

The Effect of Company Ownership Structure on Profit Information with Earnings Opacity as An Intervening Variable

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Keywords : Company Ownership Structure, Controlling Shareholders, Profit Informative, Earnings Opacity, Earnings Smoothing.

Abstract: This study aims to determine the effect of Company Ownership Structure on Profit Informative with Earnings Opacity as an intervening variable. The company's ownership structure is measured by looking at the percentage of ownership of the controlling shareholders with ownership above 50%. Earnings informativeness is measured by earnings response coefficient (ERC). Meanwhile, earnings opacity is proxied by earnings smoothing as measured using the Eckel index. The research population includes manufacturing companies listed on the Indonesia Stock Exchange for the 2016-2020 period. The sample selection method used was purposive sampling and 27 companies were selected with a total sample of 135 research data. The analysis technique used is multiple linear regression with SPSS version 25 software and path analysis with the help of an online sobel calculator. The results of this study indicate that the disclosure of Company Ownership Structure has a direct and significant negative effect on Profit Informativeness. Earnings opacity does not act as a mediator between the influence of Company Ownership Structure on Profit Informativeness.

Introduction

In making an investor decision certainly requires informative information. Company profit reports derived from financial reports are the main source of information used by investors or potential investors in making decisions (Mulyadi, 2016). Profit as one of the information contained in financial statements will later be used by users of financial statements in assessing the performance of a company and predicting future profits by estimating investment or credit risk Kirschenheiter, M & Nahum DM (2002).

The informativeness of accounting profit is defined as the ability to earn in financial statements which can influence market assessments of firm value (Hakim, 2015). Where, the informativeness of accounting earnings can also be seen from a market reaction in response to earnings information. According to Roychowdhury and Sletten (2012) informative earnings are informative earnings which are defined as the ability to earn in the current period which can help investors to determine the rate of return for future returns . The informativeness of earnings can be seen from a market reaction responding to profit information (Lestari, 2018). There are many things that can trigger a market reaction, one of which is announcements related to profits. In the research conducted by Ball and Brown (1968) stated that when a company will announce its earnings in the market, investors will definitely react to the profit information reported by a company. The magnitude of the relationship between accounting earnings firms and stock price responses in the accounting literature is measured using *Earnings response coefficients* (ERC).

The informative case of profit in a manufacturing company occurred in the company PT Gudang Garam. Where in 2016 PT Gudang Garam received a positive response from the market for announcing that it would distribute dividends of 5 trillion or equal to IDR 2,600 per share to shareholders. This was associated with an increase in the company's operating profit of IDR 1.7 trillion , and reinforced by the fact that the company's share profit increased from IDR 666 to IDR 800. However, in 2019 PT Gudang Garam made investors worried by making a decision not to distribute dividends like in previous years. This disappointment was reflected in the market reaction to the movement of GGR's share price on Friday (28/8/2020) GGRM shares fell 5.11 % to the position of 49,250.

Research on profit information as measured using the earnings response coefficient is useful as an assessment in determining a market reaction to earnings information (Alfiana, 2015). One of the factors that can influence the informativeness of earnings is the company's ownership structure. Firm ownership structure According to Jansen and Meckling (1976) states that convergence of interests can occur when owner ownership increases, and reduces agency costs. The reduction in agency costs will be greater, the higher the ownership of the shareholders. In this case, the shareholders are likely to behave in a way that maximizes firm value and imposes fewer contractual constraints on the firm. This makes the owner will be less motivated to manage earnings, produce earnings quality, and higher informativeness. This is proven in research conducted by Fan and Wong (2002) which states that the company's ownership structure is concentrated in controlling shareholders providing opportunities for them to disclose low quality company financial information.

Li Zhang's research (2019) found the results of the company's ownership structure variable as measured by looking at controlling share ownership which has a significant positive effect on earnings informativeness. Yanti, M & Taqwa, s (2020) found that the company's ownership structure, which is measured by looking at controlling share ownership, has no significant negative effect on earnings informativeness. Boubaker (2011); Hakim (2015) company ownership structure has a significant negative effect on earnings informativeness, and Susilowati (2015) found the results of differences between control rights and cash flow rights for controlling shareholders have a negative effect on earnings informativeness. The inconsistency of the research results indicates that there are other variables that influence the relationship of corporate ownership structure to earnings informativeness. Profit informativeness is one of the main concerns for investors and potential investors and is a form of management responsibility in assessing risks and investing. This shows the importance of the role of profit in a company so that management usually tries to beautify financial statements by obscuring profits or what is called *Earnings Opacity*.

Earnings opacity is the distribution of company profit reports in providing information about the correct distribution of economic profits, but not measurable. Earnings opacity is a practice of modifying earnings which causes profit information to become blurred (Athana, 2016). Earnings opacity is carried out by management to increase the value of the company so that it can attract potential investors when profit information is published (Amalia, 2015).

Jansen and Meckling (1976) suggest that convergence of interests can occur when owner ownership increases, and reduces agency costs. The reduction in agency costs will be even greater, the higher the ownership of the shareholder. In this case, the owners of the largest shareholders behave in a way that maximizes the value of the company and imposes fewer contractual constraints on the company. Owners will be less motivated to manage earnings, resulting in higher earnings quality and informativeness. Hakim (2015) stated that the company's ownership structure which is concentrated in controlling shareholders has the possibility of expropriation by controlling shareholders towards non-controlling shareholders. Such perceptions can reduce the credibility of accounting profit reports and reduce the informativeness of accounting earnings.

H₁: Company Ownership Structure has a negative effect on Profit Informative

Earning Opacity proxied by *Earning smoothing* is one of the factors that can affect the relationship between company ownership structure and earnings informativeness. *Earnings Smoothing* which is a proxy for *earnings opacity* with *income smoothing* which is used as a measurement in this study is part of earnings management, an action in which management conditions intervene in the process of preparing financial statements. The management of a company that performs income smoothing actions indirectly receives a positive response from the market. Because the higher the level of *income smoothing*, the higher the market reaction proxied by cumulative abnormal returns. The market response to a company that performs *income smoothing* is in practice different from a company that does not perform

income smoothing (SW, Agustiningsih, 2014). This can show investors and potential investors that the company has a relatively stable income or profit. However, indicators that are tied to the assessment of a corporate governance can mediate the relationship between earnings opacity proxied by earnings smoothing to the ownership structure that focuses on controlling shareholders on earnings informativeness.

H₂: Earnings opacity mediates the relationship between the influence of the firm's ownership structure on earnings informativeness

Research Method

The population in this study are manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) 2016-2020. The population in this study amounted to 142 manufacturing companies, using purposive sampling method obtained 27 companies included in the test criteria. The type of research used in this research is quantitative research, this study uses a multiple regression analysis approach using SPSS (*Statistical Package for Social Science*) Version 25.

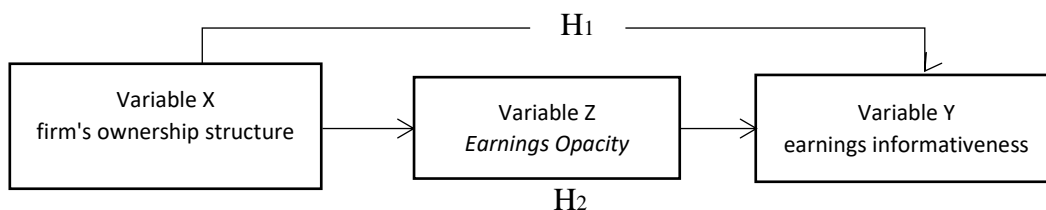
The dependent variable in this study is Profit Informative which is measured using *Earnings Response Coefficients* (ERC). *Intensifying* variable in this study is *Earnings Opacity* which is measured using Eckel's Index (1981). The independent variable in this study is the Company Ownership Structure whose measurement refers to Zhang's research (2019) by looking directly at the percentage of controlling share ownership with ownership greater than 50%.

The regression model developed to test the hypotheses that have been formulated are:

$$ERC_{it} = a + \beta_1 SKP_{it} + \beta_2 EO_{it} + e$$

$$EO = \alpha + \beta_1 SKP + e$$

Based on theory, previous research, and research hypotheses, the framework for thinking can be illustrated in Figure 1.



Source: Developed by Researchers, 2022

Figure 1. Research Model Effect of Company Ownership Structure on Profit Informative with *Earnings Opacity* as Intervening Variable

Result and Discussion

Regression Analysis

The results of the regression analysis of all samples and research models are presented as follows:

Table 1. Regression Analysis Results

Model : $ERC_{it} = \alpha + \beta_1SKP_{it} + \beta_2EO_{it} + e$			
Variables	Betas	Q	Sig
(Constant)	0.201		
Company Ownership Structure	-0.256	-2,564	0.012*
<i>Earnings Opacity</i>	0.002	0.077	0.939
<i>R-Square</i>	0.073		
F	3,306		
Sig (Test F)	0.041*		

*Significance Level 0.05

Dependent Variable : ERC

Source: Processed Secondary Data, 2022

Path Analysis

The results of the analysis of all paths to find out whether there is an indirect effect between the Company Ownership Structure on Profit Informative as measured by ERC, it is necessary to test the prerequisites of the mediating variable. The results of the regression test for all paths in this study are presented as follows.

Table 2. All Path Regression Test Results

Variable	EO Line 1	ERC Line 2
SKP	-0.681	-
EO	-	0.002
std. error	1.617	0.031
Significant At 0.05	0.475	0.949

Source: Secondary data processed, 2022

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Based on table 1 in the model feasibility test it is known that the coefficient β_1 obtains a value of -0.256 with a significance level of 0.012 which is less than 0.05. This proves that there is a significant negative influence between the Company Ownership Structure on the Informative earnings calculated using the ERC, so it can be concluded that hypothesis 1 (H_1) in this study is accepted.

This shows that the higher the controlling shareholder ownership in the company can reduce the informativeness of accounting profit. Because controlling shareholders have control rights that can influence the preparation of accounting information, this will reduce the credibility of accounting profit reports and reduce the informativeness of earnings. This is reinforced by the view of Jansen and Meckling (1976) where the higher the shareholder ownership, the less motivated the holder or shareholder is in managing company profits to

produce higher earnings quality and earnings informativeness. The results of this study are in line with previous studies conducted by Hakim (2015), Susiloati (2015), Woidtike and Yeh (2013), Boubaker and Sami (2011), and Fan and Wong (2002).

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Based on the results of the X to M regression path, it is known that the Company Ownership Structure has no effect on Earnings Opacity, and on the M to Y path it is known that Earnings Opacity has no effect on ERC. Not proving the influence of Company Ownership Structure on Earnings Opacity and the effect of Earnings Opacity on ERC indicates that the allegation that Company Ownership Structure influences ERC through Earnings Opacity as a mediating variable is rejected. The results of the Sobel test to test the significance of the mediating effect of Earnings Opacity on the relationship between Company Ownership Structure and ERC show the statistical results of the Sobel test -0.064. These results indicate that the value of $-0.064 < 1.96$ means that the earnings opacity variable proxied by earnings smoothing does not mediate the relationship between Company Ownership Structure and Profit Informative. Thus, it can be concluded that hypothesis 2 in this study (H2) is rejected.

This research is in line with the research of Andiani and Astika (2019) and Giovani (2017) which state that ownership structure has no effect on income smoothing or income smoothing, which is a measurement of earnings smoothing. This can be interpreted that the size of the percentage of share ownership by the company does not affect the tendency to perform earnings smoothing. As well as Firmansyah's research (2017) which states that there is no effect between income/earnings smoothing on earnings informativeness. From these results, it can be concluded that investors do not respond to earnings smoothing either as an efficiency measure performed by companies in generating future profits, or as an opportunistic act by managers in generating stable profits. As a result, investors do not perceive that earnings smoothing is a clue to them, which is either *good news* or *bad news*.

Conclusion

The test results of the company's ownership structure have a significant negative effect on the informativeness of earnings hypothesized on H1 in this study is accepted. This shows that the higher the controlling shareholder ownership in the company can reduce the informativeness of accounting profit. Because controlling shareholders have control rights that can influence the preparation of accounting information, this will reduce the credibility of accounting profit reports and reduce the informativeness of earnings. In addition, the results of testing the influence of the Company Ownership Structure variable on profit informativeness with *Earnings Opacity* as an *intervening variable* cannot be proven. *Earnings Opacity* cannot be a mediating or intervening variable, according to the results of the prerequisite test. Company Ownership Structure as measured by looking at the percentage of controlling share ownership has no effect on *Earnings Opacity* as measured using the Eckel index. And *Earnings Opacity* as measured by the Eckel index has no effect on earnings

informativeness as measured using *the Earnings Response Coefficient* (ERC). So it can be concluded that the H2 hypothesis in this study was rejected.

Further researchers are advised to use a sample of companies in other sectors listed on the Indonesia Stock Exchange such as the mining, banking, state-owned companies, and others. as well as adding the observation time period with the latest year's data.

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