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Analysis of the Influence of Real Earnings Management, Income Smoothing and Tenure Audit on Cofficient Earnings Response with Intellectual Capital Disclosure as Moderating Variables

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Abstract

The purpose of this study is to re-examine the factors that influence and moderate the earnings response coefficient in manufacturing companies. These variables are Real Earnings Management, Income Smoothing, Audit Tenure, and Intellectual Capital Disclosure. The sample of this study consists of 68 manufacturing companies listed on the Indonesia Stock Exchange from 2015 to 2017 and selected by the purposive sampling method. This study uses moderated regression analysis. The results of this study shows that real earnings management has no negative influence to earnings response coefficient. Reversly, income smoothing has a negative influence to earnings response coefficient, audit tenure has no influence to earnings response coefficient while intellectual capital disclosure has no positive influence to earnings response coefficient. In other that, Intellectual capital disclosure does not weaken the negative influence of real earnings management and audit tenure to earnings response coefficient. However, Intellectual capital disclosure is proven to weaken the negative influence of income smoothing to earnings response coefficient.

Keywords
tenure audit; earnings response coefficient; income smoothing; intellectual capital disclosure; real earnings management

I. Introduction

In the current era of globalization, companies compete to improve their performance in creating corporate value so that they can attract the attention of investors to invest in the company. One of the communication tools used by interested parties in obtaining company information is financial statements. In addition, financial reports are important because they become a forum for management's accountability in managing the company to owners or investors. One of the objectives of corporate financial reporting is the delivery of accounting information that is used as a communication tool to assist users in making relevant and reliable business decisions for the company in maintaining or improving the financial position and performance of the company in carrying out its operational activities (Putu and I Wayan, 2018).

Management realizes that profit is one of the important parameters in measuring management performance in managing the company, this can encourage negative behavior such as fraud. Earnings management can be an act of fraud if earnings management is carried out on the basis of bad intentions such as fraud, profit taking for personal interests, actions with the aim of enriching oneself and behavior that deviates from the applicable laws and PSAK.

In Indonesia, disclosure of intellectual capital by companies is still voluntary, so usually only large companies disclose intellectual capital in their performance reports, but it is possible if small companies also disclose intellectual capital as a way to improve company performance and firm value. Intellectual capital disclosure in the form of a combination of reports in the form of numbers, visualizations and narratives that are communicated to internal and external stakeholders such as investors and creditors, this disclosure aims to create value for the company (Wedari, Shella 2016). However, a research conducted by Nisrina and Herawaty (2016) found that intellectual capital disclosure can strengthen the positive relationship between corporate governance and company growth opportunities on the earnings response coefficient. However, the ICD does not moderate the effect of income smoothing and earnings persistence on the earnings response coefficient.

II. Review of Literature

Grand Theory

a. Signaling Theory

The theory is based on the assumption that the information received by each party is not the same. Spence (1973) states that asymmetric information occurs in the labor market. The theory shows that there is information asymmetry between the company's management and the parties with an interest in information. For this reason, managers need to provide information relating to the company to interested parties through the issuance of financial statements.

b. Agency Theory

Jensen and Meckling (1976) explain the agency relationship in agency theory that the company is a collection of contracts (nexus of contract) between the principal and the agent. Agency theory can explain how the parties involved in the company will behave in managing the company, because basically between the agent and the principal have different interests that cause agency conflict (agent conflict).

c. Stakeholder Theory

Stakeholder theory has a very important role and power and becomes a consideration for company managers in disclosing financial statement information. Companies depend on stakeholder support, the stronger the stakeholders, the greater the company's efforts to compete. Stakeholders are parties who have interests related to the operation of a company which can consist of shareholders, creditors, government, employees, customers, suppliers, communities, and so on. Mention and Bontis (2013).

d. Efficient Market Theory

The efficient market theory states that the market will react immediately to new information. Based on the semi-strong form of efficient market hypothesis, the price of a stock security reflects all relevant information about the company, including its current financial performance and future prospects. According to Fama (1970), the semi-strong form of the efficient market hypothesis is that if the price of securities fully reflects all publicly available information, including financial statement data. All market participants have equal access to public information, information strategies that rely on published financial statements will not be able to generate abnormal returns on an ongoing basis.

e. Resource Based Theory

Resource Based Theory (RBT) discusses the resources owned by the company and how the company can develop and increase the competitive advantage of its resources. Resources Based Theory (RBT) also discusses how companies can gain competitive advantage and optimal performance by acquiring, combining, and using the company's vital assets (Wedari and Shella, 2016).

f. Intellectual Capital Disclosure

According to Wedari and Shella (2016), companies that carry out intellectual capital disclosure will create added value. Intellectual capital disclosure provides investors with an overall picture of the company, because financial information alone is not sufficient to describe the entire wealth of the company. The existence of intellectual capital disclosure is able to provide information to investors about the company's ability to manage its resources and create added value for the company for the benefit of stakeholders. Intellectual capital disclosure can be interpreted as the level of disclosure of intellectual capital owned by a company that has been identified as a set of intangible assets that encourage value creation because of its ability to encourage organizational performance (Mention and Bontis , 2013).

III. Research Method

The population in this study are manufacturing companies in Indonesia which are listed on the IDX. The secondary data used in this study are the financial statements and annual reports of manufacturing companies originating from www.idx.com for the 2015-2017 period. The sample selection used purposive sampling method in accordance with the criteria of the selected research sample. This study uses moderated regression analysis. The following is the measurement of research variables:

Table 1. Measurement of Research Variables

No	Variable	Operational definition	Indicator
	Dependent		
1	*Earnings Response Coefficient* (Vivaldi *et. al* ., 2017)	Okolie (2014) argues that ERC is an estimate of changes in the company's stock price due to the information provided in the company's earnings announcements.	1. $Rit = \frac{Pit - Pit-1}{Pit-1}$ Rit : return company i shares on day t Pit : closing price of shares on the day t Pit-1 : closing price of stock i on day t-1 $RM_{t=} \frac{IHSG_t - IHSG_{t-1}}{IHSG_{t-1}}$ RMt : daily market returns JCI : composite stock price index on the day t JCI-1 : daily stock price index on the day t-1 2. , = , , _ _ _ _ _ ARi,t : abnormal return in company i period t Ri,t : company i's return in period t Rm, t : market return in period t

			3. = , _ _ _ _ CARi : the cumulative abnormal return of firm i during the observation period. ARi,t : abnormal return on company i on day t. 4. $UE_{i,t} = \frac{(EAT_t - EAT_{t-1})}{EAT_{t-1}}$ UEi,t : unexpected earnings of company i in period t EATt : earnings after tax of company i in period t EATt-1 : earnings after tax of company i in period t-1 5. , = 0+ 1 x ,*t* + ,*t* CARi,t : cumulative abnormal return of company i during the period of observationm UEi,t : unexpected earnings 1: ERC
	Independent		
2	*Real earnings management* (Sun *et . al* ., 2014)	The actions of the company's management that deviate from normal business practices are carried out with the main objective of achieving the predetermined profit targets.	1. Sales manipulation CFOt/TAt-1 = a0 (1 / TAt-1) + a1 (SALESt / TAt-1) + a2(ΔSALESt / TAt-1) + CFOt= Cash flow from operations TAt-1= Beginning balance of total assets SALESt= Sales SALESt= Sales change 2. Decreasing discretionary expense DISXt/TAt-1 = a0(1/TAt-1) + a1(SALESt-1/TAt-1) + DISXt= discretionary expenses (total sum of advertising costs, research and development costs, selling costs, general and administrative costs) SALESt-1 = Sales of the previous period. 3. *Over productions* PRODt / TAt-1 = a0 (1 / TAt-1) + a1 (SALESt-1 / TAt-1) +a2(ΔSALESt / TAt-1) +a3(ΔSALESt-1 / TAt-1) + PRODt= Production cost SALESt-1= Changes in sales of the previous period. Information : Value *A is abnormal* got from To do regression . REM Total is the sum of *A abnormal CFO , Abnormal discretionary expenses* , and *Abnormal production costs multiplied by minus 1.*

3	*Income Smoothing* (Ningtiyas, 2017)	Deliberate efforts to normalize profits in order to achieve the desired profit level trend by managers or companies (Ningtiyas 2017)	$\text{Indeks Eckel} = \frac{\text{CV } \Delta I}{\text{CV } \Delta S}$ S = Change Sale in one period. I = Change Profit in one period. CV = coefficient variation from variable that is standard deviation shared with expected value. _
4	*Audit Tenure* (Chi et al., 2010)	Okolie (2014) defines *audit tenure* as the period of working relationship between an independent auditor and a client or company.	AT = n (number of years the auditor has audited a company)
	Moderation _		
5	*Intellectual Capital Disclosure* (Li *et, al* ., 2008 and Yan, 2017)	*Intellectual capital disclosure* can be interpreted as the level of disclosure of intellectual capital owned by a company that has been identified as a set of intangible assets that encourage value creation because of its ability to encourage organizational performance (Mention and Bontis, 2013).	1. $ICDI_j = \frac{\sum_{i=1}^{n_j} X_{ij}}{n_j}$ ICDIj = intellectual capital disclosure index; nj = number of items for jth company; Xij = 1 if the item ith disclosed, 0 if the item ith no expressed, so 0 ICDIj 1. 2. $ICD = \frac{\sum_{ij} D\ Item}{\sum_{ij} AD\ Item}$ ICD = Percentage of disclosure of the company's intellectual capital; D Item = Total score of intellectual capital disclosure on the company prospectus; AD Item = Total items in the intellectual capital disclosure index. Description: This study uses 37 checklists consisting of *Human capital* (17 items), *Structural capital* (10 items) and *Relational capital* (10 items).
	Control		
6	Company Size (Suhendah, 2017)		$Size = Ln\ (Total\ Aset)$
7	Leverage (Suhendah, 2017)		$LEV = \frac{Total\ Debts}{Total\ Assets}$

IV. Discussion

4.1 Results

Election results sample study is as following:

Table 2. Election Results Sample

No	Criteria Study	Number of Companies
1	Manufacturing companies in Indonesia for 2015-2017 period	159
2	Manufacturing companies that do not listed on the Indonesia Stock Exchange for 2015-2017 period	(60)
3	Companies that don't consistent publish report finance finance annual 2015-2017 period	(10)
4	Companies that don't publish report finance in Rupiah currency 2015-2017 period	(21)
Amount the company that became sample		68
Year Observation		3
Total sample of research data before outlier		204
Data outliers for meet the assumption test classic		(20)
Amount sample study		**184**

Source: Data collection

Calculation result statistics descriptive is as following:

Table 3. Statistical Test Results Descriptive

Variable	N	Minimum	Maximum	*mean*	*Std. Deviation*
CAR	184	-0.1974	0.1648	0.0009	0.0400
EU	184	-3.7997	3.2954	-0.1001	0.9302
BRAKE	184	-1.6391	2.7277	-0.3715	0.6164
IS	184	-3.9789	10.1893	0.5056	2.0525
AT	184	1.0000	6,0000	2.0326	0.9107
SZ	184	10.9289	14.4707	12.3663	0.7229
LV	184	0.0043	32.0190	0.6104	2.3506
ICD	184	0.2973	0.8648	0.5293	0.1328
Valid N (*listwise*)	184				

Source: IBM SPSS 23 (2019) data processing

Result of testing residual normality with using the *Kolmogorov-Smirnov*. test could seen in the table below this:

Table 4. Residual Normality Test Results

		Unstandardized Residual
N		184
Normal Parameters [a]	mean	.0000000
	Std. Deviation	.03616554
Most Extreme Differences	Absolute	.091

	Positive	.091
	negative	-.082
Kolmogrov -Smirnov Z		.091
Asymp . Sig (2-tailed)		.001

Source: IBM SPSS 23 (2019) data processing

Research results this showing that the data is not normally distributed though after *outlier* test was performed. This thing due to research data use large sample. *Central Limit Theorem* state that for big sample especially for more samples than 30 (n 30), then distribution sample could considered normal (Dielman, 1961).

Assumption test results classic is as following:

Table 5. Multicollinearity Test Results

Coefficients [a]				
		Collinearity Statistics		
	Model	Tolerance	VIF	Conclusion
1	EU	0.001	821,674	Occur multicollinearity
	BRAKE	0.779	1,284	Not occur multicollinearity
	UE_REM	0.019	53,448	Occur multicollinearity
	IS	0.911	1.098	Not occur multicollinearity
	UE_IS	0.035	28,470	Occur multicollinearity
	AT	0.829	1,207	Not occur multicollinearity
	UE_AT	0.006	169.514	Occur multicollinearity
	SZ	0.698	1,432	Not occur multicollinearity
	UE_SZ	0.002	592,235	Occur multicollinearity
	LV	0.119	8,426	Not occur multicollinearity
	UE_LV	0.087	11,528	Occur multicollinearity
	ICD	0.683	1,463	Not occur multicollinearity
	UE_ICD	0.007	147.066	Occur multicollinearity
	UE_REM_ICD	0.022	44,464	Occur multicollinearity
	UE_IS_ICD	0.034	29,372	Occur multicollinearity
	UE_AT_ICD	0.006	167,771	Occur multicollinearity

a. Dependent Variable: CAR

Source: IBM SPSS 23 (2019) data processing

Table 6. Autocorrelation Test Results

Model	**R**	***R Square***	***Adjusted R Square***	***Std. Error of the Estimate***	***Durbin-Watson***	***Conclusion***
1	0.429 [a]	0.184	0.106	0.03785840	2,107	Not occur autocorrelation

Source: IBM SPSS 23 (2019) data processing

Table 7. Heteroscedasticity Test Results

Model	**Sig.**	**Conclusion**
(Constant)	0.078	
EU	0.570	Not occur heteroscedasticity
BRAKE	0.444	Not occur heteroscedasticity
UE_REM	0.278	Not occur heteroscedasticity
IS	0.608	Not occur heteroscedasticity

UE_IS	0.301	Not occur heteroscedasticity
AT	0.145	Not occur heteroscedasticity
UE_AT	0.892	Not occur heteroscedasticity
SZ	0.430	Not occur heteroscedasticity
UE_SZ	0.643	Not occur heteroscedasticity
LV	0.195	Not occur heteroscedasticity
UE_LV	0.065	Not occur heteroscedasticity
ICD	0.778	Not occur heteroscedasticity
UE_ICD	0.604	Not occur heteroscedasticity
UE_REM_ICD	0.300	Not occur heteroscedasticity
UE_IS_ICD	0.306	Not occur heteroscedasticity
UE_AT_ICD	0.621	Not occur heteroscedasticity

Source: IBM SPSS 23 (2019) data processing

Table 5 shows all variable have VIF value below 10, it means no there is multicollinearity except for variable *unexpected earnings* (EU) with a total VIF of 821,674. This thing same case like expressed by Gujarati (2009) who argues that that if happening collinearity double the no conducted existence repair or ignored , thing this still allowed because of the research model use variable moderation that is *earnings response coefficient* (ERC) proxied by CAR (*Cummulative Abnormal Return*) and *Unexpected Earnings* (EU). Because of that study this has free from whole assumption test classic.
Hypothesis test results is as following:

Table 8. Correlation Test Results

Model	R
1	0.429

Source: IBM SPSS 23 (2019) data processing

Table 9. Coefficient Test Results Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.429 [a]	0.184	0.106	0.03785840

Source: IBM SPSS 23 (2019) data processing

Table 10. F. Test Results

ANOVA [b]

Model		*Sum of Squares*	*df*	*Mean Square*	F	Sig.
1	Regression	0.054	16	0.003	2,349	0.004 [a]
	Residual	0.239	167	0.001		
	Total	0.293	183			

a. Predictors: (Constant), EU, *real earnings management, income smoothing, audit tenure, firm size, leverage, intellectual capital disclosure*

b. Dependent Variable: CAR

Source: IBM SPSS 23 (2019) data processing

Table 11. t test Results

Model		Direction Hypothesis	B	t	Sig (2-tailed)	Sig. (1-tailed)	Conclusion
1	(Constant)		-0.082	-1,550	0.123	0.062	
	EU		-0.077	-0.896	0.372	0.186	
	BRAKE		-0.007	-1,418	0.158	0.079	
	UE_REM	Negative	0.072	2,167	0.032	0.016	H_1 rejected
	IS		0.000	0.091	0.928	0.464	
	UE_IS	Negative	-0.016	-1,605	0.110	0.055	H2 _ received
	UE_AT	Negative	0.003	0.189	0.850	0.425	H_3 rejected
	SZ		0.007	1,477	0.142	0.071	
	UE_SZ	Positive	0.012	1,970	0.051	0.026	
	LV		0.006	1,821	0.070	0.035	
	UE_LV	Negative	-0.018	-1,713	0.089	0.045	
	ICD		-0.020	-0.781	0.436	0.218	
	UE_ICD	Positive	-0.106	-1,482	0.140	0.070	H_4 rejected
	UE_REM_ICD	Positive	-0.111	-1.909	0.058	0.029	H_5 rejected
	UE_IS_ICD	Positive	0.041	1,956	0.052	0.026	H_6 received
	UE_AT_ICD	Positive	-0.004	-0.167	0.867	0.434	H_7 rejected

Dependent Variable: CAR

Source: IBM SPSS 23 (2019) data processing

Table 9 shows that research model have been fit, so appropriate for used as a research model. Besides that Table 10. Showing that H2 and $_{H6}$ accepted, and hypothesis other rejected.

4.2 Discussion

a. Analysis Influence *Real Earnings Management* to *Earnings Response Coefficient*

Result of study this show that *real earnings management* is not have influence negative to *earnings response coefficient.* This thing related with theory *signaling*, that company send signal to investors and users report finance other that management profit real conducted for destination Interest Company. Information provided by manager could Becomes signal for stakeholders to taking decision. Like case, manager could to do manipulation sale through increase sale with method gift discount to customer besides that manager could To do drop burden discretionary with destination effectiveness and efficiency so that the company could reach profit max, and managers can also To do overproduction for push *fixed* cost production done company so that company get more profit many with no violate regulation legislation *and* applicable PSAK. This thing as stated by Firmansyah (2017) that company give indication to investors that manager in companies that do *real earnings management* is action positive no is action negative that harms investors but give information profit in Century front. The bigger management to do *real earnings management*, the more big obtained information company will have profit in the future is good (Firmansyah, 2017).

b. Analysis Influence *Income Smoothing* against *Earnings Response Coefficient*

Research results this show that *income smoothing* effect negative to *earnings response coefficient.* A negative coefficient indicates that companies that do alignment profit rated negative by the market, so that the more tall alignment profit, then will the more low market reaction. This thing in line with Istifarda (2015) and Ningtiyas (2017) who argue that that In *come smoothing* often linked with incentive management for put first the importance

on interest owner company . This action possible because existence flexibility in determine policy accountancy in Standard Accounting. So that Thing this show that investors have respond by detailed information Profit Company.

c. Analysis Influence *Tenure audit* of *Earnings Response Coefficient*

Result of study this show that *audit tenure* no have influence to *earnings response coefficient.* This thing could explained that working period accountant public and KAP in audit something report finance company already set in POJK Number 13 of 2017 concerning Use of Public Accountant Services and Public Accounting Firms in Financial Services Activities . In regulation it , is set that institution service finance Required limit use service use audit services from Public Accountant for a maximum of 3 (three) years book successively and Regulation of the Minister of Finance (PMK) No. 17/PMK.01/2008 concerning Public Accountant Services . In Article 3 paragraph (1) is explained that a KAP only can audit something 6 year's old company book successively. This thing because the company average manufactures in Indonesia obey regulation government as an obligation. So very rare binding company contract with accountant public and KAP exceed working time limit set by the government and regulations applicable legislation.

d. Analysis Influence *Intellectual Capital Disclosure* against *Earnings Response Coefficient*

Research results show that *intellectual capital disclosure* take effect negative to *earnings response coefficient* . This thing could explained that disclosure of intellectual capital by the company only is score plus for company because conducted by volunteer. Company usually only focus to things that are *mandatory* or Required disclosed based on regulation standard applicable accounting. This thing because disclosure information overload will cause cost addition so in the end precisely will harmful companies (Duwu et al, 2018).

e. Analysis Influence *Real Earnings Management* against *Earnings Response Coefficient* moderated by Intellectual *Capital Disclosure*

Result of study this that is *real earnings management* moderated by intellectual *capital disclosure* take effect negative to *earnings response coefficient*. This thing could explained that real earnings management carried out company could impact direct to quality profit in the future come. So that if manager no disclose by clear about destination did management profit real so could influence investors' decisions and user report finance other. *Intellectual capital disclosure* is one disclosure that is volunteer so that many company only To do disclosure part of intellectual capital owned by the company in manage activity its operational *mandatory* or Required course. This thing because disclosure by too much can add cost company in To do required disclosure for add score companies (Duwu et al, 2018).

f. Analysis Influence *Income Smoothing* against *Earnings Response Coefficient* moderated by Intellectual *Capital Disclosure*

Research results this show that *income smoothing* moderated by intellectual *capital disclosure* take effect positive to *earnings response coefficient*. This thing could explained that disclosure of intellectual capital carried out company capable help user report finance in addition necessary information for see how quality and information profit generated by the company. Obey Wedari and Shella (2016) *Intellectual capital disclosure* give description whole company to investors, because information finance just no enough describe whole riches company. The existence of intellectual capital disclosure is able to give information to investors regarding ability company in manage source own power and create score plus for

company for the sake of *stakeholders*. With the existence of intellectual capital disclosure then could minimize influence negative from alignment profit made by the company in influence quality profit companies that can seen from *earnings response coefficient*.

g. Analysis Influence *Tenure audit* of *Earnings Response Coefficient* moderated by Intellectual *Capital Disclosure*

Result of study this show that *intellectual capital disclosure* no moderate influence *audit tenure* to *earnings response coefficient.* This thing could explained that *intellectual capital disclosure* is one form disclosure voluntary by the company for could add score company however no could give enough influence significant to the auditor's tenure in audit report finance related with level auditor independence if have a relative working period longer so could give influence to quality profit measured company with *earnings response coefficient.*

V. Conclusion

5.1 Conclusion

Research conclusion this is as following:

1. Real earnings management no take effect negative to the earnings response coefficient. This result leave behind with theory that has explained previously that the existence of real earnings management from company influence earnings response coefficient by negative. Liu (2019) states that investors tend to sell (buy) shares before announcement profit is negative (positive) and investors tend to buy share by intensive company with management profit lowest and highest earnings surprise, and pattern trading especially driven by institutions active.
2. Income smoothing has an effect negative to the earnings response coefficient. Research results this consistent with study Istifarda (2015) and Ningtiyas (2017). The results of this study are not consistent with the research of Kangarlouei et., al (2012), Alwiyah and Solihin (2015), Nisrina and Herawaty (2016), Sirait (2016) and Andani (2016) which show that income smoothing no have influence to earnings response coefficient .
3. Audit tenure has no effect on the earnings response coefficient. This result is not consistent with research by Okolie (2014) which states that audit fees, audit firm size, audit tenure, audit client importance have a negative effect on ERC.
4. Intellectual capital disclosure has no effect on the earnings response coefficient. The results of this study are inconsistent with Maaloul and Zéghal (2015) which state that there is a negative relationship (substitution) between financial statement informativeness and ICD, especially in high-tech companies. This indicates that companies with low FSI disclose more information about their IC in annual reports.
5. Intellectual capital disclosure no weaken influence negative real earnings management to earnings response coefficient.
6. Intellectual capital disclosure weaken influence negative income smoothing to earnings response coefficient. This thing no consistent with study Nisrina and Herawaty (2016) who stated that ICD does not moderate the effect of Income Smoothing and earnings persistence on the earnings response coefficient .
7. Intellectual capital disclosure no weaken influence negative audit tenure to earnings response coefficient.

5.2 Suggestion

The results of this study can be used as a reference for further research with the following suggestions:

1. Using a more updated research period which uses the research period in 2017 and above so as to produce research results that can be compared with the most recent year
2. Using a larger study population so that the research results are more accurate to generalize.
3. Develop more measurements, especially on the intellectual capital disclosure index so that the element of researcher subjectivity can be minimized.
4. Using other independent variables besides the variables in this study.

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