ABSTRACT
Earnings management is still an interesting focus of research from year to year. Research does not only focus on conventionally based entities but also moves to Sharia entities. This study aims to investigate the effect of firm value and financial performance on earning management. From the 20 sharia issuers that were successfully analyzed as samples, we found that, in general, there is no strong evidence that Islamic issuers practice earnings management, this can be seen from the positive average discretionary accruals. Referring to the discussion of the influence of firm value as measured by Tobin’s Q on the practice of earnings management, it was concluded that firm value had a significant effect on earnings management practices. This research has two contributions. Firstly this research is expected to contribute to market-based accounting research. Secondly, this study provides evidence of earnings management practices for Islamic entities.
Keywords: earnings management, Tobin's Q, growth
1. Introduction

Earnings management is still an interesting focus of research from year to year. Research does not only focus on conventionally based entities but also moves to Sharia entities. (Healy & Wahlen, 1999), define earnings management as a change in the company's economic performance reported by management to "mislead some stakeholders" or "influence contractual results. As a result of these actions, according to (Leuz, Nanda, & Wysocki, 2003), management has an incentive to transfer resources from external parties. Still, according to (Leuz et al., 2003), management can manipulate financial statements about the company's performance to conceal the benefits of confidential controls they have. According to (Suyono, 2017), financial report manipulation is by overestimating profits and hiding the realization of unfavorable income that can encourage external interference. In line with that, (Scott, 2009) also argues that earnings management is an activity of sorting accounting policies from a certain standard to achieve certain profit targets, to intending to maximize the welfare of management and the value of the company. Still, according to (Scott, 2009) motivation to do earnings management are 1) bonus purpose, 2) political motivation, 3) taxation motivation, 4) CEO turnover, 5) IPO and the importance of providing information to investors. If this happens, it is not in line with sharia principles. According to (Quttainah, 2013), sharia entities operate based on sharia principles. According to him, sharia entities have their characteristics compared to other entities. One such characteristic is that Islamic entities must comply with and provide rules to limit the management of resource allocation, distribution of income and wealth, and reporting of accounting figures. National Sharia Board has issued a fatwa regarding the permissibility of income smoothing contained in the MUI Fatwa number 87/DSN-MUI/XII/2012; however, the fatwa is limited to sharia entities which collect funds from third parties.

According to (Ujiyantho and Pramuka, 2007), earnings management can be explained by agency theory. According to (Jensen & Meckling, 1976), agency relationship is a relationship between the principal and the agent. Based on this definition, the principal acts as a sharia issuer, and the agent acts as an investor. (Jensen and Meckling, 1976) suggested that this agency problem could arise due to two things, namely moral hazard and adverse selection. Moral hazard arises when an agent defaults on a contract, while an adverse selection occurs where the principal does not obtain information that is sufficiently related to the agent's activities.

This research is a modification of the research conducted by (Prasojo & Fatayati, 2018), the difference in this research lies in the measurement model of earnings management, where (Prasojo and Fatayati, 2018) uses the Healy approach, while in this study the modified Jones Model method is chosen. Also, the study of (Prasojo and Fatayati, 2008) examined Islamic issuers indexed in the Indonesian Sharia Stock Index (ISSI), while this researcher focused more on Islamic issuers indexed by JII. This study is also a modification of the research of (Wiyadi and Prasnowo, 2011); the results of his research found three companies that were indexed by JII indicated to practice earnings management.

Another study conducted by (Widyastuti, 2009) examined the performance and ownership structure of earnings management. The results found that performance has a positive influence on earnings management. Earnings management research as the dependent variable was carried out by (Bertin and Sepulvera, 2015), where the results found that earnings management practices were not enough to explain the better performance of family-owned companies. Meanwhile, research with earnings management as an independent variable and firm value
proxied by Tobin’s Q has been carried out by (Abner & Ferrer, 2018). The results of the study show that earnings management has a significant influence on firm value.

In addition to the results of research that still raises inconsistencies, research on earnings management in sharia entities is still very little (Quttainah and Song, 2013), for example, examines the practice of earnings management in Islamic and conventional bank entities, (Kanagaretnam, Lobo, & Wang, 2015) examined national culture concerning earnings management. (Faradila & Cahyati, 2013) examined Islamic banking in the 2012-2013 period (Bidabad, 2019) examined some auxiliary regulatory pillars and complementary considerations and systems in Rastin Banking. Research by (Suryanto, 2014) which still focuses on Islamic banking with the role of the audit committee and supervisory board as control variables. In this study, researchers expanded the object of research by involving Islamic issuers indexed in JII and measuring the firm value of issuers using Tobin’s Q.

The research question to be answered in this study is whether Islamic issuers are indicated to practice earnings management? How the impact of the entity's performance on earnings management. To answer these problems, researchers involved 30 Islamic issuers in the capital market and analyzed them using descriptive statistics and panel data regression. The urgency of this study can provide information to capital market regulators that in screening sharia issuers, it is also necessary to pay attention to indications of the existence of earnings management practices for the issuer.

This research has two contributions. Firstly this research is expected to contribute to market-based accounting research. Secondly, this study provides evidence of earnings management practices for Islamic entities.

2. Literature Review

2.1 Efficient Market Hypothesis and Agency Theory

This research is based on the efficient market hypothesis theory and agency theory. According to (Fama, 1970), in an efficient market, prices will reflect available information and as implication prices will react immediately without any bias towards new information. Fama (1970) divides market efficiency into three forms, market efficiency in the form of weak, semi-strong, and strong forms. Weak form markets are characterized by stock prices or securities that fully reflect past information. The semi-strong form market is characterized by stock or securities prices fully reflecting published information, and strong form markets are characterized by stock or securities prices fully reflecting all available information including even very confidential information. In this study, researchers assume that the Indonesian capital market has a half-strong form, in which the stock price obtained reflects information published.

According to (Jensen and Meckling, 1976), agency relation is a relationship between the principal and the agent. Based on this definition, the principal acts as a sharia issuer, and the agent acts as an investor. (Jensen and Meckling, 1976) suggested that this agency problem could arise due to two things, namely moral hazard and adverse selection. Moral hazard arises if the agent does not carry out the things agreed upon in the contract, while the adverse selection occurs where the principal does not know whether an interest taken by the agent is based on the information he has obtained or the error of the task.

2.2 Measure of Earnings Management
In this study, earnings management was measured using a modified Jones model (Dechow, Sloan, Sweeney, Sloan, & Sweeney, 2015). According to (Dechow, et al, 1995) this model has the best ability in detecting earnings management compared to other models. The formula for looking for earnings management through the modified Jones model is as follows:

1. Calculating total accrual (TAC)
   \[ TAC = NI_{it} - CFO_{it} \]

2. Total Accrual (TA) is estimated by OLS as follows:
   \[ TA_{it} = \beta_1 \left( \frac{1}{A_{it-1}} \right) + \beta_2 \left( \frac{\Delta REV_{it}}{A_{it-1}} \right) + \beta_3 \left( \frac{\Delta PPE_{it}}{A_{it-1}} \right) + e \]

3. Determine the Nondiscretionary Accruals (NDA) with the following formula:
   \[ NDA_{it} = \beta_1 \left( \frac{1}{A_{it-1}} \right) + \beta_2 \left( \frac{\Delta REV_{it}}{A_{it-1}} - \frac{\Delta REC_{it}}{A_{it-1}} \right) + \beta_3 \left( \frac{\Delta PPE_{it}}{A_{it-1}} \right) + e \]

4. Determine discretionary accrual (DA) with the following formula:
   \[ DA_{it} = TA_{it} - NDA_{it} \]

Note:
- DAit = discretionary Accruals of companies i in the period of year t
- NDAit = nondiscretionary Accruals of companies i in the period of year t
- TAit = the company's total accrual in the year t
- NIit = net income of company i in the period of year t
- CFOit = cash flows from operating activities of companies i in the period of year t
- Ait-1 = the total assets of the company i in the period t-1
- \( \Delta REV_{it} \) = company income i in year t minus company I income in year t-1
- PPEit = property, and company equipment i in the period of year t
- \( \Delta REC_{it} \) = account receivables of company I in year t minus company I income in year t-1.
- e = error

2.3 Measure of Tobin’s Q
In this study, to determine the value of the firm, researchers used the Tobin’sQ. According to (Smithers and Wright, 2007), Tobin’s Q model has advantages such as reflecting market sentiment and reflecting the company's overall assets. The Tobin’s Q measurement model used is a modified measurement model version of (Chung & Pruitt, 2012) as follows:

\[ q = \frac{(MVS + D)}{TA} \]

Note:
- MVS = Market Value of All Outstanding Share
- D = Debt
- TA = Firms Assets
- D = (AVCL − AVCA) + AVLTD
AVCL = Accounting Value of the Firms Current Liabilities, Shortterm Debt + Tax Payable
AVCA = Accounting Value of the Firms Current Assets
AVLTD = Accounting Value of the Firms Long Term Debt

2.4. Hypotheses Development
Research related to earnings management and company performance is carried out by (Siregar & Utama, 2008). The results of his research show that there is a positive influence between earnings management and company performance. Another study conducted by (Widyastuti, 2009) examined the performance and ownership structure of earnings management. The results found that performance has a positive influence on earnings management. The link between earnings management and firm value proxied by Tobin’s Q was examined by (Abner & Ferrer, 2018). The results of the study show that earnings management has a significant influence on firm value.

In addition to examining the firm value, (Abner & Ferrer, 2018)) also examine the relationship between earnings management and firm performance, which is proxied by Return on Equity. The results of the study found that the relationship between earnings management and performance had a negative effect. Another model of the study was carried out by (Sun, 2017), examining firm performance against earnings management behavior models. The results of the study show that performance effects on earnings management practice behavior. Based on the description above, the researcher suspects that sharia issuers are indicated to practice earnings management, and firm value and the performance of sharia issuers affect earnings management behavior.

3. Method
This researcher uses descriptive and verification methods. According to (Sekaran and Bougie, 2017), descriptive research is a study designed to collect data that explains the characteristics, events or situations. The Descriptive method is used to explain the presence or absence of earnings management practices in sharia issuers indexed in JII. Meanwhile, to determine the effect of firm value and performance of Islamic issuers on earnings management behavior, researchers used a verification approach with statistical regression tools. Data is taken through the financial statements of sharia issuers indexed in the Jakarta Islamic Index (JII) for the period June 2018 to May 2019 with a total of 30 Islamic issuers. Through purposive sample, selection obtained a sample of 20 issuers. The research model follows (Siregar and Utama, 2008), (Wiyadi and Prasnowo, 2011); the research models formulated in this study are as follows:

$$DA_{it} = \beta_0 + \beta_1 Tobin's Q_1 + \beta_2 Growth_2 + \beta_3 Profit_3 + e$$

Note:
DA = earning management
Tobins Q = firm value proxied by Tobins Q
Growth = growth of sales
Profit = return on assets

4. Result and Discussion
4.1. Descriptive Statistics

Table 1 describes the description of earnings management and the firm value of sharia issuers measured using Tobin’s Q and control variables. Descriptive statistics used to consist of averages, the minimum value, maximum value, and the standard deviation.

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>DA</td>
<td>-9.92</td>
<td>2.921</td>
<td>0.289</td>
<td>1.484</td>
</tr>
<tr>
<td>Tobin’s Q</td>
<td>-0.08</td>
<td>22.84</td>
<td>2.918</td>
<td>4.285</td>
</tr>
<tr>
<td>Growth</td>
<td>-0.23</td>
<td>1.106</td>
<td>0.130</td>
<td>0.220</td>
</tr>
<tr>
<td>Profitability</td>
<td>-0.01</td>
<td>0.462</td>
<td>0.126</td>
<td>0.112</td>
</tr>
</tbody>
</table>

Source: Data Processed

Based on the table above, we know that the average Discretionary Accrual of Sharia issuers is 0.289. The lowest value is -9.92, and the highest is 2.921. Based on that, there is no strong enough evidence to conclude that Islamic issuers practice earnings management, seen from a positive average value. However, if analyzed partially, then we still find some issuers who practice earnings management. In 2013, there were still ten companies indicated to practice earnings management with negative Discretionary Accrual values.

Sharia issuers incorporated in the JII index are selected using three parameters. First, the issuer operates using sharia principles; the second is the comparison between non-halal income and total income of no more than 10 percent, and the ratio between non-halal debt and total debt no more than 40%. However, these three parameters still provide an opportunity for issuers operating using the principle of interest or non-sharia to become Islamic issuers. We can see this from several issuers who have negative discretionary accrual values. We suspect that earnings management behavior will be contributed by issuers operating without the use of sharia principles.

Meanwhile, the average value of the firm, as measured by Tobin’s Q is 2.92. The highest value is 22.82 and the lowest is -0.08. Looking at this average, sharia issuers, in general, have good value because they are above the number 1. The average sales growth or revenue of sharia issuers is at 0.13, with the highest value of 1.106 and the lowest value of -0.23. Thus, the average sales growth of sharia issuers only reached 0.13 percent, with the highest value reaching 1.1 percent. This sales growth if we look very low. The average profitability of sharia issuers is around 0.12 percent, with the highest value of 0.4 percent. In general, it can be concluded that the sales growth and profitability of sharia issuers are very low.

4.2. Model Selection

Before conducting hypothesis testing, panel data through a series of model selection tests. The first test, the Chow test, is conducted to choose whether the chosen model is the effect of securities, fixed effects or random effects.
Table 2
Model Selection Test

<table>
<thead>
<tr>
<th>Uji Model</th>
<th>Prob Cross Section F</th>
<th>Cross-section random</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chow Test</td>
<td>0.0019</td>
<td></td>
<td>Fixed Effect Model</td>
</tr>
<tr>
<td>Hausman Test</td>
<td>0.6590</td>
<td></td>
<td>Random effect Model</td>
</tr>
</tbody>
</table>

Source: Data Processed

Based on the results of these tests, obtained F-Cross-section value of 0.0019 smaller than 0.05, so that the selected model is a fixed effect. The second test is the Hausman test to choose the chosen model, namely the fixed effect or random effect. Based on the results of the test obtained a random Cross-section value of 0.6590 which means greater than 0.05, so the chosen model is a random effect model. Both of these test results conclude that the right model is a random effect.

4.3. Tests of Hypothesis

From the results of statistical data processing, several statistical measures are obtained as follows:

Table 3:
Test of hypothesis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>1.351121</td>
<td>0.206512</td>
<td>6.542574</td>
<td>0.0000</td>
</tr>
<tr>
<td>Q</td>
<td>0.090071</td>
<td>0.037825</td>
<td>2.381240</td>
<td>0.0192</td>
</tr>
<tr>
<td>Growth</td>
<td>-4.206962</td>
<td>0.419927</td>
<td>-10.01832</td>
<td>0.0000</td>
</tr>
<tr>
<td>ROA</td>
<td>-6.132102</td>
<td>1.451999</td>
<td>-4.223213</td>
<td>0.0001</td>
</tr>
</tbody>
</table>

Source: Data processed

Based on the table above, it can be seen that the constant is 1.35, the coefficient for firm value proxied by Tobin’sQ is 0.09, the coefficient for growth is -4.2 and the coefficient for profitability performance is -6.13, the research model can be arranged as follows:

\[ DA_{it} = 1.351121 + 0.09Q_1 - 4.2Growth_2 - 6.13Profit_3 + e \]

If we look at the probability number of each variable below 0.05, then we can conclude that all the variables that are both firm values proxied by Tobin's Q, sales growth and profitability significantly influence the practice of earnings management or Discretionary Accrual. If we look at the direction of the coefficient, it can be concluded that the firm value measured by Tobin’sQ has a positive direction. This indicates that the higher the value of Tobin’s Q, it will reduce the practice of earnings management because the value of discretionary accruals is more positive.

Meanwhile, sales growth and profitability have a negative direction. This finding indicates that even though sales growth and the rate of return on assets rise, it will cause an indication of earnings management practices. This finding is in line with the results of (Omid's, et al, 2012), (Anjum, Iqbal Saif, Malik, & Hassan, 2012), and (Tahir, Sabir, & Shah, 2011), that return on assets has a negative influence on earnings management practices. Based on our analysis, the
increase in sales and profit levels will increase management's opportunistic actions to modify earnings to produce negative discretionary accruals. It occurs when the upper limit of profit to obtain a bonus has been reached, so that management takes opportunistic actions by reducing profits and transferring the profits to other periods.

In general, it can be concluded that this research is in line with the research conducted by (Prasojo and Fatayati, 2018), (Widyastuti, 2009), (Siregar and Utama, 2008), (Wiyadi and Prasnowo, 2011), (Sun, 2017), that performance has a significant effect on earnings management, however, the results of this study provide different direction coefficients.

<table>
<thead>
<tr>
<th>Table 4</th>
<th>Test of Model Fit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted R Square</td>
<td>F statistic</td>
</tr>
<tr>
<td>0.5711</td>
<td>44.94</td>
</tr>
</tbody>
</table>

Source: Data processed

Based on the table above, it is known that the Adjusted R Square value is 0.57. It means that 57% of the Discretionary Accrual variable is influenced by firm value variables measured by Tobin’s Q, sales growth and profitability, the remainder is influenced by other variables not examined in this study. The F value of statistics is 44.94 with a probability of 0.0000, when compared with the calculated F value of 2.7, the conclusion is that the model used is correct. In other words, simultaneously the variable value of the firm, profitability and sales growth together influence the earnings management behavior.

5. Conclusion
The results of this study, in general, can be concluded that there is no strong evidence that Islamic issuers practice earnings management, this can be seen from the positive average discretionary accruals. It is reasonable for management not to practice earnings management. Referring to (Sulistiawan & Rudiawarni, 2017), that high or positive accruals will result in low stock risk. In other words, Islamic companies are trying to reduce the risk of shares by not practicing earnings management. This means that management does not carry out opportunistic actions to reduce profits. Referring to the discussion of the influence of firm value as measured by Tobin’s Q on the practice of earnings management, it was concluded that firm value had a significant effect on earnings management practices. The positive trending coefficient indicates that continuous improvement in performance will reduce earnings management practices, as evidenced by positive discretionary accruals. Meanwhile, if we refer to the discussion of the influence of sales growth on earnings management practices, it can be concluded that sales growth has a significant effect on earnings management practices. The negative trending coefficient indicates that increasing sales growth will improve earnings management practices through earnings manipulation.

Finally, if we refer to the discussion of the effect of the level of return on assets on the practice of earnings management, it can be concluded that return on assets has a significant effect on earnings management practices. The negative directed coefficient has the same indication as sales growth. For further research, we recommend the use of various earnings management measurement models so that they can accurately describe earnings management behavior in sharia issuers and determine other determinant models of earnings management behavior.

References


