

# Influence of Dividend Payout Ratio, Risk (Beta), Sales Growth, and Big Four on Earnings Management in Agricultural Sector Companies Listed in Indonesia Stock Exchange

*by Doddy Doddy*

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## Influence of Dividend Payout Ratio, Risk (Beta), Sales Growth, and Big Four on Earnings Management in Agricultural Sector Companies Listed in Indonesia Stock Exchange

Hasnidar<sup>1</sup>, Doddy Adhimursandi<sup>2</sup>, Michael Hadjaat<sup>3</sup>

Corresponding Author: Doddy Adhimursandi

<sup>1,2,3</sup>Departement of Management, Faculty of Economics and Business, Mulawarman University, Samarinda, Indonesia

**ABSTRACT:** This study aims to explain the effect of Dividend Payout Ratio, Beta, Sales Growth, and Big Four on Earnings Management. The object of this research is agricultural sector companies listed on the Indonesia Stock Exchange (IDX) in the 2015-2017 period. With a population of 15 companies and the number of samples based on purposive sampling techniques, 11 companies. The analytical tool used is panel data regression. The results showed that the dividend payout ratio has a negative and significant effect on earnings management, the Beta has a positive and not significant effect on earnings management, sales growth has a negative and not significant effect on earnings management, and the big four has a positive and not significant effect on earnings management.

**KEYWORD:** Dividend Payout Ratio, Beta, Sales Growth, Big Four and Earnings Management

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### I. INTRODUCTION AND LITERATURE REVIEW

Earnings management is a process of taking deliberate steps within the bounds of generally accepted accounting principles to realize the level to be achieved from reported income (Tanewski & Bartholomeusz, 2006). According to Healy & Wahlen (1999), the most common reasons for getting management are to improve compensation and job security. There are two forms of earnings management. The first form involves selecting the appropriate accounting method to achieve the desired level of income and the second using the time or size of the operating decisions to achieve the desired income (real activities manipulation).

Corporate governance in healthy practice reduces the opportunities for revenue management in a country. However, several times earnings management is needed to maintain the company is dividend payout ratio because it is considered as a signal from the perspective of the company is future growth in the market (Miller and Rock, 1985; Ambarish et al., 1987). Also, dividends play an important role because they are believed to address the increasing agency problem between company insiders and outsiders (Gomes, 1998; Zwiebel, 1996).

The agricultural sector is one of the essential critical sectors of the Indonesian economy. The agricultural sector is a benchmark in national development and is an achievement for the Indonesian state. Quoted from BPS 2009, agricultural sector in Indonesia is considered by almost all people as a leading economic driving sector. The structure of the workforce in Indonesia is dominated by the agricultural sector, namely around 42.76 percent. Until now, the agricultural sector in Indonesia is still looked down upon by ordinary people, even though this sector can help the nation is the economy. Almost all people in Indonesia work in the agricultural sector. This sector proved able to withstand the economic crisis and monetary crisis in 1997.

#### Agency Theory

Agency theory explains the employment contract relationship in the form of granting authority to the shareholder (principal) to the manager (agent) to work as an achievement of shareholder goals (principal) Jensen and Mecklin (1976). An agency relationship is defined as an agreement in which the principal and agent perform some services on behalf of both, which involve delegating authority for decision making to the agent. If the two parties to the relationship are utility maximizers, there is good reason to believe that the agent will not act in his personal interest. The information in agency theory will be used as a guide for decision making by the principal and agent, as well as to see the evaluation and share the results according to the agreed employment contract.

### Earnings Management

Schipper (1989) in Wild et al. (2007) define earnings management as "a deliberate intervention by management in the process of determining earnings, usually to meet personal objectives." Intervention can be through the selection of accounting policies, accounting estimates, and concrete actions. Healy & Wahlen (1999) defines that earnings management occurs when managers use judgments in financial reporting and compile transactions to change in financial statements to mislead some stakeholders about the underlying economic performance of the company or to influence contractual results that depend on reported accounting figures.

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### Dividend Payout Ratio

The dividend payout ratio is the value of net profit after tax minus retained earnings as a reserve for the company. The dividend payout ratio shows the proportion between dividends and retained earnings to net income. Ping and Ruland (2006) assert that high-income growth is influenced by a large dividend payout ratio. Kasanen et al. (1996) revealed that the dividend payout ratio is critical for investors so that investors who are interested in short-term earnings will choose to invest in companies that have a high dividend payout ratio. Meanwhile, investors who are more interested in capital growth will choose to invest in companies with low dividend payout ratios.

### Risk (Beta)

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Beta is a measure of stock volatility related to market volatility. It measures the risk exposure of a particular stock or sector to the market. Feng et al. (2015) defined systematic risk as to the risk that arises if the company is unable to repay the loan due to unstable macroeconomic conditions. Systematic risk reflects a market evaluation consisting of corporate finance and marketing and production regulations.

### Sales Growth

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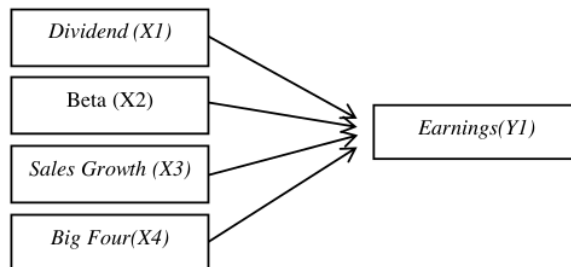
Sales growth is calculated as the ratio of current revenue to the preceding year that measures changes in sales. "Growth does not imply manipulation, but corporate growth is seen by professionals as more likely than other companies to commit financial statement fraud because their financial position and capital requirements put pressure on managers to achieve revenue targets" Beneish, (1999). Carvalho and Costa (2014) define sales growth as an increase in sales between the current year and the previous year as a percentage. Barton and Hill (2015) The growth rate of a company affects its ability to maintain profits and finance future opportunities. Sales growth reflects a successful investment in the previous period and is used as a prediction for future growth.

### Big Four

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Auditing is a mechanism to reduce agency costs, reduce information gaps, and increase the credibility of disclosure of Jensen and Meckling (1976). Audit quality is the combined probability of detecting and reporting material errors in financial statements, DeAngelo (1981). Audit quality has the ability to improve the quality of the company's financial statements. With high investigation quality, it is expected to be able to increase investor confidence. Audit quality also affects earnings quality (Becker, Defond, Jiambalvo, & Subramanyam, 1998; Francis, Maydew, & Sparks, 1999; Koh, 2007). Companies with Big Four auditors or with unqualified net opinions usually have better earnings quality.

Based on the explanation of theory and research, the conceptual framework of this research can be seen in Figure 1:



Based on the background and conceptual framework in Figure 1, the hypotheses proposed in this study are:

#### **The influence of Dividend Payout Ratio on Earnings Management.**

The main problem that will be discussed is the attempt to determine the relationship between the dividend payout ratio and earnings management. It is well known that the cash payout ratio is subject to 'free cash flow' hypothesis, and stock dividends have an advantage. Huang, You, and Lin (2009) revealed that the dividend payout ratio has a negative relationship with earnings management.

Kasanen et al (1996) shows that dividend payout ratio has a significant negative effect on earnings management. The dividend payout ratio has a negative effect on earnings management, which means that the higher the dividend payout ratio, the more management will do earnings management in the form of income decreasing.

Baker and Wurgler (2007) The dividend payout ratio have no effect on earnings management, which will result in not increasing the welfare of shareholders. The company is a running organization that must maintain a balance of cash flow for operational and investment needs. So that companies with poor business management will be able to meet the needs of investors, especially pension funds for investors and pension funds that specifically ask for cash dividends.

#### **Hypothesis 1: Dividend Payout Ratio has a negative effect on Earnings Management.**

#### **Effect of Risk (Beta) on Earnings Management**

Risk (Beta) is the stock price of a company as a result of the general decline in the share price of all shares in the capital market. The measure of risk inherent in the company will be able to influence the behavior of encouragement or managers. Jones (1991) states that risk is related to the uncertainty of investment returns or the possible differences between actual returns and expected returns.

Brown et al. (2005) support this also, who studied the effect of risk on estimates of management's earnings and found that risk was significantly related to the likelihood of disclosing estimates associated with poor performance. Easton and Zmijewski (1989) Companies with low risk will improve the company's earnings management. Companies with high risk will be sensitive to changes that occur in the market, so the possibility for companies to obtain outside funds to finance investments will be increasingly difficult. So that companies with high risk, the probability of experiencing profit growth will also decrease.

#### **Hypothesis 2 = Risk (Beta) has a negative effect on Earnings Management.**

#### **The Effect of Sales Growth on Earnings Management**

Sales growth can also affect earnings management. Usually, growth is measured as the annual change in turnover. Turnover is the company's primary income. On the one hand, a fast-growing company may have a higher quality accrual because this company has multiple inventories, and unit costs are reduced in the production of Cascino, Pugliese, Mussolino & Sansone (2010) in Kacharava (2018).

On the other hand, these companies want to meet the expectations of investors and other stakeholders in order to maintain access to capital and to avoid increasing the cost of capital. Also, companies that are growing may have a decreasing income that has an impact that is felt like a corporate risk Jiraporn and DaDalt (2009) in Kacharava (2018). This situation can improve when listed companies are analyzed. Likewise, the following hypothesis is established:

#### **Hypothesis 3 = Sales Growth has a positive effect on Earnings Management.**

#### **The Big Four Influence on Earnings Management.**

Yaşar (2013) revealed that there is no statistically significant difference between discretionary accruals of companies audited by Big Four and non-Big Four auditors. These results suggest that there may be no difference in audit quality between Big Four and non-Big Four audit firms for earnings management restrictions.

Tsipouridou and Spathis (2012) also reveal the same thing that there is no statistically significant difference between discretionary accruals of companies audited by Big Four auditors and non-Big Four auditors. So that the size of the audit firm does not affect the level of earnings management, and the qualifications of the audit opinion are not issued in response to the opportunistic behavior of management.

DeAngelo (1981) shows that it is different analytically that the size of the audit firm has a relationship with audit quality; many studies show that Big Four auditors provide higher audit quality than non-Big Four auditors. Because the Big Four auditors have a more remarkable ability to limit their clients' use of earnings management practices. Likewise, the following hypothesis is established:

#### **Hypothesis 4 = Big Four has a negative effect on Earnings Management.**

**I 43 RESEARCH OBJECTIVES**

The population used is all agricultural sector companies listed on the Indonesia Stock Exchange (BEI) in 2015-2017. The sampling technique used was the purposive sampling method.

**Table 1: Population and samples**

No	Description	Total
1.	Agricultural sector companies listed on the Indonesia Stock Exchange for the period 2015-2017	15
2.	Agricultural sector companies that did not provide consecutive financial reports or data during the period 2015-2017	(4)
3.	Companies that are not actively trading in their shares, delisting, and incomplete data	(0)
<b>Total Sample</b>		<b>11</b>

Source: website [www.idx.co.id](http://www.idx.co.id)

**Types, Sources, and Methods Of Data Collection**

This research uses quantitative data (Yadaruddin, 2014: 14). Quantitative data is data in the form of numbers. While the data source used is secondary data (25) in the website [www.idx.co.id](http://www.idx.co.id). Secondary data is data obtained from second parties (Yadaruddin, 2014: 14). The data collection method used in this research is the documentation method. Researchers obtained data from financial reports and annual reports of agricultural sector companies listed on the IDX for the period 2015-2017.

**III. RESEARCH METHODOLOGY AND DATA ANALYSIS**

The analytical tools used in this research are descriptive statistics and panel data regression. Descriptive statistics are used to analyze an event systematically, factually, and accurately regarding the phenomenon under study. Furthermore, panel data regression is used in which there are three approaches, namely: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).

From the three models, it can be selected by doing the Chow Test and the Hausman Test (Baltagi, 2008). Before testing the hypothesis, the Classical Assumption Test was carried out by conducting three tests, namely the Multicollinearity Test, Heteroscedasticity Test, and Autocorrelation Test.

The model used in the study is multiple linear regression (Gani & Amalia, 2018) as follows:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \dots + \beta_nB_n + e$$

Then it is derived into a research model as follows:

$$EM = \alpha + \beta_1DPR + \beta_2Beta + \beta_3SG + \beta_4BF + e$$

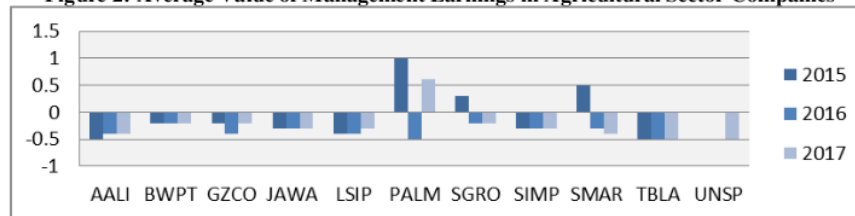
Where:

- EM = Earning Management
- $\alpha$  = constant
- $\beta_1, \beta_2, \beta_3, \beta_4$  = coefficient
- DPR = Dividend Payout Ratio
- Beta = Systematic Risk
- SG = Sales Growth
- BF = Big Four
- e = Confounding Variables

There are two kinds of hypothesis testing, namely the T-test and the F test, with a significance level of 0.05 (5%). T-test, which shows how far the influence of one independent variable on the dependent variable considers the other independent variables constant. The F test shows whether all the independent variables included in the model have a simultaneous influence on the dependent variable.

Developments in Agricultural Sector Companies for the Period of 2015-2017

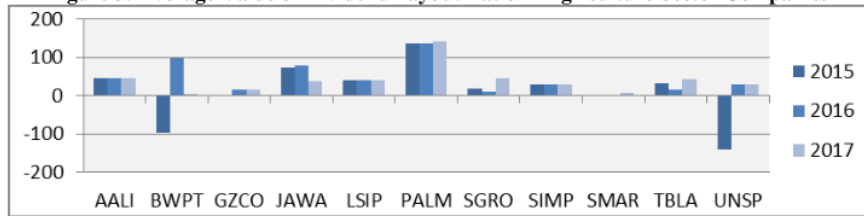
**Figure 2: Average Value of Management Earnings in Agricultural Sector Companies**



Source: website [www.idx.co.id](http://www.idx.co.id)

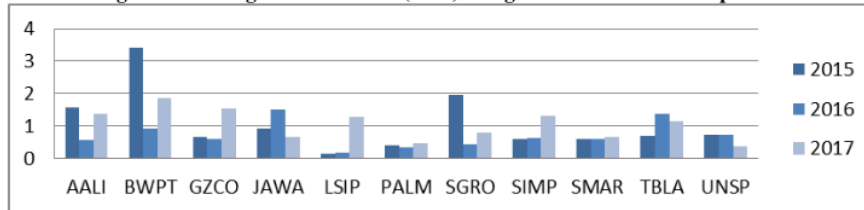


Figure 3: Average Value of Dividend Payout Ratio in Agriculture Sector Companies



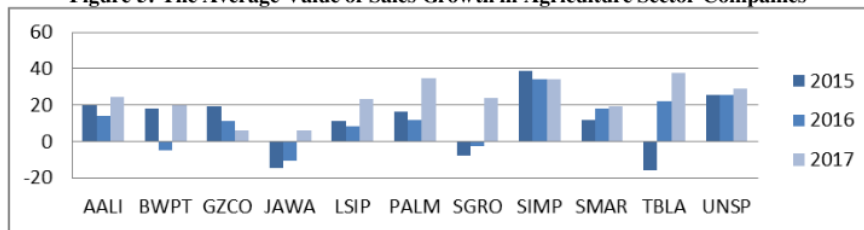
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Figure 4: Average Value of Risk (Beta) in Agricultural Sector Companies



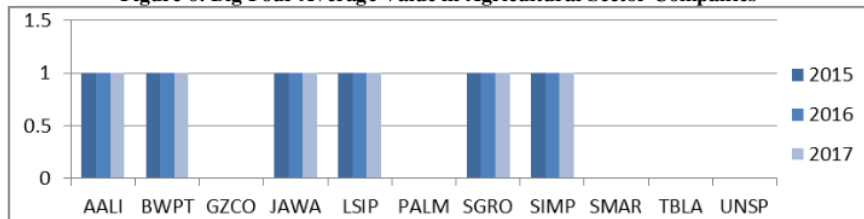
Source: website [www.idx.co.id](http://www.idx.co.id)

Figure 5: The Average Value of Sales Growth in Agriculture Sector Companies



Source: website [www.idx.co.id](http://www.idx.co.id)

Figure 6: Big Four Average Value in Agricultural Sector Companies



Source: website [www.idx.co.id](http://www.idx.co.id)

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Based on the results of panel data regression analysis using the Eviews version 10 tool, the following results are obtained

Dependent Variable	Independent Variable	Coefficient	t-statistic	Prob.	Directions	Description
	Constant	-0.443942	-6.823190	0.0000		
	DPR	-0.000602	-3.461781	0.0017	-	Significant
	BETA	0.022274	0.477104	0.6370	+	Not Significant
	SG	-0.000336	-0.171671	0.8649	-	Not Significant
	BF	0.079304	1.327041	0.1952	+	Not Significant
R-Square		0.359329				

Adjust R Square	0.267805
F-Statistic	3.926050
F-Signifikan	0.011837

In the PLS model, the determinant coefficient (R2) is 0.359329. This means that the dependent variable (EM) can be influenced by 35.93 per cent by the independent variable (DPR, BETA, SG, and BF). In comparison, the remaining 64.07 percent is explained by other variables not included in this research model.

The result of the panel data regression test shows that the statistical F-statistic is 3.926050, with the same significant value (F-significant), which is 0.011837, which is smaller than 0.05 (0.0000 <0.05). These results explain that four independent variables, namely DPR, BETA, SG, and BF, simultaneously or simultaneously have an effect on EM in the sample agricultural companies of the IDX for the 2015-2017 period and have shown a viable model.

In the t-test, the DPR variable (X1) has a t-statistic of -3.461781 and a probability level of 0.0017 <0.05, which means that it has a significant negative effect on EM. The variable BETA (X2) has a t- statistic of 0.477104 with a probability value of 0.6370 > 0.05, which means that it has a positive and insignificant effect partially on EM. Sales Growth variable (X3) has a t- statistic of -0.171671 with a probability value of 0.5349 > 0.05, which means that partially negative but not significant effect on EM. The Big Four (X4) variable has a t- statistic value of 1.327041 with a probability value of 0.1952 > 0.05, which means the Big Four (X4) has a positive but not significant effect on EM.

Based on the results of regression testing in table 4.2 shown, the model of this study is as follows:  
 $EM = -0.443942 - 0.000602DPR + 0.022274BETA - 0.000336SG + 0.079304BF + e$

**Hypothesis Results**

**Effect of Dividend Payout Ratio on Earnings Management**

The results of the research showed that the value of the Dividend Payout Ratio was -0.000336 against Earnings Management with a significance of 0.0017 <0.05. This means that the regression model in this study has a negative and significant effect on Earnings Management. So hypothesis 1, which states that the Dividend Payout Ratio has a negative effect on Earnings Management, is accepted.

**Effect of Risk (Beta) on Earnings Management**

The results of the researchers' testing showed a Beta value of 0.022274 on Earnings Management with a significance of 0.6370 > 0.05. This means that the regression model in this study has a positive and insignificant effect on Earnings Management. So hypothesis 2, which states that Beta has a negative effect on Earnings Management, is rejected.

**Effect of Sales Growth on Earnings Management**

The results of the researcher's test showed that the Sales Growth value was -0.000336 on Earnings Management with a significance of 0.8649 > 0.05. This means that the regression model in this study has a negative and insignificant effect on Earnings Management. So hypothesis 3, which states that Sales Growth has a positive effect on Earnings Management, is rejected.

**Effect of Big Four on Earnings Management**

The results of the researcher's test showed the Big Four value of 0.079304 against Earnings Management with a significance of 0.1952 > 0.05. This means that the regression model in this study has a positive and insignificant effect on Earnings Management. So hypothesis 4, which states that the Big Four has a negative effect on Earnings Management, is rejected.

**Research Discussion**

**Effect of Dividend Payout Ratio on Earnings Management**

Based on the test results, it shows that the Dividend Payout Ratio has a negative and significant effect on Earnings Management. This means that the higher dividend payout ratio that the company distributes to investors, the management will increasingly carry out earnings management in the form of income decreasing.

The results are in line with research conducted by Kasanen et al. (1996), Huang, You, & Lin (2009), and Baker et al. (2007) found a negative relationship between the effect of dividend payout ratio on earnings management. This shows the need for a monitoring mechanism that aims to align the interests of both management and shareholders. Also, this study supports the agency theory of Jensen and Meckling (1976), which states that management and shareholders have different interests that cause conflict between the two parties.

#### Effect of Risk (Beta) on Earnings Management <sup>36</sup>

The test results in this study indicate that Beta has a positive and <sup>1</sup>significant effect on earnings management. This means that the greater the risk faced by the company, the higher the level of earnings <sup>21</sup>management. This study is not in line with research conducted by Easton and Zmijewski (1989), where there is a negative and significant influence between beta and earnings management of a company. The second hypothesis (H2) is rejected because there is a positive relationship between <sup>35</sup>beta and earnings management in the company, which indicates a feeble influence. The magnitude of the influence of risk on earnings management, where if the risk increases by 1%, the earnings management coefficient will increase by 0.022274.

#### Effect of Sales Growth on Earnings Management

The test results in this study indicate that sales growth has a negative and insignificant effect on earnings management, meaning that the third hypothesis (H3) is rejected. The rejection of this hypothesis is because the composition value of the average sales growth is only 15.46, so it is not strong enough to influence earnings management significantly. This means that the composition of growth does not have a significant share in the course of company activities, including earnings management, because the small average sales growth is relatively stable and can still be accepted by agricultural sector companies listed on the IDX in 2015-2017.

#### Effect of Big Four on Earnings Management

The test results in this study indicate that the Big Four has a positive and insignificant effect on earnings management, meaning that the fourth hypothesis <sup>43</sup>(H4) is rejected. The rejection of this hypothesis occurs because even though the big four auditors have a good reputation in the eyes of clients and other stakeholders, they also lose their professionalism so that the company's auditors' reputation is not a guarantee in limiting earnings management practices carried out by the company. <sup>42</sup>

The results showed that if there is a big four audit within the company, it will increase the level of earnings management disclosure. For example, the company AALI has a big four audit; in 2015, it had earnings management of -0.52, and in 2016 it had earnings management of -0.48. Whereas in the UNSP company, there were no big four audits in 2016, it had earnings management of -0,0003, and in years it had earnings management of -0.53. This means that the companies audited by the big four audits are not proven to be able to limit the company's earnings management practices.

#### Research Discussion

##### Effect of Dividend Payout Ratio on Earnings Management <sup>31</sup>

Based on the test results, it shows that the Dividend Payout Ratio has a negative and significant effect on Earnings Management. This means that the higher <sup>24</sup>dividend payout ratio that the company distributes to investors, the management will increasingly carry out earnings management in the form of income decreasing.

The <sup>9</sup>results are in line with research conducted by Kasanen et al. (1996), Huang, You, & Lin (2009), and Baker et al. (2007) found a negative relationship between the effect of div<sup>8</sup>idend payout ratio on earnings management. This shows the need for a monitoring mecha<sup>8</sup>sm that aims to align the interests of both management and shareholders. Also, this study supports the agency theory of Jensen and Meckling (1976), which states that management and shareholders have different interests that cause conflict between the two parties.

##### Effect of Risk (Beta) on Earnings Management <sup>36</sup>

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##### Effect of Sales Growth on Earnings Management

The test results in this study indicate that sales growth has a negative and insignificant effect on earnings management, meaning that the third hypothesis (H3) is rejected. The rejection of this hypothesis is because the composition value of the average sales growth is only 15.46, so it is not strong enough to influence earnings management significantly. This means that the composition of growth does not have a significant share in the course of company activities, including earnings management, because the small average sales growth is relatively stable and can still be accepted by agricultural sector companies listed on the IDX in 2015-2017.



### Effect of Big Four on Earnings Management

The test results in this study indicate that the Big Four has a positive and insignificant effect on earnings management, meaning that the fourth hypothesis (H4) is rejected. The rejection of this hypothesis occurs because even though the big four auditors have a good reputation in the eyes of clients and other stakeholders, they also lose their professionalism so that the company's auditors' reputation is not a guarantee in limiting earnings management practices carried out by the company.

The results showed that if there is a big four audit within the company, it will increase the level of earnings management disclosure. For example, the company AALI has a big four audit; in 2015, it had earnings management of -0.52, and in 2016 it had earnings management of -0.48. Whereas in the UNSP company, there were no big four audits in 2016, it had earnings management of -0.0003, and in years it had earnings management of -0.53. This means that the companies audited by the big four audits are not proven to be able to limit the company's earnings management practices.

## IV. CONCLUSION

Based on the analysis and discussion carried out in the previous chapter, the following conclusions can be drawn:

- 1) The dividend Payout Ratio has a negative and significant effect on Earnings Management. The results of this study are in line with the development of the hypothesis, which has been stated that the Dividend Payout Ratio has a negative effect on Earnings Management. This means that the higher the dividend payout ratio that the company distributes to investors, the management will increasingly carry out earnings management in the form of income decreasing.
- 2) Risk (Beta) has a positive and insignificant effect on Earnings Management in the agricultural sector. The results of this study are not in line with the hypothesis that it has been stated that Beta has a negative effect on Earnings Management. This occurs because companies with high risks will be sensitive to changes in the market so that the possibility of companies obtaining outside funds to finance investment will be increasingly difficult.
- 3) Sales Growth has a negative and insignificant effect on Earnings Management. Not in line with the hypothesis that has been stated that Sales Growth has a positive effect on Earnings Management. This happens because earnings management practices are not always affected by changes in sales growth. The composition of growth does not have a big share in the course of earnings management activities because the small average sales growth is still relatively stable and can still be accepted by agricultural sector companies listed on the IDX in 2015-2017.
- 4) Big Four has a positive and insignificant effect on Earnings Management in the agricultural sector. The results of this study are not in line with the hypothesis that the Big Four has a negative effect on Earnings Management. This happens because even though the big four audit companies have a good reputation in the eyes of clients and other stakeholders, they also lose their professionalism so that the auditors' reputation is not a guarantee in limiting the company's earnings management practices.

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