Asian Journal of Social Science and Management Technology
ISSN: 2313-7410
Volume 4, Issue 5, September-October, 2022
Available at www.ajssmt.com

The ownership on Sustainablility Repotting and The Impact on Earning Management

Listia Aulia Indy [1], Lia Uzliawati [2]

[1,2] *Accounting Departement of Sultan Ageng Tirtayasa University, Indonesia.*

ABSTRACT : The purpose of this study is to examine the effect of institutional ownership on sustainability reporting and their impact on earnings management. This research is a type of quantitative research using purposive sampling method as a sampling method. The data collected comes from the annual reports of companies in the mining sector and the basic and chemical industry sectors listed on the Indonesia Stock Exchange from 2015 to 2019, with data analysis techniques using IBM SPSS V.20 software for windows. The results showed that institutional ownership had no effect on sustainability reporting. Sustainability reporting has a negative effect on earnings management.

Keywords - Institutional Ownership, Sustainability Reporting, Earning Management

---

1. INTRODUCTION

The Financial reports are a very important tool to demonstrate accountability for their performance to stakeholders. The most frequently used way to make financial statements visible to stakeholders is to do earnings management. Watt and Zimmerman in Suryani and Herianti (2015) define earnings management as a manager's action in using accounting policies to report accounting numbers that are not in accordance with the actual economic conditions of the company and mislead investors in making economic decisions with the profit figures. One of the phenomena that occurs in Indonesia related to cases of earnings management violations is PT Timah Tbk. which is one of the companies engaged in the mining sector. PT Timah (Persero) Tbk is suspected of providing fictitious financial statements in the first semester of 2015. This fictitious financial reporting activity was carried out to cover up the worrying financial performance of PT Timah. The inability of PT Timah's board of directors to get out of the loss trap has resulted in the handover of 80% of PT Timah's mining area to business partners. If referring to the real conditions that occurred at PT Timah, Ali believes that the first semester 2015 financial statements of PT Timah (Persero) Tbk are fictitious. Because according to him, in the first semester of 2015 PT Timah's operating profit had suffered a loss of Rp. 59 billion (Agustina and Suryani, 2018).

The Information becomes an important role when it is associated with these problems. Disclosure of social and environmental responsibility is required as a company's business strategy to increase profits. Companies that implement Corporate Social Responsibility expect a positive response from market players such as investors and creditors who will be able to increase the value of the company.

CSR activities can be realized in the form of sustainability reporting that focuses on economic, social, environmental aspects (Herbert and Mark, 2019). The role of audit is not only limited to financial statements, but needs to be applied to non-financial information. The use of assurance from an external party can increase the reliability and credibility of Sustainability Reporting. Sustainability report or better known as sustainable financial reporting is an important issue in the development process of a company. There are several factors that influence companies in the use of sustainability reports, one of which is institutional ownership.

Institutional ownership is ownership of company shares owned by institutions or institutions (insurance companies, banks, limited liability companies, investment companies and other institutional ownership) (Waryanto, 2010). Institutional share ownership or institutional investors have the right to control the management through an effective monitoring process so as to encourage management performance to prioritize the interests of other parties (stakeholders). This means that large institutional share ownership can encourage the quality of information and disclosure of sustainability reports by companies. (Aliniar & Wahyuni, 2017).

Based on this description, the researcher wants to review the relationship between institutional ownership mechanisms and sustainability reporting, and analyze the impact of sustainability reporting on earnings management. The researcher chose companies in the mining sector and the basic and chemical industrial sector as samples in this study because these sectors have the most impact on the environment.

2. Literature Review

2.1 *Stakeholder Theory*

Freeman et al (2010) define a stakeholder as an organization, group, or individual who can be influenced and influence the goals of the organization. This definition indicates a two-way impact relationship between an organization and its stakeholders. Stakeholder theory has been at the core of sustainability accounting and reporting research because it emphasizes broader organizational accountability. This theory asserts that organizational accountability goes beyond providing accounts to shareholders and includes all individuals and groups affected by their decisions. (Kaur & Lodhia, 2018).

The relationship with the variables in this study is because stakeholder theory shows a two-way impact relationship between the organization and its stakeholders. The involvement of stakeholders, both managerial and institutional, is very important in making decisions to achieve organizational performance. Companies that disclose sustainability reporting expect a positive response from stakeholders. Stakeholder theory also asserts that accountability is influenced by stakeholder decisions.

2.2 *Corporate Governance*

According to Aziz (2014) Good Corporate Governance (GCG) is corporate governance that has a broader agenda in the future. The focus of corporate accountability which was originally still concentrated or oriented to shareholders (stakeholders), is now wider and for corporate governance must also pay attention to stakeholder interests. As a result of this paradigm shift, corporate governance must consider issues such as corporate social responsibility (CSR). According to the Finance Committee on Corporate Governance, corporate governance is a process and structure used to direct and manage business and company activities towards increasing business growth and corporate accountability (Aziz, 2014).

2.3 *Sustainability Reporting*

In general, sustainability reporting is described as an information management and accounting method that aims to create and provide high quality information to demonstrate the organization's progress towards its sustainability goals. Sustainability reporting is described as a formal communication tool to reveal an organization's sustainability performance (Kaur & Lodhia, 2018). The sustainability report describes the company's sense of responsibility to the community which can be seen in the aspects reported and is also a source of information for stakeholders to make decisions (Pratiwi, 2013). The company is responsible to stakeholders consisting of investors, consumers, employees, distributors and the public. Sustainability consists of three aspects, people-social; planet-environment; and profit-economics. So according to Elkington the company must be responsible for the positive and negative impacts caused to economic, social and environmental aspects (Hasanah et al., 2017).

2.4 *Earning Management*

Earning management or earnings management is the manager's action to increase or decrease the reported profit of the unit that is his responsibility but has no relationship with the increase or decrease in the company's profitability in the long term (Fischer and Rosenzweig, 1995). However, Gumanti (2000) says that earnings management is closely related to the level of earnings (earnings) or business performance of an organization.

Management achievements and the provision of incentives received are always associated with the profits earned. Therefore, management will try to report its financial statements as good as possible, so that the profits shown are constant and avoid information about losses in order to show their achievements. Profit information obtained by stakeholders will be used as a decision maker by considering the company's earnings power.

2.5 Hypotesis Development

2.5.1 Institutional Ownership and *Sustainability Reporting*

Large shareholdings have the ability to oversee management decision making. The existence of institutional investors is expected to support the disclosure of sustainability reports as a form of corporate communication to stakeholders that the company is responsible for its business activities. According to Aliniar and Wahyuni (2017), the results of the test and discussion are that the proportion of institutional share ownership has a significant positive effect on the quality of disclosure of the sustainability report. This is in line with research conducted by Nurrahman (2013) which found that institutional ownership has an influence on the disclosure of sustainability reports. Based on this explanation, the second research hypothesis proposed is as follows:

H1: Institutional ownership has an effect on Sustainability Reporting.

2.5.2 *Sustainability Reporting* dan *Earning Management*

The companies usually have controlling shareholders Breton and Schatt (2003), it is possible that managers of socially responsible companies issue more transparent and reliable financial reports to meet the expectations and interests of their reputation stakeholders (Kim et al., 2012). are less likely to manage earnings because they are not trying to hide adverse earnings. This idea is based on the myopia avoidance hypothesis. In line with previous research (Ferrero, 2016); (Gras-Gil et al., 2016), we expect that socially responsible firms have low incentives to manage earnings. The above discussion leads us to formulate the following hypotheses:

H2: Sustainability reporting has a negative effect on Earning Management.

3. Research Method

This research is a quantitative study using mining sector companies and basic and chemical industry sectors listed on the Indonesia Stock Exchange (IDX) for the 2015-2019 periods as the population of the study. Meanwhile, the sampling was carried out by purposive sampling method with the aim of obtaining a representative sample in accordance with the specified criteria. Based on the purposive sampling method, the samples was 80 observations. The data used in this study is secondary data in the form of annual reports and sustainability reporting for the 2015–2019. Data analysis method used multiple linear regression analysis.

4. Result

4.1 Descriptive Statistical Analysis

The table of descriptive statistical results for the entire sample during the 2015-2019 periods:

Table 1

Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
Institution Ownership (X2)	80	0.276	971316.008	58072.28705	225627.804567
Suistainability Reporting (Y1)	80	0.008	0.571	0.17326	0.146966
Earning Management (Y2)	80	-0.460	0.437	0.02158	0.163824
Valid N (listwise)	80				

Sources: SPSS Data Result (2021)

Based on table 1, it can be seen that the dependent variable, namely Earning Management (EM) has an average value of 0.02158. This indicates that in the mining sector companies and companies in the basic and chemical industry sectors, Earning Management occurs. While the other dependent variable, namely Sustainability Reporting (SR) has a minimum value of 0.008.

4.2. Multple Linier Regression Analysis

The equation for the multiple regression model of Sustainability Reporting (Variable Y1), Managerial Ownership (Variable X1), and Institutional Ownership (Variable X2). The results of multiple regression analysis can be seen on table as follow.

Table 2

Multiple Regression Analysis

	B	T	Sig
(Constant)	0,156	11,127	0.000
Institution Ownershipi(X2)	4.164E-007	7,242	0,000*
R Square	0,407		
F	6,378		

Sources: SPSS Data Result (2021)

The equation for the simple regression model is the Earning Management variable (Variable Y) and the Sustainability Reporting variable (Variable X). The results of simple regression analysis can be seen in the following table:

Table 3

Multiple Regression Analysis

	B	T	Sig.
(Constant)	0,075	2,727	0.008*
Sustainability Reporting (Y1)	-0,308	-2,540	0,013**
R Square	0,076		
F	6,450		

Sources: SPSS Data Result (2021)

Based on table 5, it is proven that the Sustainability Reporting variable has an effect on Earning Management with a t value of -2.540 with a significance value of 0.013 <0.05. Thus, it can be concluded that the test is able to prove that Sustainability Reporting has a negative effect on Earning Management. Therefore, the third hypothesis in this study is accepted.

5. Discussion

5.1 The Effect of Institutional Ownership on Sustainabiity

The second hypothesis predicts that institutional ownership has an effect on sustainability reporting and the results of this study indicate that institutional ownership has an effect on sustainability reporting. Based on stakeholder theory, institutional ownership has the right to control the management through an effective monitoring process. The results of this study are in line with the theory, where institutional ownership has an effect on the disclosure of Sustainability Reporting.

In addition, other research that is in line with this research is the research conducted by Aliniar and Wahyuni (2017) which states that institutional ownership has an effect on sustainability reporting. Another study conducted by Edison (2017) stated that institutional ownership has an effect on sustainability reporting.

5.2 *Sustainability Reporting to Earning Management*

The third hypothesis predicts that sustainability reporting has a negative effect on earnings management and the results of this study indicate that sustainability reporting has a negative effect on earnings management, because the more companies involved in the practice of sustainability reporting, the fewer companies do earning management.

Based on stakeholder theory, the accepted paradigm to explain why companies engage in social and environmental activities as a strategy to maximize long-term return on investment and sustainable business success. The interests of each stakeholder group are studied and incorporated into the company's strategy. Company managers will carry out transparency by including more information needed by outside parties in the disclosure of sustainability reporting. Transparency by the company will tend to make managers not do earnings management.

The authors found in this study that the mining sector company was seen at PT Bukit Asam in 2019. Where the company made a fairly high sustainability reporting disclosure, namely 0.571 and carried out earnings management which was quite low, namely -0.2. As well as the basic and chemical industrial sector companies seen in PT Indo Acidatama in 2016. Where the company made a fairly high disclosure of sustainability reporting, namely 0.534 and carried out earnings management which was quite low, namely -0.46. This shows that the higher the company is involved in the practice of disclosure of sustainability reporting, the less companies do earnings management.

The results of this test show conformity with the results of Amar and Chakroun (2018) who concluded that sustainability reporting has a negative effect on earnings management. Another study, Gras-Gil et al (2016) stated that sustainability reporting has a negative effect on earnings management.

These results also provide the conclusion that the manager works in accordance with the interests of parties outside the company. The external parties referred to in this study are institutional parties as stakeholders who have greater interests than the manager. This is because the share ownership is higher. Thus, it can be concluded that institutional ownership affects the disclosure of sustainability reporting and ultimately has an impact on reducing earning management practice. .

6. Conclusion

Based on the description of the results and discussion, it can be concluded that the institutional ownership variable has an effect on Sustainability Reporting, which means that the higher the institutional ownership, the higher the quality of sustainability reporting disclosure will be. While the third hypothesis is accepted, namely the sustainability reporting variable has a negative effect on Earning Management. With sustainability reporting, company managers will try to publish more transparent and reliable financial reports to meet the expectations and interests of stakeholders.

7. Refference

1. Agustina, Y. ., & Suryani, E. (2018). Pengaruh Ukuran Perusahaan, Umur Perusahaan, Leverage, Dan Profitabilitas Terhadap Manajemen Laba (Studi Pada Perusahaan Pertambangan yang Terdaftar di Bursa Efek Indonesia Periode 2014-2016). *Jurnal ASET (Akuntansi Riset)*, *10*(1), 71–82. https://doi.org/10.17509/jaset.v10i1.12571.
2. Aliniar, D., & Wahyuni, S. (2017). Pengaruh Mekanisme Good Corporate Governance (Gcg) Dan Ukuran Perusahaan Terhadap Kualitas Pengungkapan Sustainability Report Pada Perusahaan Terdaftar Di Bei. *Jurnal Universitas Muhammadiyah Purwekerto*, *15(1)*, 26–41.
3. Amar, B. A., & Chakroun, S. (2018). Do dimensions of corporate social responsibility affect earnings management?: Evidence from France. *Journal of Financial Reporting and Accounting*, *16(2)*, 348–370.
4. Aniktia, R. M. K. (2015). Pengaruh Mekaniseme Good Corporate Governance Dan Kinerja Keuangan Terhadap Pengungkapan Sustainability Report. *Accounting Analysis Journal*, *4(3)*, 1–10. https://doi.org/10.15294/aaj.v4i3.8303.
5. Aziz, A. (2014). Analisis Pengaruh Good Corporate Governance (Gcg) Terhadap Kualitas Pengungkapan Sustainability Report. *Jurnal Audit Dan Akuntansi Fakultas Ekonomi Universitas Tanjungpura*, *3(2)*, 65–84.
6. Breton, G., & Schatt, A. (2003). Manipulation comptable:les dirigeants et les autres parties prenantes. *Revue Du Financier*, *4(2)*, 112–115.
7. Daniri, M, A. (2014). *Lead By GCG*. Gagas Bisnis Indonesia.
8. Edison, A. (2017). Struktur Kepemilikan Asing, Kepemilikan Institusional Dan Kepemilikan Manajerial

Pengaruhnya Terhadap Luas Pengungkapan Corporate Social Responsibility (Csr). *Jurnal Bisma*, *11(2)*, 164–268.
9. Ferrero. (2016). Today Michelle Will Be a Princess. *Andrews McMeel Publishing*, . *44(0)*, 1–49.
10. Fischer, M., & Rosenzweig, K. (1995). Attitudes of students and accounting practitioners concerning the ethical acceptability of earnings management. *Journal of Business Ethics*, *14(6)*, 433–444.
11. Freeman, R. E., Harrison, J. S., Wicks, A. C., Parmar, B., & de Colle, S. (2010). Stakeholder theory: The state of the art. *The Academy of Management Annals*, *4(1)*.
12. Gao, S. S., & Zhang, J. J. (2006). Stakeholder engagement, social auditing and corporate sustainability. *Business Process Management Journal*, *12(6)*, 722–740. https://doi.org/10.1108/14637150610710891
13. Ghozali, I. (2013). *Aplikasi Analisis Multivariate dengan Program IBM SPSS 21 Update PLS Regresi.* Badan Penerbit Universitas Diponegoro.
14. Ghozali, I. (2016). *Aplikasi Analisis Multivariete Dengan Program IBM SPSS 23 (Edisi 8). Cetakan ke VIII*. Badan Penerbit Universitas Diponegoro.
15. Gras-Gil, E., Manzano, P. M., & Fernández, H. . (2016). Investigating the relationship between corporate social responsibility and earnings management: Evidence from Spain. BRQ Business Research Quarterly, 19(4), 289–299. *BRQ Business Research Quarterly*, *19(4)*, 289–299. https://doi.org/10.1016/j.brq.2016.02.002.
16. Gumanti, T. A. (2000). Earnings Management: Suatu Telaah Pustaka. Earnings Management: Suatu Telaah Pustaka. *Jurnal Akuntansi Dan Keuangan*, *2(2)*, 104–115.
17. Hasanah, N., Syam, D., & Jati, A. W. (2017). Pengaruh Corporate Governance terhadap Pengungkapan Sustainability Report pada Perusahaan di Indonesia. *Jurnal Reviu Akuntansi Dan Keuangan*, *5(1)*, 711–720. https://doi.org/10.22219/jrak.v5i1.4992.
18. Herbert, S., & Mark, G. (2019). The Relationship Between Sustainability Reporting and Integrated Reporting : 2018 Southern African Accounting Association (SAAA) National Teaching and Learning and WC004. *Southern African Journal of Accountability and Auditing Research*, *4(2)*, 125–142.
19. Kaur, A & Lodhia, S. (2018). Stakeholder engagement in sustainability accounting and reporting: A study of Australian local councils. *Accounting, Auditing and Accountability Journal*, *31(1)*, 338–368. https://doi.org/10.1108/AAAJ-12-2014-1901.
20. Kim, Y., Park, M. S., & Wier, B. (2012). Is earnings quality associated with corporate social responsibility? *Accounting Review*, *87(3)*, 761–796. https://doi.org/10.2308/accr-10209.
21. Nurrahman, A. (2013). Pengaruh Kepemilikan Manajerial, Kepemilikan Institusional, Dan Kepemilikan Asing Terhadap Praktik Pengungkapan Sustainability Report Diponegoro. *Journal of Accounting, 0(0)*, 273–285.
22. Pratiwi, K. P. (2013). Environmental Incidents, Pemberitaan Media Dan Praktik Pengungkapan Lingkungan (Environmental Disclosures) : Studi Pada Sustainability Report Asia Pulp And Paper. *Journal of Accounting*, *0(0*, 470–481.
23. Spearman. (1987). Commentary: Spearman's "The proof and measurement of association between two things". *International Journal of Epidemiology*, *39(5)*, 1159–1161. https://doi.org/10.1093/ije/dyq200
24. Suryani, A & Herianti, E. (2015). Pengaruh Pengungkapan Tanggung Jawab Sosial Perusahaan terhadap Koefisen Respon Laba dan Manajemen Laba (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia). *Simposium Nasional Akuntansi XVIII*, *3(2)*, 1–26.
25. Widyaningdyah, A. U. (1997). Terhadap Earnings Management Pada Perusahaan Go Public Di Indonesia. *Jurnal Akuntansi, 3(1)*.

INFO

Corresponding Author:* Lia Uzliawati, *Accounting Departement of Sultan Ageng Tirtayasa University, Indonesia.

How to cite this article: **Lia Uzliawati, Listia Aulia Indy*, The ownership on Sustainablility Repotting and The Impact on Earning Management, Asian. Jour. Social. Scie. Mgmt. Tech.2022; 4(5): 112-117.***