

COMPANY SIZE IN RESPONSE TO EARNINGS MANAGEMENT AND COMPANY PERFORMANCE

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ABSTRACT

Company size has been assumed to be an influential factor in any businesses. Therefore, any company might be also induced by this factor when dealing with its performance. This research aimed to analyze the effect of firm size on earnings management and corporate performance. This study was done by means of census with the population of 69 go public companies. They have been the participants of Corporate Governance Perception Index (CGPI) period 2004-2008. The variable of company size was measured by using the logarithm of assets while that of earnings management using discretionary accruals. In measuring firm performance variable, the study uses Tobins Q. The results of this study show a significant negative effect of firm size on earnings management. Large-sized companies will avoid doing earnings management. Beside, the size of company has a significant and positive effect on company performance. Large-sized companies will have a chance to get a greater opportunity to profit through the sale of shares.

Key words: *Company Size, Earnings Management, CGPI, Corporate Performance.*

DAMPAK UKURAN PERUSAHAAN TERHADAP MANAJEMEN LABA DAN KINERJA PERUSAHAAN

ABSTRAK

Ukuran perusahaan telah diasumsikan sebagai faktor yang berpengaruh di dalam dunia usaha. Oleh sebab itu, perusahaan bisa juga dipengaruhi oleh faktor tersebut dalam meningkatkan kinerjanya maupun earning management-nya. Penelitian ini menganalisis pengaruh ukuran perusahaan terhadap kinerja perusahaan dan earning managementnya. Penelitian ini dilakukan dengan metode sensu dengan populasi sebanyak 69 perusahaan yang dinyatakan telah go public. Perusahaan-perusahaan tersebut dinyatakan telah berpartisipasi dalam pelaksanaan good corporate governance perception index (CGPI) periode 2004-2008. Variable ukuran perusahaan diukur dengan menggunakan logaritma dari asset, sedangkan variabel earning management diukur dengan discretionary accruals. Adapun dalam pengukuran kinerja perusahaan, penelitian ini menggunakan instrumen Tobins Q. Hasilnya memberikan bukti bahwa ada pengaruh signifikan dan positif variabel ukuran perusahaan terhadap earning management. Perusahaan berukuran besar akan memiliki kesempatan mendapatkan peluang yang lebih besar untuk memperoleh keuntungan melalui penjualan saham.

Kata Kunci: *Ukuran Perusahaan, Manajemen Laba, CGPI, Kinerja Perusahaan.*

INTRODUCTION

It is absolutely clear that this study, when viewed theoretically, is based on positive accounting theory. This view is trying to implement management accounting standards due to a particular motive. In other words, this study is related to earnings management that has to do with management actions undertaken by corporate managers. This action considers that information of accounting earning has an important role in the decision by the provider of financial reports so as the managers can manage the earnings in order that the company looks financially good. .

The theory of positive accounting tries to explain and describe what and how the practice of accounting is based on experience and can be tested with empirical data so that they can be more successfully able to resolve accounting practices. Watts and Zimmerman (1990) states that accounting theory provides refers to a set of principles or broad concepts that provide answers to accepted accounting practices. Besides, it predicts applicable phenomena. In line with changes in the environment, it is concerned with accounting operates. Concepts in accounting theory should always be developed in order it can be preserved as knowledge, in that, relevant to accounting practice guidelines.

Earning has become a consideration by the investors for assessing the performance of management. It is said important for making investment decisions without considering the procedure being used. A deliberate policy choice selected by management for specific purposes is known as earnings management. Earnings management can be done because the Statement of Accounting Standards provides a variety of alternatives for accounting policies and procedures on the management of the company. It is also required for the judgment by finance managers in preparing and creating the flexibility that can be exploited for his own manager.

Earnings management of the company can be efficient for improving the earning

information especially for communicating private information. It can be opportunistic for the management in reporting their earning which is considered a manipulation of information and this reflects management's desire being more than the company's financial performance. Therefore, the management can be said being opportunistic when the information can manipulate the profit and leads to the wrong investment decision.

Earnings management is one of engineering management profits which is made in recent periods with the purpose of showing the situation of a steady income stream (Dechow and Sweeney 1995). Income smoothing is an attempt to suppress variability by the managers on a number of corporate earnings period with the aim of gaining profit rate as they expected. Earnings management is a way to reduce earnings volatility by reducing the amount reported as experiencing the profit increase when the report is not complied with the expectations.

The large-size companies have a large stakeholder base so that their policies can affect a greater impact on the public interest than smaller companies. For investors, the company's policy will have implications on cash flow for the future. As for the regulator (government), they can affect the amount of tax that will be accepted and the effectiveness of the role of the protection of society in general.

Sujana (2004) states, that the companies which have large asset get a stage of maturity. They tend to dominate its market position in the industry, so that more large companies often have a competitive advantage in exploring investment opportunities. They are also growing significantly because they are considered to have better access to capital markets. Thus they are easily to get additional funds for increasing profitability, Elton and Gruber (2000). Hartono (2000) suggests firm size as the logarithm of total assets is predicted to have a negative relationship with risk. He also hypothesized that large firms tend to invest into projects that

have low variance and low risks, to avoid excessive profits. Large companies tend to get attention from the public and the government that will be burdened with a huge political cost.

The information is usually used as a basis for decision making especially information about profit. Statement of Financial Accounting Concept (SFAC) 1992 No. 1 stated that earnings is as a component of financial statements used to assess the performance of management, to help estimate the capacity of a representative profit in the long term, predict and assess risks in investment. The benefit of this research is to provide input for investors in making decision for investment. It tries to describe the results of other studies conducted by Foster (1978) using a sample of American public which shows that there is market reaction to earnings announcements.

The reaction is reflected in the rise and fall of stock prices around the announcement date. Empirical research with a sample of public companies in Indonesia by Purba (1997), Beza (1997) also conclude that the financial statements or earnings provide meaningful information for investors in their decision making. Beattie (1994) stated income by can be used for consideration in assessing the performance of management to take investment decisions without considering the available procedure.

This research is induced by some motivation as the following. First, the size of the company is assumed to affect the company in the management of the company. Larger companies (in the size of total assets) received more attention from analysts and are better known than the smaller ones. This is related to earnings management to improve corporate performance. Second, analyzing the size of the go public companies listed as participants in Corporate Governance Perception Index (CGPI) and their effect on the performance of the company.

This study is expected to contribute to the development of the theory, especially the study of financial accounting of the positive

accounting theory, firm size, earnings management, and corporate performance. It is also expected to provide benefits in providing input to the users of financial statements and corporate organizers, and practitioners in understanding the size of the company, earnings management, and corporate performance.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Positive Accounting Theory

Positive accounting theory attempts to explain and describe what and how to do accounting practices based on experience and can be tested empirically it will be so more successfully able to resolve accounting practices. In this case, Watts and Zimmerman (1990) state that accounting theory provides a set of principles or broad concepts to provide answers for accepted accounting practices. It can predict the existing phenomena. This is in line with changes in the environment in which accounting operates. Concepts in accounting theory should always be developed so that they can preserved as knowledge and relevant to accounting practice guidelines.

When being predicted, the positive accounting theory generally can revolve around the hypothesis as formulated by Watts and Zimmerman (1986). It is hypothesized that the political costs is the cost incurred for the operation of the company in the process of transfer to external prosperity. Political cost hypothesis assumes that large enterprises are more politically sensitive than small firms, and therefore, as encouragement to choose accounting methods differ between large and small firms (Watts and Zimmerman 1986: 222).

Large firms face greater political costs because it is the entity that many highlighted by the public.

Such a conceptual understanding can be seen by the employees who are concerned with seeing profits rise as a reference to improve welfare through salary increases. On the other hand, the government sees profits

rise as a tourist taxes charged. If the company is sensitive to variations in firm size, large firms prefer accounting methods to delay reporting earnings. Large companies are the subject of closer scrutiny from the government and the public. They are considered to be able to minimize the possibility of public concern with respect to earnings reports.

High fluctuations in income can be attractive because it provides a signal of monopolistic practices. On the other hand, a drastic decline in profits would encourage government intervention. This is because the payment of taxes and the impact on the viability of the company, in turn, relates to the welfare of the employees.

Company Size

Company size is related to the number of resources owned by the company. It describes that the size of a company can be represented by total assets, number of sales, average sales, and average total assets. In general, firm size is a measure of the boundaries of an organization formed (Kumar et al. 1999). For example, Atkins and Lowe (1997) reveal that the concept can be the approximated size of the management process which is done. According to them, the size depends on the criteria measurements.

The size of the company can be viewed differently depending on the point of views and measures. A company can be classified as large companies on certain criteria, but a group of small companies may be classified on different criteria. Company size is also related to the ratio of the entity size compared to another entity set (Axtell 2006). Suwito and Herawaty (2005) define the size of a company as a large-scale in which small ones can be classified according to a variety of ways. This includes total assets, market value of shares, and others.

Basically, the only firm size is divided into three categories: large, medium and small companies. For example, Elton and Gruber (2000) argue that the company with big asset is considered to have less risk than

the company with fewer assets. Companies with large asset have greater access to capital markets better so it is considered to have a smaller beta. Asset size is considered to be the most appropriate as a proxy for firm size (Ashari et al. 1994; Darraugh et al. 1998; Beattie et al. 1994; Chaney and Jeter 1992; Kumarudin et al. 2003; Makaryanawati 2003).

Earnings Management

As defined by Levit (1998) earning management is a management action taken in making profit and this tends to reflect the interests of management rather than an actual picture of company performance. Such a definition shows the existence of earnings management that may cause the performance of a company in which it is still not real. Healy and Wahlen (1999) stated that earnings management occurs when managers use judgment in preparing financial statements and recording transactions to alter financial reports, thereby mislead stakeholders about the company's performance or to affect outcomes relating to contracts that depend on reported accounting numbers.

Another definition of earning management can be different. It is an act that can mislead the stakeholders. For example, Schipper (1989) defines it as an intervention in the process of financial report to external parties that aim to obtain personal gain for stockholders or managers. Earnings management arises from the information about income considered by investors in making investment decisions. Ball and Brown (1968) argue that there is an investor reaction to the announcement of quarterly or annual earnings.

Scott (2006) has his own opinion about earning management. It has entailed two aspects. First, managers see it as opportunistic behavior to maximize utility in dealing with compensation contracts, debt contracts, and political costs (opportunistic earnings management). Secondly, earnings management is viewed as the perspective of effi-

cient contracting (efficient earnings management), in which it provides managers with the flexibility to protect themselves and the company to anticipate the unexpected events to gain the parties involved in the contract.

When referred to the above definition, managers can influence the market value of company stock through earnings management, for example by making the income smoothing and earnings growth over time. Earnings management is also considered a controversial but important aspect in financial accounting. Some proponents argue that earnings management is an unacceptable behavior, arguing that earnings management has meant a reduction in the reliability of financial reporting information.

Investors may not receive sufficient information for evaluating the profit return and portfolio risk accurately (Ashari et al. 1994; Assih 2005). Thoughts on earnings management is defined differently, Gumanti (2000) affirms that it depends on which it is viewed. The techniques and patterns of earnings management by Setiawati and Na'im (2000) can be done by three techniques.

First take the opportunity to make accounting estimates that affect earnings management through judgment of accounting. This estimation includes the estimated uncollectible accounts, the estimated period depreciation of fixed assets and amortization of intangible assets, the estimated warranty costs, and others. Second, change the method of accounting, the change in the method used to record a transaction accounting, e.g. change its method of depreciation of fixed assets, depreciation method to the number of years straight-line depreciation method. Third, shifting the cost or revenue period is the period of cost or revenue engineering include: speed or delay spending on research and development to the next accounting period, accelerate or delay the promotion until the following period, accelerate / delay delivery of products to customers, set the time of sale fixed assets that are not used.

Corporate Performance

Performance is the achievement of a goal of a certain activity or work to achieve corporate objectives as measured by the standard. This means that the work achieved in carrying out the tasks assigned to a person or organization. The work is obtained when planning and tasks related to implementation and monitoring. If the results show compliance with the plan even exceeds the plan, it indicates an achievement of management in creating and enhancing shareholder value. In this case, value is defined as shareholders' wealth through share price appreciation and dividends.

For example, a financial performance can be viewed as a result of management's efforts to show a success. This success can be achieved with optimal management systems from all parts of the company in achieving its objectives. From this perspective, this reassert focuses on the performance of the financial aspects based on the consideration that the financial aspect can be as an indicator of the company performance. Financial performance drivers from such as customers, productivity, cost efficiency, the processes used to produce products and services, the potential employee's ability to produce products and services for the benefit of customers.

The company's performance is the result of management activities. The parameters used to assess the performance of a company are based on an approach in which the financial information taken from the financial statements or other financial statements. It is based on the data prepared for outside, the audited financial statements. With regard to performance measurement, Healy (1995) suggests that performance measurement is based on the performance of the market. However, some contain some weaknesses such as the number of events that are not controlled. Uncertainty may cause market price risk as a component that is uncontrolled but also provide feedback on the quality of management and the efforts being used.

On the contrary, the internal performance has weaknesses when it is used as the basis of measurement. As such, it can be controlled by means of manipulation of measurement basis which is likely to be done through procedures such as management accounting. The general manager of the company's financial analysts and capital market participants use financial measures to see and assess the aspects they want, such as profitability, solvency, liquidity, productivity, or market forces.

In another occasion, financial performance measurement has been carried out by Rhoades et al. (2002); Chaganti and Damanpour (1991); Slovin and Sushka (1993). In this case, the performance assessment aims to determine the effectiveness of the company's operations. It can also be done for a method or approach. Measuring the performance of companies can be grouped into two categories, namely non-financial performance measures and measurement of financial performance measurement. This research applies the assessment of financial performance by using performance measurement market adopted from Tobin's Q models with consideration of external response of the market.

Company Size and Earnings Management

In connection with company size and earnings management, there are two points of views. One argues that company size is positively associated with earnings management, because big companies always have more complex operational activity than the small ones. Thus, that size can make the big companies possible to perform earnings management. The second point of view states that company size is negatively related to earnings management. Big companies can keep the reputation by manipulating their earnings. Big companies avoid performing earnings management.

Moses (1987) suggests that companies are more likely to have a greater intention to perform income smoothing than smaller ones. It is done because they have a greater

political cost. Political costs arise because of the high profitability of the company can attract the attention of the media and consumers. Moses (1987) shows evidence that the positive effect of company size on earnings management. Big companies (in the size of total assets) received more attention from analysts and more recognizable than the small ones. This is due to a great concern such as the high profit fluctuations that will attract attention and deliver unexpected impact. In this case, managers increase their companies' earnings by manipulation to avoid negative impacts that may occur.

Evidence can be taken from another research. For example, Wasilah (2005) concluded that company size has a positive influence on earnings management. This condition can make the company possible to have the market's confidence. The confidence is relatively imposed on big companies which are better able to provide powerful information. By having this confidence, managers of big companies make themselves possible to conduct earnings management in order to remain credible.

Some studies on company size and its effect on earnings management were also conducted in Indonesia. Yet, these have failed to show the consistency of the effect of firm size on engineering financial statements. The same thing is shown Makaryanawati (2003) found that large companies tend to be the concern of various parties, especially the government so motivated to align their performance so as not to look bad.

Another viewpoint shows a company size that is negatively related to earnings management. For example, Kim et al. (1976) suggest several reasons why it shows the negative effect of company size on earnings management. In reference to company size, and internal control system, it appears that the bigger the company the more it has an internal control system. They have competent internal auditor. Efficient internal control system will help control the presentation and disclosure of financial information that

is not accurate.

Veronica and Siddharta (2005) research on the JSE (BEI) in the observation period 1995-1996 and 1999-2002, found the company size significantly and negatively related to earnings management. It is a determinant factor in reducing the manipulation of financial information and improves the quality of financial reporting. Glaum et al. (2004) support the argument that big companies acquire more intensive monitoring so that they find difficult when manipulating accounting practice. Unlike this view, small companies tend to do manipulation of reporting because of gaining incentive to obtain additional funds from external parties. These more small companies have a tendency to do the alignment than big companies.

Alwan (2009) provides evidence that there is a negative effect of company size. It is not significant toward earnings management. It is supported by Hastuti and Hutama, (2010) stating that company size did not significantly affect earnings management. Studies in Malaysia, Ashari et al. (1994) failed to find an effect of company size on earning management. Similarly, research by Sensoy Atik (2004) with a sample of companies in Turkey with public companies and they found no significant effect of company size on earnings management. Jin SL and Machfoedz (1998) also failed to find evidence that company size that affects earnings management. Thus, some previous research shows that there is inconsistency of their results.

Some researchers suggest that big companies are more likely to perform earnings management. The motivation is because of the intention to avoid government intervention, maintaining the reputation, and driving profits according to analysts and market expectations. In different views, big companies are assumed to have better internal systems. Manipulation on accounting action tends to be difficult. In that, they always maintain public confidence by presenting credible financial statements. Unlike big companies,

small companies tend to be ignored by analysts and markets; they allow the management to apply earnings management in order to obtain additional funds from external parties.

H1: Company size has significant effect on earnings management.

Company Size and Company Performance

Soliha and Taswan (2002) stated that big companies can easily have access to the capital markets. Easy access to the capital markets means that the company has the flexibility and ability to get funding, because the flexibility of getting access to capital markets is quite significantly flexible and able to raise more money. With such access, they have signal which can be viewed by investors as to have positive and good prospects. The big companies can enhance shareholder value.

Sujoko and Soebiantoro (2007) state that investors consider buying shares is used for determining company's size. Using shares as the measurement, investors think that such a company has a good performance. A big company shows that it has experienced with growth as the investors will respond positively. Thus, the value of the company will increase. Makaryanawati (2003) argues that investors respond positively or give preference to companies that have a total book value of the assets. Investors assume that the book value of total assets suggests that the company is able to finance its operating costs, which in turn increases the value of companies in the capital market.

According Chichello (2005) on research using OLS regressions, measuring company size using total assets has an impact on corporate performance at a significance level of 10%, although it has a negative effect. Harjito and Nurfauziah (2006), big companies tend to diversify their assets, so as to lower the company's achievements. This can cause a decline in the value of the company.

This research hypothesized that com-

pany size has an effect on corporate performance. The size in this case is rated by investors as a positive signal and good prospects. Thus, the size of the company can improve the performance of the company. The research was based on positive accounting theory hypothesizes political cost.

Companies that have had a lot of great assets assumed a contract; each contract has a degree of binding on the company and the impact on the political costs incurred. Political costs may be associated with welfare transfers which should be done by the company. Companies with large assets also provide a better guarantee of fulfillment in obligations to other parties. In addition, the company has more assets are considered more mature, stable and experienced, thus generating more reliable and positive revenue.

H2: Company size has significant effect on the performance of the company

RESEARCH METHOD

Population and Data Collection Techniques

This research uses companies registered in Indonesia Stock Exchange (ISE) and have been the participants of Corporate Governance Perception Index (CGPI), which is practiced by the Indonesian Institute for Corporate Governance (IICG). The period was 2004-2008 and the data were taken by census.

Types and Sources of Data

Secondary data in this research were from the annual financial statements of the company in 2004 to 2008. They were collected from Indonesian Capital Market Directory (ICMD).

Classification of Variables

The variables include company size as a exogenous variable which is not influenced by other variables in the model. Variable of earnings management and company performance are the endogenous variables which are affected other variables.

Operational Definition of Variables

Company Size

Company size is as exogenous (X2), reflected in the overall value of the company assets. In this study, the measure used is the natural logarithm of all company assets, calculated by using cross-section data and time series on the go public companies y went public in 2004-2008 who participated in CGPI.

Earnings Management

Earnings management as an endogenous variable and intervening variable (Y1) are intentionally done process, in terms of the GAAP for directing to the levels of earnings which are reported. This is calculated by using cross-section data and time series on the go public companies during 2004-2008 participants of ranking in CGPI conducted by IICG. This is taken from the effort by calculating Discretionary Accruals (DA). Then, it is calculated using the model formulation by Healy (1995) with total accruals. Total accrual (TA) is defined as follows.

$$ACR = \frac{(\Delta CA - \Delta CL - \Delta Cash + \Delta STD - Dep)}{A} \quad (1)$$

Note:

ACR = Total working capital accruals

CA = Change in current assets

ΔCL = Change in current liabilities

$\Delta Cash$ = Change in cash and cash equivalent

ΔSTD = Change in debt included in current liabilities

Dep = Depreciation and amortization expense

A = Total assets.

$$NDA = \frac{TA}{T} \quad (2)$$

Note:

NDA = Non discretionary accruals

TA = Total accruals

T = Estimation period.

$$DA = TA - NDA \quad (3)$$

Note:

DA = Discretionary accruals

Table 1
Descriptive Statistics

Calculation	SIZ	ERM	KJP
Maximum	19.700	0.090	1.880
Minimum	9.590	-0.120	0.400
Mean	15.862	0.009	1.133
Std. Deviation	2.031	0.042	0.329
Kolmogorov-Smirnov Z	0.626	1.091	1.356
Asymp. Sig. (2-tailed)	0.829	0.185	0.510

TA = Total accruals

NDA = Non discretionary accruals.

The value of Discretionary Accruals (DA) shows the size of earnings made by the Management in which the greater the value, the greater the earnings management conducted by management.

Performance of the company

The company performance is an endogenous variable (Y2) that is the outcome gained by the company in a given period. This is calculated by using cross-section data and time series on the go public companies in 2004-2008 following the ranking in CGPI. It is measured using Tobin's Q as a performance measurement of the external side. Tobin's Q is often used as a proxy in assessing the quality of a company or corporate opportunity as the following.

$$Q = \frac{(EMV + D)}{(EBV + D)} \quad (4)$$

Notes:

Q = Value of company

EMV = Equity market value

D = Book value from total debt

EBV = Equity book value

Equity Market Value (EMV) is obtained by multiplying the closing stock price (Closing Prices), which is the end of the year by the number of shares outstanding at the end of the year. Tobin's Q values between 0-1 indicates that the company's stock is undervalued; value of 1 indicates that the market value reflects the value of the company's assets while if Tobin's Q > 1 indicates that

the market value is higher than the value of the company.

It can be argued that market value reflects the assets that cannot be measured (intangible value) of the company such as reputation, or innovation which is the value given by the shareholders or the company's business analysts. Data analysis is done by using SPSS regression.

DATA ANALYSIS AND DISCUSSION

The number of listed companies as participants Corporate Governance Perception Index (CGPI) in 2004 to 2008 and registered as issuers in the Indonesia Stock Exchange (ISE) in 69 companies. Since the population is only 69, each unit of analysis in this population is subsequently analyzed and thus a census study. Descriptive statistics result in Stock Exchange of public companies involved in IICG ranking in the period 2004-2008 is shown in Table 1.

Based on Table 1, variables of company size is measured by logarithm of total assets that shows the distribution of the data rate ranging between 19.7 and 9.59 with an average (mean) 15.862. Variable of earnings management is measured by the value of Discretionary Accruals (DA) showing the distribution of the data rate between 0.09 and -0.12 with an average (mean) 0.009. Next is the variables of company performance which is measured = using Tobin's Q as a performance measurement of the external side.

Data were obtained from the Stock Exchange of go public companies involved in ranking by IICG in the period 2004-2008.

Table 2
Coefficient Linear Test

Exogenous Variable	Endogenous Variable	Estimation Coefficient	t-statistic	p-value	Description
Company size (X ₁)	Earnings Management (Y ₁)	-3.970	-3.922	0.000	Significant
Company size (X ₂)	Company performance (Y ₂)	0.376	4.136	0.000	Significant

As presented in Table 1, it shows the distribution of the data rate ranging between 1.88 and 0.4 with an average (mean) 1.133.

Classical Test Assumptions

Autocorrelation Test

This test is aimed at testing the linear regression model to determine whether there is a correlation between the error in period t with an error in period t-1 (the previous). Autocorrelation test of earnings management on the endogenous variables indicate the value of Durbin Watson (DW) of 2.184. Table value of Durbin Watson (DW) with n = 69, dl of 1.554 du at 1.672. There is no requirement, either positive or negative autocorrelation is dl < DW < 4 - du. Autocorrelation test results showed 1.554 < 2.184 < 2.328. Thus, it can be concluded there is no auto correlation both positive and negative.

Autocorrelation test on the endogenous variable of performance demonstrates the value of Durbin Watson (DW) of 2.312. Table value of Durbin Watson (DW) with n = 69, dl of 1.554 du at 1.672. There is no requirement, either positive or negative autocorrelation is dl < DW < 4 - du. Autocorrelation test results showed 1.554 < 2.312 < 2.328. So we can conclude there is no autocorrelation both positive and negative.

Normality Test

Testing residual normality is done by using a statistical test of non - parametric Kolmogorov - Smirnov (K-S). On Table 1, the variable of company size, the value of Kolmogorov-Smirnov test is significant at 0.626 and 0.829. This means that the data are normally distributed residuals. Earnings management on the value of the variable of

Kolmogorov-Smirnov test is significant at 1.091 and 0.185, meaning that the data are normally distributed residuals. On the value of the variable of performance, Kolmogorov-Smirnov is 0.356 and significant at 0.051, also meaning that the data are normally distributed residuals.

Linearity Test

Linearity test is done using the Ramsey Test. It suggests that a test is called a general test of specification or RESET. It can be accepted when a linear function counted $F < F$ table. Linearity test results indicate that the F count (0.00846) < F table (4.73) it can be concluded that this research model is the linear model.

Testing Hypotheses and Discussion

Discussion of Hypothesis 1

In Table 2, Coefficient of variable of company size with variable of earnings management is -3.97 and significant at the 0.05 level. The findings indicate that company size has significant negative effect on earnings management. Thus, it is consistent with the hypothesis that the size of the company has effect on earnings management. The variable of company size has significant and negative effect on earnings management. This means that the larger the company, the smaller the earnings management actions.

Such evidence suggests that there is a mechanism of the political costs. In big companies, with assets rising to make the company's bargaining power is different from other companies. Companies that have big assets are considered to have less risk than the firm whose assets are less. The big asset owned by companies has

greater access to capital markets so it is considered to have a smaller beta. The results are consistent with the second hypothesis which states that the size of the company has a significant effect on earnings management.

Company size has a significant and negative effect on earnings management due to the company maintaining a reputation and credibility. Public assess big companies of having a bigger book value. Therefore, they can keep the reputation of the company by avoiding earnings management. Large companies that attract the attention of the public, investors, creditors, government and analysts; it is difficult for the managers to perform manipulation. This implies that the bigger the size of the company, the more difficult for management to do earnings management.

Big companies are usually audited by an auditor who has the professional competence from a bigger public accounting firm. Professional auditor will do its job well in the examination so as to encourage the disclosure of the financial report with transparency and accountability. In addition, big companies consider high cost when manipulate earnings.

The findings support the positive accounting theory, political costs hypothesis about the costs on the company's account because of the welfare transfer to external parties. Political cost hypothesis assumes that bigger companies are more politically sensitive than the small ones. It is considered an encouragement to choose accounting methods which is different between big companies and the small ones.

Big firms face greater political costs because they are the entities are highlighted by the public in general. To avoid the cost of a larger political, a company tries to avoid earnings management. This evidence supports the research by Glaum et al. (2004) proving that the size of the company has a negative effect on earnings management. It is due to the high attention given by analysts with reputable purposes.

The attention given by the analysts and the market is considered as a mechanism to suppress supervision on opportunistic effort by the management. Kim et al. (1976) suggests several reasons why company size has negative and significant effect on earnings management. It is for internal control system. The bigger the companies are, the better internal control system is. So are their competent internal auditors.

The efficient internal control system can help control the presentation and disclosure of financial information when it is not accurate. Veronica and Siddharta (2005) research on the JSE (BEI) in the observation period 1995-1996 and 1999-2002, found the size of the company significantly and negatively is related to earnings management. It is a determinant factor in reducing the manipulation of financial information and improves the quality of financial reporting.

Testing Hypothesis 2

Table 2 of coefficient of company size towards the company performance is 0.376 and significant at the 0.05 level. The finding suggests that the size of the company has a significant and positive effect on company performance. This is consistent with the hypothesis that company size influences the company performance. In big companies, with their assets they can have higher bargaining power. However, the companies that have large assets are considered to have less risk than those with fewer assets.

Companies with large asset have greater access to capital markets so it is considered to have a smaller beta. Big companies have more opportunity to increase the performance of due to better access to capital markets, which in turn, can improve their performance.

Company size has significant and positive effect on the company performance due to the company ability to maintain a reputation and credibility.

Big companies with public access have a

higher book value to maintain their credibility and good performance. In addition, they tend to dominate the market position in the industry. Thus, the bigger companies often have a competitive advantage in exploring investment opportunities. It be concluded that the bigger company can grow significantly because they have better access to capital markets. As such, they find it easy to get additional funds for increasing profitability.

Big companies will always try to run the businesses well to be able to create value. Thus, they tend to be trusted by their stakeholders. This evidence supports the positive accounting theory. To avoid the more political costs, the company will manage the company accurately and maintain the credibility so that they are able to carry out their businesses.

This result also supports the research by Taswan Soliha (2002) stating that big companies can easily get access to the capital markets.

Getting an access to the capital markets is the indication that the company has the flexibility and ability to get funding. This is due to the flexibility of the ease of access to capital markets to raise more money. When this is viewed by investors as positive and good prospects, the companies can enhance their shareholder value. Similar research conducted by Sujoko and Soebiantoro (2007) support that investors consider buying shares for measuring a company's size. This used as a benchmark of the company has a good performance.

Big companies show that they have experienced growth that the investors will respond positively. Thus, the value of the company will increase. Other support is given by Makaryanawati (2003) arguing that investors respond positively or give preference to companies that have a total book value of the assets. Investors assume that the book value of total assets suggests that the company is able to finance its operating costs, which in turn increases the value of companies in the capital market.

CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

It can be generalized that company size has a significant but negative effect on earnings management. Big-sized companies always avoid earnings management because they have big assets to increase their bargaining power compared to the others. Companies with larger asset always maintain the reputation and credibility. As such, they can also keep their reputation by avoiding earnings management.

Big companies are usually audited by an auditor who has the professional and good quality competence from a large public accounting firm. By this condition, their auditor will do their job well in the auditing process to encourage the disclosure of financial statements for being transparent and accountable. This supports the positive accounting theory; big companies face greater political costs because their position is always paid attention by the general public. To avoid a larger political cost, the company will not do earnings management. The finding supports Glaum et al. (2004), Kim et al. (1976), Veronica and Siddharta (2005).

It is expected to provide implications for investors that big companies have a significant and positive effect on company performance, which means that the bigger the company, the greater the opportunity for a better company performance. Public companies generally consider the companies with bigger higher asset can easily expand the businesses because the public feel more confident and secure with a large amount of assets.

In addition, bigger companies are audited by a professional auditor. They, therefore, can provide a transparent and accountable financial report. The finding supports the positive accounting theory. The company will manage the company accurately and maintain the credibility so that they can still carry out their business. The finding supports the research by Taswan Soliha (2002), Sujoko and Soebiantoro (2007), and Maka-

ryanawati (2003).

It is understandable that investors will choose a company that has a large size of assets, because this company will not to practice earnings management. Earnings management is an act that can reduce the credibility of financial statements. It also renders bias in the financial statements and may intervene the users of financial statements who believe that earnings figures are modified.

Earnings management can reduce the reliability of financial reporting information. When a company does earnings management, the investors may not get sufficient and accurate information about the profits that are used to evaluate the portfolio return and risk. It is obvious that income is one of the parameters used to measure management performance. It is also used as a basis by the investors to make decisions. Investors will have more confidence in the company, when they know the company's good reputation achieved by providing accurate information.

Investors will choose bigger companies to get a great return for the shares. Bigger companies have greater an opportunity to develop their business is due to increased confidence given by the third party. Thus, big companies can run the business with good governance and internal control. They should produce the financial statements with good information, presented accurately and timely. This type of information is helpful in determining investment. For creditors, this quality information is also useful for lending decisions.

1. This study is limited to public companies participating the ranking in IICG in the period 2004-2009. This study is only with the population of public companies that participated in the ranking so that the number of companies that serve populations is very limited.

2. This study looked only at companies with large firm size, so that research results can not be used to generalize to all companies.

For good practical purposes, further re-

search should do as the following.

1. It is advisable that they conduct research with the same variables using the go-public companies which are not only involved in IICG.

2. It is required that the companies are directed to grow into bigger companies. The government should produce regulations to trigger the companies to grow so that they can increase their assets and improve the performance.

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