EARNINGS MANAGEMENT DURING IPO AT INDONESIA LISTED COMPANIES

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ABSTRACT

This study aims to obtain empirical evidence about the practice of earnings management in the period before, during and after IPO. Using longitudinal approach, this study examines two years before, in the year, and two years after IPO. The result of this study indicates that there is income increasing-earnings management during the IPO period, but not in the period before IPO. This study also found that the decline in firms' financial performance, which is measured by Return on Assets, in the period of two years after the IPO. This study also found no empirical evidence of the decline in firms’ market performance, as measured using the cumulative abnormal return, in the period after the IPO. Therefore, the IPO may be a signaling to investors and other interested parties that companies tend to perform actions that are opportunistic earnings management to attract investors. The decrease in the post-IPO financial performance is a result of accrual reverse from earnings management during IPO period. However, concurrently share return does not decline in the post-IPO period suggest that financial performance is not as the sole information for investor, consequently the decline in financial performance does not impact on the share price.

Keywords: Earnings Management, IPO, ROA, Cumulative Abnormal Return

1. INTRODUCTION

Going Public is one way for a company to develop his business. Companies that will Go Public do the IPO (Initial Public Offerings/IPO) in the primary market. Source of information for investors is the prospectus. Investors in the market will assess the performance and future prospects of the company based on accounting information in financial statements. Generally, the information used is the company's earnings information. The higher profit of the company, the better general assessment of investors against the company. This is a signal for investors to respond positively to the offer shares of the company. According to Teoh et al. (1998), when the prospectus financial statements is the only reference and source of information for investors to know the condition of the company, it will create information asymmetry between the internal company with investors. Sulistyanto and Wibisono (2003) explains that based on the concept of agency theory, information asymmetry encourages and motivates managers to be opportunists. The use of accrual basis in drawing up the financial statements gives leeway for the management in selecting the methods of accounting. Accounting method is chose deliberately by the management for a particular purpose known as earnings management. Scott (2012) defines earnings management as management actions to choose accounting policies of a specific standard with the goal of maximizing welfare and or the market value of the company. Based on research conducted by Richardson (2000) and Rachmawati et al. (2007), it suggests the existence of a positive relationship between earnings management and information asymmetry.

Some studies find that companies do earnings management prior to the IPO.