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Analysis of Management Overconfidence on Earnings Management in Non-Financial Companies Listed on the IDX

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A B S T R A C T

The aim of this study is how to analyze management overconfidence in earnings management in IDX-registered non-financial companies from 2016 to 2020. Revenue management Non-financial companies BUMN on 'IDX for the period 2016-2020 can be concluded that 2016 is volatile to 2020. This means that non-financial public enterprises will have improvements in their performance. annual profit management to minimize the risk of occurrence. Managers' overconfidence in non-financial EIB companies BUMN During the period 2016-2020, there were 11 companies with excessive confidence in the performance of managers, namely INAF, KAEF, KRAS, ADHI, WIKA, WSKT, ANTM, TINS, SMBR, GIAA, TLKM, while the other 5 companies showing low confidence are PGAS, PTPP, PTBA, SMGR, JSMR.

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INTRODUCTION

Financial reports are important for external users especially because this group is in the greatest condition, namely uncertainty. The asymmetry between management (agent) and owner (principal) can create opportunities for managers to carry out earnings management in order to mislead owners (shareholders) about the company's economic performance, explaining the existence of a positive interaction between coverage asymmetry and earnings management. Earnings management is management's intervention in the external financial reporting process with the aim of benefiting itself. Earnings management is one of the factors that can reduce the reliability of financial reports. Earnings management adds bias to financial reports and can annoy users of financial statements who believe the engineered output profit figures to be non-engineering profit figures. Accounting information is useful for investors and creditors (as well as other parties with an interest in the company) to assess a company and to make investment decisions. Invalid accounting information can cause investors to make wrong decisions and invest the wrong funds. The act of earnings management or earning management is an action taken by managers related to accounting method policies to obtain a goal, one of which is the trust of investors.

Earnings management is not always associated with efforts to manipulate accounting data or information. Earnings management tends to be an effort to choose accounting methods or accounting policies to present a profit profile that can be done because it is permitted according to accounting standards. Management can choose many ways to influence the timing, amount, or numbers in a transaction that has an impact on reported earnings by selecting accounting methods and accounting judgments. Accounting choices should be made within the conceptual framework of GAAP (generally accepted accounting principles). PABU is an acceptable set of rules, practices, and conventions for reporting to shareholders. The main source of GAAP for public companies is IFRS, and other sources. PABU is a reference or guideline in the process of financial reporting both in terms of recognition, measurement and presentation to parties with an interest in the financial reporting concerned. One of the characteristics of earnings management with a management leadership style is overconfidence (Lee et al., 2019; Liu, 2019). Management overconfidence is a behavior that shows high optimism in the company (Galasso & Simcoe, 2011). The confidence value possessed by managers can be used as a company signal (Vitanova, 2019). A high level of overconfidence can encourage managers to carry out earnings management and provide biased earnings information (Hribar & Yang, 2016; Li & Hung, 2013; Yustisi & Putri, 2021). High self-confidence makes a person believe that he is capable of everything (Galasso & Simcoe, 2011). One of them is the overconfidence behavior shown by managers in showing their performance through risky decisions taken (Gervais et al., 2011). Overconfidence becomes illogical because it does not consider the consequences (Hartiyaningsih & Rachmansyah, 2018). Management overconfidence can be an indication of what is going on in the company because managers are the ones who know the ins and outs of the company best (Vitanova, 2019; Widyasari et al., 2017). In addition, management overconfidence can lead to earnings management behavior that biases company information (Hribar & Yang, 2016; Schrand & Zechman, 2012).

Several studies have examined management overconfidence and found that managers' overconfidence affects earnings management (Hribar & Yang, 2010; Kouaib & Jarboui, 2016; Nurcahyani & Rahmawati, 2020; Salehi & Moghadam, 2019; Yustisi & Putri, 2021; Zaher, 2019). This practice can occur if the company's profit estimates are too high but not accompanied by maximum performance (Schrand & Zechman, 2012). This is because managers dare to take higher risks by making fictitious sales, manipulating expenses or other things that make profits as desired (Kouaib & Jarboui, 2016; Nurcahyani & Rahmawati, 2020). However, a burden that is too large will trigger high corporate responsibility (Yuliana & Yuyetta, 2017). How to analyze management overconfidence towards earnings management?

LITERATURE REVIEW

1. Earnings Management

Earnings management Earnings management occurs when managers use their judgment to modify financial statements. When there is extensive earnings management, the financial reports reflect the company's performance inaccurately. There are several reasons managers carry out earnings management, namely to meet financial analyst estimates, increase the compensation to be received, and influence the company's stock price (Subramanyam, 2014). Some accounting literature shows that companies can perform accrual earnings management or real earnings management. Accrual earnings management is an adjustment of assumptions and estimates in the accounting system and does not affect cash flow. In contrast, real earnings management is a company's normal operational practice that aims to mislead at least some stakeholders to believe that the company's financial statements are good.

According to Kurniawansyah Deddy, 2018 states that earnings management is not always associated with efforts to manipulate accounting data or information. Earnings management tends to be an effort to choose accounting methods or accounting policies to present a profit profile that can be done because it is permitted according to accounting standards. Managers who provide financial reports reflect activities that could be classified as fraud if (1) Report fictitious sales, (2) Report sales when unfinished products are shipped, (3) Do not record sufficient costs, (4)) Conducting barter transactions where goods or services are considered overvalued or undervalued, (5) Higher valuation of assets, (6) Carelessly capitalizing costs. It can be concluded that earnings management is an effort made by managers in financial reporting and managing transactions to change financial reports to mislead stakeholders regarding company performance.

2. Managers' overconfidence

Excessive confidence in management Excessive confidence in management defined as management with meaningoverconfident. Managers' overconfidence tendency to exaggerate knowledge, ability, and accuracy the information provided. Such behavior may cause hallucinations or images that there is a possibility of unintended inaccuracies in the reporting corporate finance (Schrand and Zechman, 2012). Overconfident managers tend to underestimate risks decision, thereby magnifying the value of the decision and leading to behavior some irrationality to get the desired result. management behavior may affect the company's accounting practices that affect the reporting finance. Therefore, it can be concluded that managers are overconfident they themselves may engage in income management for personal or informational purposes misinformation to investors.

Managerial overconfidence is defined as a manager who has excessive self-confidence. Overconfident managers have a tendency to exaggerate the knowledge, abilities, and accuracy of the information provided. This behavior can give an illusion or picture that there is a possibility of unintentional misstatement in the company's financial reporting (Schrand and Zechman, 2012). Overconfident managers will tend to underestimate the risk of decisions, thus exaggerating the value of decisions and leading to certain irrational behaviors to achieve the desired results. This management behavior can affect the company's accounting activities that have an impact on financial statements. Therefore, it can be concluded that managers who are overly confident can engage in earnings management for the purpose of personal information or misleading information to investors.

METHODOLOGY

Research methods play an important role in achieving a goal. The methods that the authors used to prepare for this study are as follows:
The data analysis method used in this study is financial analysis from 2016-2020, and research was also conducted to analyze Management overconfidence against profit management in non-financial companies listed on the IDX, namely INAF, KAEF, KRAS, ADHI, WIKA, WSKT, ANTM, TINS, SMBR, GIAA, TLKM, PGAS, PTPP, PTBA, SMGR, JSMR. Data Analysis Techniques A method or way to process data into information so that the characteristics of the data become easy to understand and also useful for finding solutions to problems, especially problems that are about a study. Or data analysis can also be interpreted as activities carried out to change the data from a study into information that can later be used to draw a conclusion. The purpose of data analysis is to describe a data so that it can be understood.

1. Descriptive Qualitative The method of qualitative descriptive data analysis in a qualitative research is useful for developing theories that have been built from data that has been obtained in the field. Qualitative research methods in the initial stage researchers explore, then collect data to depth, to prepare reports, analyze financial statements, compare calculation results so that it can be seen how far the company gets profit and how the company's financial activities.

2. Quantitative Descriptive The data that has been collected is calculated in quantity. By analyzing Management overconfidence and profit management calculations to get accurate results from 2016-2020 with the following steps:
   a. Management overconfidence is the overconfidence that managers have in the policy making process (Yustisi & Putri, 2021). The degree of confidence, also known as the degree of confidence or the degree of risk, is based on the idea of the central limit theorem.
   Manager overconfidence is defined as a manager being so overconfident that he tends to place himself higher in the ability or performance distribution and is measured by five indicators of overconfidence. level with the industry average for comparison. If the firm value of each indicator is higher than the industry average, this indicates overconfidence (Schrand and Zechman, 2012). (1) IND_INDADJ (industry-adjusted overinvestment) is a calculation of total asset growth versus revenue growth. (2) IND_NETADJ (industry adjusted net dollars from business acquisitions). (3) DER_INDADJ (business-adjusted debt ratio) is a calculation of a company's total debt to total equity. (4) RISKYDT is a dummy variable of 1 if the company uses convertible bonds or preferred shares, otherwise it is zero. (5) DPR_INDADJ is the difference between the dividend payout ratio and the industry average dividend payout ratio.
   Based on the above 5 CEO characteristics, the average CEO confidence level will be calculated and divided into 2 groups, that is, overconfident with mean greater than 0.5 and underconfident w ith smaller mean. 0.5.
   b. Earnings management is a management step to use its authority in financial reporting and transaction procedures, with the aim of influencing stakeholders in making decisions regarding the company's economic performance (Bzeouich et al., 2019). The research measurement was guided by research by Yapono & Khomsatun, (2018), Nuroniyah & Basuki (2020) and research by Bzeouich et al., (2019), namely using the Khothari discretionary accrual (DAC) model.
   The calculation formula is as follows:

$$TACCri,t = a0 + a1\ (\ 1\ Assetsri,t{-}1\ ) + a2\Delta Salesri,t + a3PPEri,t + a4ROAri,t + \varepsilon i,t$$

   Description :

   $TACCri,t$ = Total accruals in company i in year t. Calculated as profit for the year less cash flow from operations.

   $\Delta Salesri,t$ = The magnitude of the change in sales of company i in year

   $PPEri,t$ = Net value of total fixed assets owned by company i in year t.

   $ROAri,t$ = Performance measurement derived from the return on assets

   $Assetsri,t - 1$ = Jumlah total nilai aset perusahaan pada periode sebelumnya. Nilai residual dari model regresi merupakan akrual diskresioner (DAC). Nilai residual discretionary accrual ini akan digunakan sebagai pengukuran DAC (Yapono & Khomsatun, 2018)

RESEARCH RESULTS AND DISCUSSION

1. Management's Overconfidence

High self-confidence leads a person to believe that they are capable of anything (Galasso & Simcoe, 2011). One of them is the overconfident behavior exhibited by managers by demonstrating their performance through risky decisions (Gervais et al., 2011). The following data on CEO overconfidence is presented for BUMN non-financial companies registered on IDX for the period 2016-2020.

Table 1 Data on Management's Overconfidence in IDX non-financial BUMN companies for the period 2016-2020

No.	Code	Company Name	*Management Overconfidence*				
			2016	2017	2018	2019	2020
1	INAF	PT. Indofarma Tbk.	0	1	1	1	1
2	KAEF	PT. Kimia Farma Tbk.	1	1	1	1	1
3	PGAS	PT. Perusahaan Gas Negara Tbk.	1	0	0	1	1
4	KRAS	PT. Krakatau Steel Tbk.	0	0	1	1	1
5	ADHI	PT. Adhi Karya Tbk.	1	1	1	1	1
6	PTPP	PT. Pembangunan Rumah Tbk	1	1	0	0	1
7	WIKA	PT. Wijaya Karya Tbk.	0	0	1	1	1
8	WSKT	PT. Waskita Karya Tbk.	1	1	1	1	1
9	ANTM	PT. Aneka Tambang Tbk.	1	1	1	1	1
10	PTBA	PT. Bukit Asam Tbk.	1	0	0	1	1
11	TINS	PT. Timah Tbk.	1	1	1	1	1
12	SMBR	PT. Semen Baturaja Tbk.	1	1	1	1	1
13	SMGR	PT. Semen Indonesia Tbk.	0	1	1	0	1
14	JSMR	PT. Jasa Marga Tbk.	0	0	0	1	1
15	GIAA	PT. Garuda Indonesia Tbk.	1	1	1	1	1
16	TLKM	PT. Telekomunikasi Indonesia Tbk.	1	1	1	1	1

Source: Data processed by the author, 2023

If the firm value of each indicator is higher than the industry average, this indicates overconfidence (Schrand and Zechman, 2012). (1) IND_INDADJ (industry-adjusted overinvestment) is a calculation of total asset growth versus revenue growth. (2) IND_NETADJ (industry adjusted net dollars from business acquisitions). (3) DER_INDADJ (business-adjusted debt ratio) is a calculation of a company's total debt to total equity. (4) RISKYDT is a dummy variable of 1 if the company uses convertible bonds or preferred shares, otherwise it is zero. (5) DPR_INDADJ is the difference between the dividend payout ratio and the industry average dividend payout ratio. Based on the above 5 CEO characteristics, the average CEO confidence level will be calculated and divided into 2 groups, that is, overconfident with mean greater than 0.5 and underconfident with smaller mean. 0.5. In Table 1, data on managers' overconfidence for non-financial EIB companies BUMN 2016-2020, there are 11 management companies that are overconfident in their performance, that is INAF , KAEF, KRAS, ADHI, WIKA, WSKT, ANTM, TINS, SMBR, GIAA, TLKM while the other 5 companies with low credit rating are PGAS, PTPP, PTBA, SMGR, JSMR.

2. Earnings Management

Benefits management can influence a manager's motivation to put in the effort because managers can use benefits management to settle their compensation and bonuses over time, thereby reducing minimize risk (Scott 2015, 445). Finally, earnings management activities are carried out with the aim of giving the impression that the company's financial statements are good (Arifin and Destriana 2016). The following, earnings management data is presented for IDX-listed non-financial public companies for the period 2016-2020.

Table 2 Income Management Data of IDX Non-Financial Public Enterprises 2016-2020 school year

No.	Code	Company Name	Income Management				
			2016	2017	2018	2019	2020
1	INAF	PT. Indofarma Tbk.	-1,10	4,12	3,14	3,77	4,85
2	KAEF	PT. Kimia Farma Tbk.	4,90	1,95	1,97	3,66	3,41
3	PGAS	PT. Perusahaan Gas Negara Tbk.	1,19	-1,72	-1,20	1,81	2,66
4	KRAS	PT. Krakatau Steel Tbk.	-1,93	0,35	1,69	1,05	1,80
5	ADHI	PT. Adhi Karya Tbk.	0,72	4,06	1,65	0,85	1,64
6	PTPP	PT. Pembangunan Rumah Tbk	0,78	2,35	-4,19	-2,36	2,15
7	WIKA	PT. Wijaya Karya Tbk.	0,12	-2,06	0,83	1,17	2,66
8	WSKT	PT. Waskita Karya Tbk.	1,16	1,75	4,59	4,74	4,46
9	ANTM	PT. Aneka Tambang Tbk.	1,09	0,60	1,57	-1,05	1,41
10	PTBA	PT. Bukit Asam Tbk.	2,04	-1,42	-2,65	0,60	1,26
11	TINS	PT. Timah Tbk.	3.52	2,13	1,69	1,84	5,26
12	SMBR	PT. Semen Baturaja Tbk.	1,42	2,00	0,82	2,03	2,45
13	SMGR	PT. Semen Indonesia Tbk.	-11,10	0,77	1,04	0,17	1,09
14	JSMR	PT. Jasa Marga Tbk.	-1,73	-1,61	-1,95	2,56	2,19
15	GIAA	PT. Garuda Indonesia Tbk.	1,26	0,88	1,75	1,40	2,54
16	TLKM	PT. Telekomunikasi Indonesia Tbk.	3,45	1,34	1,14	1,29	2,01

Source: Data processed by the author, 2023

In Table 2, data on earnings management at EIB public non-financial enterprises for the period 2016-2020 shows that 11 enterprises are implementing good profit management, namely INAF, KAEF, KRAS, ADHI, WIKA, WSKT, ANTM, TINS, SMBR, GIAA, TLKM while the other 5 companies with bad profit management are PGAS, PTPP, PTBA, SMGR, JSMR. The formula used in this study is DA it = TAit – NDA it. Table 2 of the income management data of BUMN non-financial corporations on IDX for the period 2016-2020 can be concluded that it fluctuates from 2016 to 2020. This means BUMN non-financial corporations will make annual improvements in profit management to reduce the risk arising.

DISCUSSION

In table 2, profit management data for non-financial BUMN companies on the IDX for 2016-2020 showed that 11 companies implemented good earnings management, namely INAF, KAEF, KRAS, ADHI, WIKA, WSKT, ANTM, TINS, SMBR, GIAA, TLKM while the other 5 companies does not show poor earnings management namely PGAS, PTPP, PTBA, SMGR, JSMR. In table 2 the earnings management data for Non-Financial BUMN Companies on the IDX for 2016-2020 it can be concluded that it has increased from 2016 to 2020. This means that Non-Financial BUMN Companies will make improvements every year to earnings management in order to reduce the risks that occur. The results of the Management overconfidence analysis state that it is related to or in accordance with earnings management in non-financial BUMN companies on the IDX in 2016-2020. This can be seen in the 11 Management overconfidence companies that are too confident in their company's performance, namely INAF, KAEF, KRAS, ADHI, WIKA, WSKT, ANTM, TINS, SMBR, GIAA, TLKM, while the other 5 companies show a low level of confidence, namely PGAS , PTPP, PTBA, SMGR, JSMR. The results of Management overconfidence are in accordance with the results of earnings management obtained from the company's financial statements.

Earnings management Earnings management occurs when managers use their judgment to modify financial statements. When there is extensive earnings management, the financial reports reflect the company's performance inaccurately. There are several reasons managers carry out earnings management, namely to meet financial analyst estimates, increase the compensation to be received, and influence the company's stock price (Subramanyam, 2014). This is in line with the results of previous research which indicated that management overconfidence had a significant positive impact on earnings management behavior (Capalbo et al., 2018; Hilary & Hsu, 2011; Li & Hung, 2013; Nurcahyani & Rahmawati, 2020; Schrand & Zechman, 2012 ; Yustisi & Putri, 2021; Zaher, 2019).

Management overconfidence is also one that can affect earnings management. Such behavior may give the illusion or image that there may be unintentional misstatements in the company's financial reporting. Overconfident managers have a tendency to exaggerate the knowledge, abilities, and accuracy of the information provided (Schrand and Zechman, 2012). High self-confidence makes a person believe that he is capable of everything. One of them is the overconfidence behavior shown by managers in showing their performance through risky decisions taken. Management overconfidence can be an indication of what is going on in the company because managers are the ones who know the ins and outs of the company best (Vitanova, 2019; Widyasari et al., 2017)

CONCLUSION

Earnings management at IDX Non-Financial BUMN Companies in 2016-2020 can be concluded that there has been an increase in profits in 2016 to 2020. This means that Non-Financial BUMN Companies will make improvements every year to earnings management in order to reduce the risks that occur. The results of the Management overconfidence analysis state that it is related to or in accordance with earnings management in non-financial BUMN companies on the IDX in 2016-2020. This can be seen in the 11 Management overconfidence companies that are too confident in their company's performance, namely INAF, KAEF, KRAS, ADHI, WIKA, WSKT, ANTM, TINS, SMBR, GIAA, TLKM, while the other 5 companies show a low level of confidence, namely PGAS , PTPP, PTBA, SMGR, JSMR. The results of Management overconfidence are in accordance with the results of earnings management obtained from the company's financial statements.

ADVANCED RESEARCH

Still conducting further research to find out more about Management Analysis of Managers' Lost Profits in Non-Financial Companies Listed on the IDX.

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