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Article title (please type): Analysis Opportunistic Behavior Of Management To Company Performance

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ANALYSIS OPPORTUNISTIC BEHAVIOR OF MANAGEMENT TO COMPANY PERFORMANCE

Arna Suryani., Mufidah.

Abstract: The purpose of this research is to analyze the opportunistic behaviour of management towards company performance empirically. Management opportunistic behaviour is measured by accrual-based earnings management and real earnings management. Meanwhile company performance is measured by return on assets. This research was conducted in some manufacturing companies listed on the Indonesia Stock exchange for period of 2015-2017. The sample was selected as many as 57 companies. The method of analysis uses associate descriptive analysis with multiple linier regression analysis tools by testing classical assumption, testing hypotheses and coefficient of determination. Based on the results of the study found that management opportunistic behaviour as measured by accrual-based earnings management affect the company's performance, while management opportunistic behaviour as measured by real earnings management does not affect the performance of company.
Keywords:Opportunistic Behavior,Company Performance.

Introduction

Profit is an important thing that investors consider to make a decision whether to make an investment or not. Therefore, managers try to provide information that will escalate the values of a company and the earnings quality of investors. Information published as an announcement will signal investors in making investment decisions (Hartono, 2009). In theory the management agency always tries to maximize its utility function. Considering that management has the freedom to choose one of the accounting policies, it is only natural that the idea then arises that management will choose an accounting method that will specifically helping management achieve its goals.

Defon and Parka (1997) explain that managers have the opportunity to shift current profits into the future by avoiding dismissals. Company management strives to make earnings management to improve company performance at certain times. Guidry et.al, (1999), Kaznik (1999), Teoh et.al (1998) explained that company management performs earnings management to meet profit targets as a measure of company performance. There are two ways to understand earnings management by company managers. First, it aims to maximize management utility (opportunistic behaviour). Second, it aims to provide benefits to all parties involved in the contract (efficient contracting). Earnings management can be measured through accrual-based earnings management and real earnings management. The approach most widely used in testing accrual-based earnings management is the model developed by Jones (Jones, 1991). Earning management techniques through real activity manipulation methods are defined by Roychowdhurry (2006) as differences in operating practices carried out with normal operational practices motivated by management's desire to provide wrong

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understanding to shareholders so that they believe that certain financial reporting objectives have been achieved accordingly practice of the company's normal operations.

Accrual-based earnings management occur when company management uses discretion in corporate with financial reporting through various accounting policies to change financial statements, resulting in stakeholders misjudging the company's economic performance or influencing contracts that depend on accounting figures reported in the financial statements (Healy and Wahlen, 1999). (Ardekani et.al .,2012) shows that the higher the management of the company performs accrual-based earnings management, the higher the company's performance will be. Kumari and Patanayak (2017) concluded that accrual-based earnings management increased in commercial banks in India and had a positive effect on the company's financial performance.

Managers doing earnings management through real activities will show good short-term performance of the company, but long-term performance will look bad (Gunny, 2005). The actions of company management that deviate from the normal business practices of the company with the main goal is to achieve profit targets is the concept of earnings management (Roychowdhury, 2006: Cohen and Zarowin, 2010). Company management has the potential to make real earnings management because of pressure or encouragement from managers to generate short-term profits regardless of long-term performance. This is because real earnings management is not in the spotlight of the regulator or auditor because it is difficult to detect (Gunny, 2005). Li et al (2016) concluded that top management skills negatively affect real earnings management but have a positive effect on company performance.

Return on assets is one measure of financial performance which aims to evaluate the company's ability to overall assets in generating corporate profits. ROA reflects the business benefits and efficiency of companies in utilizing total assets (Chen *et al*., 2006). Zang (2012) explains that CEOs do accrual-based manipulation in the initial period of their tenure to build reputation, so the CEO is retained. This was evident in the period 1992-2010, the CEO in the early years of his tenure reported an increase in average ROA of around 25% through accrual-based earnings management. Huang *et.al* (2009) explains that earnings management will reduce the value of the company that affects the company's performance. Bram et. al (2015) explained that companies tend to replace accrual-based earnings management standards with real earnings management strategies because real earnings management strategies in addition to high confidentiality can also cover political relations.

Based on the statements listed above, the problem in this study are: (1) whether opportunistic management behaviour as measured by accrual-based earnings management affects the company's performance, and (2) whether opportunistic management behaviour as measured by real earnings management through operating cash flow has an effect on performance company.

The purpose of this study is to analyze the influence of opportunistic management behaviour as reflected in accrual-based and real earnings management on corporate performance as indicated by Return on Assets.

Literature review

Agency theory

The personality theory proposed by Jasen and Meckeling (1976) explains that the agency relationship as a contract in which there is one or more people (Principal) involves another party (agent) to act on behalf of the owner in carrying out the company's business activities. Theory of agency management always tries to maximize its utility function. Considering that management has the freedom to choose one of the accounting policies, it is only natural that the thought arises that management will choose an accounting method that will specifically helping management achieve goals.

Earnings management

Scott (2006) defines earnings management as a way of presenting earnings that aims to maximize management's utility and or increase market value through the selection of management accounting policy sets. The concept of earnings management by Salno and Baridwan in Arna (2015) using a theoretical approach of the agency*(agency theory)*which states that "the practice of earnings management is influenced by a conflict between the interests of management(agent)and the owner (principal) resulting from each party seeks to achieve or consider the level of prosperity he wants". Concerns about job security have created initiatives for managers to make current and future income better (Fudenberg and Tirole, 1995).

According Richowdhury (2006) Since earnings are composed of cash flow from operations and accrual-based, firms have two options to manage earnings. Frist, firms can manage earnings through deviation from the normal operation company, so that the cash flow from operations will be affected. Deviating from normal business practices to manipulate reported income is defined as real earnings management. Second, a firm can alter the level of accrual-based to obtain the desired level of earnings . Managers use judgments in financial reporting which can be defined as accrual-based based earnings management (Healy and wahlen 1999). Ghazali, Shafie, and Sanusi (2015) found that managers of the companies would engage in earnings management when the company is financially healthy and when the profit of the company is high.

Company Performance

The opportunist managers may manage the accounting numbers to camouflage the negative performance and reported it as a highly performed company. The company's financial performance is an analysis carried out to see the extent to which a company has implemented by using the rules of financial implementation well and correctly (Fahmi, 2014). Klapper and Love (2002) explained that ROA is an accounting-based measurement tool that measures the operations and financial performance of a company, a high ROA value indicates that the company has a good performance by generating profitable investments in the past. This will have a positive impact on the company because it will increase the attractiveness of shareholders in making investments. Thus ROA has advantages that can be used to measure the effectiveness and operational efficiency of the company.

Methodology

The population of this research is manufacturing companies listed on the Indonesia stock exchange with sample selection based on purposive sampling, with certain criteria so that 57 companies were selected and that the number of observations in this study was 171.

The research method used was *explanatory research* (Cooper, 2008). The analysis model used in this study is multiple linear analysis, by testing the classical assumptions, testing the hypothesis F and t with a significant level of 95% or α (5%), as well as testing the coefficient of determination. Regression equation model is: $Y = a + b_1X_1 + b_2X_2 + e$, where: Y = Company Performance, a = Constant, b_1b_2= Variable X Coefficient$_{1.}X_2$, X_1= *earnings management accrual-based (MLA)*, X_2 = *Real Profit Management (MLR)*, and e = error.

Tabel 1. Operational Variables

Variable	Definition	Formulation
Accrual-based-Earnings Management	Accrual-based earnings management was measured by using discretionary accrual-based modified Jones	$TA_{it} = NI_{it} - CFO$ $TA_{it} = \alpha_1 + \alpha_2\Delta R_{evit} + \alpha_3 PPE_{it} + \varepsilon_{it}$ $TA_{it}/A_{it-1} = \alpha_1(1/A_{it-1}) + \alpha_2(\Delta R_{evit}/A_{it-1}) + \alpha_3(PPE_{it}/A_{it-1}) + \varepsilon_{it}$ $NDA_{it}/A_{it-1} = \alpha_1(1/A_{it-1}) + \alpha_2(\Delta R_{evit}/A_{it-1} - \Delta AR_{evit}/A_{it}) + \alpha_3(PPE_{it}/A_{it-1}) + \varepsilon_{it}$ $DA_{it} = (TA_{it}/A_{it-1}) - NDA_{it}$ Notation: TA_{it} = the total accrual-based of company in period t. NI_{it}= net income of company i in period t . CFO_{it}= operating cash flow of company i in period t. NDA_{it}= nondiscretionary accrual-based of campany i in the period t. DA_{it} = discretionary accrual-based of company i in the period t A_{it-1} = Total asset of company I in the period t-1. ΔRev_{it}= changes in net sales of company I in period t. ΔAR_{evit}= the change in receivables of company in period t. PPE_{it} = property, plant and Equipment of company in period t. α_1, α2,α3 = parameters obtained from the regression equation. ε_{it}= error term of company i in period t.
Real Earnings Management	Real Earnings management based Roychowdhury (2006) model illustrates the cash flow of normal	$CFO_t/A_{t-1} = \alpha_0 + \alpha_1 (1/A_{t-1}) + \beta_1(S_t/A_{t-1}) + \beta_2(\Delta S_t/A_{t-1}) + \varepsilon_1$ Notation: CFO_t= current operations of company I in period t. A_{t-1} = total Assets of company I in period t. S_t = sales of company I in period

	operating activities as a linier function of sales and changes in sales in a period.	t. ΔS_t = sales of company I in period t minus sales in period t-1. α =regression coefficient. ε_t = error term in the period of.....?
Company Financial performance	The company's financial performance is measured by ROA.	ROA = Net Income / Total Assets

Result discussion

Based on the classical assumption test, the data is normally distributed, there is no mulicollinearity, no heteroscedasticity and autocorrelation does not occur. The results of multiple regressions were obtained: Y= 4,063a + 1,846 X_1+0.931X_2 + 0.962ε. The regression coefficient for accrual-based earnings management (MLA) is equal to 4.063. Coefficient is positive means there is a positive relationship between MLA and ROA, if the MLA value rises, ROA will rise. The regression coefficient for real earnings management (MLR) is equal to 0,931. In the test determination ($R^{2)}$ obtained the R Square value that is equal to 0.038. This shows that the influence of MLA and MLR on the company's performance is only 3.8% while the remaining is 96.2% is influenced by other factors outside this research. The coefficient of determination ($R^{2)}$ is as follows:

Tabel 2.Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,194[a]	0,038	,026	10,03847

a..Predictors: (Constant), MLA, MLR
b.Dependent Variable: ROI

Hypothesis Testing
Testing the first hypothesis
H1 : Accrual-based earnings management and real earnings management simultaneously have a significant effect on financial performance

Table 3. Results of Analysis Test F
ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	660,736	2	330,368	3,278	,040[b]
	Residual	16929,507	168	100,771		
	Total	17590,243	170			

In table 3 above it can be seen that the significance level of 0.040 is smaller than 0.05. This shows that together the opportunistic management behaviours measured from accrual-based earnings management (MLA) and real earnings management (MLR) affect financial performance (ROA). So it can be concluded that the first hypothesis is accepted means that simultaneously accrual-based earnings management and real earnings management have a significant effect on financial performance.

Testing the second hypothesis

H2 : Accrual-based earnings management has a positive and significant effect on financial performance

The results of the calculation of the t test in this study can be seen in the following table 4

Table 4. Analysis Results t Test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4,063	,962		4,224	,000
	MLA	1,846	,920	,154	2,006	,046
	MLR	,931	,529	,134	1,759	,080

Based on the result of the t test in table 4 above the accrual-based earning management coefficient of 1,846 is positive with a significance level of accrual-based earnings management variable that is 0.046 smaller than the significance level of 0.05. it can be concluded partially accrual-based earnings management variables have a positive and significant effect on financial performance. These result indicate that opportunistic management behaviour always strives to show good performance in generating profits by showing the company's ability to overall assets by manipulating through the accrual-based earnings management.This is due to discretion in the financial reported by companies through various accounting policy to change the financial statements. The results of this study are in line with the results of the Kumari and Patayanak (2017) studies which concluded that accrual-based earnings management has positive effect on the company's financial performance at banks in India.

Testing the third hypothesis

H3 :Real earnings management has a positive and significant effect on the company's financial performance

Based on table 4 above the real earning management coefficient is 0,931 with a positive sign significant level of real earnings management variable that is equal to 0.080 greater than the level of significance 0.05 (0,080>0,05). Then it can be concluded that the hypothesis is rejected. It means that partially the real earnings management variable has no significant effect on the financial performance of the manufacturing company. Management of company avoids real earnings management such as manipulation of the sales and production volume. Moreover, manipulating the volume of trading and overproduction will damage the company's financial performance in the next period. This result shows that opportunistic management behaviour though real earnings management does not affect the company's financial performance. The results of this study also show that manufacturing companies listed on the Indonesia stock exchange tend to do accrual-based earnings management compared to real earnings management. The result of this study are not in line with Bram's (2015) research which explains that companies tend to replace the accrual-based earnings management strategy with real earnings management strategies because real earnings management strategies have high confidentiality and also cover political relations.

Implication for management

These findings are able to provide information to the management of the company to investigate the behaviour of opportunistic behaviour in distorting information of solidify finances. This signal information will be evaluated by the investor as a money investment decisions. This research also contributes to policy for the financial accounting standards Board (DSAK) in Indonesia to evaluate financial accounting standards in order to be able to investigate the remainder of the behaviour is opportunistic in the Act because the Act opportunistic because it can distort the financial information

Conclusion

Based on the results of the analysis and discussion can be concluded as follows:

1. Taken together opportunistic management behaviour as measured by accrual-based earnings management (MLA) and Real Earnings Management (MLR) have a significant effect on company performance as measured by ROA with a significance level of 0,040 is smaller than 0.05.
2. Opportunistic management behaviour as measured by accrual-based earnings management partially positive and significant effect on financial performance as measured by ROA with a large influence of 1,846. These results indicate that opportunistic management in the short term wants to show good profit results by doing accrual-based earnings management.
3. Opportunistic management behaviour as measured by real earnings management with an operating cash flow approach partially does not have significant effect on company performance as measured by ROA. This result shows that opportunistic management behaviour through real earnings management does not affect the company's financial performance and also the results of the study indicate that manufacturing companies listed on the Indonesian stock exchange tend to do accrual-based earnings management compared to real earnings management.

This study has several limitations, suggestions for the next research.

1. This research is only based on manufacturing companies taken by *purposive sampling*. There is a possibility that using *purposive sampling* influences the generalization of the results of the study. For the next research, it would specifically evaluate the results of this study with a sample of non-manufacturing companies. In addition, if the available data allows the use of specific industries and longer data *time series* may improve predictive ability in analyzing the influence of opportunistic management behaviour on the company's financial performance.
2. This research is only limited to real earnings management with a cash flow approach, financial performance is only ROA. For further research can add methods for the independent variable and the dependent variable that can increase the explanatory power of the opportunistic behaviour of management on the company's financial performance.

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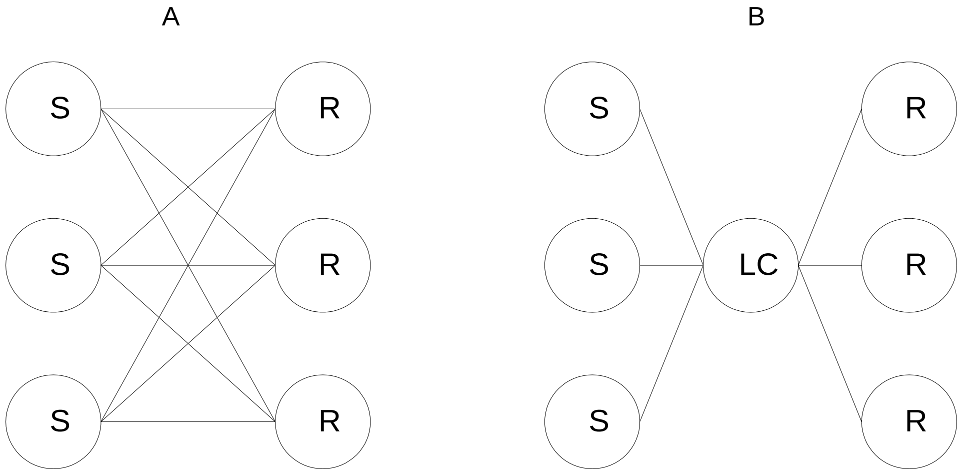

Figure 1. Diagrams the flow of goods between traders S (supplier) and R (the recipient), LC (logistics centre) (Richter and Tarkowski, 1996).

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Table 1. Inner Path Model Coefficients and their Significance

Latent exogenous variable	Original value	Mean (bootstraps)	Standard deviation	T-value
Effects of the strategic success factor costs	0.3380	0.3213	0.1262	2.68***
Effects of the strategic success factor time	0.1930	0.2527	0.1164	1.66†
† p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001				

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