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INFLUENCE OF INTELLECTUAL CAPITAL AND PUBLIC OWNERSHIP ON PROFIT MANAGEMENT

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ABSTRACT

This study aims to determine the effect of intellectual capital and public ownership on earnings management. The population used in this study is the trading, service, and investment sector companies of the wholesale trade (wholesale) sector which are listed on the Indonesian stock exchange from 2018-2020. The sample collection technique in this study used the purposive sampling method, namely the technique of collecting samples based on non-random information with certain criteria. The results of this study indicate that the variables of intellectual capital and public ownership have no significant effect on earnings management.

KEYWORDS: Intellectual Capital, Public Ownership, Earning Management.

Introduction

Each company periodically in a certain period will report all financial activities in the form of financial statements. This is done by the company to create information that is used in assessing the company's performance. Financial statements are activities of recording money and transactions in business during the current financial year period. Financial statements describe the financial condition and results of operations of a company at a certain time or a certain period of time (Harahap 2013: 105). In 2020, economic activity around the world experienced a decline due to the Covid-19 pandemic which spread throughout the world, including in Indonesia. The Covid-19 pandemic does not only affect health, but also has an impact on the business sector. One of the affected business sectors is trading sector companies. The trade sector was affected by the Covid-19 pandemic that occurred in China, some raw materials for industry in Indonesia were still supplied from China, which experienced production constraints due to quarantine in a number of areas to stem the Corona Virus (Kemendag.go.id). China is one of the countries with the most influential economy in the world, as a result of the Covid-19 Pandemic in China which has disrupted its economic sector, this has also affected the economies of other countries that are trading partners, one of them is Indonesia.

The trade sector was chosen as the subject of this research because this sector experienced a decline in import and export performance as a result of the Covid-19 pandemic. During the Covid-19 pandemic, the trade sector is expected to encourage economic growth in Indonesia to produce good financial performance and earnings management in order to generate maximum profits that can improve the economy in Indonesia. The earnings management phenomenon carried out by PLN managed to record an increase in revenue from Rp255.29 trillion in 2017 to Rp272.89 trillion in 2018. There are two records that have succeeded in beautifying PLN's financial statements. The first is the post of compensation income. Compensation income is receivables from compensation from the government for the replacement of the Cost of Provision (BPP).

This government compensation receivable is recognized as income on an accrual basis As of December 31, 2018, the company's compensation receivables amounted to Rp23.17 trillion. The second is net other income which recorded an increase of 359.34 percent from Rp. 3.40 trillion in 2017 to Rp. 15.66 trillion in 2018. In the financial statements, PLN explained that income from the government is a receivable from the government which is recognized as income of Rp. 7, 45 trillion. In addition, the surge in net other income was also contributed by the adjustment in the purchase price of fuel and lubricants. It was noted that the adjustment in the purchase price of fuel and lubricants rose 487.30 percent from Rp. 688.33 billion in 2017 to Rp. 4.04 trillion in 2018. Chief Economist of The Indonesia Economic Intelligence Sunarsip assessed that the recording of net profit from companies that recorded receivables as company revenues did not have problem as long as there has been a transaction on the receivable. Therefore, the company is entitled to recognize it as revenue. Yose Rizal Damuri, as Head of the Department of Economics at the Center for Strategic and International Studies (CSIS) stated that one of the company's efforts to beautify its financial statements is by recording receivables as income. According to him, the governance of the three companies has fallen apart, so it is necessary to implement Good Corporate Governance (GCG) in every company. Improving the governance of BUMN companies can be started by determining the main tasks of the company, both the task of seeking profit to contribute to state revenue or providing services to the public (Arieza, 2019). Earnings management is an accounting characteristic that contains many estimates, judgments and accruals that open up opportunities to manage earnings (Harahap, 2011). Profit is a very important financial component for internal and external parties. Profit is often used as a basis for decision making for interested parties. By looking at the profits of a company, investors can make a decision whether to invest or not. Earnings information must describe the actual economic condition of the company, but in fact management often manipulates financial statements by increasing profits for their own interests. The higher the profit earned, the higher the bonus that will be obtained from the company to the management as the party that manages the company directly.

The action of management manipulating financial statements by increasing profits from what actually indicates the existence of earnings management practices. according to Wirakusuma (2016) earnings management is a deliberate management based on the limits of financial accounting standards to regulate earnings at a certain level. Earnings management is done by adjusting the accrual component in the financial statements or manipulation, the accrual component is the easiest component to be manipulated in accordance with the wishes and objectives of the person who records the financial statements (manager). One of the motivations that encourage managers to carry out earnings management is for the manager's personal gain. According to research conducted by Dewi Sri Rahayu (2018), earnings management in its activities there is management intervention in compiling the company's financial statements for external parties to achieve certain profits with the aim of benefiting themselves or the company. The most fatal activity in earnings management is manipulating the company's profits which can result in the company losing support from stakeholders, Stakeholders can give negative responses in the form of pressure from investors, sanctions from regulators, and negative mass media coverage. This activity is a form of stakeholder dissatisfaction in the company's performance that manipulates earnings management and ultimately damages the company's reputation in the capital market.

One important factor in earnings management is Intellectual Capital. Intellectual capital is a measurement of intangible assets and is an integral part of the company in the value creation process, and plays an important role in maintaining the company's competitive advantage (Bollen et al. In Hapsari, 2015). Bontis et al (2000) in Ulum (2008) stated that in general researchers divide intellectual capital into three components, namely: Human Capital (HC), Structural Capital (SC), and Employed Capital (CE). IC disclosure plays an important role in disclosing tangible and intangible assets owned by the company so that it will create company value. With this disclosure, it is expected to provide real conditions regarding the company. On the other hand, if the IC runs well, it is possible for management to provide different information in financial reports (earnings management) it will be more difficult to do because of the transparency principle that has been carried out.

Research conducted by Nawang Kalbuana et al (2020) on the Effect of Intellectual Capital, Corporate Governance and Audit Quality on Earnings Management. This research was conducted on transportation companies and listed on the Indonesia Stock Exchange in 2014-2018. The results of this study indicate that intellectual capital, corporate governance as proxied by institutional ownership, and managerial ownership and audit quality simultaneously affect earnings management in transportation companies. Intellectual capital has a positive effect on earnings management. corporate governance as proxied by institutional ownership and managerial ownership has no effect on earnings management. Share ownership in a company is important. One of the shareholdings that affect the company is public ownership. According to Sairin (2018), public share ownership is the share ownership of each shareholder who owns less than 5% of the issuer's shares. The larger the public shares, the management behavior can be controlled. The existence of public shares makes it easier to monitor and intervene that can affect the actions of managers.

The theory used in this research is agency theory. Agency theory describes two conflicting economic actors, namely the principal and the agent. Scott (2015) in Syahrani (2019) argues that agency theory is a contract made by agents (management) with principals (investors) where the investor or company owner appoints an agent who manages the company on behalf of the company owner. The management is chosen to manage the company that works in the interests of investors as shareholders. The management is given the power to make the best decisions in managing the company. The management must be responsible for all decisions taken to the shareholders. The management has a moral responsibility to the principal to maximize profits as a form of reward for having received the appropriate contract. Agency theory states that earnings management occurs due to conflicts between agents (management) and principals (investors) that arise because each party tries to maintain and achieve their respective goals. The policies taken by management create differences in interests between management and investors. Agency theory in this study has a role as the basis for business practices to increase firm value and provide prosperity to the principal.

This study aims to see whether Intellectual Capital and Public Ownership have an effect on Earnings Management. So that in this research three hypotheses were taken, namely :

1. H1 : Intellectual Capital has an effect on earnings management
2. H2 : Public Ownership has an effect on earnings management

Method

The data used is secondary data. The data used in this study is in the form of published annual financial reports of trading sector companies taken from the Indonesia Stock Exchange for the 2018-2020 period which has been obtained from the IDX official website www.idx.co.id. The population used in this study is the trade, service, and investment sector companies of the wholesale trade (wholesale) sector which are listed on the Indonesian stock exchange from 2018-2020, in the form of financial reports downloaded from www.idx.co.id, which are 39.

The sample collection technique in this study used the purposive sampling method, namely the technique of collecting samples based on non-random information with certain criteria (Sugiyono, 2017). The data collection technique in this research is the documentation method. The data collected is the annual financial report of trading sub-sector companies listed on the Indonesia Stock Exchange for the 2018-2020 period. The data analysis technique in this study uses descriptive statistical analysis, classical assumption test (normality test, multicollinearity test, heteroscedasticity test, autocorrelation test), multiple linear regression analysis, hypothesis testing (R^2 test, T test, F test).

Result

Descriptive Statistics

Descriptive statistical analysis displays the minimum, maximum, mean and standard deviation values. the results of the descriptive statistical analysis are depicted in table 1.

Tabel 1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Intellectual Capital	96	-169,61	7,10	-1,6691	20,81872
Kepemilikan Publik	96	,01	,72	,2729	,17507
Manajemen Laba	96	-,72	,37	-,0566	,16324
Valid N (Listwise)	96				

Normality Test

Tabel 2 Normality Test

	N	Mean	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Standardized Residual	96	,0000000	-,941	,246	3,204	,488
Valid N (listwise)	96					

$$JB = n\left[\frac{S^2}{6} + \frac{(K-3)^2}{24}\right]$$

$$JB = 96\left[\frac{-0{,}941^2}{6} + \frac{(3{,}204-3)^2}{24}\right]$$

$JB = 96\,(0{,}14758 + 0{,}00173)$

$JB = 14{,}33376$ ....(1)

JB Test results show a value of 14.33376. When compared with C2count, df = (n-k) = 96-2 = 94 and significance level (α) = 0.05, the value is 117.6317. Because the value of C2count < C2table (14.33376 < 117.6314), it can be concluded that the data is normally distributed.

Multicollinearity Test

Tabel 3 Multicollinearity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	**Std. Error**	**Beta**			**Tolerance**	**VIF**
1	(Constant)	-,041	,031		-1,339	,184		
	INTELLECTUAL CAPITAL	,001	,001	,133	1,293	,199	,997	1,003
	Kepemilikan Publik	-,049	,096	-,053	-,512	,610	,997	1,003

a. Dependent Variable: Manajemen Laba

The calculation results show that there is no multicollinearity in this study because there is no variable that has a tolerance value ≤ 0,10 and a VIF value ≥ 10.

Heteroscedasticity Test

Tabel 4 Heteroscedasticity Test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,108	,022		4,944	,000
	INTELLECTUAL CAPITAL	,000	,001	,081	,781	,437
	Kepemilikan Publik	,024	,068	,036	,350	,727

A. Dependent Variable: Abs_RES

Based on table 4 shows that the significance value of each variable has a value of more than 0.05 so it can be concluded that there is no heteroscedasticity in this regression model.

Autocorrelation Test

Tabel 5 Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,146[a]	,021	,000	,16323	1,816

a. Predictors: (Constant), Kepemilikan Publik, INTELLECTUAL CAPITAL

b. Dependent Variable: Manajemen Laba

Based on table 4.5 above, it can be seen that the Durbin Watson value is 1.816 which is between -2 to +2 so it can be concluded that the regression model in this study does not have an auto correlation problem.

Multiple Linear Regression Analysis

Tabel 6 Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,041	,031		-1,339	,184
	INTELLECTUAL CAPITAL	,001	,001	,133	1,293	,199
	Kepemilikan Publik	-,049	,096	-,053	-,512	,610

a. Dependent Variable: Manajemen Laba

$$Y = -0{,}041 + 0{,}001IC - 0{,}049KP \quad (2)$$

Earnings management constant value is -0.041. If there is no influence from intellectual capital (X1), public ownership (X2) and has a value of zero, then earnings management (Y) remains at -0.041 The regression coefficient value of the intellectual capital variable is 0.001. If there is an increase of 1% of the intellectual capital variable, the value of the intellectual capital variable will increase by 0.001. The regression coefficient value of public ownership is -0.049. If there is an increase of 1% in the variable of public ownership, the value of the variable of public ownership will decrease by -0.049.

R^2 Test

Tabel 7 R^2 Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,146[a]	,021	,000	,16323

a. Predictors: (Constant), Kepemilikan Publik, INTELLECTUAL CAPITAL

Based on table 7, it can be seen that the value of R square is 0.021, which means that the influence of the independent variable (X) on the dependent variable (Y) is 2.1% and the remaining 97.9% is influenced by other variables outside this study.

T Test

Tabel 8 T Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,041	,031		-1,339	,184
	INTELLECTUAL CAPITAL	,001	,001	,133	1,293	,199
	Kepemilikan Publik	-,049	,096	-,053	-,512	,610

a. Dependent Variable: Manajemen Laba

To calculate the value of T table using the provisions of = 0.05 and df = n-(k+1) = 96-(2+1) = 93 so that the value of Ttable will be compared with the value of Tcount in accordance with the table above, namely:

The effect of Intellectual Capital on earnings management based on the data above, the T value generated by the Intellectual Capital variable is 1.293 < 1.66140 with a significance value of 0.199 > 0.05 so it can be concluded that the Intellectual Capital variable has no effect on earnings management. The effect of public ownership on earnings management based on the data above, the Tcount value generated by the public ownership variable is -0.512 < 1.66140 with a significance value of 0.610 > 0.05 so it can be concluded that the public ownership variable has no effect on earnings management.

F Test

Tabel 9 F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,054	2	,027	1,009	,369[b]
	Residual	2,478	93	,027		
	Total	2,531	95			

a. Dependent Variable: Manajemen Laba
b. Predictors: (Constant), Kepemilikan Publik, INTELLECTUAL CAPITAL

From the above equation, the Ftable value is obtained using the formula df = n-(k+1) = 96-(2+1) = 93 so that the resulting Ftable value is 3.09. Based on the table above, it can be seen that the value of Fcount < Ftable with a significance value of 0.369. This shows that all the independent variables of this study, namely Intellectual Capital and public ownership, do not have a simultaneous effect on earnings management.

Discussion

1. Influence of Intellectual Capital on Earnings Management

   Based on table the partial test (T test) shows that the Intellectual Capital variable has a Tcount value generated by the Intellectual Capital variable of 1.293 < 1.66140 with a significance value of 0.199 > 0.05 this indicates that the Intellectual Capital variable has no effect on earnings management and The hypothesis (H1) in this study can be concluded that it is rejected.

   The results of this study are in line with research conducted by Anggraini et al. (2019), Indra and Trisnawati (2020), Hapsari et al. (2022). According to the results of Indra and Trisnawati's research (2020) found that the Intellectual Capital variable as measured by Human Capital, Structural Capital, Capital Empolyed owned by the company did not have a large contribution to the disclosure of earnings in financial statements, even though employees who are a source of human capital for the company have High knowledge and competence cannot guarantee the quality in reporting earnings in financial statements because the management wants to earn profits so that they carry out earnings management. In agency theory it is explained that management and stakeholders have different interests so that earnings management is difficult to suppress. Education, experience of employees, especially top-level employees, namely management is impossible not to do earnings management. although the system in the company has been well designed, the management is still trying to report the highest profit. In other words, Intellectual Capital is not the only determining factor that can suppress earnings management.

This result is contrary to research conducted by Tendy Wato (2016), Mertha Jaya et al. (2021) which states that Intellectual Capital has a positive effect on earnings management. According to the results of Tendy Wato's research (2016), it is found that companies that have large intellectual capital logically have a competitive advantage in their human resources. With this competitive advantage, they can easily manage reported earnings which in turn affects the company's future market performance. This condition occurs because market participants tend to directly respond to earnings information rather than responding to information about intellectual capital.

2. Effect of Public Ownership on Earnings Management

Based on table the partial test (T test) shows that the public ownership variable has a Tcount value generated by the public ownership variable of $-0.512 < 1.66140$ with a significance value of $0.610 > 0.05$ this indicates that the public ownership variable has no effect on earnings management and The hypothesis (H2) in this study can be concluded that it is rejected.

The results of this study are in line with research conducted by Azlina (2010), Suhartanto (2015), Edastami and Kusumadewi (2022). According to Azlina (2010), he found that public ownership has no effect on earnings management because the proportion of public ownership tends to be a minority so that it cannot be an intervention tool and monitoring tool, or is unable to provide a significant influence on the discipline of the agent in acting in accordance with the wishes of the principal. So it can be said that the composition of share ownership by the public has not been an effective tool in preventing opportunistic management activities to carry out earnings management activities. In agency theory it is explained that management and stakeholders have different interests so that earnings management is difficult to suppress. With minority public ownership, the management can easily carry out earnings management due to the lack of influence from public ownership to suppress earnings management.

This result is contrary to research conducted by Sukirno et al. (2017), Utami et al. (2021) which states that public ownership has a negative effect on earnings management. Sukirno et al. (2017) found that the greater the percentage of shares offered to the public during the IPO, the smaller the earnings management practice. This is due to the increasing supervision of public investors on financial reports produced by management. The existence of public investors causes management to be obliged to provide financial information on a regular basis as a form of accountability, thereby reducing the possibility of earnings management practices.

Conclusion

1. Conclusion

   Based on the results of research on the effect of intellectual capital and public ownership on earnings management in trading sector companies listed on the Indonesia Stock Exchange in 2018-2020, the following conclusions are obtained:

   a. Intellectual Capital has no significant effect on earnings management. this is evidenced by the results of the partial test (T test) showing that the Intellectual Capital variable has a Tcount value generated by the Intellectual Capital variable of 1.293 < 1.66140 with a significance value of of 0.199 > 0.05

   b. Public ownership has no significant effect on earnings management. This is evidenced from the results of the partial test (T test) showing that the public ownership variable has a Tcount value generated by the public ownership variable of -0.512 < 1.66140 with a significance value of 0.610 > 0.05.

2. Suggestions

   Based on the results of research on the effect of intellectual capital and public ownership on earnings management in trading sector companies listed on the Indonesia Stock Exchange in 2018-2020, suggestions can be given to several parties as follows:

   a. Company

      Companies are expected to be able to make considerations in determining company policies, especially related to earnings management.

   b. Investors

      This research is expected to be a material for consideration and input for investors who will invest. It is hoped that investors will be more careful in making decisions to invest in a company

   c. For Further Research

      Future researchers are expected to be able to examine companies in other sectors other than trading sector companies listed on the Indonesia Stock Exchange with a longer period in order to obtain better results. For example, research was conducted on property and real estate sector companies listed on the Indonesia Stock Exchange with a research period of 5 years.

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