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The Influence of Earnings Management on the Value Relevance of Accounting Information

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Abstract

This research aims to investigate the influence of earnings management practices on the value relevance of accounting information in the Indonesian business environment. The research method used is qualitative with a library study approach and document content analysis. Data was obtained through in-depth interviews with related parties such as auditors and financial managers, as well as analysis of the contents of documents in the form of financial reports and company meeting notes. The research results show that earnings management practices can reduce the value relevance of accounting information by affecting the quality of information conveyed in financial reports. Practices such as increasing revenue estimates or delaying expense recognition can cloud the picture of a company's true performance, which in turn affects economic decision making. These findings emphasize the importance of transparency and integrity in accounting practices to maintain the value relevance of accounting information for stakeholders. The implication of this research for accounting theory is the need to pay attention to earnings management practices within a broader theoretical framework regarding the integrity of accounting information. From a practical perspective, companies need to increase awareness of the importance of honest accounting practices and comply with applicable standards to minimize unethical earnings management practices. This implication is also relevant for regulators in strengthening regulations related to financial reporting in order to maintain the integrity of the capital market in Indonesia.

Keywords:

Profit Management
Relevance of Information Value
Accounting Practices

Abstrak

Penelitian ini bertujuan untuk menginvestigasi pengaruh praktik manajemen laba terhadap relevansi nilai informasi akuntansi di lingkungan bisnis Indonesia. Metode penelitian yang digunakan adalah kualitatif dengan pendekatan studi pustaka dan analisis isi dokumen. Data diperoleh melalui wawancara mendalam dengan pihak terkait seperti auditor dan manajer keuangan, serta analisis isi dokumen berupa laporan keuangan dan catatan rapat perusahaan. Hasil penelitian menunjukkan bahwa praktik manajemen laba dapat mengurangi relevansi nilai informasi akuntansi dengan mempengaruhi kualitas informasi yang disampaikan dalam laporan keuangan. Praktik seperti peningkatan estimasi pendapatan atau penundaan pengakuan pengeluaran dapat mengaburkan gambaran kinerja sebenarnya perusahaan, yang pada gilirannya mempengaruhi pengambilan keputusan ekonomi. Temuan ini menekankan pentingnya transparansi dan integritas dalam praktik akuntansi untuk mempertahankan relevansi nilai informasi akuntansi bagi para pemangku kepentingan. Implikasi penelitian ini bagi teori akuntansi adalah perlunya memperhatikan praktik manajemen laba dalam kerangka teoritis yang lebih luas tentang integritas informasi akuntansi. Dari segi praktik, perusahaan perlu meningkatkan kesadaran akan pentingnya praktik akuntansi yang jujur dan mematuhi standar yang berlaku untuk meminimalkan praktik manajemen laba yang tidak etis. Implikasi ini juga relevan bagi regulator dalam memperkuat regulasi terkait pelaporan keuangan guna menjaga integritas pasar modal di Indonesia.

Kata kunci: Manajemen Laba, Relevansi Nilai Informasi, Praktik Akuntansi

INTRODUCTION

Research on the influence of earnings management on the value relevance of accounting information is important in the context of accounting practice and economic decision making. Earnings

management is a practice carried out by company managers to influence financial reports with certain goals, such as improving the company's image or influencing stock market value. However, this practice can also reduce the quality of information that is relevant for users of financial reports, such as investors, creditors and regulators (Falbo & Firmansyah, 2021).

The value relevance of accounting information is the main focus in assessing how well financial reports reflect the company's actual condition and provide an accurate view for stakeholders. The higher the value relevance of accounting information, the greater its contribution in supporting appropriate and accurate decision making. However, if earnings management can influence the value of accounting information in a non-transparent or dishonest way, this can damage the trust of information users and reduce the relevance of the value of the information presented.

Previous research shows a link between earnings management practices and the value relevance of accounting information, but there is still a need to explore more deeply how this mechanism operates in different contexts. In the Indonesian context, with its unique market and regulatory dynamics, studies on the influence of earnings management on the value relevance of accounting information can provide valuable insights for practitioners, academics and regulators in efforts to increase transparency and the quality of financial reporting.

This study is also relevant considering the importance of understanding how earnings management practices can influence investment decisions and evaluation of company performance. With increasing business complexity and changing economic environments, decision makers need reliable and relevant information to accurately identify business risks and opportunities (Suryani, 2022).

In Indonesia, where earnings management practices can influence public opinion on a company's credibility, it is important to identify what factors influence these practices and their impact on investment decisions and performance evaluation. Through an in-depth understanding of earnings management mechanisms and the relevance of accounting information, this research is expected to make a significant contribution in improving accounting practices that are more transparent and relevant for company stakeholders.

Thus, this research aims to fill this knowledge gap by analyzing how earnings management practices influence the value relevance of accounting information in Indonesia, with a focus on the underlying mechanisms and their implications for economic decisions. Thus, it is hoped that the results of this research can provide valuable insight for stakeholders in making better and more sustainable decisions.

This research aims to investigate the influence of earnings management practices on the value relevance of accounting information in Indonesia. Earnings management practices can affect a company's financial reports in a way that can reduce the quality of information conveyed to stakeholders (Septiawan et al., 2021). This can trigger uncertainty and difficulty in making the right investment decisions, which in turn has the potential to harm investors and various parties involved in making economic decisions.

The main objective of this research is to explore and analyze how earnings management practices influence the value relevance of accounting information in Indonesia. This research will try to identify the factors that influence earnings management practices and their impact on the quality and reliability of the information presented in financial reports. Thus, it is hoped that this research can provide in-depth insight into the dynamics of earnings management practices and the relevance of accounting information in the Indonesian market context, as well as its implications for sustainable economic decision making and based on accurate information.

This research has important significance in several aspects. First, by understanding the influence of earnings management practices on the value relevance of accounting information, this research can provide a valuable theoretical contribution to the accounting and finance literature. The research results can enrich understanding of internal company mechanisms that influence the quality of financial reporting, especially in the context of accounting practices in Indonesia.

Exploring earnings management practices in depth, this research can provide a clearer view for accounting practitioners, auditors and regulators regarding how to identify, prevent and reduce non-transparent earnings management practices. This can increase public trust in company financial information and help improve the quality of economic decision making based on accurate and reliable information.

This research is relevant in the context of an increasingly integrated and complex global economy. Relevant and trustworthy accounting information is key to ensuring market transparency and reducing investment risks. Thus, the results of this research can make a real contribution in supporting sustainable economic development and financial stability in Indonesia.

Overall, this research is expected to provide a better understanding of the importance of the integrity of accounting information in supporting wise and sustainable investment decisions, as well as encouraging more transparent and responsible accounting practices in Indonesia.

METHOD

This study uses a qualitative approach to explore the influence of earnings management practices on the value relevance of accounting information in Indonesia. A qualitative approach was chosen because it is more possible to explore in-depth and contextual points of view regarding complex phenomena such as earnings management (Subagyo et al., 2023). Through this approach, researchers can explore the views, experiences and perceptions of various related parties, such as auditors, financial managers and regulators, which can provide valuable insights into earnings management practices in the real context of companies.

The research design used in this study is a case study. Case studies are chosen because they allow researchers to examine specific phenomena in real contexts and understand the complex interactions between the factors involved (Sulistiyo, 2023). The case study objects were selected based on criteria that are relevant to earnings management practices in Indonesia, with a focus on companies that have significant potential in these practices.

Documents to be analyzed include annual financial reports, meeting notes and other relevant internal documents. Document content analysis will help in understanding earnings management practices that are manifested in financial reports as well as the context of decision making within the company.

The qualitative data collected will be coded to identify patterns, themes, and categories that emerge from interviews and document analysis. This coding will help in organizing data and facilitate the process of identifying relevant findings regarding the influence of earnings management on the value relevance of accounting information (Rosini & Adab, 2023).

Once coding is complete, the data will be interpreted to develop a deeper understanding of the relationship between earnings management practices and the relevance of accounting information in Indonesia. This interpretation will involve comparing the findings with the existing theoretical framework and constructing a coherent narrative to explain the research results.

By using a qualitative approach, case study design, and appropriate data collection and analysis techniques, it is hoped that this research can provide a deep and meaningful understanding of the complexity of earnings management practices and their implications for the quality of accounting information in Indonesia.

RESULTS AND DISCUSSION

In the context of this research, the concept of earnings management refers to the practices carried out by company managers to manipulate financial reports with certain objectives. The research results show that earnings management practices can be carried out in various ways, ranging from delaying expense recognition to increasing revenue estimates, which can ultimately affect the profits or losses reported in financial statements. This concept highlights the importance of conservative and transparent accounting policies in minimizing unethical earnings management practices (Septianingrum et al., 2022).

In relation to the value relevance of accounting information, research findings show that earnings management practices can reduce the quality of information presented in financial reports. This practice can obscure the true picture of company performance, thereby reducing the value of relevant accounting information for stakeholders. This creates challenges for users of financial reports in interpreting and using this information to make appropriate investment decisions.

The discussion in this research highlights the need for strict regulations and effective supervision of earnings management practices in Indonesia. Strong regulations can help minimize unethical earnings management practices and increase the transparency and reliability of accounting information. Apart from that, companies also need to improve the quality of information disclosure and follow applicable accounting standards to ensure that the financial reports presented reflect actual financial conditions.

The results of this research provide a significant contribution in enriching understanding of how earnings management practices influence the value relevance of accounting information in Indonesia. The implications of the results of this research can be used as a basis for developing better policies in regulating accounting practices and promoting transparency and integrity in corporate financial reporting (Septianingrum et al., 2022).

These findings also show that earnings management that is not in accordance with accounting principles can damage the trust of investors and other stakeholders in the company's financial information. The implications of non-transparent earnings management practices can affect the company's stock market value and increase reputation risk. Therefore, it is important for companies to implement honest and conservative accounting practices to ensure that financial reports reflect the true financial situation, thereby minimizing potential conflicts of interest and increasing their credibility in the capital markets.

From an academic point of view, this research provides a deeper understanding of the complexity of the relationship between earnings management practices and the relevance of accounting information. The research results also provide a significant theoretical contribution to the accounting literature by expanding understanding of the factors that influence the quality of accounting information in the context of corporate practices in Indonesia.

In conclusion, this research confirms the importance of financial information integrity in supporting capital market transparency and efficiency. By understanding the impact of earnings

management practices on the value relevance of accounting information, it is hoped that the results of this research can provide guidance for related parties, including regulators and accounting practitioners, in improving higher quality and more trustworthy accounting policies and practices in Indonesia.

This research provides encouragement for the development of more effective policies in overcoming the problem of earnings management practices in the Indonesian business environment. Tighter regulations and more intensive supervision of accounting practices could be the right steps to reduce company incentives to manipulate financial statements. In addition, education and awareness of the importance of integrity in financial reporting are also key in changing corporate culture towards more ethical and transparent practices.

In an academic context, the results of this research provide a basis for further research that can further explore the specific factors that influence earnings management practices in various industrial sectors and different market conditions in Indonesia. Next steps could involve diverse methodological approaches and cross-disciplinary studies to generate a more comprehensive understanding of the dynamics of earnings management practices and their impact on accounting information.

In conclusion, this research underlines the importance of maintaining the integrity of accounting information in supporting trust and capital market efficiency (Nugroho & Abbas, 2022). Thus, efforts to improve and increase the transparency of financial reporting are not only important for the financial health of individual companies, but also for the sustainability of the national economy as a whole.

Value Relevance of Accounting Information

The value relevance of accounting information is a measure of how much information presented in financial reports can make a significant contribution to economic decision making. Relevant information must be able to influence the decisions of investors, creditors, managers and other interested parties in assessing the company's performance and value. In this context, relevant information must have high predictive quality and confirmatory value, so as to provide an accurate view of the company's future performance and associated risks (Nugroho & Abbas, 2022).

This study highlights that the value relevance of accounting information can be influenced by various factors, including the transparency of financial reporting and the integrity of a company's accounting practices. When the information presented in financial reports is unreliable or affected by unethical earnings management practices, this can reduce the relevance of the value of that information in supporting intelligent, data-based decision making.

In an effort to increase the relevance of the value of accounting information, companies need to ensure that the financial reporting process is carried out consistently and in accordance with applicable accounting standards. Transparent and honest disclosure regarding the company's financial condition as well as risk factors that influence the company's performance is key in maintaining investor trust and interest in the company.

Overall, the value relevance of accounting information not only reflects the quality of a company's financial reporting, but also plays an important role in maintaining the stability and efficiency of capital markets. By increasing the transparency and integrity of accounting information, it is hoped that decision makers can make better decisions and strengthen the company's position in an increasingly complex and competitive market.

The Relationship between Earnings Management and Information Value Relevance

The study of the relationship between earnings management and the value relevance of accounting information reveals complex dynamics in which earnings management practices can

influence the level of relevance of information presented in financial reports. Earnings management is often carried out to influence a company's net income in ways that may not always reflect the actual condition of operational performance. This can obscure a clear picture for users of financial reports, such as investors or financial analysts, who rely on the information to make investment decisions (Maslahah, 2021).

Research shows that earnings management practices can reduce the value relevance of accounting information by obscuring important signals in financial reports. For example, aggressive earnings management actions can make net income appear more stable or improving, but do not necessarily reflect the actual performance of a company's operations. Thus, the information presented in financial reports may no longer have high predictive value in estimating a company's future performance.

In addition, the relationship between earnings management and the relevance of information value is also related to public trust in the company's credibility. Non-transparent or unethical earnings management practices can damage investors' and the general public's confidence in the integrity of the company, which in turn can affect the company's share price and cost of capital (Anjarningsih et al., 2022).

By understanding this complex relationship, this research emphasizes the importance of conservative, transparent and integrity accounting policies in ensuring that the information presented in financial reports has high relevance for information users. Steps to reduce unethical earnings management practices and promote more transparent accounting practices can help improve the quality of accounting information relevant to economic decision makers and contribute to the overall stability of capital markets.

It is important to note that while earnings management practices may reduce the value relevance of accounting information in some cases, judicious use of these practices can also provide benefits to the company. For example, in situations where a company faces financial stress or significant changes in market conditions, careful earnings management can help manage market expectations and maintain the company's operational stability. However, this needs to be done by considering the long-term impact on the credibility and transparency of financial information (Kencana, 2021).

In conclusion, the relationship between earnings management and the value relevance of accounting information is a complex area and requires a careful approach in accounting research and practice. Strict regulations, intensive education regarding business ethics, and consistent application of accounting standards can help reduce unethical earnings management practices and strengthen the integrity of accounting information. In doing so, companies can increase the value of the information conveyed in their financial reports, provide a stronger basis for intelligent decision making, and build greater trust from their stakeholders.

Findings and Interpretation

The results of this research reveal several important findings related to the relationship between earnings management and the value relevance of accounting information in the Indonesian business context. First, aggressive earnings management practices tend to reduce the relevance of accounting information by affecting the quality of the information presented in financial reports. Practices such as inflating revenues or delaying expense recognition can create an inaccurate picture of a company's performance, obscuring signals that are important to economic decision makers.

The findings show that transparency and quality of financial reporting play a crucial role in maintaining the value relevance of accounting information. Companies that implement honest and

transparent accounting practices tend to provide more relevant information to investors and other related parties. This can increase the trust and reliability of the information conveyed, as well as assist in making smarter, data-based investment decisions (Nugroho & Abbas, 2022).

The interpretation of these findings emphasizes the importance of maintaining integrity in financial reporting as an effort to increase the value relevance of accounting information. Unethical earnings management practices can undermine public confidence in a company, which in turn can negatively impact the cost of capital and stock market value. Therefore, policies that promote transparency, accountability and honesty in financial reporting need to be strengthened to support the stability and efficiency of the Indonesian capital market.

Overall, these findings provide valuable insights for regulators, accounting practitioners, and economic decision makers in understanding the complexity of the relationship between earnings management and the value relevance of accounting information. Steps to increase transparency and integrity in accounting practices are expected to produce a more stable and trustworthy business environment, as well as provide significant added value for Indonesia's long-term economic growth (Setyawan et al., 2021).

Discussion

The findings of this research have important implications for theory and practice in the field of accounting, especially regarding the relationship between earnings management and the value relevance of accounting information.

These findings strengthen the understanding that earnings management practices can reduce the relevance of accounting information by affecting the quality of information conveyed in financial reports. This supports theories that emphasize the importance of the integrity of accounting information in supporting effective and efficient decision making in the capital market.

The importance of implementing transparent, consistent and honest accounting practices. Companies in Indonesia need to consider the long-term impact of earnings management practices on investor confidence and market stability (Setyawan et al., 2021). By implementing strict accounting standards and avoiding unethical earnings management practices, companies can strengthen their reputation and increase the value of the information presented in financial reports.

These implications are also relevant for regulators and policy makers, who can use these findings as a basis for strengthening regulations and supervision regarding accounting practices in Indonesia. It is hoped that these steps will help create a more stable, transparent and trustworthy business environment for all stakeholders.

Emphasizes the need for awareness of the importance of integrity in financial reporting and the need for concrete steps to increase the relevance of the value of accounting information in Indonesia. In this way, an accounting system can be created that supports appropriate and sustainable decision making, as well as strengthening Indonesia's position in an increasingly complex and integrated global market.

The findings of this research provide a significant contribution to the development of accounting theory, especially in deepening understanding of the interaction between earnings management practices and the value relevance of accounting information. By confirming that earnings management practices can influence the quality of information conveyed in financial reports, this research strengthens theories that emphasize the importance of transparency and integrity in financial reporting.

This implication strengthens the view that relevant accounting information must be consistent, reliable, and able to provide an accurate view of the company's performance and financial position.

From a practical perspective, these findings highlight the importance for companies to implement accounting practices that are consistent with applicable standards and avoid detrimental earnings management practices. These steps can not only improve the quality of information presented to users of financial reports, but also strengthen the confidence of investors and other stakeholders in the integrity of the company.

The implications of these findings are also relevant for regulators and policy makers. By understanding the impact of earnings management practices on the value relevance of accounting information, regulators can take steps to improve supervision and protection of investor interests. These steps are important to create a more transparent, fair and sustainable business environment in Indonesia (Falbo & Firmansyah, 2021).

Overall, this research confirms the need for a holistic approach in managing earnings management practices and strengthening the integrity of accounting information. By doing this, it is hoped that Indonesia can strengthen its position in an increasingly complex global market, maintain capital market stability, and support sustainable and inclusive economic growth.

CONCLUSION

This research reveals several main findings regarding the relationship between earnings management and the value relevance of accounting information in the Indonesian business environment. First, aggressive earnings management practices tend to reduce the relevance of accounting information by affecting the quality and reliability of the information presented in financial reports. This can cause users of financial reports, such as investors and financial analysts, to have difficulty evaluating a company's actual performance and making intelligent investment decisions. Second, transparency and integrity in accounting practices are very important to maintain the value relevance of accounting information. Companies that implement transparent and consistent accounting practices tend to provide more relevant and trustworthy information to stakeholders.

The implications of these findings are important in the development of accounting theory and practice. From a theoretical perspective, this research reinforces the need to pay attention to earnings management practices within a broader theoretical framework regarding the integrity of accounting information. Recognizing that earnings management practices can undermine the value relevance of accounting information, accounting theories can focus more on developing methods and principles that promote transparency and high quality of accounting information.

From a practical perspective, these findings suggest that companies need to increase awareness of the importance of honest accounting practices and complying with applicable standards. Steps to improve oversight and control of unethical earnings management practices can help build a more stable and trustworthy business environment. These implications are also relevant for regulators and policy makers, who can use these findings as a basis for strengthening regulations related to financial reporting and maintaining the integrity of capital markets.

Overall, this research provides a significant contribution in understanding the complexity of the relationship between earnings management and the value relevance of accounting information in Indonesia. By considering these findings, it is hoped that concrete steps can be taken to improve the

quality of accounting information, strengthen capital market confidence, and support sustainable economic growth in Indonesia.

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