THE INFLUENCE OF SEGMENT DISCLOSURE, AUDIT QUALITY, COMPANY CHARACTERISTIC ON EARNINGS MANAGEMENT IN MANUFACTURING COMPANIES LISTED IN INDONESIA STOCK EXCHANGE

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Abstract. *This study investigates the effect of segment disclosure, company size, company growth, leverage, profitability, audit quality, and company losses on earnings management in manufacturing companies listed on the Indonesia Stock Exchange in 2019-2022. Earnings management is seen as an important issue in accounting and finance, because managers can engineer earnings quality with certain motives and result in misleading users of financial statements. Segment disclosure is seen as the quality of information at a certain level that is informed to users of financial statements. This study analyzed a sample of 37 manufacturing companies, resulting in 148 observation data. The research method used is multiple linear regression. After fulfilling pooling tests, classical assumptions, the results showed that segment disclosure, audit quality, company growth and company losses had an effect on earnings management, while other variables had no effect.*

Keywords: *Audit, Characteristic, Disclosure, Earnings*

1. INTRODUCTION

Nowadays, all businesses strive to improve their performance to achieve their goals. Companies diversify their business by expanding their business and geographic segments in order to survive and thrive. To see the company's performance achievements, customers can conduct a good investment analysis with the help of the company's segment data. Since segment information is very important to users of financial statements, standards are created to help organize such information. IFRS 8 Operating Segments, issued by the International Accounting Standards Board (IASB), requires all companies to disclose their operating segments. Since January 1, 2011, PSAK No.5 (Revised 2009) in Indonesia governs the reporting of operating segments in financial statements. The standard promotes transparency of financial statements through disclosure of segment reporting for users' decision-making needs.

Research on disclosure was conducted by Juan Halim (2005), examining financial statement disclosure as the main independent variable on earnings management. The results showed that the lower the level of disclosure of financial statements, the higher the intensity of managers practicing earnings management in the perspective of opportunistic actions. While De Lavanda & Meiden's research (2022) examines social responsibility disclosure on financial performance. The results showed that the higher the level of disclosure showed the lower the level of profitability. This is because the cost of disclosure increases causing financial performance to decline. Research on social responsibility disclosure as a dependent variable was conducted by Dika Fuji and Carmel Meiden (2024) using a literature review study. The findings on the effect of company size, leverage and profitability produce mixed findings, some of which show positive and negative relationships. Meanwhile, research on the influence of stakeholders on social responsibility disclosure was conducted by S Tristyan and

Carmel Meiden (2023). The results showed that the higher the news in the media, the higher the disclosure of social responsibility.

Research related to disclosure of sustainability reports including on the theme: materiality was conducted by Angel Putri et al (2022). The results showed that the company's high level of materiality was related to workers, economic performance, products, pandemics and digitalization. Research by TM Chika and Carmel Meiden (2023). The results showed that the company's high-level materiality issues were related to social issues. Research with the theme of content and quality principles Edy Sarwono and Carmel Meiden (2024). The results showed that quantitatively the highest disclosure was in the aspects of materiality and stakeholders. Climate change disclosure was conducted by HW Komala and Carmel Meiden (2024). The results showed that the disclosure made by Japan Airlines is the highest disclosure, followed by Singapore Airlines and Garuda Indonesia.

Hendra and Nunung Nuryani's research (2023) uses segment disclosure as the main independent variable measured by quantitative proxies. The results showed that segment disclosure has no effect on the accuracy of earnings forecasting. In contrast to Hendra and Nunung Nuryani's (2023) research which uses segment disclosure components and combined segment disclosures, Kurnia Utami and Sylvia Veronica's (2016) research examines segment disclosure on earnings quality. The results showed that segment disclosure has a negative effect on earnings management, but is not significant to the relevance of earnings value. The more segment disclosure increases, the intention of earnings management is to reduce earnings. This study uses the measurement of segment disclosure as conducted by Kurnia Utami and Sylvia Veronica (2016), namely using a disclosure check list with a total of 34 items.

In relation to earnings management, there are main factors that are considered influential according to Kurnia Utami and Sylvia Veronica (2016). The results showed that segment disclosure has a significant effect on earnings management. This study uses the same research model as Kurnia Utami and Sylvia Veronica (2016), in differences based on the object of the issuer sector and the year of research data. Based on the introduction above, this study aims to obtain empirical evidence of the effect of segment disclosure on earnings management in manufacturing companies listed on the Indonesia Stock Exchange in 2019 - 2022.

2. LITERATURE REVIEW

2.1 Agency Theory

Agency theory explains the relationship between the management or agent and the owner of the company, or commonly called the principal. According to Jensen and Meckling (1976), an agency relationship is a type of contract in which the principal deals with the agent. In this case, the principal authorizes the agent to act on behalf of the principal in the decision-making process. Scott (2015) states that agency theory refers to an employment contract involving management and the principal; in this case, management is the party authorized to carry out company tasks on behalf of the principal. The employment contract applied in work arrangements, behavior, and reputation is signed by each party that is important in this matter.

Both principals and agents are rational parties who have their own interests, i.e. trying to maximize their benefits. This is the reason why they do not always act in the interest of the principal and ignore the interests of the principal. As a result, conflicts of interest can occur because the main goal of the company is to maximize the welfare of the owners of capital. In addition, the relationship between the agent and the principal causes information asymmetry because the agent has more information about the company's operational activities and financial performance than the principal.

Eisenhardt (1989) explains that agency theory is based on three assumptions, namely: assumptions about human nature, assumptions about organization and assumptions about information. On assumptions about human nature, it says that humans tend to be selfish and selfish (self interest), have limited rationality (bounded rationality), and avoid risk (risk aversion). Furthermore, on assumptions about organization, it explains that there are conflicts between members of the organization, regarding the interests of principals and agents who are not always aligned, efficiency as a productivity criterion, and the existence of information asymmetry between principals and agents. Finally, on assumptions about information, it explains that information is seen as a commodity that can be traded.

2.2 The Effect of Segment Disclosure on Earnings Management

In the agency relationship between management and principals, managers must report the company's performance in the financial statements. By using the accrual basis in the financial statements, managers have the opportunity to alter their financial statements to produce the desired amount of earnings. The amount of accruals present in the calculation of earnings consists of discretionary accruals and non-discretionary accruals, which are part of the accruals that arise as a result of changes in the company's business activities and accruals that occur elsewhere.

This study tries to show that segment disclosure mirrors transparency in financial statements can reduce management actions that generate profits. Segment disclosure in financial statements can make company performance more transparent while minimizing the space for information asymmetry because users of financial statements can see it, use it in decision making. The transparency of segment disclosure causes more limited space for management to do something like earnings management both segmentally and as a whole. Based on the explanation above, the following hypothesis can be made.

3. RESEARCH METHODS

3.1 Research Sample

In accordance with the objectives set out in the study, the population in this study were 166 manufacturing companies listed on the Indonesia Stock Exchange in 2019 - 2022. The number of samples for 2019 - 2022 that will be used in the study are 37 companies multiplied by four years so that there are 148 samples in this study.

Data Analysis Technique, this study uses descriptive analysis techniques, assumption testing techniques (Normality Test and Linearity Test), and hypothesis testing techniques (Correlation Test, Regression Test and Difference Test).

3.1 Operational Variables

1. Earnings Management (ABS_DAC)

One measure of the level of earnings management action is discretionary accruals. The smaller the discretionary accrual behavior, the higher the earnings quality, and vice versa. This study calculates discretionary accruals using the Modified Jones model (Dechow et al., 1995) and (Kasznik, 1999).

Model Dechow et al. (1995)

$$\frac{\boldsymbol{TA_{it}}}{\boldsymbol{Assets_{it-1}}} = \boldsymbol{\alpha_{it}} \frac{\mathbf{1}}{\boldsymbol{Assets_{it-1}}} + \boldsymbol{\beta_{it}} \frac{(\Delta \boldsymbol{REV_{it}} - \Delta \boldsymbol{REC_{it}})}{\boldsymbol{Assets_{it-1}}} + \boldsymbol{\gamma_{it}} \frac{\boldsymbol{PPE_{it}}}{\boldsymbol{Assets_{it-1}}} + \boldsymbol{\varepsilon_{it}}$$

TAit	: Total accruals in year t
Assetsit-1	: Total assets in year t-1
∆REVit	: Net change in revenue from year t-1 to year t
∆RECit	: Change in net value of receivables from year t-1 to year t
PPEit	: Gross value of fixed assets in year t
εit	: Residual value

3.2 Segment Disclosure (SEGDIS)

The segment disclosure index is used to measure the level of segment disclosure in this study. To assess the conformity of the company's segment disclosure with PSAK No.5 (Revised 2009), disclosure content analysis scoring is used, which refers to the disclosure checklist used by Muhammad (2013), with a total of 34 items. A score of “1” is given for information that is clearly disclosed, a score of “0” is given for information that is disclosed but incomplete or not disclosed at all, and a score of “N/A” is given for information that is not applicable. The subsequent index calculation is obtained by dividing the company's score by the total score on the disclosure checklist and subtracting the number of information items that are “N/A”.

3.3 Segment Disclosure (SEGDIS)

The use of earnings management model developed by Blanco et al. (2014) is used in this study to evaluate the effect of segment disclosure on earnings management methods as measured by discretionary accruals.

$$\boldsymbol{ABS\_DAC = \beta_0 + \beta_1 SEGDIS_{it} + \beta_2 SIZE_{it} + \beta_3 GROWTH_{it} + \beta_4 LEV_{it} + \beta_5 PROF_{it} + \beta_6 QA_{it} + \beta_7 P\_L_{it} + \varepsilon_{it}}$$

Description:

ABS_DAC : Absolute value of discretionary accruals. Absolute value is used because the concern in this study is the amount of earnings management (discretionary accruals), not the direction (positive or negative). In addition, whether income increasing or income decreasing, both are earnings management practices.
SEGDIS : Total score of the company's segment disclosure level
SIZE : Natural logarithm of total assets
GROWTH : Total assets t minus total assets t-1 divided by total assets t-1.
LEV : The ratio of total debt divided by total assets of the company
PROF : Return on asset ratio
QA : 1 if the company is audited by KAP which is included in the BIG 4 and 0 otherwise.
P_L : 1 if profit after tax is negative and 0 otherwise

4. RESULT AND DISCUSSION

4.1 Descriptive Statistics

From table 4.1, it can be seen that the discretionary accrual variable (ABS_DAC) has an average value of discretionary accruals of 0.6563. The average value in this sample company is relatively large. The standard deviation value which is greater than the average, namely 0.88656, indicates that the sample companies have discretionary accruals that are quite spread out and means that there is a tendency for each company to have differences in discretionary accruals that are quite different from one another.

Table 4.1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ABS_DAC	148	0,0164	8,3981	0,6563	0,8866
SEGDIS	148	0,1724	0,9655	0,6589	0,1727
SIZE	148	25,3222	31,6819	28,5747	1,3754
GROWTH	148	- 0,9015	7,9125	0,0598	0,6732
LEV	148	0,0611	7,7970	0,6204	0,7256
PROF	148	- 0,6312	1,2803	0,0374	0,1994
QA	148	0,00	1,0000	0,3716	0,4849
P_L	148	0,00	1,0000	0,2703	0,4456

In the table it can also be seen that the average value of the variable level of disclosure of segment information is 0.6589. This shows that companies have not disclosed much disclosure that should be done. According to the analysis of segment disclosures made by businesses, segment information is the most frequently disclosed by businesses. This information should then be reconciled with the aggregate information presented in the consolidated financial statements. The amount of revenue generated from inter-segment transactions, the amount of transactions with external customers, interest income and interest expense, as well as general information about the types of products and services that generate revenue of the reported segments, income tax expense or income, depreciation and amortization.

4.2 Hypothesis Testing

As shown in table 4.2 below, the regression results indicate that segment disclosure has a negative and significant impact at the 5% significance level on reducing earnings management practices by management.

Table 4.2. t-statistical test results

Variable	Unstandardized Coefficients (B)	Criteria B	Sig (One-tailed)	Criteria Sig.	Notes
(Constant)	1,503				
SEGDIS	-1,140	< 0	0,012	< 0,05	Reject Ho
SIZE	-0,010	> 0	0,446	< 0,05	No Reject Ho
GROWTH	0,395	> 0	0,000	< 0,05	Reject Ho
LEV	0,016	> 0	0,439	< 0,05	No Reject Ho
PROF	0,290	> 0	0,233	< 0,05	No Reject Ho
QA	0,310	> 0	0,053	< 0,05	No Reject Ho
P_L	0,087	> 0	0,317	< 0,05	No Reject Ho

Based on the exposure to these results, the hypothesis is accepted. This result is in accordance with research conducted by Kurnia Utami and Sylvia Veronica (2016), which found that segment disclosure has a negative influence on earnings management practices. Lobo and Zhou (2001) and Bachtiar and Siregar (2003) have shown negative results between the level of disclosure and earnings management.

Discussion of the results of this study, that managers who apply high earnings management intensity will provide less information in the financial statements through segment disclosure in order to create information asymmetry so that their actions are not easily tracked or known by users of financial statements. The empirical model of this study shows a negative coefficient between segment disclosure and earnings management. The negative sign states that managers of companies that report segment information more transparently must release more information, which means that they are increasingly monitored, so that disclosure seems to make the task of earnings management more difficult in the sense that the space for action is increasingly limited. According to Bachtiar and Siregar (2003), the fact that there is a negative relationship between earnings management and the level of disclosure indicates that management uses flexibility in determining the level of disclosure including segment disclosure to perform accrual earnings management.

CONCLUSION

This study concludes that segment disclosure based on PSAK No.5 (Revised 2009) is proven to have a significant effect on the level of management pursuit of profit. Segment disclosure will reduce information inequality between managers and principals. The fact that there is a negative relationship between segment disclosure and earnings management indicates that management has more limited flexibility in determining the level of disclosure to perform accrual earnings management as they please. This is because earnings management practices in financial statements can still be done on an accrual basis, and management has the flexibility to do so because they are the management.

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