THE INFLUENCE OF INFORMATION ASYMMETRY, SIZE, AND FINANCIAL RATIOS ON EARNING MANAGEMENT TOWARDS BANKING SECTOR

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Abstract

The purpose of this research is to investigate the influence of user participation on accounting information system performance with top management support, task complexity, system complexity, user skill as moderating variable and the effect of accounting information system performance on individual performance. The population in this study are employees on good banking company bank Persero or BUSN Devisa listed in Bank Indonesia totaling 39 banks including bank persero 4 and 35 BUSN Devisa. Total Bank to be sampled are 8 banks and total of respondent are 100 respondents. Using the Structural Equation Modelling (SEM) and Moderate-Structural Equation Modelling. The results show that user participation influence significantly on AIS performance. Top management support, task complexity, system complexity, user skill moderates the effect of user participation on AIS performance. And AIS performance influence significantly on individual performance

Keywords: *Infromation Asymmetry, Size, Return on Asset, Capital Adequacy Ratio, Loan to Deposit Ratio, Earning Management.*

INTRODUCTION

The existence of information asymmetry is considered as a cause of earnings management. Richardson (1998) argues that there is a systematic relationship between the degree of information asymmetry earnings management. The existence of information asymmetry will encourage managers to present information that is not true , especially if the information relates to the measurement of the performance of the manager. Flexibility for managing earnings management can be reduced by providing more quality information to outside parties. The quality of the financial statements will reflect the level of earnings management .

Some researchers have found that information asymmetry can affect earnings management. Agency theory implies the existence of information asymmetry between managers as agents and owners (in this case is a shareholder) as principal. Information asymmetry arises when the manager is better informed on the company's internal and prospects for the future than the shareholders and other stakeholders. If associated with an increase in the value of the company, when there is asymmetric information, managers can provide a signal about the state of the company to investors in order to memaksimisasi company's stock value. Given signal can be done through disclosure (disclosure) of accounting information.The big size company has a large stakeholder base, so that the policies of large enterprises will have greater impact on the public interest than small companies. For investors, the company's policy will have implications on cash flow outlook for the future. As for the regulator (government) will have an impact on the amount of taxes to be received, as well as the effectiveness of the role of giving protection to the general public.

Profitability (earnings) of banks in this study was assessed by the ratio Return on Assets (ROA). According Dendawijaya (2005:118), this ratio is used to measure the ability of bank management in the overall gain. The larger the ROA, the greater the level of profit achieved the better the bank and the bank's position in terms of the use of the asset. Profitability is often used to measure the efficiency of the use of capital in a company by comparing income with capital employed in operations, therefore a great advantage does not guarantee or is not a measure that rentable company. Management or other parties generally assess higher profitability is more important than big profits, so the manager is expect to perform earnings management to increase rentability.

RESEARCH METHOD

Time dimension of this research involves a lot of time (time series) with many companies (cross section), so that hypothesis testing is done by means of the pooled data. Data collection methods used were archival data collection (archival). These types of companies studied were banking companies listed on the Stock Exchange in the year 2007-2012. The variables examined in this study include: asymmetry of information with the bid-ask spread as proxy, size of the company with total assets as proxy, return on assets (ROA), Capital Adequacy Ratio (CAR), Loan to Deposit Ratio (LDR), and earnings management with discretionary accruals as proxy. The population is all public banking company in Indonesia in 2007 until 2012. Sampling was done by using purposive sampling method, a purposive sampling also commonly called as judgmental sample.

The population in this study are banking companies listed on the stock exchange by using the reference period 2007-2012, that banking companies must be go public from 2007 until the end of 2012, which amounted to 36 companies. Companies that do not have a complete financial statements in the period 2007-2012 is 4 companies. A total of 15 companies that do not have a complete list of stock prices, including the 4 companies that do not possess the full financial report period 2007-2012. Total 21 companies sampled in this study.

RESULT AND DISCUSSION

Testing of hypothesis performed with Structural Equation Modeling (SEM) using the software SPSS Version 18. Limit of significance (p) which is used in decision making admissibility hypothesis that is equal to 0,05 or 5%. In another words, hypothesis will be accepted if the significance value (p) obtained less than or equal to 0,05 or 5% ($p \leq 5\%$) (Hair *et al.*, 1998; Sekaran, 2000; Nur'Ainy, 2010).

In testing the normality testing of the data has been described to cope the residuals variable distribution is not normal (total assets), the transformation of data into the form of the natural logarithm (ln) (Ghozali, 2005), so after the change the research model change becomes:

$$DACC = \alpha + \beta 1ADJSPREADi + \beta 2 LnTAi + \beta 3\ ROAi + \beta 4\ CARi + \beta 5\ LDRi$$

The results of the first and second hypothesis testing can be seen in Table 1 below:

Table 1. Hypothesis test

Coefficients[a]						
Unstandardized Coefficients		Standardized Coefficients				
B		Std. Error	Beta		t	Sig.
1	(Constant)	.042	.113		.333	.045
	ADJSPREAD	.018	.002	.049	.482	.031
	Ln_TA	.089	.000	.474	3.815	.035
	ROA	-.073	.019	-.041	-.357	.092
	CAR	.062	.005	.098	1.162	.074
	LDR	-.011	.001	-.092	-1.101	.027

a. Dependent Variable: DA

Source : SPSS data processed (2013)

Table 1 shows the positive significant effect of information asymmetry on earnings management practices with t count 0.482 with a significance level of 0.031 point which is less than 0.05, this means that the first hypothesis is accepted. Positive coefficient indicates that the higher information asymmetry, opportunities of the manager to perform earnings management become higher either.

Independent variables size have positive significant effect on the earnings management. Size has t count of 3,815 with a significance level of 0.035, which is less than 0,05, this means that the proposed second hypothesis acceptted.

ROA variable did not affect earning managent significantly. ROA significance level is 0,092 which is higher than 0,05, with t value of -0,35.

CAR variable did not affect earning managent significantly with significance level 0,074 and t value 1,162.

LDR variable have negative significant effect earning management with significance level 0,027 and t value -1,101.

Adjusted R square value is 0.237 (appendix). This means that all independent variables asymmetry information, size, ROA, CAR, LDR can explain the dependent variable earnings management by 23.7 percent, while the remaining 76.3 percent is explained by other variables not included in the model.

Based on the analysis results the regression model is:

DA = 0,042 + 0,018 ADJSPREAD + 0,089 LnTA – 0,073 ROA + 0,062 CAR – 0.011 LDR

Information asymmetry coefficient (ADJSPREAD) of 0.018 means that if earning management rise with the assumption that the other variables constant, the asymmetry information will rise 0,018. While the regression coefficient of size is fixed at 0.089 means that if management earnings rose by assuming other variables rconstant , then the size of the company will rise 0,089. ROA coefficient of -0,073 means that if earning management rise with the assumption that the other variables constant, the asymmetry information will down by 0,073 point. CAR coefficient of -0,062 means that if earning management rise with the assumption that the other variables constant, the asymmetry information will rise by 0,062 point. LDR coefficient of -0,011 means that if earning management rise with the assumption that the other variables constant, the asymmetry information will down by 0,011 point.

Discussion

Effect of Asymmetry Information on Earning Management

The results of hypothesis testing showed that the positive significant effect of information asymmetry on earnings management practices with a t value of 3.815 with a significance level of 0.035. The results of this test support the results of research conducted by Rahmawati, et al. (2006), Halim, et al. (2005) and Richardson (1998) which showed that the effect of information asymmetry on earnings management practices. Rahmawati, et al. (2006) examine the effect of information asymmetry on earnings management. Rahmawati, et al. (2006) using the 120 observations with five years of research that is conducted in the years 2000-2004 and banking companies listed on the Indonesia Stock Exchange (BEI).

Information asymmetry measured using the relative bid-ask spreads and earnings management is measured by using the Modified Jones Model. Data analysis techniques used are simple regression. The results of the study proved that the independent variables are positive influence of information asymmetry significantly and is able to explain the dependent variable earnings management.

Halim, et al. (2005) examine the effect of information asymmetry on earnings management. Halim, et al. (2005) using the 34 companies listed on the Jakarta Stock Exchange and including the LQ-45 index in 2001 for 2 consecutive periods (the period of February 2001 and August 2001) and in 2002 for 2 consecutive periods (the period of February 2002 and August 2002).

Richardson (1998) examined the relationship of information asymmetry and earnings management in all companies listed on the NYSE late June during the period 1988-1992. The results of his research that there is a systematic relationship between the level of information asymmetry and earnings management.

The impact of the financial crisis is clearly visible on the rupiah weakened against the U.S. dollar in 2008. Due to the outflow of foreign capital as a result of excessive panic on global financial crisis. The impact would be similar also happens to inflation (detiknews.com, 2008). Departing from 1997 crisis experience, when the global crisis hit the United States and European countries, the Government and the Bank proactively take precautionary action. Some banking regulations being loosened in order to avoid the collapse of the financial and banking system. (okezone.com/economy, 2010). Descriptive statistics show that the average discretionary accruals for banking companies amounted to 0,072 and the value is positive. From 2008 banking crisis factor this indicates that in period 2007-2012 Indonesian banking sector doing earnings management because of their missions to maximize profit pattern.

From the result of hypothesis test suggests that the positive effect of information asymmetry on earnings management. This suggests that the higher information asymmetry the opportunities for the manager to perform earning management become higher. Information asymmetry occurs because the manager is better informed than the other companies (owners or shareholders).

Effect of Firm Size on the Earning Management

The results of hypothesis testing showed that the positive significant effect of firm size on earnings management.This is because the size of the company has tcount of 3,815 with a significance level of 0.035. The results of these tests is different from the research conducted by Moses (1997), Marrakchi (2001), Veronica and Siddhartha (2005), and Rahmawati, et al. (2006). Their results showed that size variable has negative effect on earnings management . The results of this study also not support the research conducted by Marihot and Doddy (2007), Salno and Baridwan (2000), Jatiningrum (2000), as well as Nasser and Herlina (2003), who found that company size has no effect on earnings management practices.

The positive coefficient indicates the bigger the company, the greater chance the manager to perform earnings management. Big companies have more complex operational activities and big companies are also required to face higher investor expectations.(Moses 1997). The results of hypothesis test show that size have positive effect on earnings management, this result is clearly different from many previous result which mostly told that size have negative effect on earning management. The government and Bank Indonesia's response to the impact of the 2008 by regulating tight money policy. Since January 2009, Bank Indonesia began reducing interest rates. With interest rates down will increase consumption and investment so that aggregate output will rise, but this policy will lead to reduceing of investor will due to interest rates decrease. The performance of recovery of the banking policy was also carried out in the crisis period in 2008 (kompas, 2010). This could be factor for big size company also doing earning management in period 2007-2012, they tend to increase their earning to attract investors after global crisis in 2008. Based on result H2 is rejected.

Effect of ROA on the Earning Management

Return on Assets (ROA) has t value of -0.357 with significant value of 0.092, so that the ROA not effect on earnings management significantly in corporate banking . ROA is financial ratios to measure the ability of bank management to gain (profit) as a whole . The larger the ROA of a bank , the greater the level of profit that the bank achieved and the better the position of the stretcher banks in terms of asset utilization (Dendawijaya, 2001:120). Ministry of the State Secretariat of the Republic of Indonesia (2009) revealed that banks tend to set high interest to minimize bad debts. Banking more into account this advantage because then no reserve assets which can be used to overcome the problem of bad credit. When interest rates rise, both interest income and interest expense will rise.

The negative result of this test is match with research from Healy (1985) The owner of the company establishes a certain number as the lower limit (boogey) and upper limit (cap) to obtain the bonus. Manager will obtain a bonus if they manage corporate profits above the lower limit, otherwise the manager will not receive a bonus if the company's earnings do not reach the lower limit. The upper limit is needed to determine the maximum profit that will be used as the basis for calculating the bonus. That is, the manager will only get a bonus for the profits that are above the upper limit and lower, while the excess is not taken into account as a bonus counters. A lot in 2007-2012 applied that lower limit regulation bonus rules, therefore in 2007-2012, the manager tend to not doing earning management when the ROA is already catch the lower limit bonus value. Based from that so the H3 is rejected.

Effect of CAR on the Earning Management

Capital Adequacy Ratio (CAR) has t value of 1,162 with significant value of 0.074, so that the CAR did not affect earnings management signifcantly in corporate banking. This result is match with the research done by Novita senja (2011) because the role of corporate governance in the banking company has executed well, giving rise to the conclusion that the provisions of the minimum obligations CAR thresholds set by Bank Indonesia does not affect discretionary accruals. Corporate Governance has been stipulated in Bank Indonesia Regulation Number 8/4/PBI/

2006 On the Implementation of Good Corporate Governance for Banks. This research was carried out after 2006, so the possibility of earnings management can be minimized by the application of this rule.

This result is different with research done by Dendiwijaya (2005) CAR is the ratio of a bank's performance to measure the adequacy of a bank's capital to support assets that contain or produce risk. CAR is an indicator of the ability of the bank to cover the decrease in assets as a result of losses caused by a bank's risky assets. Profits made by the bank's management has intensified with the direction reversed to the level of CAR, where the bank has a value lower than the CAR of Bank Indonesia's minimum requirement tends to be more intensive practice of earnings management and vice versa. This is logically accepted because in 2005 good corporate governance not being implemented yet, then after 2009 GCG have been implementing until now. Based from the result so the H4 is rejected.

Effect of LDR on the Earning Management

Loan to Deposit Ratio (LDR) has t value of -1.101 with significant value of 0.027, so that the LDR have negative significant effect on earnings management in corporate banking. This result is shows the ability of banks in channeling funds from collected third party. Consideration received from a lending income for the bank, otherwise bank shall issue a third party in return for the funds that are costs to the bank. The lower the value of LDR which also showed lower bank earnings, it will motivate banks to make profits by increasing earnings management (Zahara and Sylvia, 2009). Aryati and Manao (2000) in Setiawati (2010), found that there is LDR differences between healthy banks and ailing banks. The research done by Arnawa (2006) in Zahara and Sylvia (2009) also showed that LDR negatively affect earnings management. Based from the result so the H5 is accepted.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Based on the formulation of the problem, research objectives, theoretical basis, hypothesis, and the results of research conducted, it can be concluded as follows:

1. Asymmetry information have positive significant effect on banking sector's earnings management in 2007-2012. The results of this tests support the research conducted by Rahmawati, et al. (2006), Halim, et al. (2005) and Richardson (1998) which showed that the effect of information asymmetry on earnings management practices. This suggests that the higher the higher the information asymmetry opportunities of the manager to perform earnings management practices. Thus the first hypothesis in this study accepted.
2. Firm size has positive significant effect on earnings management practices. There are two views about the shape of the relationship of firm size on earnings management practices is the first view which states that firm size has a positive relationship with earnings management practices as conducted by Halim, et al. (2005), Moses (1997), Albretch and Richardson (1990). The second view which states that the size of the company has a negative relationship with earnings management as practiced by Marrakchi (2001) and Veronica and Siddhartha (2005). Thus the results in this research of baning sector in 2007-2012 support the view that firm size

has a positive significant relationship with earnings management, Big companies have more complex operational activities and big companies are also required to face higher investor expectations (Moses 1997). Therefore the second hypothesis in this study rejected.

3. ROA did not affect banking sector's earnings management significantly in 2007-2012. This result is different from the result of research conducted by Dechow and Sloan (1991), Defond and Jiambalvo (1994), and Yulianti (2005). They found that manager tend to do earning management because of bonus motivation. The negative result of this test is match with research from Healy (1985) The owner of the company establishes a certain number as the lower limit (boogey) and upper limit (cap) to obtain the bonus. Manager will obtain a bonus if they manage corporate profits above the lower limit, the manager will only get a bonus for the profits that are above the upper limit and lower, while the excess is not taken into account as a bonus counters. Banking companies applied that lower limit regulation bonus rules, therefore in 2007-2012, the manager tend to not doing earning management when the ROA is already catch the lower limit bonus value. Based from that so the H3 is rejected.
4. CAR did not affect earnings management significantly in corporate banking. This result is match with the research done by Novita senja (2011) because the role of corporate governance in the banking company has executed well, giving rise to the conclusion that the provisions of the minimum obligations CAR thresholds set by Bank Indonesia does not affect discretionary accruals. Corporate Governance has been stipulated in Bank Indonesia Regulation Number 8/4/PBI/2006 On the Implementation of Good Corporate Governance for Banks. This research was carried out after 2006, so the possibility of earnings management can be minimized by the application of this rule. This is logically accepted because in 2005 good corporate governance not being implemented yet, then after 2009 GCG have been implementing until now Based from the result H4 is rejected.
5. LDR have negative significant effect on earnings management in corporate banking. The lower the value of LDR which also showed lower bank earnings, it will motivate banks to make profits by increasing earnings management (Zahara and Sylvia, 2009). Aryati and Manao (2000) in Setiawati (2010), found that there is LDR differences between healthy banks and ailing banks. The research done by Arnawa (2006) in Zahara and Sylvia(2009) also showed that LDR negatively affect earnings management. Based from the result so the H5 is accepted.

Recommendations

This research has some limitations :

1. This research only uses banking companies for the sample so the results of this study cannot be generalized to other types of companies. For the next research can use other sectors such as manufacturing, transportation or telecommunications.
2. This research only used 22 companies for samples, it means this research not fully represent the state of the banking company in Indonesia. Future research should use more sample or use all the population for the research data.

This study only examines the effect of information asymmetry, firm size, ROA, CAR, and LDR variables on earnings management, there are so many other variables that affect the earning management practices. Future research may use a proxy other than the total assets to measure firm size as the total sales to determine differences in the results obtained by using different proxy or use other variables such as corporate governance.

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