

Canonical Correlation Analysis: Effect of Earnings Management on Firm Values and Timeliness of Financial Reporting

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Abstract: This study aims to determine the effect of Earnings Management on Firm Value and Timeliness of Financial Reporting on manufacturing companies listed on the Indonesia Stock Exchange in the 2014-2017 period. This study uses three independent variables, namely Earnings Management (X1), Leverage (X2); Profitability (X 3) and two dependent variables namely Firm Value (Y1) and Timeliness of Financial Reporting (Y2). Therefore to test the research hypothesis using Canonical Correlation Analysis. The sampling technique is done using purposive sampling. The number of manufacturing companies sampled were 26 companies over a period of 4 years in a row so that the total sample was 104. The results of the analysis and testing show that with control variable leverage and profitability, earnings management variables have a significant effect on firm value but not with the timeliness of financial reporting.

Keywords: *Earnings Management, Firm Value, Timeliness of Financial Reporting, Leverage, Profitability*

INTRODUCTION

Earnings management is the manager's actions to increase or reduce the current reported earnings of a unit for which the manager is responsible, without causing an increase or decrease in the unit's long-term economic profitability (Lestari & Pamudji, 2013). Earnings management can cause agency problems that are triggered by the separation of roles or differences in interests between shareholders (principal) and company managers / management (agents) (Herawaty, 2008). Although earnings management will increase the value of the company in a certain period, on the contrary earnings management will decrease the value of the company in the future (Herman, 2012). The purpose of earnings management is to improve the welfare of certain parties (agents) although in the long run there is no difference in cumulative earnings from earnings that can be identified as a profit. (Abdallah & Suryani, 2018) prove that earnings management variables affect the value of the company.

Timeliness is one of the important factors in presenting relevant financial statement information. This financial statement information will be useful if it is delivered on time to the users to make a decision. Presentation of financial statements in a timely manner is a strategic aspect for gaining a competitive advantage in creating company success, especially so that the company's image from the public perspective is better, which is then expected to generate public confidence in the quality of financial statement information presented by the company.

(Ridwan, Mochammad, & Gunardi, 2013) and (Herawaty, 2008) concluded that earnings management has a positive effect on firm value. Whereas (Lestari & Pamudji, 2013) found a negative influence between earnings management and firm value. (Seni & Mertha, 2015) found a negative influence on earnings

management on the timeliness of financial reporting. Likewise (Halim, 2005) found earnings management had a negative effect on the timeliness of financial reporting. (Tamia, Dudi, & Vaya, 2016) states that earnings management negatively affects the value of the company and can reduce the value of the company while (Herman, 2012) says that earnings management does not affect the value of the company. (Seni & Mertha, 2015) states that earnings management negatively influences the timeliness of financial reporting of manufacturing companies, because earnings management can occur due to shareholders having expensive agreements with managers on conditions of unclear information. Earnings management also occurs because of the emergence of necessity in providing information to the capital market, causing a conflict between managers and investors. (Lestari & Pamudji, 2013) states that earnings performance derived from the accrual component as earnings management activities have a lower consistency than cash flow. (Putu & Made, 2017) states that earnings management with income increasing patterns has a positive effect on firm value while earnings management with income decreasing patterns has a negative effect on firm value. The purpose of this study is to examine and obtain empirical evidence of the positive influence of earnings management on firm value and timeliness of financial reporting.

LITERATURE REVIEW

Agency Theory

Agency theory describes the relationship between shareholders as principals and management as agents. Management is a contracted party by shareholders to work in the interests of shareholders. Because they are chosen, the management must account for all its work to shareholders. According to (Jensen & Meckling, 1976) agency theory is "a contract under one or more involving agents to perform some services for them by delegating decision-making authority to agents". The essence of an agency relationship is the separation between ownership, namely shareholders and controlling parties, namely managers who manage the company. Management is a contracted party by shareholders to work in the interests of shareholders. Because they are chosen, the management must account for all its work to shareholders. Management presents financial statements that contain policies that lead to earnings management. Management is motivated by opportunistic behavior that causes management to tend to present higher profits than they really are, thus making the company look good.

Signaling Theory

Signaling theory assumes that there is information asymmetry between managers and investors or potential investors. Managers are seen as having information about companies that are not owned by investors or potential investors. Signaling theory explains the reasons for the importance of companies presenting information to the public (Wolk, 2001). This information can be in the form of financial statements, company policy information or other information voluntarily disclosed by company management. In the IPO process, companies often do earnings management, this effort is done with the aim to give signals to investors and potential investors to reduce the problem of information asymmetry, so that later investors or potential investors believe that the company has high quality. Signaling theory is relevant as a reference in this study because the signals and

information circulating can affect the actions taken by investors. The quality of investor decisions is influenced by the quality of information disclosed by the company in the financial statements. The quality of the information aims to reduce information asymmetry that arises when managers are more aware of internal information and company prospects in the future than external parties. Information in the form of rating of published corporate bonds is expected to be able to signal the financial condition of a particular company and illustrate the possibilities that occur related to the debt held.

Earnings management

According to (Scott, 1997) earnings management is "Given that managers can choose accounting policies from a set (for example, GAAP), it is natural to expect that they will choose policies so as to maximize their own utility and / or the market value of the firm ". Earnings management is the selection of accounting policies by managers of existing accounting standards and can naturally maximize their utility and or market value of the company. According to (Scott, 1997) ways of understanding earnings management are divided into two. First, see it as the manager's opportunistic behavior to maximize its utility in dealing with compensation contracts, debt contracts, and political costs (Opportunistic Earnings Management). Second, by looking at earnings management from the perspective of efficient contracting (Efficient Earnings Management), where earnings management gives managers a flexibility to protect themselves and the company in anticipating unexpected events for the benefit of parties involved in the contract. This opportunistic behavior is reflected by conducting financial engineering by applying income increasing or income decreasing discretionary accruals. Whereas as an efficient contracting that is to increase the informativeness of earnings in communicating private information. Opportunistic management behavior is known as earnings management, according to (Heally & Wahlen, 1999) earnings management occurs when management uses judgment in financial reporting that can change the financial statements so that it misleads those with an interest in the company. Earnings management is expressed in an opportunistic perspective because in general studies of earnings management are expressed in an opportunistic perspective compared to an efficiency perspective. According to (Jimbalvo, 1996) in (Widyaningdyah, 2001) the efficiency perspective states that managers make choices about accounting policies to provide better information, cash flow that will come and to minimize agency costs that occur due to conflicts of interest between stakeholders and managers. When shareholders have expensive agreements with managers on the condition of unclear information and the emergence of necessity in providing information to the capital market that causes conflict between managers and investors, earnings management will occur (Seni & Mertha, 2015). According to (Scott, 2009) the definition of earnings management is an action taken through the choice of accounting policies to obtain certain objectives, for example to maximize the management's own interests or increase the company's market value. Based on these definitions it can be concluded that earnings management is the intervention of management in the external financial reporting process with the aim to benefit one's own interests. Earnings management can worsen the quality of earnings both in explaining the company's performance in the past as well as predicting future performance. According to (Scott, 2009), there are several patterns of earnings

management that can be identified, including: (1) Taking a bath; (2) Income Minimization; (3) Income Maximization; (4) Income Smoothing. While the motivations for doing earnings management are: (1) Bonus Plan, (2) Other Contractual Motivations; (3) Political Motivations; (4) Taxation Motivations; (5) Change of Chief Executive Officer (CEO); (6) Initial Public Offering (IPO); (7) To Communicate Information to Investors

The value of the company

According to (Sujoko & Soebiantoro, 2007) in (Hardiyanti, 2012), the value of a company is the investor's perception of the company's success rate which is often associated with stock prices. High stock prices make the value of the company is also high, and the higher the value of the company shows the high prosperity of the shareholders. The increasing value of this company can attract investors to invest their capital (Haruman, 2008). According to (Herawaty, 2008), one alternative used in valuing Firm Value is to use Tobin's Q. This ratio was developed by Professor James Tobin in 1976. This ratio is a valuable concept because it shows the current financial market estimates of the value of returns of every incremental investment dollar. Tobin's Q includes all elements of the company's debt and stock capital, not only ordinary shares and equity but also includes all of the company's assets. So the greater the value of Tobin's Q indicates that the company has good growth prospects. This can happen because the greater the market value of a company's assets compared to the company's asset book value, the greater the investor is willing to spend more to own the company.

Timeliness of Financial Reporting

An information is said to be irrelevant if it is not delivered on time. Information continues to be available for decision making before it loses the opportunity to influence decision making (Chariri & Ghozali, 2001). Timeliness implies that financial statements should be presented at a time interval to explain changes in the company that will affect information users and make predictions and decisions. Timeliness also shows the time span between the frequency of information reporting. Timely information can affect management in responding to every incident and problem.

Timeliness of financial reporting can affect the value of the financial statements. Timeliness in financial statements is a significant characteristic of accounting information, information that is less useful for market participants in their investment decision making process. Delay in reporting can be bad for companies both directly and indirectly. Indirectly, investors might respond as a bad sign or signal to the company. According to (Chambers & Penman, 1984, pp. 21-47) in (Fitri & Nazira, 2009) defines timeliness in 2 ways namely first, timeliness is defined as the delay in reporting time from the date of the financial statements to the reporting date. Second, the timeliness is determined by the timeliness of reporting relative to the expected reporting date.

Earning management and corporate value

Earning management is an action taken by management to increase or decrease the company's profit in the financial statements. Earnings Management by company management will increase the value of the company (Tobin's Q), then it

will go down (Morck, Shleifer, & Vishny, 1998) in (Ridwan, Mochammad, & Gunardi, 2013). Research conducted by (Herman, 2012) states that earnings management has a significant effect on firm value. According to (Herawaty, 2008) earnings management practices can positively influence the value of the company but can have a negative impact on the value of the company in the future. Earnings management can reduce the value of the company, because earnings management can cause agency costs that are triggered by the separation or differences in interests between shareholders and company management. Research conducted by (Lestari & Pamudji, 2013) shows that earnings management actions carried out by managers continuously in several periods can reduce the level of investor confidence. Based on the description the hypothesis developed is:

H1: Earnings management affects firm value.

Earning Management and Timeliness of Financial Reporting

The accrual basis in financial statements provides an opportunity for managers to modify the financial statements to produce the desired profit. Financial Accounting Standards also provide managers with several choices of accounting methods in recording financial statements. Detection of the possibility of earnings management in financial statements in general is examined through the use of accruals. Research conducted by (Seni & Mertha, 2015) shows that earnings management using proxy earnings management has an influence on the timeliness of financial reporting. The coefficient of earnings management coefficient is negative, meaning that if earnings management in a company increases, then the timeliness of the company's financial reporting will decrease or the company is likely to be late in financial reporting. Earnings management practices are considered harmful because they can reduce the value of financial statements and provide irrelevant information for investors. Based on the description, the hypotheses developed are:

H2: Earnings management affects the timeliness of financial reporting.

Research design

In this research, the object of research is the financial statements of manufacturing companies listed on the Indonesia Stock Exchange in the 2014-2017 period. Based on a theoretical study, previous research and the problems that have been raised above then as a basis for formulating hypotheses a research design will be presented. The logic of the relationship between variables in this study will be visualized and explained in these sub-frameworks of thought:

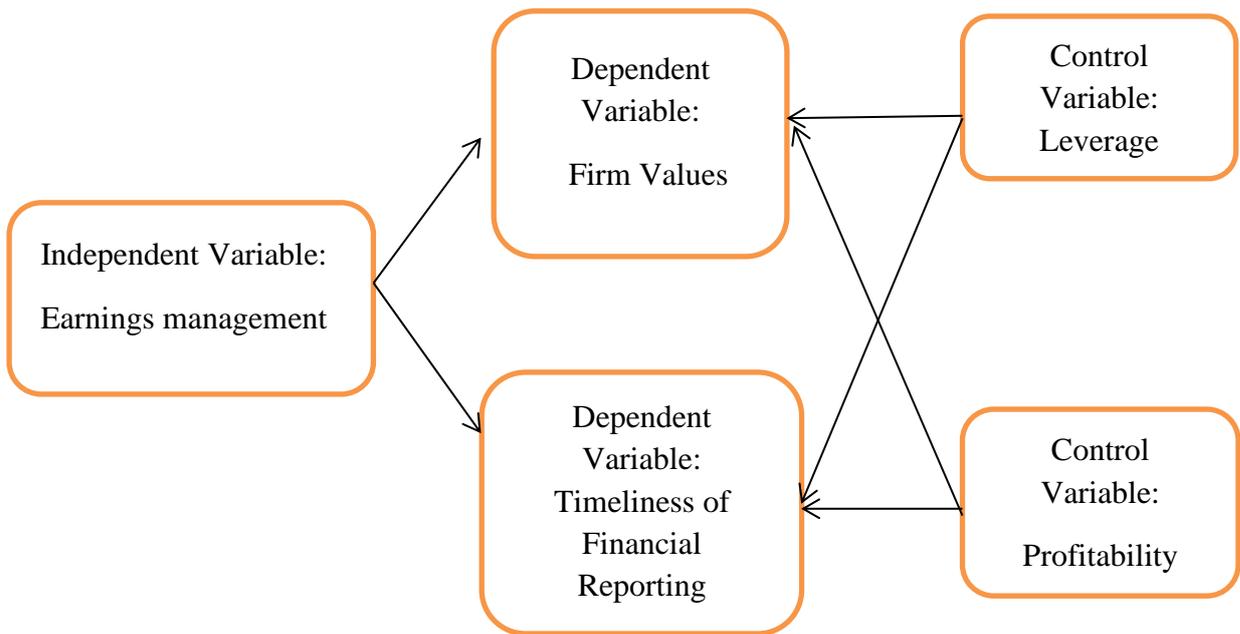


Figure 1. Research Design

RESEARCH METHODS

Population and Sample Techniques

The population of this study is the financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2014-2017. Sampling is done using Purposive Sampling with the following criteria: (1) Publicly listed manufacturing companies that publish annual reports that end on December 31 during the observation periods of 2014, 2015, 2016 and 2017; (2) Has complete financial data; (3) Using the rupiah.

Operationalization of Variables

Independent Variable Earnings Management

Earnings management is measured using the Modified Jones Model (Gupta & Suartana, 2018).

The stages of determining discretionary accruals are as follows:

$$TA_{it} = NI_{it} - CFO_{it} \dots\dots\dots(1)$$

Then calculate the total accrual value (TAC) estimated with the following regression equation:

$$TA_{it}/TA_{it-1} = \alpha_i(1/TA_{it-1}) + \beta_1i(\Delta REV_{it}/TA_{it-1}) + \beta_2i(PPE_{it} / TA_{it-1}) + \epsilon \dots\dots\dots(2)$$

By using the regression coefficient above, the nondiscretionary accrual (NDTA) value can be calculated using the formula:

$$NDTA_{it} = \alpha_i(1/TA_{it-1}) + \beta_1i((\Delta REV_{it} - \Delta REC_{it})/TA_{it-1}) + \beta_2i(PPE_{it}/TA_{it-1}) + \epsilon \dots\dots\dots(3)$$

Discretionary accrual (DTA) is the residual obtained from the estimated total accrual calculated as follows:

$$DTA_{it} = (TA_{it}/TA_{it-1}) - NDTA_{it} \dots\dots\dots(4)$$

Information:

DTA_{it} = Discretionary accrual of company i in period t
NDA_{it} = Non-Discretionary employeeerc i in period t
N_{it} = Net income of company i in period t
T_{it} = Total accrual of company i in period t
CFO_{it} = Flow of operating cash flow of company i in period t
TA_{it-1} = Total assets of company i in period t-1
ΔRE_{it} = Change in sales of company i in period t
PPE_{it} = Company's fixed assets in period t
ΔREC_{it} = Change in company receivables i in period t

Firm Value

Firm Value in this study was measured using the Tobin's Q ratio. Tobin's Q ratio was calculated using the following formula:

$$Q = ((MVS + TL + I) - CA) / TA$$

Information :

Q = Firm Value

MVS = Market Values of all outstanding shares (Stock Price * Outstanding Shares)

TL = Total Liabilities

I = Inventory

CA = Current Asset

TA = Total Assets

Timeliness of Financial Reporting Times

Timely financial statements are numbered 1, while those that are not timely are given 0.

Control Variable

Control variables are control variables or variables that make it constant so that the relationship of the independent variable to the dependent variable is not influenced by external factors not examined. The control variables used in this study are profitability and leverage.

Leverage Rate (LEV_{it-1})

Leverage proxied by debt to Total Asset Ratio illustrates fatherly measuring the percentage of total funds financed by debt. The formula of this ratio is :

$$LEV = \frac{\text{Total Debt}}{\text{Total Asset}}$$

Profitability (ROA_{it-1})

The indicator used to set the level of profitability is to use the ROA ratio:

$$ROA = \frac{\text{Net Income}}{\text{Total Asset}}$$

Data analysis method

This study uses three independent variables, namely X1: earnings management; X2: Leverage; X3: Profitability (ROA) and two dependent variables (Y1: Firm Value; Y2: Timeliness of Financial Reporting). Therefore to test the research hypothesis using canonical correlation analysts.

Hypothesis testing

There are two hypotheses that will be tested in the canonical correlation analysis, namely the first hypothesis test to find out whether overall canonical correlation is

significant, if the first hypothesis test gets the conclusion that there is at least one canonical correlation that is not zero then continued with the second hypothesis test for find out whether there is some significant canonical correlation.

Simultaneous canonical correlation test:

Hypothesis:

H0: $\rho_1 = \rho_2 = \dots = \rho_k = 0$ (all canonical correlations will be zero)

H1: there is $\rho_i \neq 0$ (at least one canonical correlation is not zero)

where $i = 1, 2, \dots, k$

Test Statistics:

$$B = - [n - 1 - \frac{1}{2} (p + q + 1)] \ln \Lambda$$

with:

$$\Lambda = \prod (1 - \rho_i^2)$$

n = number of observations

Decision Criteria:

The null hypothesis is rejected at the significance level of α if $B > \chi^2_{\alpha}$ with free degrees $p \times q$

Individual canonical correlation tests:

Hypothesis:

H0: $\rho_1 = \rho_2 = \dots = \rho_k = 0$ (all canonical correlations will be zero)

H1: $\rho_i \neq 0$ for $i = 1, 2, \dots, k$

Test Statistics:

$$B = - [n - 1 - \frac{1}{2} (p + q + 1)] \ln \Lambda_r$$

with:

$$\Lambda = \prod (1 - \rho_i^2)$$

n = number of observations

Decision Criteria:

The null hypothesis is rejected at the α significance level if $B_r > \chi^2_{\alpha}$ with free degrees $(p-r) \times (q-r)$

FINDING AND DISCUSSIONS

Testing Requirements

Linearity Test

Regression linearity test for Independent variables X1: Earning Management, X2: Leverage and X3: ROA with the dependent variable Y2: Timeliness is not done, because the dependent variable Y2: Timeliness is a dummy variable so the regression is in the form of Logistic Regression. Logistic regression is free from assumptions of normality and linearity.

Regression linearity test for the independent variable X1: Earnings Management, X2: Leverage and X3: ROA with the dependent variable Y1: Firm Value as follows:

Table 1 Linear regression measures the effect of X1 on Y1

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.652	1	.652	8.407	.005 ^b
	Residual	7.916	102	.078		
	Total	8.568	103			

a. Dependent Variable: Y1: Firm Value

b. Predictors: (Constant), X1: Earnings Management

Table 2. Linear regression measures the effect of X2 on Y1

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.716	1	.716	9.305	.003 ^b
	Residual	7.852	102	.077		
	Total	8.568	103			

a. Dependent Variable: Y1: Firm Value
 b. Predictors: (Constant), X2: Leverage

Table 3. Linear regression measures the effect of X3 on Y1

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.365	1	.365	4.540	.036 ^b
	Residual	8.203	102	.080		
	Total	8.568	103			

a. Dependent Variable: Y1: Firm Value
 b. Predictors: (Constant), X3: ROA

In Table 1 the statistical value of F is $8.407 > F\text{-table} = 3.94$ at the real level $\alpha = 0.05$, with a significance probability of $0.005 < 0.05$ meaning significant; In Table 2 the statistical value of F is $9.305 > F\text{-table} = 3.94$ at the real level $\alpha = 0.05$, with a significance probability of $0.003 < 0.05$ meaning significant; In Table 3 the F statistic value of $4,540 > F\text{-table} = 3.94$ at the real level $\alpha = 0.05$, with a significance probability of $0.036 < 0.05$ meaning significant; Thus the regression linear assumptions are fulfilled.

Multicollinearity Test

Table 4. Multicollinearity test results

Correlations				
		X1: Earnings Management	X2: Leverage	X3: ROA
X1: Earnings Management	Pearson Correlation	1	.067	.157
	Sig. (2-tailed)		.501	.111
	N	104	104	104
X2: Leverage	Pearson Correlation	.067	1	-.330**
	Sig. (2-tailed)	.501		.001
	N	104	104	104
X3: ROA	Pearson Correlation	.157	-.330**	1
	Sig. (2-tailed)	.111	.001	
	N	104	104	104

** Correlation is significant at the 0.01 level (2-tailed).

Table 4 above shows the correlation between variables X1 and X2 of $0.067 < 0.80$; between variables X1 and X3 of $0.157 < 0.80$ and between variables X2 and X3 of $-0.330 < 0.80$. Thus the assumption does not occur multicollinearity is met.

Data analysis

Testing individually

Table 5. Eigenvalues and Canonical Correlations

Root No.	Eigenvalue	Pct.	Cum. Pct.	Canon Cor.	Sq. Cor
1	.22110	96,62284	96,62284		.42552
,18107					

2	,00773	3,37716	100,00000	,08757
,00767				

By looking at the root there are two canonical functions, namely canonical function 1 with a canonical correlation of 0.42552 with covariates of 18.11 percent, while canonical function 2 with canonical correlations of 0.08757 with covariates of 0.77 percent. So henceforth it will only use the first canonical function

Tabel 6. Dimension Reduction Analysis

Roots	Wilks L.	F	Hypoth. DF	Error DF	Sig. of F
1 TO 2	,81265	3,60680	6,00	198,00	,002
2 TO 2	,99233	,38640	2,00	100,00	,681

By looking at root there are two canonical functions, namely function 1 canonical correlation 0.42552 with significance 0.002, function 2 canonical correlation 0.08757 with a significance of 0.681. From these results it can be seen that function 1 with a significance of 0.002 <0.05 means that it is individually significant. While function 2 with a significance of 0.681 > 0.05 means that it is not individually significant. Therefore function 1 can be further processed, whereas function 2 individually cannot be further processed.

Group Testing

Tabel 7. Multivariate Tests of Significance

Multivariate Tests of Significance S = 1, M = 0, N = 48 ½)					
Test Name	Value	Exact F	Hypoth.DF	Error DF	Sig.of F
Pillais	,87414	343,78242	2,00	99,00	,000
Hotellings	6,94510	343,78242	2,00	99,00	,000
Wilks	,12586	343,78242	2,00	99,00	,000
Roys	,87414				
Note.. F statistics are exact.					

Using four procedures from Pillais, Hotellings, Wilks, and Roys, all showed significant because the probability of significance was 0,000 <0.05. Thus if combined together, canonical function 1 can be further processed. Because function 1 has a high and significant canonical correlation number both individually and together, the subsequent analysis only focuses on function 1.

Canonical Interpretation of Variates

This analysis is a continuation of the previous tests that set canonical function 1, therefore in this analysis only canonical function 1 does not pay attention to function 2. In this study there are two canonical variates namely canonical dependent variables namely Y1: Firm Value and canonical independent variates that contains, X1: Earnings Management, X2: Leverage and X3: ROA. This analysis serves to determine whether all the independent variables in canonical variates are related to the dependent variates, as measured by the magnitude of the correlation of each independent variable with its variate. Measurements were made in two ways, namely Canonical Weights and Canonical Loadings.

Tabel 8. Canonical Weights Dependend Variat

Standardized canonical coefficients for DEPENDENT variables		
Function No.		
Variable	1	2
Y1	,98878	,15284
Y2	-,12067	,99322

With regard to canonical function 1, for the dependent variable there is a high correlation number which is 0.98878 (Y1: Firm Value).

Tabel 9. Canonical Weights Independen Variat

Raw canonical coefficients for COVARIATES		
Function No.		
COVARIATE	1	2
X1	,00001	,00001
X2	2,69948	-3,26139
X3	-5,04603	1,32991
Standardized canonical coefficients for COVARIATES		
CAN. VAR.		
COVARIATE	1	2
X1	,66912	,77105
X2	,51089	-,61723
X3	-,43631	,11499

With regard to canonical function 1, for the independent variable there is a high correlation number that is 0.66912 (X1: Earnings Management).

Tabel 10. Canonical Loadings Dependend Variat

Correlations between DEPENDENT and canonical variables		
Function No.		
Variable	1	2
Y1	,99270	,12061
Y2	-,15276	,98826

Tabel 11. Canonical Loadings Independen Variat

Correlations between COVARIATES and canonical variables		
CAN. VAR.		
Covariate	1	2
X1	,63454	,74797
X2	,69957	-,60377
X3	-,49968	,44012

Table 10 and Table 11 show the calculation results of Canonical Loadings by only looking at function 1, then a row of correlation loading numbers is seen for each variable with its variable variable. For variable dependent, canonical loading is high at 0.99270 (Y1: Firm Value). Whereas the high canonical independent loading variable was 0.63454 (X1: earnings management) and 0.69957 (X2: leverage).

Based on the calculation above, the following results are obtained; (a) Of the two dependent variables and the independent variable that has a significant

relationship only the Firm Value. In other words there is a relationship between Earnings Management, Leverage and ROA with Firm Value, if tested in groups; (b) Of the three independent variables, there is one variable that has a high relationship, namely Earnings Management and Leverage.

Table 12. Regression Analysis

Regression analysis for WITHIN CELLS error term				
--- Individual Univariate ,9500 confidence intervals				
Dependent variable .. Y1			Y1: Nilai Perusahaan	
COVARIATE Sig.of t	B	Beta	Std. Err.	t-Value
X1 ,002	,0000008724	,2907911021	,00000	3,14265
X2 ,033	,3189520063	,2092881381	,14753	2,16193
X3 ,064	-,6107246249	-,1830874012	,32626	-1,87188
Dependent variable .. Y2 Waktu			Y2: Ketepatan	
COVARIATE Sig.of t	B	Beta	Std. Err.	t-Value
X1 ,819	,0000000334	,0232356306	,00000	,22894
X2 ,417	-,0631656227	-,0866259039	,07743	-,81582
X3 ,722	,0611469628	,0383120720	,17123	,35711

Based on Table 8, Table 9, Table 10 and Table 11 that show the two dependent variables and independent variables that have a significant relationship only Firm Value. While of the three independent variables, there are two variables that have a high relationship, namely Earnings Management and Leverage. Table 12 shows: (1) The results of the regression analysis of the effect of the independent variable Management of Profit, Leverage and ROA on Firm Value. The Effect of Earnings Management on Firm Value, positive and significant is shown by t value of 3.14265 and probability probability of 0.002 <0.05. Thus the H1 hypothesis is proven or accepted; (2) The results of the regression analysis of the influence of the independent variable Management of Profit, Leverage and ROA on Timeliness, are not significant shown by the probability value of significance > 0.05. Thus the H2 hypothesis is neither proven nor accepted.

CONCLUSION AND SUGESTION

From the results of the regression analysis related to the influence of the independent variable Earnings Management, with Leverage and ROA as control variables, on Firm Value it was found that Earnings Management positively affected Firm Value. From this finding it can be explained that investors react more to earnings stability than their nominal value. This is because stock investors are the type of long-term investors who are more concerned with sustainability. From the results of the regression analysis it was also found that the independent variable Earnings Management, with Leverage and ROA as control variables, had

no effect on Timeliness. This is because the determination of the reporting deadline is set by the authority while the process of achieving the company's financial targets is influenced by external factors which are not always in sync with the reporting period lines.

From the findings of Earnings Management has a positive effect on Firm Value, it is suggested that the company always maintains consistent profit growth stability by developing comprehensive plans and profit targets, namely by preparing sales predictions and budgeting costs and expenses appropriately. From the findings that Earnings Management does not affect the timeliness, it is recommended that the process of implementing the profit target program be carried out since the beginning of the accounting year and not only accumulated in a certain time period.

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