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MODERATE EFFECT OF INSTITUTIONAL OWNERSHIP ON FINANCIAL DISTRESS, FREE CASH FLOW AND TAX PLANING ON REAL EARNING MANAGEMENT

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ABSTRACT

The purpose of this study is to determine the Effect of Financial Distress, Free Cash Flow and Tax Planning on Real Earning Management with Institusioanl Ownership as a moderating variable. Sample collection was carried out using a purposive sampling method with total sample 187 companies during the 2014-2019 period. The analytical tool used is multiple linear regression. The results of this study indicate that Financial Distress has a significant positive effect on Real Earning Management. Whereas Free Cash Flow and Tax Planning have no significant positive effect on Real Earning Management. Good Corporate Governance which is proxied by Intitusional Ownership can reduced the influence of Financial Distress on Real Earning Management. Intitusional ownership is not able to reduced the influence between Free Cash Flow and Tax Planning on Real Earning Management.

1. INTRODUCTION

Profit is a general indicator used as a basis for assessing company performance. Earnings information can influence decision making by interested parties such as investors, creditors, the public and other parties. Earnings management arises when the company experiences an unfavorable situation so that managers are involved in preparing financial statements and influencing accounting data so that the output of the accounting process does not match the actual situation in the company. There are several cases of earnings management in large companies in the world, such as the Toshiba company in Japan. In May 2015, investigations revealed that Toshiba had lied through accounting fraud regarding the recognition of profits of USD 1.22 billion. This action was taken by Toshiba based on the difficulty of achieving the profit target applied. The CEO and eight other leaders resigned. The Toshiba name was later removed from the stock index and experienced a significant decline in sales. At the end of 2015, Toshiba.

2. METHOD

2.1 Jenis and Data Source

This study uses a quantitative approach with secondary data collection methods and hypotheses to explain phenomena in the form of relationships between variables. variables obtained based on data and facts from secondary data collected. This study, to find out how much influence Financial Distress, Free Cash Flow and Tax Plans on Real Earnings Management Corporate Governance as a variable and Liquidity Profitability, Company Age as a control variable. The unit of analysis in this study is a manufacturing company. The data observed in this study is panel data on manufacturing companies listed on the Indonesia Stock Exchange for the period 2014-2019.

2.2 Analysis Method

The data analysis method used in this research is multiple linear regression. While the analysis technique used is descriptive statistical test, data quality test and classical assumption test used are normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test with data processing using Eviews 10 software. Regression equation hypothesis test, t statistical test, and F statistical test. In this study the data used is panel data. Panel data is a combination of cross section data and time series data. Regression that uses panel data is called panel data regression. Several advantages of using panel data regression (Suharjo, 2008).

3. RELUST AND DISCUSSION

3.1 Effect of Financial Distress on Real Earnings Management

Companies experiencing financial distress will immediately take action to respond to these conditions. Actions taken by business entities in the form of cessation of operations, not paying dividends, reducing production, postponing certain projects, or reducing the number of employees. Companies can also respond to financial difficulties by performing earnings management such as manipulating financial statement data. The results of this study indicate that Financial Distress has a significant positive effect on Real Earning Management. The results of this study are in line with research conducted by Jacob and Liu (2019), Ranjbar and Amanollahi (2018), Chairunesia.et.al (2018) and Muljono and Suk (2018). The higher the level of financial difficulty experienced by the company, the higher the level of application of Earnings Management practices. This is because the manager's desire to provide financial information to the principal is related to the optimization of the company's management as seen from the profits generated.

3.2 Effect of Free Cash Flow on Real Earning Management

Agency conflicts occur between principals and managers who have different interests in the use of a number of free cash flows owned by the company. The principal has an interest in maximizing his wealth, so he wants free cash flow to be distributed as dividends. The results of this study indicate that Free Cash Flow has no significant positive effect on Real Earning Management. When viewed from the distribution of research data, for indicators of measurement of Real Earnings Management, it is known that the standard deviation value is greater than the average value or there are quite large fluctuations in the data. Meanwhile, for Free Cash Flow, it is known that the standard deviation value is greater than the average value or there are quite large fluctuations in the data. From the measurement indicators of Real Earning Management and Free Cash Flow, it shows that there are some data that are too extreme in this study. The existence of extreme data can affect the results of this study.The results in this study are in line with the research of Herlambang and Edyanus (2017) and Putri and Rahmawaty (2018). Free Cash Flow has no effect on Earnings Management because the company is healthier because it has cash available for growth, debt payments and dividend payments to owners, so the company is not interested in earnings management. If viewed from the perspective of agency theory, the existence of free cash flow which causes agency problems but is still at a low level. the availability of free cash flow provides flexibility for managers to develop the company's business so that it is unlikely that earnings management practices will be carried out.

3.3 The Effect of Tax Planning on Real Earnings Management

The role of tax planning in the practice of earnings management is closely related to agency theory where the government as the principal and the company as the agent have conflicting interests. Companies will always try to pay taxes to a minimum because taxes are costs that will reduce the company's economic capacity. On the other hand, the government needs income for its household activities and one of the largest revenues comes from taxes. Thus, there is a conflict of interest between the company and the government, thus motivating managers to carry out earnings management so that the tax burden to be paid to the government can be smaller.

From the results of this study indicate that Tax Planning does not have a significant positive effect on Earnings Management. When viewed from the distribution of research data, for indicators of measurement of Real Earnings Management, it is known that the standard deviation value is greater than the average value or there are quite large fluctuations in the data. As for Tax Planning, it is known that the standard deviation value is smaller than the average value or there is no significant fluctuation in the data. From the measurement indicators of Real Earning Management and Tax Planning, it shows that there are some data that are too extreme in this study. The existence of extreme data can affect the results of this study.

The results in this study are in line with the results of Wardani and Santi's research (2018) which states that tax planning has no effect on earnings management because earnings management practices are based more on self-interest while tax planning is more oriented to the interests of the principal because it will reduce the prosperity obtained by the principal. However, if viewed further, the increase in profit will have a positive correlation with the level of taxation. The level of profit generated by the company will be proportional to the amount of tax payments made by the company, so that tax planning has no relationship with earnings management practices carried out by company management.

3.4. The Effect of Institutional Ownership in Moderating the Effect of Financial Distress on Real Earnings Management

According to agency theory, financial difficulties can lead to agency conflicts. Agency conflicts will occur between managers and principals. If the company experiences Financial Distress, the principal will perceive it as the inability of the manager (agent) as the manager of the company. This is the impetus for managers to practice earnings management. Managers will try to show good company performance with high profit indicators. This high profit is obtained from the manipulation of the company's financial statements. In order to suppress earnings management practices, it is necessary to apply a Corporate Governance mechanism.

The Good Corporate Governance mechanism has several components including institutional ownership which is expected to be able to monitor the company's performance so that it is managed properly. Institutional ownership can play a role in reducing earnings management practices because institutional investors are assumed to be experienced investors and can perform better analysis so that they are not easily deceived by management manipulation, therefore managers will avoid earnings management actions so that the profits generated will be greater. higher quality.

The results of this study indicate that Institutional Ownership is able to weaken the influence of Financial Distress on Real Earning Management. The results of this study are in line with research conducted by Astari and Suryanawa (2017), Mudjiyanti (2018) and Utari and Sari (2016) which state that institutional ownership has a negative effect on Earnings Management Practices, which means that institutional ownership can minimize earnings management practices so as to monitor earnings management. profit of the parties. management which has an impact on decreasing the motivation of managers to perform earnings management.

3.5 The Effect of Institutional Ownership in Moderating the Effect of Free Cash Flow on Real Earnings Management

The availability of free cash flow within the company is a good thing for companies where the availability of large free cash flows is able to support activities and improve the company's business. However, if the company is not able to manage and supervise properly, free cash flow tends to be misused by managers for their own interests. And in the end, to cover the actions taken, managers will manipulate the company's financial statement data, namely by doing earnings management. Institutional ownership in the company will be able to suppress earnings management practices based on the availability of free cash flow. This is because institutional investors will monitor the utilization of the availability of free cash flow so that managers are required to take advantage of it by investing in productive things.

The results of this study indicate that institutional ownership is not able to weaken the influence of Free Cash Flow on Real Earning Management. When viewed from the distribution of research data, for measurement indicators in Real Earnings Management, it is known that the standard deviation value is greater than the average value or there are quite large fluctuations in the data. For Free Cash Flow, it is known that the standard deviation value is greater than the average value or there is a fairly large fluctuation in the data. While institutional ownership is known that the standard deviation value is smaller than the average or there is no significant fluctuation in the data. From the measurement indicators of Real Earning Management, Free Cash Flow and Institutional Ownership, it shows that there are some data that are too extreme in this study. The existence of extreme data can affect the results of this study.

The results in this study are not in line with several previous studies by Astari and Suryanawa (2017), Mudjiyanti (2018) and Utari and Sari (2016). The results of this study indicate that the proportion of institutional ownership that is intended as a supervisor and monitor of company activities has no impact on the relationship between the availability of free cash flow and earnings management practices because the availability of free cash flow reflects a healthy company. the condition where there is or no institutional ownership in the company has no impact. The company's financial stability is indicated by the company's ability to pay its obligations. The availability of free cash flow also provides flexibility for managers to develop the company's business so that earnings management practices will be very unlikely to be carried out.

3.6 Pengaruh Kepemilikan Institusional dalam memoderasi Pengaruh Tax Planning Terhadap Real Earning Management

Tax planning arises because of differences in interests between companies and the government. According to Wardani and Santi (2018), tax planning is defined as the process of organizing the business of a taxpayer or a group of taxpayers in such a way that the tax debt, both income tax and other tax burdens, is in a minimal position. The relationship between tax planning and earnings management actions is that with tax planning, companies tend to carry out earnings management.

Efforts to prevent managers from minimizing profits is to implement a corporate governance mechanism. Institutional ownership which is one of the corporate governance mechanisms is able to suppress the practice of tax planning-based earnings management. This is because institutional ownership is able to monitor the company's business activities, thus putting pressure on managers to report actual operating results without manipulation of financial statement data.

The results of this study indicate that institutional ownership is not able to weaken the effect of Tax Planning on Real Earning Management. When viewed from the distribution of research data, for measurement indicators in Real Earnings Management, it is known that the standard deviation value is greater than the average value or there are quite large fluctuations in the data. For Tax Planning, it is known that the standard deviation value is smaller than the average value or there is no significant fluctuation in the data. As for Institutional Ownership, the standard deviation value is smaller than the average value or there is no significant fluctuation in the data. From the measurement indicators of Real Earnings Management, Tax Planning and Institutional Ownership, it shows that there are some data that are too extreme in this study. The existence of extreme data can affect the results of this study.

The results in this study are not in line with several previous studies, namely Astari and Suryanawa (2017), Mudjiyanti (2018) and Utari and Sari (2016). The results of this study indicate that the proportion of institutional ownership has no effect on the relationship between Tax Planning and Real Earnings Management. This is because the imposition of taxes will be positively correlated with the level of profit generated. The presence or absence of institutional ownership has no impact on the size of the tax paid by the company.

4. CONLUSION

This study aims to determine whether Financial Distress, Free Cash Flow and Tax Planning affect Real Earnings Management with Institutional Ownership as a moderating variable. Based on the results of the analysis and discussion in the previous chapter, the following conclusions can be drawn: Financial Distress has a significant positive effect on Real Earning Management, this shows that the higher the level of financial distress experienced by the company, the higher the level of application of earnings management practices because of the manager's desire to provide financial information to principals related to optimizing company management in terms of profits. resulting from. Free cash flow does not have a significant positive effect on Real Earnings Management, this shows that the greater the free cash flow available in the company, the healthier the company because it has cash available for growth, debt payments and dividend payments to owners so that the company is not interested to do earnings management. Tax Planning does not have a significant positive effect on Real Earnings Management, this indicates that an increase in profit will be positively correlated with the level of taxation. The level of profit generated by the company will be proportional to the amount of tax payments made by the company, so that tax planning has no relationship with earnings management practices carried out by company management. Institutional Ownership is not able to weaken the influence of Free Cash Flow on Real Earning Management, this shows that the proportion of institutional ownership that is intended as a supervisor and monitor of company activities has no impact on the relationship between the availability of free cash flow and earnings management practices because the availability of free cash flow reflects the state of the company. . healthy ones. Institutional Ownership is not able to weaken the effect of Tax Planning on Real Earnings Management, this shows that the proportion of Institutional Ownership has no effect on the relationship between Tax Planning and Real Earnings Management. This is because the imposition of taxes will be positively correlated with the level of profit generated. The presence or absence of institutional ownership has no impact on the size of the tax paid by the company

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