

Analysis of the Distinction of Earning Management between Islamic and Conventional Stock Markets

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Abstract

Analysis of earnings management is carried out to achieve profit targets applied in financial statements management. This study analyzes the difference between earnings management in the consumer goods industry sector, Islamic and conventional stocks. Data is on financial statements and annual reports of manufacturing companies on IDX in 2016-2019 as many as 19 sharia and 10 non-sharia issuers. This research uses analysis of the independent samples test of earnings management, current tax burden, firm size, managerial ownership, and leverage both Islamic and Conventional stocks. The results show a significant difference in several variables in earnings management between two markets, i.e., Islamic and Conventional Stocks, which are current tax burden, managerial ownership, and leverage in manufacturing companies in the consumer goods industry in Indonesia in the period of 2016-2019.

Keywords: consumer goods, conventional stocks, earnings management, Islamic stocks

Abstrak

Analisis manajemen laba dilakukan untuk mencapai target laba yang diterapkan dalam pengelolaan laporan keuangan. Penelitian ini menganalisis perbedaan manajemen laba pada sektor industri barang konsumsi, saham syariah dan konvensional. Data berasal dari laporan keuangan dan laporan tahunan perusahaan manufaktur di BEI tahun 2016-2019 sebanyak 19 emiten syariah dan 10 emiten non syariah. Penelitian ini menggunakan analisis uji sampel independen pada manajemen laba, beban pajak kini, ukuran perusahaan, kepemilikan manajerial, dan leverage baik saham syariah maupun konvensional. Hasil penelitian menunjukkan adanya perbedaan yang signifikan pada beberapa variabel manajemen laba antara dua pasar, yaitu saham Syariah dan Konvensional, yaitu pada beban pajak kini, kepemilikan manajerial, dan leverage pada perusahaan manufaktur pada industri barang konsumsi di Indonesia periode 2016-2019.

Kata kunci: barang konsumsi, saham non-syariah, manajemen laba, saham syariah

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INTRODUCTION

The Sharia Securities List (DES) established by the National Sharia Council Indonesian Ulama Council (DSN-MUI) and the Financial Services Authority (OJK) contains stocks that fall under sharia criteria. DES is a reference for Islamic stock investors to sell and buy shares in the capital market. Over time, stock investment becomes one of the options for the community as an investment instrument. Sharia stock classification has been made by OJK consisting of 2 types of First, shares that are declared to meet sharia stock selection criteria based on OJK Regulation No. 35/POJK.04/2017 on Criteria and Issuance of Sharia Securities List, the second is shares listed as Sharia shares by issuers or sharia public companies based on OJK regulation no. 17/POJK.04/2015. Although the determination by DES has gone through the screening stage by DSN-MUI in practice, companies that are included in DES have an operational system that is not much different from companies that do not enter des. The difference in operations between Sharia and Non-Sharia companies in DES is more visible in companies in the financial sector. In contrast, the shares of companies in the non-financial sector do not have significant operational differences. The reason is that the criteria for stock screening for DES entry conducted by DSN-MUI and OJK only contain sharia stock screening criteria. While many other operational things are not accommodated on these criteria, one of them is profit management carried out by the company.

Practitioners as assessing earnings management as a fraudulent act assess the concept of earnings management carried out by companies. In contrast, academics assessing earnings management cannot be categorized as fraud (Kurniawansyah, 2018). Practitioners considering the opportunist attitude of managers is very likely to play with the numbers in financial statements cause differences in views. In contrast, academics think that the discretion of managers in choosing accounting methods is not cheating. The concept of profit management can be explained using the *agency theory* approach, which is a theory that states that profit management practices are influenced by conflicts of interest between principals and management as agents (Morris, 1987). This conflict arises when each party is trying to achieve the level of prosperity it wants. The company faces a conflicting impulse when doing profit management.

Many empirical studies focused on the earning management between Islamic and conventional banks produce various research results. Fakhri Alif Pradana analyzed the factors affecting profit management with a research sample of 12 infrastructures, utility, and transportation sector service companies listed on the Indonesia Stock Exchange for 2014-2018. The independent variables used are the GCG mechanism as measured by independent commissioners, institutional ownership and managerial ownership, leverage, free cash flow, and the company's size. Its dependent variable is profit management. The analysis technique used is a regression analysis of panel data. The appropriate model in this study is the random effect model. The results showed that only free cash flow variables affected profit management. This profit management can be explained by independent commissioners, institutional ownership, managerial ownership, leverage, free cash flow, and the company's size by 8.4% (Pradana, 2021).

Hadi Mahmudah and Shahfebriano conducted further research. Test the influence of good corporate governance on profit management practices in the banking industry listed on

the Indonesia Stock Exchange. Profit management practices are unethical behavior that can be reduced by the implementation of good corporate governance. The population used in his study was a conventional banking and Islamic banking company listed on the Indonesia Stock Exchange in 2012-2016. The sample selection was conducted by purposive sampling method and collected 40 observations from 8 banking companies that went public. The data is tested by analysis of multiple regression methods. The results showed that Good Corporate Governance has a significant influence on profit management (Mahmudah & Syahfebriano, 2018).

Tuti Sriwedari with research entitled suitable corporate governance mechanism, profit management, and financial performance of manufacturing companies on the Indonesia Stock Exchange. The purpose of this study is to see whether the mechanism of good corporate governance affects profit management and whether profit management also affects financial performance. The population in this study was a manufacturing company listed on the Indonesia Stock Exchange during 2006-2008, which amounted to 67 companies. Based on the criteria that have been set, the sample amounted to 20 companies. This study shows that institutional ownership and managerial ownership exert an insignificant negative influence on profit management. The proportion of independent boards of commissioners and audit committees has no significant effect on profit management. Furthermore, profit management has an insignificant negative influence on financial performance (Sriwedari, 2012).

The research of the profitability and leverage to earnings management was researched by Tala & Karamoy, 2017. The population of this study is chemical and basic industry sectors manufacturing companies who were registered in Indonesian Stock Exchange from 2012 to 2015. The sample is 14 companies in chemical and basic industry sectors manufacturing companies' category by using purposive sampling method. Data were analyzed using multiple linear regression analysis. The results showed that profitability affects significantly, and leverage has no significant effects on earnings management.

Profit management is the management condition for intervening in the process of preparing financial statements for external parties. The research of Santana & Wirakusuma (2016) aims to determine the influence of tax planning, corporate size, and managerial ownership on profit management practices. The population in this study consisted of 159 companies listed on the Indonesia Stock Exchange with observation periods from 2008-2010. Sampling using purposive sampling with the number of companies that meet the criteria of research samples as many as 26 companies. The analytical technique used is a multiple linear regression analysis technique. Tax planning positively affects profit management practices, while managerial ownership and corporate size do not affect profit management practices (Santana & Wirakusuma, 2016).

The influence of financial distress, tax planning, company size, audit committee, and quality of audits on profit management in infrastructure, utilities, and transportation companies listed on the Indonesia Stock Exchange for the period 2015-2018 have already done in 2020. The samples were determined using the purposive sampling method of 29 company samples. The analysis used is a regression analysis of the data panel. Simultaneously, the results showed that financial distress, tax planning, company size, audit committee, and audit quality simultaneously significantly affected profit management. While partial

analysis showed that financial distress, tax planning, company size, audit quality had no effect on profit management, and audit committees negatively affected profit management (Khairunnisa et al., 2020).

The company's management wants to display good financial performance by maximizing reported earnings to shareholders and other external users. The company's management also wants to minimize reported taxable profits for tax purposes. The step is to achieve both by tricking profits into being higher for financial reporting but not tax reporting. Fraud in reporting, especially for profit, is prohibited following the Word of God in Surat An-Nisa verse 29. Therefore, this study wants to see the difference between conventional issuers and Sharia issuers in performing profit management and several variables in this context.

Methods

This type of research is quantitative research with a descriptive approach. The observation period is over four years, from 2016 to 2019. The population used in this study was 53 manufacturing companies in the Consumer Goods Industry sector listed on the Indonesia Stock Exchange. This study uses purposive sampling, with the following criteria: manufacturing companies in the Consumer Goods Industry sector registered during 2016-2019 on the Indonesia Stock Exchange and have an annual report that has complete data related to the variables used in the study. Based on sampling criteria, the sample number of this study amounted to 29 companies where the company had all the data related to the study, as shown in Table 1.

Table 1. List of Variables

Variables	Definition
Earnings Managements (EM)	A management action to choose an accounting policy by changing the accounting method to compare which higher and lower profits are obtained
Current Tax Burden (CTB)	Amount of income tax owed on taxable income for a single period
Firm Size (FS)	Grouping companies based on the scale used to determine the smallness of a company
Managerial Ownership (MO)	The proportion of shareholders of management parties actively participating in the company's decision-making
Leverage (LV)	Debt source funds used by the company to finance its assets outside the source of capital funds or equity

We analyze the data with descriptive statistics. We present the mean of accounting ratios for Islamic and conventional shares of the variables with t-test. This test will show about the p-value for the t-test of differences in means between the two types of shares.

RESULT AND DISCUSSION

Analysis of descriptive statistics and the t-test for equality of means revealed that six variables have significantly different means between the two types of markets. Based on Table 2 shows that mean differences in Earnings Managements (EM), Current Tax Burden (CTB), Firm Size (FS), Managerial Ownership (MO), and Leverage (LV) variables.

Table 2. Descriptive Statistics of Variables and t-test for Equality of Means

Variable	Islamic Stocks (n= 40)		Conventional Stocks (n=76)		Significance (2-tailed)
	Mean	SD	Mean	SD	
EM	0.0029	0.03308	0.0161	0.14141	0.561
CTB	0.1020	0.12210	0.2303	0.19558	0.000*
FS	11377737.2	21714366.95854	11867920.0	21102479.26459	0.907
MO	0.0574	0.19151	4.9760	9.91375	0.002*
LV	0.2698	0.18730	0.3674	0.15118	0.003*

The results of the test-t concluded that there is a difference in conventional stocks and Shariah shares in variable profit management with a significant value of 0.561. This value is higher than the specified significant level of 0.05, so it can be concluded that there is no significant difference between sharia stock profit management and conventional stocks. This is reinforced by Trisnawati (2009) that study on Differences in Corporate Governance Mechanisms and Profit Management Practices: Comparative Study of Shariah Index and Conventional Index on Indonesia Stock Exchange The results showed that EM practices on conventional indices (0.4027) were higher than sharia indices (Trisnawati, 2009).

Real earnings management is measured by abnormal cash flow operations (Abn. CFO), Abnormal production cost (Abn. PROD), Abnormal discretionary expenses (Abn. DISC). The research sample period is 2004 – 2010 using purposive sampling method with a sample size of 130 at sharia index and 165 on the conventional index. Research analysis using descriptive analysis and to test differences in practice real earnings management between sharia index and conventional index using the Mann Withney U Test. Hypothesis Test Results per proxy shows that in the Abn proxy, CFO of 0.704, Abn. PROD of 0.379, and Abn Disc of 0.661, all three have results > 0.05 this case proves that there is no difference in real earnings management practices in companies that are members of the sharia index with the conventional index with a tendency to do a pattern of increasing company profits (Ningsih, 2012).

There is a difference between conventional stocks and Sharia stocks in variable tax burdens now. The tax burden is now on Conventional Stocks lower than sharia stocks. From Table 2, it is known that the value is significant 0.000. This result concludes that there is a significant difference between the current tax burden of Sharia Stocks and Conventional Stocks. There is a difference between Sharia Stock Return and Conventional Stock in Optimal Portfolio with Single Index Model Approach during 2013-2015 (Binangkit & Savitri, 2016). This result was in contrast to Aditama & Purwaningsih (2016) that tax planning did not have a positive effect on earnings management in non-manufacturing companies listed on the IDX.

Company sizes indicate how the company is known and how big their business is. In some research found that size has a significant role in performing earning management (Puji, 2014). NGO found that size and expertise of the audit committee are inversely related to the discretionary accrual representing earning management. The size of the company

shows there is a difference between conventional stocks and Shariah stocks. The size of the company in Conventional Shares is larger than sharia shares. Table 2 shows that the significant value is 0.907. The significance value of 0.907 is higher than the significant level of 0.05. The result shows insignificant, and those H0 results are accepted, and H1 is rejected. This concludes that there is a difference in the company's size between Sharia Shares and Conventional Shares is insignificant. This is following research conducted by Winda Rika Lestari proved a significant difference between the performance of Islamic stock mutual funds and the performance of conventional stock mutual funds (Lestari, 2015).

A comparative study of Earnings Management Practices in Conventional and Islamic Banks in Indonesia and Malaysia aimed to examine whether there are differences between earnings management practice of Syariah bank and conventional bank in Indonesia and Malaysia, While the earnings management was measured by special accrual model for banking by Beaver and Engel (1996) to count accrual total. The population was consisted of general Syariah bank and general conventional bank in Indonesia and Malaysia, which were listed on each central bank during the period 2013-2017. Moreover, the data collection technique used purposive sampling. In line with, there were 122 banks or 610 firm years. In addition, the data analysis technique used Independent Sample t-test. The research result concluded there were differences of earnings management, practically, between conventional bank and Syariah bank. Besides, there were also differences of earnings management, practically, between Indonesia and Malaysia conventional bank. On the other hand, there was not difference of earnings management, practically, between Indonesia and Malaysia Syariah Banks (Syahputri & Wahidahwati, 2019). In other hand, company size and cash flow statements of funding activities have a significant effect on stock returns and simultaneously cash flow statements (operating, investing, funding activities), gross profit, company size, debt to equity ratio have a significant effect on stock returns (Fransiska, 2013).

The results from the t-test, managerial ownership analysis data showed differences in conventional stocks and Sharia stocks. Managerial ownership in Conventional Shares is higher than in Sharia Shares. The result shows that there is a difference in managerial ownership between Sharia shares and conventional stocks. This research was reinforced by the results that showed that managerial ownership variables did not affect profit management, so the first hypothesis was rejected. Managerial ownership is the ownership of shares by the management of the company. Managerial share ownership can align the interests of shareholders and managers because managers directly feel the benefits of decisions taken and managers who bear the risk if there are losses incurred because of bad decision-making. It states that the more significant the proportion of management ownership in the company will be able to unite the interests between managers and shareholders to better the company's performance (Rahayu & Rusliati, 2019). The research from O'Callaghan et al. (2018) found that at high levels of managerial ownership. It would seem unlikely that performing earning management behavior is opportunistic in the sense of managers diverting firm resources, as managers are in most cases the largest shareholder and often the only shareholder. Moslemany & Nathan (2019) found that managerial ownership significantly related to the earning management. These results was different side by Achyani & Lestari, 2019 which showed that only free cash flow can affect earnings management while tax

planning, deferred tax expense, deferred tax assets, and managerial ownership do not affect earnings (Moslemany & Nathan, 2019).

From the results of the t-test, leverage analysis data can be concluded that there are differences between conventional stocks and Islamic stocks. Leverage in Conventional Stocks is higher than Sharia Stocks. From table 2, it is known that the significant value of 0.003 the significance value of 0.003 is lower than the significant level of 0.05. It showed insignificant results, and those results H_0 was rejected, and H_1 accepted. It concludes that there is a significant difference in leverage between Sharia stocks and conventional stocks. The results of this study were reinforced by research showing that liquidity and leverage is not significant to the return of sharia stocks (Wardani et al., 2017).

CONCLUSION

The company's earning management concept wants to showcase good financial performance by maximizing reported earnings to shareholders and other external users. Nevertheless, on the other hand, the company's management also wants to minimize reported taxable profits for tax purposes. This research will look at the difference between conventional stocks and sharia stocks. The t-test results obtained that some variables show a significant difference between conventional and Sharia stocks such as current tax burden, managerial ownership, and leverage. The earnings management and firm size variables do not show a significant difference between conventional and Sharia stocks.

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