THE EFFECT OF INFORMATION ASYMMETRY, FIRM SIZE, LEVERAGE, PROFITABILITY AND EMPLOYEE STOCK OWNERSHIP ON EARNINGS MANAGEMENT WITH ACCRUAL MODEL

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ABSTRACT

Earnings management existed because it was impacted from accrual basis. In practice, managers choose policies to maximize their utility and market value of the firm (Scott, 2006). Agency theory provides a view that management has more information about their companies, so it brings out information asymmetry gap between principle and agent information. Based on agency theory, the purpose of this study is to analyze the effect of an information asymmetry, firm size, leverage, profitability and employee stock ownership on earnings management in listed companies in Jakarta Islamic Index and LQ 45. The sample is 191 companies listed in the Jakarta Islamic Index and 226 companies listed in LQ 45 from 2004 to 2013 periods. The results indicate that information asymmetry has positive effect on the earnings management (DACC) in both indexes. And the employee stock ownership has a negative effect on the earnings management (DACC) in both indexes. The result support agency theory if management will do manipulate earnings if there is more information gap between principle and agent and it will be reduced by the employee stock ownership.

Key words: Information asymmetry, Employee Stocks Ownership, Earning management, Discretionary accruals

Introduction

Financial statements used as a basis for assessing the performance of a company and is a tool used by management to demonstrate its performance accountability to creditors, investors, suppliers, employees, customers, community, and government. Financial statements can indicate whether a company has a good performance or not that can help stakeholders to make decisions (Healy and Wahlen, 1999).

For preparing the financial statements, the accrual basis has been more rational and fair in reflecting the company's financial condition. But the used of the accrual basis may provide more flexibility to the management in selecting accounting methods to set the profit number. Profit information is very important, because of its role as a signal and it important decisions by users. Profit is the principle component of the limelight for the parties concerned, such as to assess the company's performance or the performance of the manager as a basis for giving bonuses to employees, calculating taxable income and others.

Research on earnings management with various earnings management models in the Indonesian capital market both in the Islamic and conventional indexes has been done by (Wiyadi et al.2011, 2012). Generally, previous studies (Boediono (2005); Kusumawati, et.al, (2005); Veronica and Bakhtiar (2005); Rahmawati, et.al, (2006); Nasution and Setiawan (2007); Ujiyantho and Pramuko (2007); Herawaty (2008), Sasongko and Fauziah (2011), Wiyadi and Prasnowo (2011), Trisnawati and Nugroho

(2011), are measuring earnings management used accruals aggregate approach. This approach separated total accruals into non-discretionary component and discretionary accruals (accruals components are in management or policy managers to intervene in the financial reporting process). This models frequently used is the modified Jones. One of the advantages of aggregate accruals approach is the approach has the potential to uncover ways to raise or lower profits, because these ways less attention to be known by outsiders

The manager is the most responsible person for preparing the financial statements. The manager has primary control for the integrity of the accounting system and financial records that are used to create the financial statements. This increases or decreases on the accounting number because the manager can exert their ability to make judgments and communicate information at their disposal through the options and accounting estimates. Flexibility owned by management in preparing the financial statements provide a gap for management to make earnings management practices through the freedom given to them in choosing or changing accounting methods.

Discretionary Accrual is a component of accruals that are within the policy manager, it means that the manager can intervene in the process of accounting reporting. This action causes the misleading of earnings reports. The earnings management may reduce the economic value of the financial statements and the reliability for the reporting process (Subramanyam and Wild, 2010: 86). Therefore, it would make the errors decision making by parties which have interested in the company, in particular for external parties.

There are several variables that are considered affecting the earnings management. They are information asymmetry (Rahmawati, 2006), the size of the company (Hoang, 2006), leverage (Tarjo 2008), profitability (Satya, 2013) and Employee Stock Ownership Program or ESOP (Jiraporn, 2006). The conflict interest between managers with shareholders' implies the existence of information asymmetry. Information asymmetry arises when managers more aware of the internal information and the company's prospects in the future compared to shareholders or other stakeholders. Related with the increasing company value, the managers can provide a signal about the company to investors in order to maximize the company's value. Given signal can be done through disclosure (disclosure) accounting information (Rahmawati et al, 2007). Earnings management arise as a result of agency problems. The manager is better informed than the company's owners or shareholders, so that the management will try to manipulate the company's reported performance for its own sake (Herawaty, 2008).

Other factors that influence earnings management is the size of the company (Halim, et.al., 2005). Large companies have a large incentive to undertake earnings management, since one of the main reasons is the large companies should be able to meet the expectations of investors or shareholders. Companies with medium and large size have more strong pressure from the stakeholder. This prompted the management to meet investors' expectations so that the tendency of management do the greater earnings management (Widyastuti, 2009).

Other variables that affect to earnings management is leverage. The larger the debt of the company, the greater the risk for the owner so the owner will ask the higher the level of profit that the company is not threatened in liquidation. Companies that have high leverage ratios tend to manipulate earnings management. By doing earnings management, the company's performance will look nice in the perspective of shareholders and the public in spite of its imperiled in liquidation. Tarjo (2008), Jao and Pagulung (2011).

Profit is an indicator of performance by management in managing the company's assets. The performance of a company can be seen from the level of profit, particularly on sales, total assets and equity (Sartono in Herni and Susanto, 2008). The effectiveness of the company to generate profits through the operation of the assets can also motivate earnings management in a company. The greater Return on Assets (ROA) as a profitability ratio that is owned by a company so it shows efficient used of the asset and it will increase profits. Return on Assets (ROA) is an important measure for assessing the company's healthy or not, that affects the investor to make a decision. The profits will attract investors because the company has returned their investment with a higher level. In other words, the higher this ratio, the better the productivity of assets in net profit. ROA thus motivate management to carry out the earning management (Widyastuti, 2009; Herawaty2010)

The earnings management also is affected by employee stock ownership in the company. Employee Stock Ownership Plans Program (ESOP) is a program shareholding company by workers / employees. ESOP is a kind of long-term incentives are provided or offered by the company to its employees in order that the employee has the sense of belonging against the company, which it can increase employee productivity and improve company performance. According to Bapepam (2002), one of the purposes of applying the ESOP is to create alignment of interests of employee and mission of executives with shareholder interests and so there is no conflict of interest between shareholders and those who run the company's business activities. From these statements, it can be concluded that the implementation of equity-based compensation program as ESOP emerged as the best means of encouraging managers to make decisions that maximize the value of the company. ESOP makes employees and executive officers of the company as owner and manager. Psychologically as owner-managers, employees and executive officers of the company will carry out operations effectively and efficiently.

In this study, researchers used two indices which existed in Indonesian capital market. They are LQ 45 and Jakarta Islamic Index. LQ 45 is the index which companies have of the 45 most liquid value of the stock market capitalization and it is an indicator of company liquidity. LQ 45 used the 45 stocks selected based on share trading liquidity and adjusted every six months (each early February and August). Jakarta Islamic Index itself is an index of 30 stocks that comprise accommodate investments in Islamic law or an index that is based on Islamic sharia. In this index included stocks that meet the criteria of investment in Islamic law. The shares are included in the Islamic Index are issuers whose business activities do not conflict with sharia.

The present study needed to prove empirically the effects of information asymmetry, firm size, leverage, profitability and the Employee Stock Ownership Program to earning management in companies listed on JII and LQ45 Indonesian capital market.The The following sections describe the theory and hyphotesis, research method the research findings and finally come up with suggestions and recommendations

Theory and Hypothesis

1. Agency theory

Jensen and Meckling (1976) describes the agency theory is a contractual relationship between the investor (principal) and the manager (agent).They have different interest, so it make the conflict of interest between principle and agent. Conflicts of interest can occur because the agent does not same act in the interest of the principal. According to Eisenhardt (1989) there are three assumptions of human nature, namely: (1) humans are basically selfish (self-interest), (2) the power of human thought about the perception of the future is very limited (bounded rationality), and (3) The man has always tried to avoid the risk (risk averse). Based on the human nature, as human managers also engage in conduct that prioritizes private interests (Harris, 2004).

Managers know more information about the company and its future prospects than the owners. They are obliged to report on the condition of the company to the owner of the company in the form of financial statements. Financial statement is critical to outsiders because the management is in a state of great uncertainty most information about the condition of the company (Irfan, 2002). Difference information between management and owners of the company can provide an opportunity for managers to make deceptive earnings management for economic performance of the company.

2. **Earnings management**

The term of earnings management has become a phenomenon which is interesting study in research. Earning management interesting to study because it can provide a picture of the behavior of managers in preparing and reporting financial statements with a definite motivation that encourages them to organize reported financial data.

The term of earnings management arise as a consequence of the efforts of managers or preparers of financial statements to perform financial information management, especially for the sake of personal profit or the company. Earnings management itself is not always interpreted as a bad thing or a disadvantage because they do not always oriented to earnings management earnings manipulation. Earnings management performed by the manager, or the preparers of financial statements in the financial reporting process because they expect a benefit of the action taken.

Healy and Wahlen (1999), states that the definition of earnings management contains some aspects. The first intervention of earnings management on the financial reporting can be done with the use of judgment, such judgment is required in estimating the number of economic events in the future to shown in the financial statements, such as estimates of the economic life and residual value of fixed assets, the responsibility for retirement, deferred tax losses receivables and impairment of assets. Besides, the manager has the option of accounting methods, such as the depreciation method and cost method. Second, the purpose of earnings management to mislead stakeholders about the company's economic performance. It arises when management has access to information that can not be accessed by outsiders.

Earnings management is defined as a company manager to intervene or influence the information in the financial statements with the intention to deceive *stakeholders* who want to know the performance and condition of the company (Sulistyanto, 2008: 47). Subramanyam, 2010: 131) states that management intervere deliberately in the process of determination of the profits, usually to meet personal goals. The definition implies that earnings management is opportunistic behavior of managers to maximize their utility.

3. Asymmetry information and earnings management

The existence of information asymmetry is considered as a cause of earnings management. Richardson (1998) argues that there is a systematic relationship between the asymmetry information with the level of earnings management. The existence of information asymmetry will encourage managers to present information that is not true, especially if the information relates to the measurement of the performance of managers. Management flexibility for managing earnings could be reduced by providing more quality information to outsiders. The quality of financial statements will reflect the level of earnings management. Some researchers Yangseon Kim, Caixing Liu and Ghon Rhee (2003), Rahmawati et al (2004), Halim et al (2004) found that the asymmetry of information can affect earnings management. Agency theory implies the existence of information asymmetry between managers as agents and owner information asymmetry arises when managers more aware of the internal information and the company's prospects in the future compared to shareholders and other stakeholders. If related to earnings management, earnings management can perform manipulation because they have better information and interest to give a positive signal to the market. Then the hypothesis can be derived the following.

$H_{1a:}$ Information asymmetry positively effect on earnings management in the LQ-45

$H_{1b:}$ Information asymmetry positively effect on earnings management in the JII

4. **The size of the company and Earning Management**

The larger the size of the company, usually the more information available to the investor for making an investment decision. Albrecth & Richardson (1990); Lee and Choi (2002) found that larger companies lack to perform earning management than small companies because large companies are more critical seen by outsiders. Chtourou (2001) found evidence that the firm size negatively effect on earnings management in the United States. This means that large companies have fewer opportunities to perform earnings management and vice versa. Companies with medium and large size have more strong pressure from the stakeholders, This prompted the management to meet investors' expectations so that the tendency of management do the greater earnings management Main (2005); Nuryaman (2008); Veronica and Siddharta (2005); Halim, et al. (2005) also found evidence that the firm size negatively affect earnings management.

$H_{2a:}$ Firm Size negatively effect on earnings management in the LQ 45 index
$H_{2b:}$ Firm Size negatively effect on earnings management in the JII

5. Leverage and earnings management
Leverage is the ratio between total liabilities and total assets. As greater as the leverage ratio, it means as higher as the value of corporate debt. Thus, companies that have a high leverage ratio, will tend to do manipulation in the form of earnings management in order to avoid violation of the debt agreement. Husnan (2002:319) states that higher leverage caused by errors in managing the company's financial management or the lack of proper implementation of the strategy of the management. Lack of supervision can make the high leverage. It will also increase opportunistic behavior management to do earning management. It used to maintain its performance from shareholders and public. Watts and Zimmerman (1990) states in the debt covenants hypothesis that the closer the company about violations of the requirements of the debt based on accounting numbers that managers are more likely to choose a procedure that removes the accounting procedures upcoming earnings period to the current period. Research conducted by Saleh, et.al. (2005) and Lin et al. (2009) found that the leverage has a positive relationship with earnings management. Tarjo (2008) hypothesized in the research that companies with high leverage will offer accounting standards to increase or decrease reported earnings. Results of the study are consistent with the hypothesis that firms with high leverage tend to adjust reported earnings by raising or lowering the profit compared with companies with low leverage levels. Similarly, research conducted by Widyastuti (2009) Widyaningdyah (2001) Gul, et.al. (2003) states that high leverage encourages company management to manage earnings

H_{3a}: Leverage ratio positively effect on earnings management in the LQ 45 index
H_{3b}: Leverage ratio positively effect on earnings management in JII

6. Profitability and earnings management
Profitability is an indicator of the management performance in managing the company's assets indicated by the profit which produced by the company (Sudarmadji and Sularto, 2007). Profitability showed the ability of management to manage profit. Companies which get the big profits will strive to maintain and even increase the amount of earnings in addition to providing advantages for the company as well as the investors. Therefore, management is motivated to perform earnings management with the practice of income smoothing that reported earnings are not fluctuated. So it is increasing investor confidence. In addition, managers perform earnings management is also related to bonuses or compensation. In the Bonus Plan Hypothesis theory states that if in a current year, the company profit is under the actual performance requirements for bonuses, so the manager will conduct its profit by doing earnings management in order to reach the minimum level to earn bonus. Conversely, if in that year a manager's performance got the above number signaled for bonuses, managers will manage and arrange to reporting earnings not too high. This statement is supported by Widyastuti (2009) which states that the greater the level of profitability, the greater the earning management.

H_{4a}: Profitability positively effect on earnings management in the LQ 45 index
H_{4b}: Profitability positively effect on earnings management in the JII

7. Employee Stock Ownership Program (ESOP) and earnings management
ESOP is an effective step to reduce the agency problem and the *agency cost* by aligning the interests of executives with shareholders (Brenner et al., 2000). The level of a manager to use his ability to maximize shareholder wealth depends on the percentage of ownership in the company (Jensen and Meckling, 1976). So it can reduce the agency problems that often arise. According to Bapepam (2000) one of the purposes of applying the ESOP is to create alignment of interests and mission of employees and executives with shareholder interests and mission, so there is no conflict of interest between shareholders and those who run the company's business activities. From these statements it can be concluded that the implementation of equity-based compensation program as ESOP emerged as the best means of encouraging managers to make decisions that maximize the value of the company. ESOP makes the employees and executive officers of the company as owner and manager. Psychologically as owner-managers, employees and corporate executives will be motivated to improve its performance by conducting effective and efficient operations. This would minimize the earnings management practices for good performance, so that the implementation of the ESOP is expected to reduce earnings management.

$H_{5a:}$ Employee Stock Ownership Program negatively effect on earnings management in LQ 45 index
$H_{5b:}$ Employee Stock Ownership Program negative effect on earnings management in JII

Research Method

Population of this study are all manufacturing listed companies that are members of the LQ 45 index and Syariah Index (JII) during from 2004 to 2013 periods. The data used in this research is the annual financial statements published by the listed companies and published by Capital Market Reference Center (PRPM) and the financial statements of the Indonesian Capital Market Directory (ICMD) contained in the BEI. The sampling technique was done by purposive sampling. The sample can be described this table below.

Table 1: Selected Sample

Total listed companies in LQ-45 during 2004-2013 periods	450
The number of companies that do not publish financial statements	(80)
Number of non-manufacturing companies (industry, banking, etc.)	(68)

The number of companies which their financial statements are not complete	(42)
Total sample	260
Outliers	(34)
Total data available for analysis	**226**
Total listed companies in JII during 2004-2013 periods	300
The number of companies that do not publish financial statements	(60)
The number of companies which their financial statements are not complete	(39)
Total sample	201
Outliers	(11)
Total data available for analysis	**191**

Variables

The dependent variable is earnings management. Earnings management is measured by discretionary accruals (DACC). To detect the behavior of management to manipulate earnings by increasing or decreasing the profit is DACC value (positive or negative). The model used is the Modified Jones since this model has been used by many previous studies such as Midiastuty and Machfoedz (2003); Veronica and Bachtiar (2004); Wedari (2004); Boediono (2005); Kusumawati (2005); Veronica and Main (2005); Rahmawati, Suparno and Qomariyah (2006); Nasution and Setiawan (2007); Ujiyantho, Arief and Scout (2007); and Herawaty (2008) and they have the consistent results (Dechow et al., 1995; Sutrisno, 2002). The following steps is calculating the value of discretionary accruals (DACC)

Step I

Compute Total accruals with the following formula

$$\mathbf{TACC_{it} = EBXT_{it} - OCF_{it}}$$

$$\mathbf{TACC_{it}/TA_{i,t-1} = \alpha_1\,(1/TA_{i,t-1}) + \alpha_2\,((\Delta\,REV_{it} - \Delta\,REC_{it})/TA_{i,t-1})) + \alpha\,3(PPE_{i\,t}\,/TA_{i,t-1}).}$$

Step 2

Based on the regression above, NDACC (non discretionary) computes by include these coefficients (**α**) :

$$\mathbf{NDACC_{it} = \alpha_1(1/TA_{i,t-1}) + \alpha_2((\Delta REV_{i\,t} - \Delta\,REC_{it})/TA_{i,t-1}) + \alpha_3\,(PPE_{it}/TA_{i,t-1})}$$

Description :

$TACC_{it}$: Total accruals for firm i in period t
$EXBT_{it}$: Earnings Before Extraordinary Item for firm i in period t
OCF_{it} : Operating Cash Flows for firm i in period t
$NDACC_{it}$: Non discretionary accruals for firm i in period t
$TA_{i,t-1}$: Total Assets for firm i in period t
REV_{it} : Revenue for firm i in period t
REC_{it} : Receivable for firm i in period t
PPE_{it} : Fixed assets (gross) for firm i in period t

Step 3

Furthermore, the discretionary accruals (DA) can be computed as follows:

$$\mathbf{DACC_{it} = (TACC_{it}/TA_{i,t-1}) - NDACC_{it}}$$

$DACC_{it}$: Discretionary accruals for firm i in period t
$TACC_{it}$: Total accruals for firm i in period t
$TA_{i,t-1}$: Total assets for firm i in period t
$NDACC_{it}$: Non discretionary accruals for firm i in period t

The Independent Variables used this research are Asymmetry information, the company size, leverage, profitability and ESOP

1. Asymmetry Information (AI) is the gap information because the management has more information about the condition of the company compared with the information held by the investor. Asymmetry of information measured using relative bid ask spread which is operated as follows:

$$SPREAD_{i,t} = (ask_{i,t} - bid_{i,t}) / \{(ask_{i,t} + bid_{i,t}) / 2\} \times 100$$

Description

$SPREAD_{i,t}$ = Relative bid ask spread company i on day t
$Ask_{i,t}$ = The highest ask price company i on day t
$Bid_{i,t}$ = The lowest bid price company i on day t

2. The firm size is measured by Ln total assets.

3. Leverage. The leverage ratio shows how much the assets financed with debt. The equation used to calculate the leverage is as follows (Horne and Wachowicz, 2009: 209):

Leverage = (total debt/total assets) x 100%

4. Profitability is measured by the Return on Assets (ROA). ROA (return on assets) was calculated using the following equation:

ROA = (Net profit after tax/ Total assets) x 100%

5. Employee Stock Ownership Program or ESOP. It measured by looking for the presence or absence of ESOP in the audited financial statements (Rezdiana, 2007). This study used a dummy variable. If the company has been implementing an ESOP, it is given a value of 1, while companies that have yet to implement the ESOP, given the value 0.

Analysis Method

Regression models were developed to test the hypotheses that have been formulated are:

$$DA = \alpha + \beta 1AI + \beta 2SIZE + \beta 3LEV + \beta 4ROA + \beta 5ESOP + e$$

Result And Discussion

The regression analysis used to test the hypotheses. Before, we test analysis assumption such as normality, multicollinearity and heteroskedasticity. The analysis showed if data has normal distribution (Kolmogorov Smirnov test). There are no multicollinearity between independent variables (tolerance value more than 0.10 and variance inflation factor-VIF less than 10), and no heteroskedasticity (prob. vale more than 0.05 with Glejser test). The all of analysis will be showed in table 2 and table 3.

Table 2: Regression analysis (LQ 45)

Variables	**B**	**t_{count}**	***Sig***	***Conclusion***
Constant	0.287			
AI	0.009	3,386	0.036 *	H_1 supported
SIZE	-0.006	-1.498	0.136	H_2 not supported
LEV	-0.004	-1.538	0.126	H_3 not supported
ROA	-0.002	-0.255	0.799	H_4 not supported
ESOP	-0.114	-5.205	0.001 **	H_5 supported
F		6.566	0.000	Model fit
R^2		0.110		

Based on this analysis, asymmetry information and employee stock ownership program significantly effect on earnings management, but the other variables such as firm size, leverage, and profitability not significantly effect on earnings management.

Table 3: Regression Analysis (JII)

Variables	**B**	**t_{value}**	***Sig***	***Conclusion***
Constant	0.043			
AI	0.030	2.386	0.016 *	H_1 supported
SIZE	0.003	0.803	0.423	H_2 not supported
LEV	-0.015	-0.400	0.689	H_3 not supported
ROA	0.022	0.593	0.554	H_4 not supported
ESOP	-0.046	-2.768	0.006 **	H_5 supported
F		2.437	0.036	Model fit
R^2		0.36		

There are the same results with LQ 45 index. Based on this analysis, asymmetry information and employee stock ownership program have an effect on earning management, but the other variables such as company size, leverage, and profitability not significantly effect on earning management.

Discussion

1. **Asymmetry information**

Results of hypothesis testing in LQ 45 and JII indicate that information asymmetry has positive effect on earnings management (t_{count} =3.386; t_{count} =2.386). The test results supported the hypothesis and consistent by previous studies which conducted by Halim, et al. (2005), Rahmawati, et al. (2006). It means that higher information asymmetry or the higher gap information to shareholders, it opportunities for the manager to manage earnings. This occurs because the manager has better information than the company owners or shareholders. Therefore, the manager is obliged to provide information about the condition of the company to the owner. The information given can be made through the company's financial statements. But sometimes, they received information submitted does not match the actual conditions of the company. Asymmetry between the management (agent) with the owner (principal) provide an opportunity for managers to act opportunistic, such as maximize the personal profit by earnings management.

To minimize the occurrence of earnings management by management, the company needs to implement the mechanisms of good corporate governance for the company's control and management system. This mechanism is done to ensure that investors get their rights in accordance with the company's financial reporting. Corporate governance is an effort made by all parties to direct and control the enterprise in order to achieve a balance between the strength and authority of the company (Sutedi, 2011).

Fundamental principles of corporate governance that need to be considered for the implementation of the practice of good corporate governance. There are transparency, accountability, fairness, and responsibility. By implementation of GCG expected to be a tool to give confidence to investors that they would receive the returns they invest. GCG is expected to reduce the information asymmetry between investors and management, so it can reduce earnings management practices.

2. The company size

Results of hypothesis testing in LQ 45 and JII indicate that company size is not a significant negative effect on earnings management with (t_{count} = -1.498; t_{count} = 0.803). It shows that the size of the company may not be able to minimize the possibility of earnings management, The results support the research conducted by Jin and Machfoeds (1998), Salno and Baridwan (2000), Jatiningrum (2000), as well as Nasser and Herlina (2003), who found that company size has no effect on earnings management practices. This research is also consistent with research Marihot Nasution and Setiawan (2007) that company size has no significant effect on earnings management, because the larger companies lack the impetus to perform earnings management than small companies and large corporations is viewed more critically by shareholders and outsiders (Marrakchi, 2001).

3. Leverage

Results of hypothesis testing to LQ 45 and JII show that leverage has not significant negative effect on earnings management (t_{count} =-1.538; t_{count} = -0.400). Based on the agency theory, companies with a high proportion of debt in the capital structure would have cost control or monitoring costs is high (Jensen and Meckling,1976), Cost control arises because the interests of the owners is to monitor management activities, especially for manage the funds and the facilities provided by the owner to run the company. Therefore, companies that have high leverage, they have more obligation to meet the needs of adequate information for owners, shareholders and creditors. Results this study did not conclude that the leverage effect on earnings management. Companies with the level of leverage is high due to the amount of total debt to total capital will be at risk, which is threatened the company was unable to meet its obligations. Earning management can't be used as a mechanism to avoid the risk. Fulfillment of obligations must still be done and can't be avoided with earnings management. This research is contrary to research conducted by Agnes Utari Widyaningdyah (2001) that stated leverage has positive effect on earnings management. By the way, this study supported the results conducted by Muhammad Ary Ershad (2008) and Rohans Rivaldo (2013). The results are also consistent with the results of research by Machfoedz Midiastuty (2003), Peasnell (2003), Murhadi (2009) and Pagalung (2011) who found that leverage had no significant relationship to earnings management.

4. Profitability

Results of hypothesis testing in LQ 45 and JII showed that the profitability has not significant negative effect on earnings management in both indexes. (t_{count} = -0.255; t_{count} = 0.593) Results of this study are not consistent with the previous study which stated that the return on assets (ROA) effect on earnings management. Although the results are not significantly, it does not mean that investors can ignore the return on assets (ROA) in a company, because the return on assets (ROA) measures the rate of return on investment their assets in a company. If the increasing of Return on assets (ROA) shows that the better performance of the company and the shareholders will receive the increasing rate of return. Thus managers would automatically get the rewards great, so the manager does not ignore their attention to ROA. The result supported the previous research conducted by Ary Muhammad Ershad (2008), which stated no effect on the profitability of earnings management.

5. Employee Stock Ownership Program

The analysis of hypothesis in LQ 45 and JII indicated that the Employee Stock Ownership Program has negative effect on earnings management (t_{count} = -5.205; t_{count} = -2.768). Results of this study are consistent with research conducted by Jiraporn (2006) which states that employee Stock Ownership Program has negative effect on earnings management. ESOP companies with larger holdings will lower earnings management practices. This occurs because the ESOP motivates employees to monitor the management, so the managerial opportunism in the form of earnings management will be reduced. In addition, the ESOP can act as a takeover defense and help managers take a long term view of the company, thereby reducing distortion motivation for profit. Results from this study are also consistent with the rule of Bapepam (2002), which creates alignment of interest and the mission by the employees, executives and the shareholders, so there is no conflict of interest between shareholders and parties who running the company's business. From these statements it can be concluded that the implementation of equity-based compensation program as ESOP emerged as the best means of encouraging managers to make decisions that maximize the value of the company. ESOP makes employees and executive officers of the company as owner and manager. Psychologically, as owner-managers, employees and executive officers of the company will carry out operations effectively and efficiently. This will affect the actions of employees and executives to manage earnings, so that the implementation of ESOP negative effect on earnings management.

Conclusion

The main focus of this study is to examine the effect of effects of information asymmetry, firm size, leverage, profitability and the Employee Stock Ownership Program to earning management in companies listed on JII and LQ45 Indonesian capital market. Based on the analysis and discussion that has been stated in the previous description, it could be concluded that firm size, leverage, profitability have not significant effected to earnings management, for both indexes, LQ 45 index and the JII. Even though, asymmetry information has positive significant effected to earning management, while the Employee Stock Ownership Program has negative significant effected to earnings management in LQ 45 index and JII. The result support agency theory if management will do manipulate earnings if there is more information gap between principle and agent and it will be reduced by the employee stock ownership.

Limitation

This study has some limitations and suggestions for the future research, it can be described follows:

1. The research used manufacturing company as the sample, so the results of this study can't be generalized to the type of other companies such as banking, transportation or telecommunications.
2. The study examines five variables as the independent variables which affected earning managements, so the future research cab ne added with another variables such as:.
3. Future studies could use another proxy for firm size, leverage and profitability and compare their results with using different proxy.

Research implication

1. For companies, should apply good corporate governance for reducing earnings management. The elements of CG such as transparency, accountability, justice (fairness), and responsibility will provide assurance to investors that they will receive a return on their funds which they invested. Investors should be cautious in making business decisions, not only focused on profit information, but also consider the non-financial information, such as the existence of the internal mechanism of the company. The informed investor needed for control the management activity, it will reduce asymmetry information.
2. Regulators have to supervise more intensive for implementing good corporate governance. For example, the companies are not having yet the qualified independent board composition. Regulators should conduct more rigorous supervision for realize the GCG in Indonesia. The GCG will reduce earnings management.

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