THE EFFECT OF MANAGERIAL OWNERSHIP ON EARNINGS MANAGEMENT OF ACQUIRERS ON THE INDONESIAN STOCK EXCHANGE

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ABSTRACT: In this globalization era, there are so many types of businesses that can be developed both in large and small businesses. So many business ideas have also emerged that can be used to develop business. One of the strategies is by combining several businesses, it is hoped that these companies can increase market share, diversify businesses, or increase vertical integration of existing operational activities. The purpose of this study is to provide empirical evidence of earnings management by increasing the amount of earnings of the acquirer's company reports before the implementation of mergers and acquisitions for payments through shares. The purpose of this study is to obtain empirical evidence of the effect of managerial ownership on earnings management before mergers and acquisitions. This research was conducted on companies listed on the IDX and companies that made mergers and acquisitions from 2016-2019 and payment through shares. Samples obtained as many as 30 companies using purposive sampling techniques. The data collection method uses non-participant observation methods. This study uses independent sample T test and simple regression analysis technique. This study shows that there is earnings management of the acquiring company before conducting mergers and acquisitions by increasing report earnings and managerial ownership has a positive effect on earnings management.

KEYWORDS: managerial ownership, earnings management, and acquisition

I. INTRODUCTION

In this globalization era, there are so many types of businesses that can be developed both in large and small businesses. So many business ideas have also emerged that can be used to develop business. One of the strategies is by combining several businesses, it is hoped that these companies can increase market share, diversify businesses, or increase vertical integration of existing operational activities (Wangi, 2010). Mergers and Acquisitions (M&A) is one of the company's external expansions to be able to maintain its business or even expand its business. Hidayat (2004) states that mergers and acquisitions is a strategy undertaken to take ownership of other companies so that the acquiring company (bidding firm) can control the company that is taken over (target firm).

The payment method is one of the external factors that must be considered in creating M&A success (both cash and stock). The payment method that is usually done is in cash or through shares. This cash payment is usually done when the company has substantial cash. Cash payments generally originate from sources of retained earnings (payments made by reducing own capital), issue new shares and sell them only to old shareholders. Whereas payment uses shares if the bidding firm does not have enough cash or the target firm's shareholders still want to retain ownership in the company resulting from the merger, then this means of payment by means of exchange of shares can be used. Payment using these shares occurs when the shareholders of the acquiring company surrender their shares to the target company's shareholders at the price purchased. Companies that make acquisitions with shares must get approval from other shareholders.

As for one of the acquisitions that occurred with fantastic value, among others Perusahaan Gas Negara Tbk (PGAS) to four subsidiaries of Pertamina Gas (Pertagas), and PT Semen Indonesia Tbk (SMGR) against PT Holcim Indonesia Tbk (SMCB) worth US $ 917 million. The acquisition activity also targeted the market of business competitors beforehand so that it was seen to be able to accelerate the company's growth. However, it does not rule out the possibility of mergers and acquisitions that there are negative activities both from the acquirer and the acquisition target such as the manipulation of financial statements for one-sided gain.

Conducting mergers and acquisitions there is a condition that supports the occurrence of earnings...
management conducted by the acquirer. In the situation that the acquirer wants to do mergers and acquisitions by means of payment through shares, the management company of the acquirer is likely to try to increase the value of the company’s profit. The aim is not only to show the earning power and stability of the company's earnings so that it can attract the target company to carry out an acquisition, also to increase the company's stock price (Dharmasetya and Sulaimin, 2009).

II. LITERATURE REVIEW AND RESEARCH HYPOTHESIS

Based on agency theory that explains the relationship between principals and agents who each want to maximize personal profit, it is suspected that the greater proportion of share ownership owned by managerial (Agents) can strengthen the allegation that the acquirer company that makes payments through shares will manipulate financial statements with increase its profits so that it will raise the price of its shares. Because the higher the stock price of the acquiring company, the less cost is needed to buy the target company. According to Erikson and Wang (1999) states that acquirer companies use accounting procedures to manage their profits with the aim of increasing the value of shares ahead of mergers and acquisitions. This is included in the category of earnings management activities namely Income Maximization.

H1: There is earning management by increasing the amount of earnings of the acquirer's report before the Merger and Acquisition for payment through shares.

Managerial ownership is a share of ownership by company management in which management will have a sense of ownership of the company. And agency theory explains about the contract made between the agent and the principal where the management as the agent and the owner of the company as a principal with the aim of establishing an efficient contract. So in the case that the company will make an acquisition where the manager also has a stake in the company, then the goals of the agent and the principal will be the same. Jensen and Meckling (1976) state that the convergence of interest hypothesis states that managerial stock ownership can help to unify interests between managers and shareholders, which means that the more the proportion of managerial stock ownership increases, the better the performance of the company.

Based on agency theory that explains the relationship between principals and agents, it is suspected that the greater proportion of share ownership owned by managers can strengthen the suspicion that the acquirer making payments through shares will manipulate financial statements by raising the price of its shares so as to reduce the costs of acquisition activities. So that it can benefit the acquirer's shareholders.

H2: Managerial ownership has a positive effect on the acquirer's earnings management prior to the implementation of mergers and acquisitions.

III. METHODS

The object of this research is the practice of acquiring companies' earnings management on the Indonesia Stock Exchange in the 2016-2019 period. In this study sample selection is done by purposive sampling technique. Purposive sampling is a sampling technique with certain considerations (Sugiyono 2017; 144). Data collection methods or sampling techniques in this study use non-participant observation methods. Non-participant observation method is an observation that is done without involving oneself or becoming part of the social or company environment and only as data collectors (Sugiyono, 2013). This study uses statistical analysis techniques, namely independent sample T test and simple regression analysis techniques.

Independent T Test is a comparative test or different test to find out whether there are significant differences in mean or mean between 2 free groups that have interval / ratio data. The two independent groups referred to here are two groups which are not paired, meaning the data source comes from different subjects. The different t test used in this study is the t test with two free samples. This test is a parametric statistical test used to determine whether two unrelated samples have different mean values Ghozali (2006). Different t test results can be seen through the significance value of t on the SPSS output results. The level of significance used is 0.05, if the significance value is greater than 0.05, the hypothesis is rejected. If the significance value is smaller or equal to the level of significance, the hypothesis is accepted by Ghozali (2006).

Regression analysis is used to determine the functional relationship between two or more variables. Regression analysis can also be used to get the effect of predictor variables on the criterion variables or to predict the effect of predictor variables on the criterion variables (Husainidin Purnomo, 2006). According to Sugiyono (2007), "Linear regression is based on the functional or causal relationship of an independent variable with a dependent variable".

The basis for simple regression calculations and in calculations using software with the SPSS program for windows.

\[ Y = a + bX + e \]

Y = Earnings management variables
\( a = \) Constant
\[ \beta = \text{Regression Coefficient} \]
\[ X_1 = \text{Managerial Ownership Variable} \]

**IV. RESULT AND DISCUSSION**

The Independent Sample T-Test is used to prove there is earnings management before the acquirer makes a merger and acquisition. In this study the independent sample t-test was conducted on earnings management variables, the model used was the Modified Jones model.

**Table 4.7 Results of Independent Sample T-Test**

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std.Deviation</th>
<th>Std error mean</th>
<th>sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income increasing</td>
<td>10</td>
<td>-0.032</td>
<td>0.028</td>
<td>0.008</td>
<td>0.023</td>
</tr>
<tr>
<td>Decreasing</td>
<td>20</td>
<td>0.129</td>
<td>0.125</td>
<td>0.028</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.7 shows the results of discretionary accrual test differences using the Modified Jones Model, where the element of income increase is greater than the element of cost increase with a sig value of 0.023 <0.05. T test results show that earnings management practices occur by increasing income (income increasing) before the company makes mergers and acquisitions.

**Table 4.7 Regression Test Results**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>sig</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>0.049</td>
<td>0.173</td>
<td>0.286</td>
<td>0.777</td>
</tr>
<tr>
<td>Kepemilikan Manajerial</td>
<td>0.536</td>
<td>0.241</td>
<td>0.387</td>
<td>2.218</td>
</tr>
</tbody>
</table>

Based on table 4.7 the regression equation can be made as follows:

\[ Y = 0.049 + 0.536 \times X_1 \]

The regression equation above has the following meaning:

1. a constant value of 0.049 with a sig value of 0.777 which is greater than 0.05, meaning that the value of earnings management is 0% (zero).
2. The coefficient value \( \beta_1 = 0.536 \) means that if the value of the managerial ownership variable increases by 1% then earnings management will increase by 0.536%.

**V. CONCLUSION**

The results of the analysis conducted on the effect of managerial ownership on the earnings management of acquiring companies on the Indonesian stock exchange provide some conclusions, namely there is earnings management of the acquiring company before conducting mergers and acquisitions by raising report earnings. This is indicated by the average value of positive earnings management calculation, which means that there is earnings management where earnings reports and the sig of the t test are less than 0.05 and managerial ownership has a positive effect on earnings management. This means that the greater managerial ownership can improve earnings management practices.

**REFERENCES**


