

The Effect of Cultural Dimensions on Earnings Management Practices in Some ASEAN Countries

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The main objective of this research is to demonstrate empirically the effect of cultural values on earnings' management in some ASEAN countries. This research was conducted by examining the effect of uncertainty avoidance, power distance, collectivism, and masculinity as independent variables on the mean rate of earnings' management in each country as the dependent variable. Samples were taken from the financial statements and annual report companies listed on the Indonesia Stock Exchange (IDX), Singapore Exchange Limited (SGX), The Stock Exchange of Thailand (SET), Bursa Malaysia, the Hanoi Stock Exchange (HNX), and the Philippine Stock Exchange (PSE) in 2010-2013. The sample was selected using purposive sampling method and acquired 52 companies. The study used linear regression tests. The results of this study show that only one cultural dimension is significant in explaining difference in earnings' management in the studied context. The results found a positive relationship between uncertainty avoidance and earnings' management, no effect between power distance and earnings' management, no effect between collectivism and earnings' management, and no effect between masculinity and earnings' management.

Key words: *Cultural Values, Uncertainty Avoidance, Power Distance, Collectivism, Masculinity, Earnings' Management, ASEAN.*

Introduction

Earnings' management is a popular topic in Indonesia and ASEAN for accounting research. Earnings' management is closely related to agency issues. This is related to the management function in the company that acts as the owner of unlimited access to information in companies that can also do adverse selection if there is information asymmetry (Han *et al.*,

2010). Management can also conduct moral hazard if there are things that violate the contract, ethics, or applicable norms which can harm shareholders (Geiger and Van Der Laan Smith, 2010). Based on two activities carried out by management, this is contrary to the function of accounting as an information provider to make better decisions.

Further research on earnings' management and information asymmetry is very important to do because these two things affect the effectiveness of decision making (Martínez-Ferrero, Banerjee and García-Sánchez, 2016). Much research has been done on earnings' management (Bhattacharya, Daouk and Welker, 2003), but those that relate to the influence of the cultural dimensions are still very limited. In accounting, the high role of humanitarian aspects in determining judgment that underlies the preparation of financial statements and the decision to make earnings' management, is of course potentially influenced by the social dimensions of social groups whence company management becomes a part (Riahi and Omri, 2013).

Other research summarises four cultural dimensions that can represent a country, namely uncertainty avoidance, power distance, individualism vs. collectivism, masculinity vs. femininity (De Mooij and Hofstede, 2011). Uncertainty avoidance is the scale of the extent to which a culture feels threatened by ambiguity, uncertain situations, and attempts to avoid such situations by strictly implementing a code of conduct. Power distance shows how far an institution and organisational strength must be distributed (Riahi-Belkaoui, 2004; Harymawan and Nowland, 2016). Individualism (vs. collectivism) is the degree to which people uphold individual freedom and focus on personal achievement. Whereas masculinity vs. femininity shows that a country with a high level of masculinity has the potential to have a high level of earnings' management because masculinity can encourage someone to be results-oriented in the form of material and uphold one's personal achievements that can be measured financially (Riahi and Omri, 2013). The use of the Hofstede dimension is still relevant because the score of each country in this dimension is not the absolute state of a country, but the relative position of a country compared to other countries in a dimension (De Mooij and Hofstede, 2011).

The scope of ASEAN was chosen because of the lack of previous research that used ASEAN as a research population. On the other hand, ASEAN countries are also preparing for economic integration in the ASEAN Economic Community (AEC) (TANDIONO and RATNANINGSIH, 2012).

Some ASEAN countries were not included in the study for several reasons. Malaysia is not used as a research population because it does not have a capital market and is still planning to introduce the capital market in 2017 (Abdul Rahman and Haneem Mohamed Ali, 2006). Cambodia was not included in the study population because it's capital market was not well developed. Myanmar is not included in the population because Myanmar Citizen Bank,

which is the only bank registered with the Myanmar Securities Exchange Centre, does not publish financial statements (Padilla, Sari and Handoyo, 2017). Laos was not included in the study population because Hofstede had not studied culture in Laos so that the score was not available. The population in this study are banking companies listed on the Indonesia, Singapore, Thailand, Malaysia, Vietnam and Philippines stock exchanges from 2010-2013. The period of the study was the period after the financial crisis. The financial statements data for the last 4 years can also still be found on the country's stock exchange stock site and the 4-year period is considered sufficient to examine earnings' management trends.

Literature Study and the Development of Hypotheses

Agency Theory

There are two problems in the relationship between the principal and the agent, namely the conflict between the desire or purpose between the agent and the principal, and the difficulty or too high cost of the principal to verify what the management has done in managing the company (Madhogarhia, Sutton and Kohers, 2009). Based on Harymawan and Nowland, (2016) research, there are two types of agency problems, where the first is the agency problem between managers and shareholders. Second is the agency problem between majority shareholders and minority shareholders. This triggers information asymmetry between the agent and the principal and can provide opportunities for management who act as agents to carry out earnings' management in order to mislead principals regarding the company's economic performance (Ugrin, Mason and Emley, 2017). The assumption that the shareholders and managers act to maximise their respective interests, results in the management being able to take advantage of information asymmetry to hide some information that is not known by the shareholders, which can be done by management in earnings' management practices (Dechow, Ge and Schrand, 2010).

Positive Accounting Theory

Another research were three basic backgrounds behind earnings' management, namely The Bonus Plan Hypothesis, The Debt Covenant Hypothesis, and The Political Cost Hypothesis (Madhogarhia, Sutton and Kohers, 2009), who stated that earnings' management can be efficient and opportunistic. It is efficient if the occurrence of earnings' management is able to increase the informativeness level of earnings in communicating private information. It is opportunistic if earnings' management is implemented with the aim of maximising profits for the management itself. Some motivations for earnings' management include bonus purposes, political motivation, taxation motivation, CEO turnover, Initial Public Offering (IPO), and information to investors (Penggunaan *et al.*, 2013).

There are three groups in carrying out earnings' management, namely changes in accounting methods, playing accounting forecast policies, and shifting periods of costs or income (Dyrenge, Hanlon and Maydew, 2010). The pattern for earnings' management according to Rahmawati and Hosen, (2012) is minimising profits, or maximising profits.

Cultural Dimensions

Another study is to measure and present cultural values in quantitative forms, so that they can be used to test theories related to the influence of cultural values on accounting, managerial and financial decisions in various countries, by producing four cultural dimensions, namely uncertainty avoidance, power distance, collectivism, and masculinity (Rego and Wilson, 2012). Because social values influence accounting values, it can also be concluded that the accountant's valuation system is influenced by social values related to inherent work.

Bank

According to PSAK No. 32, banks are institutions that become financial intermediaries between parties that have a surplus of funds and parties that have a financial deficit and function to expedite payment traffic (Rusydia and Sanrego, 2018). Given the importance of the role of banks in the national and global economy and taking into account the differences in banking and other industrial companies, the size of earnings' management in banking companies is important and interesting to study because the practice of earnings' management in banking companies is feared to reduce public trust as a distributor of funds and also the effectiveness of banks as an intermediary institution in the community (Rahmawati and Hosen, 2012). Based on the above statements, the following hypothesis can be formulated:

According to De Mooij and Hofstede, (2011), dimensions of uncertainty avoidance measure how far people in a social environment feel threatened by an uncertain situations. Earnings' management is related to this to prove that the dimensions of uncertainty avoidance have a positive effect on earnings management practices to outperform the profit of the previous period and earnings' management practices through loan loss provisions.

H₁: Uncertainty Avoidance Dimension affects positively on Earnings Management Practices

The social environment with a high power distance level is characterised by centralised decision-making and low levels of participatory management (Riahi and Omri, 2013). Centralisation of decision-making provides an opportunity for management in the selection of methods or principles in financial reporting.

H₂: Power Distance Dimension affects positively Earnings Management Practices.



The people in a social environment with a high level of individualism are people who dare to take risks that can cause tendencies because their priorities are their own interests (Gray *et al.*, 2015). The dimensions of this collectivism will be highlighted in this study because some ASEAN countries used as research populations are dominated by the dimensions of collectivism.

H3: Collectivism Dimension affects positively Earnings Management Practices.

The accounting system in a country with a high value of masculinity is materially oriented (Pacheco Paredes and Wheatley, 2017). If the company produces high profits, the management will be seen by an environment dominated by the value of masculinity as people who have high achievement. H4: Masculinity Dimension affects positively Earnings' Management Practices

Methods

Research Design

This study uses an explanatory associative approach to analyse the relationship between independent variables consisting of cultural dimensions (Uncertainty avoidance, Power distance, Collectivism, and Masculinity) and independent variables of earnings' management (Desender, Castro and De León, 2011). The purpose of this study is to analyse the influence of cultural dimensions on earnings management practices in Indonesia, Singapore, Thailand, Malaysia, Vietnam and the Philippines represented by banking companies listed on each country's stock exchange in 2010-2013.

Operational Definition and Variable Measurement

Earnings management can be proxied by a managed accruals' and detected accruals' model as follows:

$$NDA_{it} = \beta_0 + B_1CO_{it} + \beta_2LOAN_{it} + \beta_3NPA + \beta_4\Delta NPA_{it+1} + \varepsilon_{it}$$

..... (1)

In accordance with the definition that:

$$TA_{it} = NDA_{it} + DA_{it} \dots\dots\dots (2)$$

Then:

$$NDA_{it} = \beta_0 + B_1CO_{it} + \beta_2LOAN_{it} + \beta_3NPA + \beta_4\Delta NPA_{it+1} + z_{it}$$

..... (3)

Where:

$$z_{it} = DA_{it} + \varepsilon_{it} \text{ (4)}$$

To determine the total accruals using the Beaver and Engel model, the total Provision for Loan Losses is used. In determining the earnings management coefficient, all variations were deflated in advance with the book value of equity and loan loss reserves. The results of the calculation of earnings management will be averaged so that the average level of earnings management in some ASEAN countries is obtained.

Data Analysis Techniques and Hypothesis Testing

In conducting analytical techniques, this study uses a normality test which aims to test whether it is in the regression model, and whether residual variables have a normal distribution. The statistical test that can be used to test residual normality is the Kolmogorov-Smirnov (K-S) non-parametric statistical test.

The multiple linear regression test was also used in this study. This analysis is used to predict the value of the dependent variable, if the value of the independent variable has increased or decreased, and to determine the direction of the relationship between the independent variable and the dependent variable, whether each independent variable is positively or negatively related (DWI, 2016).

Testing the hypothesis in this study was carried out by statistical tests. This was done to find out whether the variables or models were used partially or completely. The statistical test used is the coefficient of determination, which was calculated based on the adjusted R-squared (R^2) value, which was used to measure how far the ability of the model is in explaining the variation of the dependent variable. It also uses t-statistical tests that are carried out to show how far is the influence of one independent variable individually on the dependent variable. The criteria for drawing conclusions in testing hypotheses are done by comparing the probability value (p-value) with a significance level. The value of the significance level used was 0.05 ($\alpha = 5\%$). If the probability value is calculated (p-value) <significance level, then the conclusion is that there is a relationship between each independent variable in the hypothesis with the disclosure of intellectual models.

Results and Discussion

In this study, the objects of this study were Indonesia, Singapore, Thailand, Malaysia, Vietnam and the Philippines. Each country was represented by banking companies listed on the Indonesia Stock Exchange (IDX), Singapore Exchange Limited (SGX), The Stock Exchange of Thailand (SET), the Malaysia Stock Exchange, the Hanoi Stock Exchange (HNX), and the Philippine Stock Exchange (PSE) (Veronica Siregar and Bachtiar, 2010). The population of banking companies registered in various stock exchanges in each of 2010-2013 was 76 companies.

Descriptive statistics were used to explain information about the variables used in research, namely earnings management (DA), uncertainty avoidance (UNCERTAINTY), power distance (POWER), collectivism (COLLECTIVISM), and masculinity (MASCULINITY). Through descriptive statistics, the mean, minimum value, maximum value, and standard deviation of each of these variables can be known. Descriptive statistics in this study were as follows:

Table 1: Analysis result earnings management (DA), uncertainty avoidance (UNCERTAINTY), power distance (POWER), collectivism (COLLECTIVISM), and masculinity (MASCULINITY).

	N	Minimum	Maximum	Mean	Standard Deviation
DA	24	-.0367	.1680	.087850	.0564665
UNCERTAINTY	24	8	64	38.33	17.591*
POWER	24	64	100	80.00	13.135
COLLECTIVISM	24	68	86	78.00	5.779
MASCULINITY	24	34	64	47.00	9.491*
Valid N (listwise)	24				

The collectivism variables (COLLECTIVISM) have the lowest score and highest score worth 68 and 86. The lowest score is owned by the Philippines and the highest score is owned by Indonesia. The average score is 80.81 with a standard deviation of 6.132 resulting in a data distribution rate of 7.59%. This level of distribution indicates that the data used tend to be homogeneous.

For variables, namely, variable masculinity (MASCULINITY) has the lowest score and the highest score of 34 and 64. The lowest score is owned by Thailand and the highest score is owned by the Philippines. The average score is 46.27 with a standard deviation of 8.257 resulting in a data distribution rate of 17.85%. This level of distribution indicates that the data used tend to be homogeneous.

The Normality test is used to test whether in a regression model, the dependent variable and the independent variable or both have normal distribution or not. Based on Figure 4.3 of the Kolmogorov Smirnov test results, that the Asymp. Sig. (2-tailed) is $0.358 > 0.05$ so it can be concluded that the value of the data is significant, which means that the existing data has been normally distributed.

The determination coefficient is calculated based on the adjusted R-squared (R^2) value. Adjusted R-squared (R^2) values are used to measure how far the model's ability is in explaining the dependent variable variation. Based on Figure 4.5, the adjusted R-squared (R^2) value of this study amounted to 0.516 which means that the ability of the dependent variable to explain its effect on the level of earnings management is 51.6% while the remaining 48.4% is explained by other factors.

Hypothesis 1 (one) states that the dimensions of uncertainty avoidance have a positive effect on earnings' management practices. The study produced a significance value of UNCERTAINTY variables of 0.001. Because the calculated significance rate is smaller than the trust rate, it can be concluded that the uncertainty avoidance dimension is proven to affect earnings' management practices (Lemma, Negash and Mlilo, 2013).

Hypothesis 2 (two) states that the power distance dimension has a positive effect on earnings management practices. The study produced a significance value of POWER variable of 0.617. Because the calculated significance rate is greater than the trust rate, it can be concluded that the power distance dimension is not proven to affect earnings' management practices (Ugrin, Mason and Emley, 2017).

Hypothesis 3 (three) states that the Collectivism dimension has a positive effect on earnings management practices. The study resulted in a significance value of COLLECTIVISM variables of 0.217. Because the calculated significance rate is greater than the trust rate, it can be concluded that the collectivism dimension is not proven to affect earnings management practices (Astami *et al.*, 2017).

While, hypothesis 4 (four) states that the Masculinity dimension has a positive effect on earnings management practices. The study resulted in the significance value of the MASCULINITY variable of 0.077. Because the calculated significance rate is greater than the trust rate, it can be concluded that the collectivism dimension is not proven to affect earnings management practices (Guan and Pourjalali, 2010).



Conclusion

Based on the analysis of research data, some conclusions can be drawn from this study, namely: cultural values of uncertainty avoidance have a positive effect on earnings management practices, cultural values of power distance do not affect the earnings management practices, cultural values of collectivism affect earnings management practices, and cultural values of masculinity do not affect the earnings management practices.

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