Profitability, Firm Size, and Earnings Management: the Moderating Effect of Managerial Ownership

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***Abstract*—This research examines the effect of Profitability and firm size on earnings management with managerial ownership as moderation. The total sample in this research as many as 60 companies listed in Indonesia Stock Exchange in the period 2012-2016. Test results show that profitability has a positive effect on earnings management and firm size negatively affect earnings management. Managerial ownership is not a moderating variable profitability and firm size influence on earnings management.**

Keywords—profitability; firm size; earnings management; managerial ownership

I. INTRODUCTION

The management of sources of funds is good and effective it is to manage funds generated in accordance with what is required by the company, so the company also benefit and motivated in running its business and activities the company's operations may be run smoothly and effectively. The effective source of funding could be obtained from a number of capital invested or can be obtained also from a number of investments made by investors, as such, the company does not need to be imposed with the debt interest is certainly big enough. Many companies are acting strictly in competition to entice investors to make investments in their big companies. Widespread business ventures owned by the company, then more directly will also benefit the resulting company. In addition, the company also needs a strategy to expand its business. One of his strategy is to undertake the implementation of diversification efforts. Diversification is an act of effort in developing. A wide range of efforts by way of increase or vary the diversity of different types of products, add new branches and expand market share. The purpose of the implementation of the diversification effort is to maximize the profit from a wide diversity of efforts so that the owner of the company getting substantial profitability of some segments of the business has been run.

Profitability is the ability of a company to achieve a profit. Profitability is also an important factor to look for in a company. Increasingly high levels of profitability, it will be the greater the assets owned by the company. The greater the assets owned by the company, then it will attract the attention of investors to undertake capital investment in the company. Frequently changing profitability indicates that the company has risk in giving dividends to investors, so as to increase the confidence of the market manager will attempt to maintain profitability in order to remain consistent and stable [1]. Profitability is measured using Return On Assets (ROA). Return On Assets (ROA) is a ratio of profitability that is used to indicate the company's ability to manage a profit based on assets that are used. Each company claimed to manage and use its assets as fully as possible. The more efficient company in the use and management of assets, the greater the chance it will be gaining corporate profits, so the return on assets has pushed the motivation management in performing actions create a profit. As for one of his motivation is the motivation of the existence of the bonus that will give companies, so the Manager will try everything possible to regulate its profits for the sake of getting a bonus. The greater the profits it brings, the greater the desire of investors to infuse capital. A stable profitability levels will give you confidence on investors that the company has good performance in generating profits. Many companies will want to get the highest possible profit. Therefore every management in companies, especially financial managers must support a variety of efforts and hard work of any workers who joined the company in order to achieve the common goals that are expected as well as supporting and pay attention to any decision taken within the company so that it can run properly. As for the managerial ownership is as a shareholder of the company which meant plundering. Active participated took part in the taking of a decision the company create a spider with a level of return on assets. By positioning himself as a shareholder of the company, then the shareholders will always try to make the company's performance will be better. So also in the reporting of the financial statements in the expected may give and provide information on the financial performance of the company which is liable to the owner of the company. Financial reporting as a basis for determining and assessing the company's financial position, where with the analysis, the parties concerned can take a decision and will do.

Determination of the small scale of the big company can be determined based on total sales, total assets, the average level of sales and average total assets [2]. The size of the company is a scale that can describe large or small companies. Large companies usually have high assets. Large firms tend to be cautious in making their financial reports because more large companies are usually noticed by the public. The size of companies can be seen through the assets owned by the company, the level of company sales and market capitalization. If the company's assets increased, then the sale of the company is considered in good condition. If the company's sales increase, then the company's operations may be running smoothly. Managerial ownership shows the existence of a dual role of a Manager, namely the holding of shares. Managers will strive to let the company continue to progress and improvement. And will not let the company experienced a collapse or bankruptcy because it will harm himself as a Manager as well as a shareholder in the company. Managerial ownership can reduce the risk of conflict is seen as with managerial ownership, the Manager will act as Manager of double while shareholders (company owners) [3]. The problem occurs if the potential agency managers party does not have a majority stake of the company, so managers tend to Act to pursue its own interests and do not maximize the value of the company funding in decision making [4]. This is often a conflict between the Manager and the owner. With the size of a large company, allows shareholders do its profits and management decisions already taken will be carried out in accordance with what is already planned, with the hope that it will end successfully and smoothly. If all decisions can run smoothly then automatically the operational and economic companies will thrive and managers who have been taking part in it will get compliments from the owner. Research on the selecting company food and beverages as one object. Because the food and beverages in contact with management or profit related to the profit of the company. The materials that are still raw or just yet so quickly sold for a profit, let alone food and beverages fast. The existence of differences results in previous studies, thus it encourages authors to continue further research. Formulation of the problem of this research are: (1) what is the effect on the profitability of earnings management?; (2) If a management company size influence on profit?; (3) whether the managerial ownership being able to strengthen or weaken the influence of profitability against management profit?; (4) whether the managerial ownership can afford strengthen or weaken the influence of the size of the company towards the management of profit?

II. METHOD

Population and Sample Population used in this research is the company's food and beverages sector in Indonesia stock exchange (BEI) in 2012-2016. Election or sampling, purposive sampling technique using researchers based on a specific technique. As for the sample criteria that have been set based on the following criteria:

- Food and beverages Companies listed on the Indonesia stock exchange (idx) for 5 years from the year 2012 up to 2016.
- Companies that publish annual financial statements during the period of observation 2012-2016.
- Companies that have profit management criteria.
- Companies that provide the data required.

TABLE I. THE DETERMINATION OF SAMPLE RESEARCH

No.		Amount
1.	Food and beverages companies listed on the Indonesia stock exchange (idx) year 2012 2016	14
2.	The company that publishes the annual financial statements of the period of observation 2012-2016	14
3.	Companies that have earnings management criteria	14
4.	Companies that do not provide the necessary data	(2)
Sample amount		12
Observation amount (12 x 5)		60

Source: processed Author

The dependent variable is the dependent Variable or variable bound in this research is the management of profits. The dependent variable or variable is the variable that is affected by the independent variable or variables. In this research the management profit proxy with calculation of The Modified Jones Model [5].

This model was chosen because it is the model detection of profit management models commonly used in empirical research on earnings management in Indonesia [6]. Management profit can be measured by the following formula: calculating the total accrual

$$TAit = NIit – CFOit$$

Determine the total accrual and regression coefficients

$$TAit / Ait\text{-}1 = \beta 1\ (1 / A\ it\text{-}1) + \beta 2\ (\Delta REV\ it / A\ it\text{-}1) + \beta 3\ (PPE\ it / A\ it\text{-}1) + \varepsilon it$$

The calculation of the value of the non discretionary accruals (NDA) from the results of the regression coefficients

$$NDAit = \beta 1\ (1/Ait\text{-}1) + \beta 2\ (\Delta REV\ it / A\ it\text{-}1 – \Delta RECit/Ait\text{-}1) + \beta 3\ (PPEit/Ait\text{-}1)$$

Count the discretionary accruals (DA)

$$DAit = (TAit/Ait\text{-}1) - NDAt$$

Description:

TAit	: The total accrual of the company-i year-t
NIit	: The company's net profit-i period-t
CFOit	: Cash flow from operating activities of the company-i period-t
TAit	: The total accrual period-t company-i
A it-1	: Total assets of the company-i period t-1
ΔREVit	: Change the revenues of the year t-1 to period t
PPEit	: Fixed assets company-i in period-t
εit	: Error term period-t for company-i period-t
ΔRECit	: Change the value of the net receivable from period t-1 to period-t
β	: The regression coefficient
DAit	: Discretionary accruals company-i period to-t

Independent variable or variables in this study is the size and Profitability of the company. The independent variable or variables are free of the dependent variable is the opposite, namely the dependent variables that affect the variable or variables are bound. The following details of each of the variables:

- The profitability measure used in this study is the Return On Assets (ROA). This ratio measures the rate of return from business over all existing assets. Ratio which is also useful for describing the capabilities of firms in profit at the level of income, assets and capital. Profitability can be measured by the following formula [7].

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

- The company's size the size of the company is used to distinguish between large companies and small companies which can be seen from the total assets owned [8]. This study the size of a company is measured by the total value of the wealth owned by a single company (total assets). Where the size of the company is calculated by the natural logarithm of assets [9].

The company' Size = Ln Total Assets

- Moderation variables

Moderation variables in this study is the managerial ownership. Managerial ownership is a shareholder of the management who actively participated in the decision making of the company (directors and Commissioners) [10]. Variable managerial ownership in this study diproksikan with the percentage amount of the shares owned by the management of the entire amount of the company's shares outstanding [11]. Managerial ownership = the number of shares owned by management/Total outstanding shares.

This research to formulate the hypothesis as follows:

H1 : A positive effect towards profitability management.
H2 : The size of the company's management against positive profit effect.
H3 : Managerial ownership was able to strengthen the influence of profitability against management.
H4 : Managerial ownership was able to strengthen the influence of the size of the company towards the management of profits.

III. Results and Discussion

A. Classic Assumption Test

1) Normality test

A test used to test normality is the Normal Test graph histogram and normal probability testing as well as statistical tests for non-parametric Kolmogorov-Smirnov (K-S). Based on the normality test, it can be seen that the chart pattern does not deviate (skewness) to the left or right, so the residual is normally distributed. Therefore, in this study in addition to applying the test the graph is also equipped with a test usingstatistics. Statistical tests were used to test for normality with a non-parametric statistical test of Kolmogorov-Smirnov. That the significant value of 0.200 which means that value is greater than a specified level of significant i.e. 0.05 so that data is normally distributed.

2) Multicollinearity test multikolonieritas

The results of the test have been applied and that multicollinearity generated by variables of profitability, the company's size and ownership the managerial results value Variance Inflation Factor (VIF) is less than 10 and more than tolerance value 0.1. Multicollinearity test results it can be concluded that the data in this study no multicollinearity.

3) Test Heteroskedastisitas

The test heteroscedasticity. The value of r square is 0.225, the value c^2 count was 60 = 0.225 x 13.500. The value of c^2 table is 77.93052. Based on the calculations can be seen that 13.500 smaller than 77.93052 and the conclusion is that the data in this study there is no heteroscedasticity.

4) Autocorrelation test

The results of a test for autocorrelation has been applied and the resulting value of the Durbin Watson (DW) of 1.794. These values are between-2 to + 2 then it can be inferred that the data in this study there is no autocorrelation.

B. Hypothesis test

1) Coefficient Determination

Those results can be concluded that the dependent variable i.e. Management profit can be explained by the independent variables i.e. size and profitability of the company is 19.4%, while the rest were 80.6% explained by other variable outside the models. Second model there is the addition of a moderating variable in testing the coefficient of determination can be viewed from the value of the Adjusted R Square of 0.187. Those results can be concluded that the dependent variable i.e. Management profit can be explained by the independent variables namely profitability and the size of the company and of the variable is the managerial ownership i.e. moderation of 18.7%, While the remaining 81.3% explained by other variables outside of the model.

2) T test

On the significance of obtaining profitability 0.005 so smaller than 0.05 and Beta coefficient of + 0.275. It means welcome. It can therefore be deduced profitablitas positive and significant effect against management. While the size of the company shows the value significance of 0.018 so smaller than 0.05 and Beta coefficient of 0.018. Those results have meaning that is received. The conclusion is the size of the company's influential negatively to earnings management.

3) Moderated Regression Analysis (MRA)

Based on the results (MRA), on the variable relationship between the profitability X1_Z IE with managerial ownership has the value significance of 0.692 so greater than 0.05 and the value of the beta coefficient of + 1.077.It means the variable is the managerial ownership rather than moderation. The results of these tests shows declined. Those results can be concluded that the managerial ownership rather than variables influence the profitability of moderation against management managerial rather than company size influence the moderate variable against management. On the variable X2_Z that is the relationship between the size of the company with a managerial ownership show the value significance of 0.994 so that greater than 0.05 and the value of the beta coefficient of 0.001. The results of these tests have meaning that is denied. Those results can be concluded that the ownership

Multiple regression analysis in this study there are two models. The first regression model is the elaboration of test results influence of the independent variable that is more than one dependent variable and against formed multiple regression equation as follows:

$$ML = 0{,}644 + 0{,}275PRO - 0{,}018SIZE$$

From the regression equation above, it can be explained that with the constants of 0.644 stated that if there is no profitability and the size of the company, then the management can be implemented with a fixed profit of 0.644. The regression equation coefficients profitability worth 0.275. A positive sign means there is a direct effect between free and bound variables are variables. It means if profitability is increased by one, it will also increase on the management profit of 0.275. Coefficients of the regression equations for the size the company is worth-0.018. The negative sign means the opposite of influence between the independent variable and the variable dependent. It means an increase in the size of the company amounting to one then it will decline the management profit of 0.018.

The second regression model is the elaboration of the test result by using the variable interaction that is moderating and multiple regression equations are formed as follows:

$$ML = 0{,}778 + 0{,}211PRO - 0{,}022SIZE - 0{,}268KM + 01{,}077PRO - 0{,}001SIZE + e$$

The regression equation above explanation can be given as follows: Value constantan of 0.778 explains that if there is no profitability, size of company, managerial ownership then fixed profit carried out management. The regression coefficient on the variable profitability of 0.211. That value indicates if profitability increase one then going on a hike on the management profit of 0.211. The regression coefficient on the variable size-value 0.022 company. That value indicates if the size of the company increase one then the decline on profit management of 0.022. The regression coefficient on the variable is the managerial ownership registration-0.268. The magnitude of that value to indicate an increase in ownership each managerial one then the decline on profit management of 0.268. The magnitude of the regression coefficients for the relationship profitability with managerial ownership is 1.077. This means if the relationship with the managerial ownership profitability experienced an increase of one, then the profit will increase management of 1.077. The magnitude of the regression coefficients for the relationship of the size of the company with a managerial ownership is 0.001. This means if the relationship of the size of the company with a managerial ownership experienced an increase of one, then the management profit will suffer a decrease of 0.001.

C. Discussion

1) The influence of Profitability against Management Profit

On the first Hypothesis testing in this study showed that the profitability of a positive effect against management. It means H1 accepted. It can therefore be deduced profitability positive and significant effect against management. Then the higher profitability, it will be the higher-profit management. The greater the profits of the company, then automatically the larger also managers or shareholders of profit management actions within the company. [12] says that any business activities performed either individually or in a group aiming to prosper the owner or add value to the company with a maximum profit hopes to get the profit sustainable company is not an easy job but require careful and meticulous calculation by considering the factors which affect the company either internal factors or external factors. The results of this research line with [13] concluded that the profitability of a positive effect against management. This means that the greater the level of profitability of the company then the greater the chances of the company has decreased profitability in the foreseeable future so that the larger the company experienced fluctuating revenue that causes instability companies in obtaining income, so the greater the profitability of the company then the bigger companies do managers practice management profit to keep stability in a company's decision-making. In other words, the greater the profits obtained by companies in, the greater the profit management actions done in order for the State companies still look good. The results of this study contradicts research [14] which concluded that profitability does not have significant influence towards management.

2) Influence of the size of the company towards the management Profit

On hypothesis testing both stated that the company's positive effect Size against earnings management. The size of the company is a company that can scale in view of the magnitude of the total assets of the company as well as the results of the sales level of the end of each year. The size of the company shows the value significance of 0.018 so smaller than 0.05 and Beta coefficient of 0.018.Those results have meaning that is received. The conclusion is the size of the company's influential negatively to earnings management. Those results indicate the higher the size of the company's then management will increasingly profit decline. The results of this research consistent with [15] which concluded that the size of the company's influential negatively to earnings management, which means that the larger the size of the company, then the smaller the management of earnings management is done in the his company.

3) Managerial Ownership influence can amplify the influence of Profitability against Profit Management.

The third hypothesis States the managerial ownership influence can amplify the influence of profitability against Management. Based on the results of a Moderated Regression Analysis (MRA), in the X1_Z variable, namely the relationship between profitability with managerial ownership has the value significance of 0.692 so greater than 0.05 and the value of the beta coefficient of + 1.077.It means the variable is the managerial ownership rather than moderation. The results of the test show the H3 was rejected. Those results can be concluded that the managerial ownership rather than variables influence the profitability of moderation against management. This indicates that the managerial ownership declined and no proven influence profitability may strengthen against the management. In the managerial ownership in the company, each manager has a stake each and the stock concerned with profits or gains. Managers who hold shares of the company will be reviewed by the parties involved in a contract like the election of the audit committee that created the demand for quality financial reporting by the shareholders, creditors, and users of financial statements to ensure the efficiency of the contracts that are created. This means that the magnitude of the advantage against the action of profit management remains a reference company in reaching acquisition despite managerial ownership cannot strengthen the management of its profits. This is the State in which profitability is less good but keep running because of profit management to get a great income for the company. Managerial ownership who is responsible for the company's operations was considered not yet able to draw large advantages or profitability.

4) The influence of Managerial Ownership can strengthen the influence of the size of the company towards the Management Profit.

The fourth hypothesis asserts ownership of managerial influence can amplify the influence of size of the company towards the management of profits. Based on the results of a Moderated Regression Analysis (MRA), at variable X2_Z that is the relationship between the size of the company with a managerial ownership show the value significance of 0.994 so that greater than 0.05 and value beta coefficient of 0.001.The results of these tests have meaning that the H4 was rejected. Those results can be concluded that the managerial ownership instead of variable size influence toward moderation management. This indicates that the managerial ownership decreased and not proven may strengthen the influence of the size of the company towards the management of profits.

If the company is faced with an ever increasing funding needs due to sales growth, and internal sources already used all of, then there is no other option for companies to use the funds that come from outside the company [16]. This certainly would be very influential in the company's financial condition that requires the company to try to improve sales. This small size companies but the management profit continue to run as it is to get a great income for the company. Managerial ownership which is responsible for the company's operations was considered not able to change the scale or size of company.

IV. CONCLUSIONS

The results of this research conclusion as follows:

- Positive effect towards Profitability Management. These results indicate that the higher the profitability, then the management profit will also increase.
- The size of the company's influential negatively to earnings management. These results indicate that the greater the size of the company, then management will increasingly profit decline.
- Managerial ownership rather than variables influence the profitability of moderation against a profit means that management is the managerial ownership not proven able to strengthen the influence of profitability against management.
- Managerial ownership instead of variable size influence toward moderation management earnings which means it is managerial ownership not proven able to strengthen the influence of the size of the company towards the management of profits.

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