THE EFFECT OF EARNING MANAGEMENT ON EARNING RESPONSE ON PROPERTIES & REAL ESTATE SUB-SECTOR COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE IN 2019-2023

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Abstract

This research aims to analyze the effect of earnings management on earning response among property and real estate sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the period of 2019-2023. Earnings management is measured using two approaches, namely income smoothing and earnings quality, while earning response is measured using the stock return indicator. This research uses a quantitative approach with secondary data obtained from the company's financial statements. The sample is determined using the purposive sampling method which allows for the identification of a number of companies that meet the research criteria. The results indicate that income smoothing has a significant positive impact on earning response, suggesting that the market responds positively to the income smoothing practices carried out by companies. On the other hand, the quality of profits shows a negative impact on earning response, indicating that the lower the quality of profits generated, the more negative the earning response to the company's financial information. These findings imply that investors need to be more diligent in evaluating the profit management practices and quality of accounting information provided by the company before making investment decisions.

Keyword: earning response, earning management, income smoothing, earning quality, stock return, properties and real astate

INTRODUCTION

Earning response is a form of market response regarding information released by the company. The market response that occurs is characterized by changes in stock prices that are influenced by the results of the information. Selling and buying activities that cause changes in stock prices are investors reactions to the information released. Abnormal return is a measure when there is a earning response to published financial information Ulfa et al., (2023). Information obtained from financial statements can be considered reliable for making investment decisions. One of the most important information components in financial statements is profit. This is because profit can be said to be the most important "unit" to describe the ability and financial stability of all companies LH Sirait (2022). The company may generate a fairly high profit and in the next period the company experiences a decrease in profit, causing investors to have doubts about investing in the company. This causes management to manipulate earnings in order to change the stock price for the better to attract investors. This earnings manipulation carried out by management is known as Earning management (Aulia, 2024).

Muid (2017)Earning management is management's actions in the financial statements in preparation for increasing its welfare or to increase company value. Earning management occurs when management adopts certain policies in a transaction and in financial statements by modifying the financial statements on which the entity's performance is measured or to influence those who rely on these financial statements. One of the motivations for managers to carry out Earning management is to influence the information used by investors to predict future company performance. Therefore, company managers are encouraged to manage the information communicated to investors in such a way as to meet investor expectations and maintain the company's reputation, which also has an impact on increasing earning response. In this study, the authors proxy the measurement of earnings management with income smoothing and earnings quality.(Rofiandina, 2015)

Panggebean & Halawa (2022) Income smoothing is an act of deliberate reduction or fluctuation of several levels of earnings that are currently considered normal by the company. That is, smoothing reflects an attempt by company management to reduce abnormal variations in earnings to the extent permitted by accounting principles and good management. The practice of income smoothing is considered a rational action taken by management, if it does not depart from the permissible accounting principles and is still within the limits of applicable financial accounting standards, in this case the company's management is looking for loopholes on how it can do this without violating accounting rules and utilizing its discretion in the selection of accounting methods to be used. Its relationship with earning response, that with income smoothing, it will be easier for investors to predict the future, because the value in the financial statements as the company's net profit is considered a signal that shows the value of the company(Suhartono & Hendraswari, 2020).

Earnings as part of financial statements that do not present actual financial statements can be of doubtful quality. Good earnings quality will automatically affect the value of the company which continues to increase Conversely, if the quality of earnings is poor, the

value of the company will decrease. High company value will affect shareholders who will always invest their capital in the company, because later the shareholders will get multiple benefits from the investment. The size of an earnings quality can predict future stock price movements, so that the stock price will directly affect the company's value(Ahmad Abbas, 2017)

Further research is needed to examine the effect of earning management on earning response by considering these factors. This research is expected to provide a deeper understanding of the relationship between income smoothing practices, earnings quality, and earning response, so as to contribute to the accounting and financial literature and provide insight for investors and other stakeholders in making investment decisions. gative to earning response.

RESEARCH METHODS

This research was conducted using a quantitative research approach, as described by Ali et al., (2022) which focuses on testing theories relevant to market problems. This research measures and analyzes various variables. The goal is to determine whether the theory being tested has the ability to produce accurate predictive generalizations. The independent variable (X), in this study is Earning management which is carried out with two approaches, namely income smoothing and earnings quality. The dependent variable, or dependent variable (Y), is job satisfaction. In this study, all populations were taken as samples, using purposive sampling method. This study involved companies in the properties and real estate sub-sector listed on the Indonesia Stock Exchange (IDX). The effect of independent variables on variables is determined through data analysis and hypothesis testing. To ensure that the data meets the requirements of multiple regression analysis, the t test and f test are carried out. The data was processed using the SPSS version 25 computer program. This method provides a clear and detailed description of the research process from the time the data is collected to the statistical analysis.

Hypothesis Development Earning management

Muid (2017)Earning management is management's actions in the financial statements as a preparation to improve their welfare or to increase company value. Earning management occurs when management adopts certain policies in a transaction and in the financial statements by modifying the financial statements on which the entity's performance is measured or to influence those who rely on these financial statements. Earning management can be measured through two approaches, namely income smoothing and earnings quality (Rofiandina, 2015)

1. Income smoothing

Income smoothing is an action of management to reduce earnings fluctuations by moving high income in certain years to less profitable periods (Wijiantoro, 2017). Lutfiyah et al., (2020) stated that income smoothing has a positive effect on earning

response. This is also supported by research Ulfa et al., (2023) and research Mahfudhoh & Nasyik (2016) which states that Income smoothing has a positive effect on earning response. Information about earnings is a benchmark for investors in making decisions.

Income Smoothing is an effort to attract the attention of potential investors through manipulation, this is because investors are interested in consistent company profits because it will reduce the risk that investors will get. Thus, this decrease in asymmetrical financial information creates investor confidence in management, which can encourage a positive earning response through an increase in stock prices (Panggebean & Halawa, 2022)

H1: Income Smoothing has a positive effect on earning response

2.   Earning quality

Earnings quality is the company's ability to accurately describe the phenomena and conditions that actually occur in the company and the company's ability in terms of presenting an earnings report that is in accordance with the reality of the profit achieved by the actual company Syahzuni & Sari (2022). State that earnings quality has a positive effect on earning response. Earnings information is a fundamental element of financial reporting and has predictive value. High-quality earnings also increase the predictability of future earnings, which leads to better decision making and the ability to forecast stock prices and earnings. Earnings quality affects changes in investors' cash holdings, and as earnings quality improves, the earning response also increases.(Abdil, 2021)

Strong earnings quality indicates that management is acting in the best interest of shareholders. This reduces concerns about potential conflicts of interest and financial reporting manipulation. When a company's earnings reflect its actual operating performance, investors can more accurately assess the company's future prospects. This creates positive expectations of the company, which are reflected in the stock price. With the above research, the hypothesis is formulated:

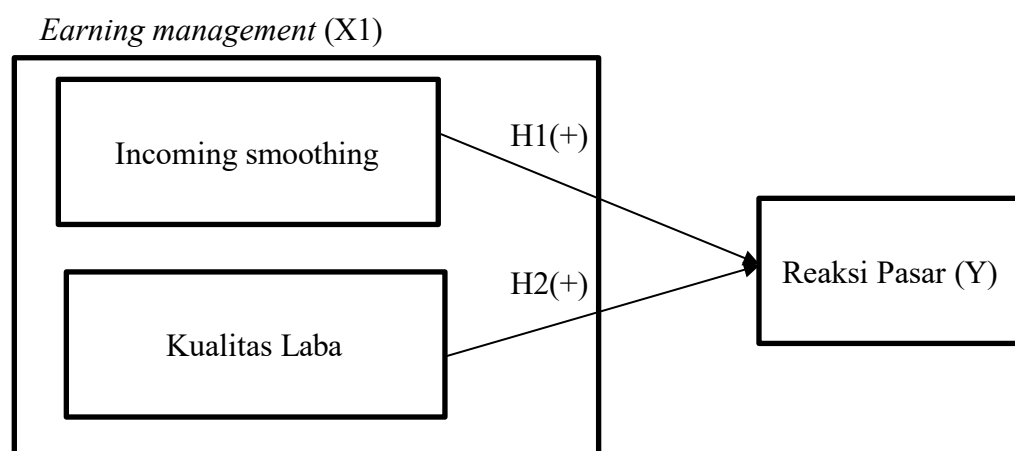**H2: Earning Quality has a positive effect on earning response**

Figure 1. Conceptual Framework

RESULT AND DISCUSSION

Classical Assumption Test
Normality Test

Table 1. Result of Normality Test
One -Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		79
Normal parameters[a,b]	Mean	.0000000
	Std. Deviation	.32442152
Most Extreme Differences	Absolute	.100
	Positive	.100
	Negative	-.097
Test Statistics		.100
Asymp. Sig. (2-tailed)		.050[c.]
Monte Carlo Sig. (2-tailed)	Sig.	.384[d]
	99% confidence interval — Lower bound	.371
	99% confidence interval — Upper bound	.396

    a.   Test distribution is Normal.
    b.   Calculated from data.
    c.   Lilliefors Significance Correction.
    d.   Based on 10000 sampled tables with starting seed 743671174

Source: secondary Data, processed 2024

Based on table 1 shows the value of Asymp. sig. (2-tailed) value of 0.396> 0.05. This value means that the data is in accordance with the established standards so that it can be concluded that the data is normally distributed so that it is suitable for use in research.

Multicollinearity Test

Table 2. Result of Multicollinearity Test

Variabel	Collinearity Tolerance	Statistics VIF	Keterangan
Income smoothing	.991	1.009	non multicollinearity
Earning Quality	.991	1.009	non multicollinearity

Source: secondary Data, processed 2024

Based on table 2, it shows the Tolerance value of Income Smoothing of 0.991 and Earnings Quality of 0.991, which means that all independent variables show a Tolerance value <0.10. Then the VIF value for Income smoothing is 1.009 and Earnings Quality is 1.009, which means that all independent variables show a VIF value < 10. So it can be concluded that there is no multicollinearity between fellow independent variables in the regression model.

Heteroscedasticity Test

Table 3. Result of Heteroscedasticity test

Coefficientsª					
Model	**Unstandardized Coefficients**		**Standardized Coefficients**		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	.213	.028		7.712	.000
Income smoothing	.073	.052	.159	1.402	.165
Earning quality	-.013	.028	-053	-.463	.645
a.　Dependent Variable: ABS_RES1					

Source: secondary Data, processed 2024

Based on table 3, it can be seen that the significant value of Income Smoothing is 0.165 and earnings quality is 0.645, which means that all independent variables show a significance value> 0.05. So it can be concluded that there is no heteroscedasticity in the regression model.

Multiple regression test

Table 4. Results of Multiple Regression Analysis Test

Coefficientsª					
Model	**Unstandardized**	**Coefficients**	**Standardized Coefficients**		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	1.248	.047		26.763	.000
Income smoothing	.072	.010	647	1.472	.000
Earning Quality	-.002	.001	-.204	-2.355	.021
a.　**Dependent Variable: Earning response**					

Source: secondary Data, processed 2024

Based on the table 4, the significance value of the two measurements of the independent variable Earning management (X1), namely income smoothing of 0.000 and earnings quality of 0.000 is smaller than α = 5% or 0.05, it can be concluded that the regression model, namely the earning management variable through the measurement of income smoothing and earnings quality has a significant effect on earning response. Linear regression equation: RP = 1,248 + 0,072IS - 0,002KL + e

F Test

Table 5. Result of F Test Result

ANOVAª					
Model	Sum of Squares	df	mean Square	F	Sig.
1 Regression	6.815	2	3.407	29.033	.000[b]
Residual	9.037	77	.117		
Total	15.851	79			

a. Dependent Variable: Earning Response
b. Predictors: (Constant), Income Smoothing, Earning quality

Source: secondary Data, processed 2024

Based on table 5, it shows that the calculated F value is 15,851 with a significance value of 0.000 smaller than 0.05. It can be concluded that Earning management through the measurement of income smoothing and earnings quality simultaneously has a significant effect on earning response.

T test

Table 6. Result of T Test result

Coefficientsª					
Model	Unstandardized	Coefficients	Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	1.248	.047		26.763	.000
Income smoothing	.072	.010	647	1.472	.000
Earning quality	-.002	.001	-.204	-2.355	.021

a. **Dependent Variable: Earning response**

Source: secondary Data, processed 2024

Based on table 6 of the T test results, the interpretation of the proposed research hypothesis can be seen as follows:

1. The result of the regression test is a partial t-value of 1.472 with a significance level of 0.000 <0.05. In the Coefficients table, the t-count value for the Income Smoothing variable is 1.472, while the t-table value at a significance level of 5% (0.05) with df = 77 is 1.99125. This shows that the t-count < t-table (1.472 < 1.99125). Thus, it can be concluded that Income Smoothing has a significant effect on earning response, so Ha is accepted and H0 is rejected. So the first hypothesis which states that income smoothing has a positive effect on earning response is supported.

2. The result of the regression test individually, the t value is 2.355 with a significance level of 0.021 <0.05. In the Coefficients table, the t value for the Earnings Quality variable is 2.355, while the t table value at a significance level of 5% (0.05) with df = 77 is 1.99125. This shows that t-count> t-table (2.355> 1.99125). Thus, it can be concluded that earnings quality has a negative effect on earning response, so H0 is accepted and Ha is rejected. So the second hypothesis which states that earnings quality has a positive effect on earning response is not supported.

DISCUSSION

The Effect of Income Smoothing on Earning Response

The first hypothesis in this study states that income smoothing has a positive effect on earning response. Based on the results of the regression analysis, the partial regression test results obtained the t value of 7.472 with a significance level of 0.000

<0.05. These results indicate that Income Smoothing has a positive effect on earning response. Thus, the hypothesis stating that income smoothing has a positive effect on earning response is supported.

The results of this study are supported by research by Lutfiyah et al., (2020) and Ulfa et al., (2023) which prove that Income Smoothing has a positive effect on earning response. Income smoothing practices if carried out in a manner that is in accordance with accounting principles and does not involve fraud is a management effort in presenting stable and predictable financial statement information so as to reduce investor uncertainty in assessing company and financial performance. Thus, this decrease in asymmetrical financial information creates investor confidence in management, which can encourage a positive earning response through an increase in stock prices (Panggebean & Halawa, 2022)

The Effect Of Earning Quality On Earning Response

The second hypothesis in this study states that earnings quality has a positive effect on earning response. The result of the regression test is a partial t value of 2.355 with a significance level of 0.021 <0.05. In the Coefficients table, the t-count value for the Earnings Quality variable is 2.355, while the t-table value at a significance level of 5% (0.05) with df = 77 is 1.99125. This shows that the t-count < t-table (2.355> 1.99125). Thus, it can be concluded that earnings quality has a significant negative effect on earning response, so Ha is accepted and H0 is rejected. So the second hypothesis which states that earnings quality has a positive effect on earning response is not supported.

The results of this study are supported by Jonathan & Machdar (2019) and Sari & Munandar (2022)which state that earnings quality has a negative effect on earning response. Earnings quality has a negative effect on earning response. Earnings quality is a benchmark for potential investors to invest in a company. When earnings do not reflect the true value of the company, the risk associated with investment increases, so the market reacts more cautiously. The existence of poor earnings quality is often caused by the lack of transparency and uncertainty of earnings information provided by the company to the market, which causes decreased investor confidence in the company's financial performance which impacts their investment decisions.

CONCLUSIONS

Based on the results of research conducted on property and real estate sub- sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2023 period, the conclusions obtained show that earnings management, as measured by income smoothing practices and earnings quality, has a significant influence on earning response. First, Income Smoothing practices are proven to have a positive influence on earning response. This indicates that the market responds well to management's efforts in stabilizing earnings, which are considered by investors as a signal of the company's financial stability. Investors tend to consider companies with stable earnings as entities with lower risk and clearer prospects.

Second, earnings quality has a negative effect on earning response. This finding indicates that the higher the quality of earnings generated in the sense that the earnings better reflect the real economic performance of the company can cause the market to react less positively. This could be due to investor preferences that prefer the earnings stability offered by earnings alignment practices, even though the earnings do not fully reflect the real economic performance. Overall, the results of this study confirm that the market does not always respond positively to high-quality accounting information; instead, the market is more likely to react to the perception of earnings stability shown through earnings alignment practices. This finding needs to be an important consideration for management and investors in making economic and investment decisions.

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