail as follows.

Table 2. Resume Test-Path Analysis

<table>
<tr><th rowspan="2">Sub-Structure</th><th colspan="2">Variable</th><th rowspan="2">H</th><th rowspan="2">Coefficient path (ρ)</th><th colspan="2">Hypothesis Test</th><th rowspan="2">Conclusion</th></tr>
<tr><th>Exogenous</th><th>Endogenous</th><th>t-value</th><th>p-value</th></tr>
<tr><td rowspan="3">1</td><td>Discretional Accrual (X1)</td><td rowspan="3">Corporate Value (Y1)</td><td>H_1</td><td>0,051</td><td>0,548</td><td>0,585</td><td>Influence not Significant</td></tr>
<tr><td>Managerial ownership (X2)</td><td>H_2</td><td>-0,321</td><td>-1,876</td><td>0,063</td><td>Influence not Significant</td></tr>
<tr><td>Public Ownership (X3)</td><td>H_3</td><td>-0,354</td><td>-2,064</td><td>0,041</td><td>Influence Significant</td></tr>
</table>

Sub-Structure	Variable		H	Coefficient path (ρ)	Hypothesis Test		Conclusion
	Exogenous	Endogenous			t-value	p-value	
2	Discretional Accrual (X1)	Corporate Performance (Y2)	H_4	-0,115	-1,444	0,152	Influence not Significant
	Managerial ownership (X2)		H_5	-0,092	-0,630	0,530	Influence not Significant
	Public Ownership (X3)		H_6	-0,092	-0,624	0,534	Influence not significant
	Corporate Value (Y1)		**H_7**	**-0,559**	**-6,946**	**0,000**	**Influence Significant**

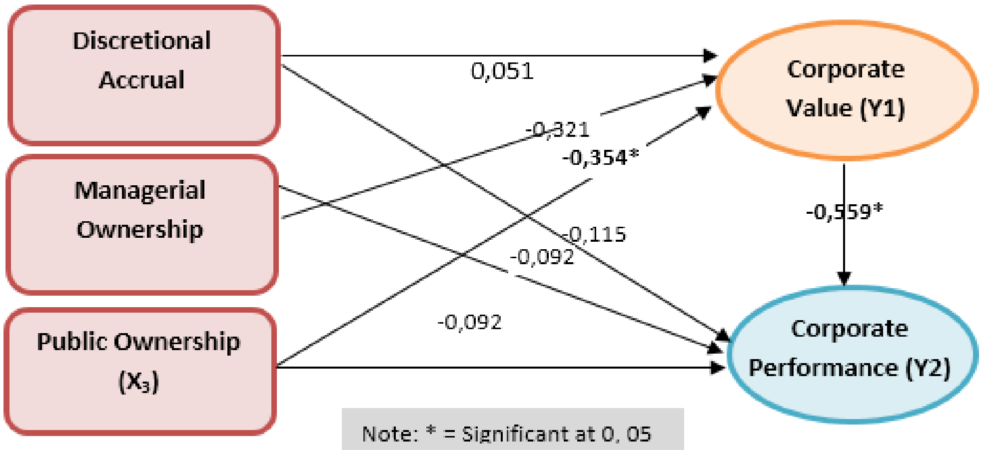

Figure 2. Path Diagram Path Analysis

Based on Table 2 and Figure 2, it can be seen that the results of estimation and hypothesis testing on the Discretional Accrual (X1) variable to Corporate Value (Y1) are known where the path coefficient is 0.051 with a p-value of 0.585 because the p-value is greater than alpha (0, 05). The statistical hypothesis states that Ho is accepted, meaning that Discretional Accrual (X1) has an effect but is not significant to Corporate Value (Y1).

The estimation and hypothesis testing results on the Managerial ownership (X2) variable on the Corporate Value (Y1) where the Path coefficient is known to be -0.321 with a p-value of 0.063. Because the p-value is greater than alpha (0.05), the statistical hypothesis states that Ho is accepted, meaning that Managerial ownership (X2) affects but not significant to Corporate Value (Y1).

The estimation results and hypothesis testing on the Public ownership (X3) variable on the Corporate Value (Y1) where the Path coefficient is known to be -0.354 with a p-value of 0.041. Because the p-value is smaller than alpha (0.05), the statistical hypothesis states that Ho is rejected, meaning that public ownership (X3) has a significant effect on Corporate Value (Y1).

The results of estimation and hypothesis testing on the Discretional Accrual variable (X1) on Corporate Performance (Y2) where the path coefficient is known to be -0.115 with a p-value of 0.152 Because the p-value is greater than alpha (0.05), the statistical hypothesis states that Ho is accepted, meaning that Discretional Accrual (X1) affects, but not significant to Corporate Performance (Y2).

The results of estimation and hypothesis testing on the Managerial Ownership (X2) variable on Corporate Performance (Y2) where the path coefficient is known to be -0.092 with a p-value of 0.53 because the p-value is greater than alpha (0.05). The statistical hypothesis states that Ho is accepted, meaning that Managerial ownership (X2) affects but not significant Corporate Performance (Y2).

The results of estimation and hypothesis testing on the Public Ownership (X3) variable on Corporate Performance (Y2) where the path coefficient is known to be -0.092 with a p-value of 0.534 Because the p-value is greater than alpha (0.05), the statistical hypothesis states that Ho is accepted, meaning that public ownership (X3) affects, but not significant to Corporate Performance (Y2).

The results of estimation and hypothesis testing on the Corporate Value (Y1) variable on Corporate Performance (Y2) where it is known that the Path coefficient is -0.559 with a p-value of 0 Because the p-value is smaller than alpha (0.05), the statistical hypothesis is stated Ho is rejected, meaning that Corporate Value (Y1) has a significant effect on Corporate Performance (Y2).

Mediation Test

Furthermore, to find out how the indirect influence between Discretional Accrual (X1), Managerial Ownership (X2), and Public Ownership (X3) on Corporate Performance (Y2) through Corporate Value (Y1), a structural decomposition is carried out, namely multiplying the sub-path coefficient. Structure 1 with sub-structure 2.

Based on table 3 above, it is known that the indirect effect between variables is as follows.

• The Indirect Discretional Accrual Effect (X1) on Corporate Performance (Y2) through Corporate Value (Y1) is -0.029 with a p-value of 0.585 (Not Significant).
• The Indirect Effect of Managerial Ownership (X2) on Corporate Performance (Y2) through Corporate Value (Y1) is 0.179 with a p-value of 0.07 (Not Significant).
• Indirect Effect of Public Ownership (X3) on Corporate Performance (Y2) through Corporate Value (Y1) is 0.198 with a p-value of 0.048 (Significant).

CONCLUSION

Based on the research results, it can be concluded as follows:

a. Earnings management has no significant effect on firm value.
b. Managerial ownership has no significant effect on company value.
c. Public ownership has a significant effect on company value.
d. Earnings management has no significant effect on company performance.
e. Managerial ownership has no significant effect on company performance.
f. Public ownership has no significant effect on company performance.
g. Corporate value has a significant effect on company performance.
h. The indirect effect of discretional accruals on corporate performance through corporate value is not significant.
i. The indirect effect of managerial ownership on corporate performance through corporate value is not significant.
j. Corporate value is successful in mediating the influence of public ownership on corporate performance with a significant effect.

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