



## The Effect of Intellectual Capital on Earnings Management and Earnings Quality of Banking Companies in Indonesia

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### Abstract

*This study aims to determine the influence of human capital, employed capital, and structural capital on earnings management and to determine the influence of human capital, employed capital, and structural capital on the quality of profits of banking companies in Indonesia. The research conducted included the type of quantitative research and the population in this study was all banking companies listed on the Indonesia Stock Exchange from 2016-2021. This research data collection technique uses literature studies and field research. This study uses independent variables consisting of human capital, capital employed, and structural capital. For dependent variables used consist of earnings management and earning quality. The conclusion of this study is that intellectual capital variables (human capital, employed, structural capital) affect earnings managements. Meanwhile, intellectual capital (human capital and structural capital) affects earnings quality and intellectual capital (capital employed) does not affect earnings quality. In addition, the results of this study are also a new criticism of a person's ego that can encourage deviant behavior, such as financial statement fraud, especially earnings management in Indonesia.*

**Keywords:** human capital; capital employed; structural capital; earnings management; earnings quality; banking companies

### INTRODUCTION

Investors need financial statement information to make decisions (Eveline, 2017). Therefore, there are several qualitative characteristics in financial statements, such as relevance, timely presentation, honesty, verifiability, understanding, and comparison for decision-making (Taufik & Bandi, 2015). Profit is one of the important information in the financial statements. This is also stated in the SFAC (Statement of Financial Accounting Concept) No. 1, where profit information is not only an indicator of management performance performance, profit information is very helpful for calculating the level of risk in investment or credit.

Profit also describes the performance of a company produced at one particular period (Farida et al., 2019). The company's profit also needs to be analyzed because it will reflect the company's economic reality (Angraini et al., 2019). In addition, profit is also used to measure the growth of the company (Kristanti, 2019). Profit information in financial statements also acts as a signal of the company's performance. However, another mentioned that performance assessment

based on the company's profit information, in fact, made management manipulate according to its wishes. This act of manipulation is known as profit management. The approach of profit management practices consists of two types, namely accrual earnings management and real earnings management (Jaya and Narsa, 2020). However, companies generally use real earnings management for the purpose of leveling annual profits (Agustia et al., 2020).

The shift from accrual profit management to real profit management is caused by several factors. First, accrual manipulation is more often the center of observation or inspection by auditors and regulators than decisions about pricing and production. Second, only focusing on accrual manipulation is a risky action because companies may have limited flexibility to manage accruals, for example, limitations in reporting discretionary accruals (Jaya and Narsa, 2020).

On the other hand, the emergence of a new view in the business world due to technological developments in this era of globalization makes companies begin to transform and capitalize on knowledge, or other terms intellectual capital



(Maharani & Faisal, 2019). Intellectual capital has been growing in Indonesia since the issuance of PSAK 19 on intangible assets (Sari, 2020). Intellectual capital is divided into three components, namely: capital employed (CEE), human capital (HCE), and structural capital (SCE) (Suseno et al., 2019). Proper and balanced utilization and management of intellectual capital can improve company performance, which will also have an impact on company value (Sari, 2020). If the company's performance increases, then investor confidence also rises. The assumption of investors is that if there is an increase in demand for shares, then the stock price will also rise. This certainly creates a positive return and also affects the company's profit coefficient (Pradnyaparamita & Rahyuda, 2017).

Some literature related to intellectual capital mostly focuses on the influence of company performance and value (Baroroh, 2014; Gogan et al., 2016; Juwita & Angela, 2016; Septiana, 2018; Widyaningdyah et al., 2016; Zeng & Wudhikarn, 2018), even the findings provide a difference or research gap in each of its research objects (its industry). However, the developments carried out in this study emphasize more on the relationship between intellectual capital and profit quality and profit management, so this change distinguishes it from the previous literature. In addition, the banking sector was chosen because the banking industry is one of the most intellectual capital-intensive sectors (Widyatini, 2019). In addition, overall employees in the banking sector are more homogeneous compared to other sectors of the economy (ACFE, 2018).

Based on the background of the problem and theoretical foundations that have been stated above, the relationship between variables in this study can be expressed in a theoretical framework, as follows:

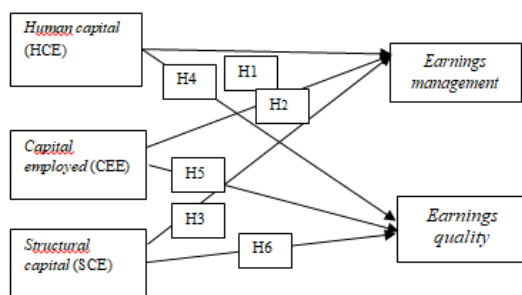


Figure 1 Theoretical Framework

**Hypotheses development**

**Effect of Intellectual Capital (HCE, CEE, SCE) on Earnings Management**

A person at work must be smart in completing his work and good at solving problems (Sari, 2020). Academics and practitioners must be prepared with special knowledge and skills to improve the development of their intelligence (Jaya et al., 2021). So, accountants can later compete and better understand their role in preparing financial statements according to the old and new standards used by the company (Riduwan & Andayani, 2019). The need to predict accounting profits is very important for users and economic decision

makers (Kristanti, 2019). Thus, intellectual capital plays an important role as part of the company's overall capital. This is intended because, with intellectual capital, a person can be observed his ability to predict future profits which is very vital and needed for investors.

Several previous literature that proved the link between intellectual capital and returns provided mixed findings, including (Abdullah, 2002; Liu et al., 2020; Wato, 2017; Wu et al., 2021) concluded that there was a significant influence. Meanwhile, some others state there was no significant influence (Beattie & Smith, 2013; Jordão & Novas, 2017; Marzban et al., 2014). Other literature shows that intellectual capital positively affects the quality of profit proxied by discretionary accruals (Yahya Asadollahi et al., 2013). The same H asil is also found, where earnings management and intellectual capital are positively related to each other (Galdipour et al., 2014). Thus, based on the description above, the development of the hypothesis is structured as follows.

- H<sub>1</sub>: Intellectual Capital (HCE) affects earnings management
- H<sub>2</sub>: Intellectual Capital (CEE) affects earnings management
- H<sub>3</sub>: Intellectual Capital (SCE) affects earnings management

**Effect of Intellectual Capital (HCE, CEE, SCE) on Earnings Quality**

Intellectual capital can be classified into 3 parts (Suseno et al., 2019). First is human capital (Setyaningsih & Nengzih, 2020). This component allows the workforce owned by the company to use its knowledge, to provide solutions to various conditions experienced perusahaan. A good human capital component can be reflected in the way management makes effective and efficient decisions. Thus, good human capital management can result in improved performance, and support the quality of financial statements, because of the high level of knowledge possessed by its employees.

Second, which is the structural capital component. This component includes the work environment and or organizational culture of an enterprise. Both of these things can provide support for their workers, to achieve maximum performance or vice versa. A company with a good work environment and organizational culture can trigger its employees to improve their performance (Sari, 2020). This increase will certainly also have an impact on the quality of the profit it gets.

The utilization of operating assets that can contribute to increasing the company's income can be done by increasing capital employed. This increase certainly coincides with the increase in the company's production activity. Capital employed that has increased also shows that the company's management has maximized in managing production supporting assets, and meeting consumer needs has been fulfilled. This of course also increases sales and revenue which will lead to company profits (Riyadh et al., 2020).

Based on the description above, the development of hypotheses compiled as follows.

- H<sub>4</sub>: Intellectual Capital (HCE) affects earnings quality
- H<sub>5</sub>: Intellectual Capital (CEE) affects earnings quality
- H<sub>6</sub>: Intellectual Capital (SCE) affects earnings quality

## RESEARCH METHODS

The research carried out is a type of quantitative research, because it uses an approach that is more concerned with the existence of variables as the object of research and these variables must be defined in the form of operationalization of their respective variables so that they are easier to understand statistically (Jaya, 2020a). The population in this study is all banking companies listed on the Indonesia Stock Exchange from 2016-2021. This research data collection technique uses literature studies and field research. *Study* literature is obtained through books, articles, journals, the internet, and *literature*.

This study also distributed questionnaires to several respondents who fit the criteria of this study, namely: (1) Banking companies that have been listed on the IDX before 2016 and are still active today (in 2022); (2) Orderly banking companies report *audited* financial statements annually from 2016-2021; and (3) Banking companies that have variable research components in their financial statements (*audited*) from 2016-2021.

The data used in this study is classified as secondary data which is a number of data obtained from the Indonesia Stock Exchange website or the banking company website itself. In addition, the secondary data used in this study is also in the form of research journals, data, and other scientific references derived from the internet. The data analysis method used is a multiple linear regression method that uses descriptive analysis and classical assumption tests. In this analysis test using the model form, as follows.

a. Regressing the first equation, i.e.

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

$$(EM = \beta_0 + \beta_1 HCE + \beta_2 CEE + \beta_3 SCE + \epsilon)$$

b. Regressing the second equation, i.e.

$$Y_2 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

$$(EQ) = \beta_0 + \beta_1 HCE + \beta_2 CEE + \beta_3 SCE + \epsilon)$$

**Information:**

- EM = Earnings Management
- EQ = Earnings Quality
- HCE = Human Capital
- CEE = Capital Employed
- SCE = Structural Capital
- $\beta_0$  = constant
- $\epsilon$  = Error

**Table 1 Variable Measurement Indicator**

No.	Variable	Indicator	Scale
1.	<i>Intellectual Capital (HCE)</i>	Value Added Human Capital	Ratio
2.	<i>Intellectual Capital (CEE)</i>	Value Added Capital Employed	Ratio
3.	<i>Intellectual Capital (SCE)</i>	Value Added Structural Capital [VAIC = HCE + CEE + SCE]	Ratio
4.	<b>Earnings management</b>	DISX <sub>i,t</sub> / ASSETS <sub>i,t-1</sub> = $\alpha_0 + \beta_1 (1/ASSETS_{i,t-1}) + \beta_2 (SALES_{i,t-1} / ASSETS_{i,t-1}) + \epsilon$ ABNDEXP PRODCST <sub>i,t</sub> / ASSETS <sub>i,t-1</sub> = $\alpha_0 + \beta_1 (1/ASSETS_{i,t-1}) + \beta_2 (SALES_{i,t} / ASSETS_{i,t-1}) + \beta_3 (SALES_{i,t} / ASSETS_{i,t-1}) + \beta_4 (SALES_{i,t-1} / ASSETS_{i,t-1}) + \epsilon$ ABNPROD EM = ABNCFO + ABNDEXP + ABNPROD	Ratio
5.	<b>Earnings quality</b>	TAC <sub>i,t</sub> = NI <sub>i,t</sub> – CFO <sub>i,t</sub> $DAC_{it} = \frac{TAC_{it}}{SALES_{it}} - \frac{TAC_{it-1}}{SALES_{it-1}}$	Ratio

The method of analysis of this research uses multiple linear regression methods. The data test stages carried out are descriptive statistical tests, classical assumption tests (data normality tests and multicollinearity tests), model feasibility tests, t tests, and coefficient of determination tests.

## RESULT AND DISCUSSION

### Statistical Descriptive

**Table 2.** Descriptive Statistical Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
HCE	150	1.0041	3.9728	2.465625	.7754103
CEE	150	.1925	2.9833	1.657623	.7046898
SCE	150	.4149	16.9923	7.906025	5.0638251
EM	150	.0969	1.9519	1.178233	.6951919
EQ	150	-.7636	2.7772	1.351968	.8298604
Valid N (listwise)	150				

Source: IBM SPSS output results, 2022.

Variable HCE (human capital) shows an average value of 2.465. The smallest HCE value was obtained 1.0041. While the largest HCE value was obtained at 3.972. Its standard deviation shows 0.775 where this value is less than the average. This means that the distribution of human capital data has been evenly distributed. Variable CEE (capital employed) shows an average value of 1,657. The smallest CEE value was obtained 0.1925. While the largest CEE value was obtained 2.983. The standard deviation shows 0.704 which is less than the average. This means that the distribution of capital employed data has been evenly distributed. Variable SCE (structural capital) shows an average value of 7.906. The smallest SCE value is obtained 0.414. While the largest CEE value was obtained 16.992. The standard deviation shows 5.063 which is less than the average. This means that the distribution of structural capital data has been evenly distributed.

Variable EM (earnings managements) shows an average value of 1.178. The smallest EM value was obtained 0.096. While the largest EM value was obtained 0.6951. Its standard deviation shows 0.695 where this value is less than the average. This means that the distribution of earnings management data has been evenly distributed.

Variable EQ (earnings quality) shows an average value of 1,351. The smallest EQ value is obtained -0.763. While the largest EQ value was obtained. Its standard deviation shows 0.829 where this value is less than the average. This means that the distribution of earnings quality data has been evenly distributed.

### Test Classical Assumptions

This classical assumption test is carried out with several tests, consisting of a normality test and a multicollinearity test, the test results are as follows.

#### 1. Normality Test Model Equation 1

The test was carried out to determine the overall normality level of the data used for the completion of the study. Here are the test results.

**Table 3 Model Normality Test Results 1**

		Unstandardized Residual
N		150
Normal Parameters <sup>a,b</sup>	Mean	0E-7
	Std. Deviation	.55587514
Most Extreme Differences	Absolute	.257
	Positive	.257
	Negative	-.194
Kolmogorov-Smirnov Z		3.150
Asymp. Sig. (2-tailed)		.525
a. Test distribution is Normal.		
b. Calculated from data.		

Source: IBM SPSS output results, 2022.

From table 4 above, you can see the value of its significance or Asymp. Sig. (2-tailed) of 0.525 indicating that the significant value > 0.05. Thus, the residual values of all research variables in the model of equation 1 have been normally distributed.

### Multicollinearity Test of Equation 1 Model

This test was carried out to determine the occurrence of multicollinearity between each research variable used in this study.

**Table 5 Model 1 Multicollinearity Test Results**

Model	Unstandardized Coefficients	Standardized Coefficients	Collinearity Statistics		
	B	Std. Error	Beta	Tolerance	VIF
(Constant)	-.369	.122			
1 HCE	.365	.061	.407	.572	1.750
CEE	.164	.066	.167	.580	1.723

SCE	.047	.009	.344	.579	1.726
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a. Dependent Variable: EM

Source: IBM SPSS output results, 2022.

Based on table 5 above, it can be seen that the results of the multicollinearity test show a tolerance value above 0.1 and a Variance Inflation Factor (VIF) value below 10 for each variable. The results of the multicollinearity test of model 1, it can be concluded that all independent variables in this regression model have no correlation between one variable and another.

**Multicollinearity Test of Equation 2 Model**

**Table 6 Model 2 Multicollinearity Test Results**

Type	Unstandardized Coefficients		Standardized Coefficients	Collinearity Statistics	
	B	Std. Error	Beta	Tolerance	VIFs
(Constant)	-.482	.158			
HCE	.502	.078	.469	.572	1.750
CEE	.168	.086	.143	.580	1.723
SCE	.040	.012	.244	.579	1.726

a. Dependent Variable: EQ

Source: IBM SPSS output results, 2022.

Based on table 6 above, it can be seen that the multicollinearity test results show tolerance values above 0.1 and Variance Inflation Factor (VIF) values below 10 for each variable. The results of the multicollinearity test of model 2, it can be concluded that all independent variables in this regression model have no correlation between one variable and another.

**Test Model Equation 1**

**Test F (Model Feasibility)**

This test was conducted to determine the feasibility of a research regression model. When the equation model is fit, it can be done for the next stage of the test.

**Table 7 Model Feasibility Test Results**

Type	Sum of Squares	Df	Mean Square	F	Sig.
Regression	44.609	3	14.870	79.228	.000 <sup>b</sup>
Residual	27.401	146	.188		
Total	72.010	149			

a. Dependent Variable: EM

b. Predictors: (Constant), SCE, CEE, HCE

Source: Data processing, 2022.

Based on Table 7 significant values < from 0.05, so it means that the research regression equation model is fit and feasible to use to complete this study.

**Significant Test of Individual Parameters**

**Table 8 t -Test Results**

Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.369	.122		-3.014	.003
HCE	.365	.061	.407	6.033	.000
CEE	.164	.066	.167	2.487	.014
SCE	.047	.009	.344	5.131	.000

a. Dependent Variable: EM

Source: Data processing, 2022.

The first hypothesis of this study examines the influence of intellectual capital (human capital) on earnings managements. t value this variable is worth 6.033 as well as sig. 0.000 or < 0.05. This result means **H<sub>1</sub> is accepted**. These results support the research of Galdipour et al (2014), where earnings management and Intellectual Capital are significantly positively related to each other. The second hypothesis of this study examines the influence of intellectual capital (capital employed) on earnings managements. T value this variable is worth 2.487 as well as sig. 0.014 or < 0.05. This result means **H<sub>2</sub> is accepted**. This result supports the research of Jaya, et al. (2021) which states that there is a significant influence between intellectual capitals (capital employed) on earnings management in Indonesia. The third hypothesis of this study examines the influence of intellectual capital (structural capital) on earnings managements. t value this variable is worth 5.131 as well as sig. 0.000 or < 0.05. This result means **H<sub>3</sub> is accepted**. This result supports the research of Jaya, et al. (2021) which states that there is a significant influence between intellectual capitals (structural capital) on earnings managements.

**Coefficient of Determination Test (R<sup>2</sup>)**

**Table 9 Coefficient of Determination Test Results (R<sup>2</sup>)**

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.787 <sup>a</sup>	.619	.612	.4332217

a. Predictors: (Constant), SCE, CEE, HCE

b. Dependent Variable: EM

Source: Processed Results, 2022.

The SPSS output results in Table 9 above show that the magnitude of the R<sup>2</sup> value of 0.612 or 61.2 % is the magnitude of the percentage of variation in HCE, CEE, and SCE variables in influencing earnings management. While the remaining 38.8%, shows that there are still other possible



factors that have an influence on earnings managements that were not studied in this study.

**Test Model Equation 2**

**Test F (Model Feasibility)**

This test was conducted to determine the feasibility of a research regression model. When the equation model is fit, it can be done for the next stage of the test.

**Table 10 Model Feasibility Test Results**

Type	Sum of Squares	Df	Mean Square	F	Sig.
Regression	56.571	3	18.857	59.798	.000 <sup>b</sup>
Residual	46.041	146	315		
Total	102.612	149			

a. Dependent Variable: EQ

b. Predictors: (Constant), SCE, CEE, HCE

Source: Data processing, 2022.

Based on Table 10 significant values < from 0.05, so it means that the research regression equation model is fit and feasible to use to complete this study.

**Significant Test of Individual Parameters**

**Table 11 t -Test Results**

Type	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	-.482	.158			-3.041	.003
HCE	.502	.078	.469		6.399	.000
CEE	.168	.086	.143		1.965	.051
SCE	.040	.012	.244		3.355	.001

a. Dependent Variable: EQ

Source: Data processing, 2022.

The fourth hypothesis of this study is to examine the effect of intellectual capital (human capital) on earnings quality. t value this variable is valued at 6.399 and sig 0.000 or < 0.05. This result means **H<sub>4</sub> is accepted**. These results support the research of Darabi et al (2012) which examined using a sample of 158 companies and 948 company observations from the Tehran Stock Exchange showing that Intellectual Capital and human capital components have a significant positive effect on the quality of profits proxied with discretionary accruals. The fifth hypothesis of this study is to examine the effect of intellectual capital (capital employed) on earnings quality. T value this variable is valued at 1.965 and sig. 0.051 or > 0.05. This result means that **H<sub>5</sub> is rejected**. These results support the research of Darabi et al (2012) which shows that Intellectual Capital has a significant positive effect on the quality of profits. The sixth hypothesis of this study is to examine the effect of intellectual capital (structural capital) on

earnings quality. t value this variable is valued at 3.355 and sig. 0.000 or < 0.05. This result means **H<sub>6</sub> is accepted**. These results support the research of Darabi et al (2012) which shows that Intellectual Capital has a significant positive effect on the quality of profits.

**Test coefficient of determination (R<sup>2</sup>)**

**Table 12 Test Results R<sup>2</sup>**

Type	R	Adjusted Square	RStd. Error	Estimate
1	.743 <sup>a</sup>	.551	.542	.5615571

a. Predictors: (Constant), SCE, CEE, HCE

b. Dependent Variable: EQ

Source: Processing Results, 2022.

The SPSS output results in Table 12 above show that the magnitude of the R<sup>2</sup> value of 0.542 or 54.2% is the percentage of variation in the HCE, CEE, and SCE variables in influencing earnings quality. While the remaining 55.8%, shows that there are still other possible factors that have an influence on earnings quality that were not studied in this study.

**DISCUSSIONS**

An interesting discussion in this study is that this deviant behavior (earnings management) does not support the previous theory of intellectual capital that contributes positively to the prosperity of shareholders (Abdolmohammadi, 2005; Ghosh and Wu, 2007; Orens et al., 2009; Sharabati et al., 2010; Nimtrakoon and Tayles, 2015; Scafarto et al., 2016). These results support the Theory of Reasoned Action theory formulated in 1967 in an attempt to provide consistency in the study of the relationship between behavior and attitudes (Sari et al, 2022). In simple terms, this theory says that a person will do an act according to his ego when he views the deed positively and if he believes that others want him to do it too. Thus, no matter how much intellectual capital the company provides to provide value for the company, management uses it for its own interests, by doing profit management. These results also provide new insights, especially new variables in fraud detection research (Sari et al, 2022; Pratiwi and Siswanto, 2017; Meitriana and Irwansyah, 2018; Jaya and Narsa, 2020; Prenna and Kusmawan, 2020).

Earnings management by manipulating real activities is carried out starting from normal operational practices, to mislead stakeholders over certain financial reporting that has been fulfilled in normal operations (Roychowdhury, 2006). Meanwhile, real profit management is carried out by management through the company's operational activities during the accounting period. Thus, real profit management behavior can be carried out at any time during the accounting period with the aim of meeting certain profit targets, avoiding losses, and achieving analyst forecast targets. The manipulation method used by researcher Roychowdhury



(2006) uses the Dechow et al model. (2010), namely manipulation of sales, increasing profits, or avoiding reporting negative profits by reducing discretionary costs and overproducing or increasing stock of goods. Based on this, it is understood that profit management behavior is very detrimental to many parties. However, to carry out profit management, a manager must understand and be good at observing the situation of the company's macro conditions or even accounting policies that will be used for the preparation of financial statements. Thus, a person's intellect should also be tested to convince stakeholders of his ability to commit financial statement fraud or profit management.

A manager who has high intellectual power can carry out unique patterns in determining accounting policies in the preparation of his financial statements. Thus, this gives rise to another view that the flexibility of determining this policy is also parallel to one's intellectual power. Policy determination errors can cause irregularities such as profit management or fraud financial statements. It is this logical basis that is used in the completion of this research.

## CONCLUSION

This research found several findings, such as intellectual capital variables (human capital, capital employed, structural capital) affect earnings management. Meanwhile, intellectual capital (human capital and structural capital) affects earnings quality and intellectual capital (capital employed) does not affect earnings quality. The results of this test apply to the 2016-2020 corporate financial statements of the sample companies in this study. The contribution of this study is considered sufficient to criticise the positive theory of intellectual capital so far (Abdolmohammadi, 2005; Ghosh and Wu, 2007; Orens et al., 2009; Sharabati et al., 2010; Nimtrakoon, 2015; Scafarto et al., 2016). In addition, the results of this study also serve as a new criticism about one's ego that can encourage deviant behaviour, such as financial statement fraud, especially earnings management in Indonesia.

Suggestions for future research, namely adding other company data in Indonesia to be further tested in future studies, in order to provide more general test results. The limitations of this study include, first, the large amount of data that makes sorting this data too long and with great care and detail. Secondly, the results of this study are the development of hypotheses from several previous researchers, allowing new hypotheses for future researchers. This is due to the breadth of research themes used.

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# The Effect of Intellectual Capital on Earnings Management and Earnings Quality of Banking Companies in Indonesia

*by* Cek Turnitin

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## The Effect of Intellectual Capital on Earnings Management and Earnings Quality of Banking Companies in Indonesia

BY

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### Abstract

This study aims to determine the influence of human capital, employed capital, and structural capital on earnings management and to determine the influence of human capital, employed capital, and structural capital on the quality of profits of banking companies in Indonesia. The research conducted included the type of quantitative research and the population in this study was all banking companies listed on the Indonesia Stock Exchange from 2016-2021. This research data collection technique uses literature studies and field research. This study uses independent variables consisting of human capital, capital employed, and structural capital. For dependent variables used consist of earnings management and earning quality. The conclusion of this study is that intellectual capital variables (human capital, employed, structural capital) affect earnings managements. Meanwhile, intellectual capital (human capital and structural capital) affects earnings quality and intellectual capital (capital employed) does not affect earnings quality. In addition, the results of this study are also a new criticism of a person's ego that can encourage deviant behavior, such as financial statement fraud, especially earnings management in Indonesia.

**Keywords:** human capital; capital employed; structural capital; earnings management; earnings quality; banking companies

## INTRODUCTION

Investors need financial statement information to make decisions (Eveline, 2017). Therefore, there are several qualitative characteristics in financial statements, such as relevance, timely presentation, honesty, verifiability, understanding, and comparison for decision-making (Taufik & Bandi, 2015). Profit is one of the important information in the financial statements. This is also stated in the SFAC (Statement of Financial Accounting Concept) No. 1, where profit information is not only an indicator of management performance performance, profit information is very helpful for calculating the level of risk in investment or credit.

Profit also describes the performance of a company produced at one particular period (Farida et al., 2019). The company's profit also needs to be analyzed because it will reflect the company's economic reality (Anggraini et al., 2019). In addition, profit is also used to measure the growth of the company (Kristanti, 2019). Profit information in financial statements also acts as a signal of the company's performance. However, another mentioned that performance assessment

based on the company's profit information, in fact, made management manipulate according to its wishes. This act of manipulation is known as profit management. The approach profit management practices consists of two types, namely accrual earnings management and real earnings management (Jaya and Narsa, 2020). However, companies generally use real earnings management for the purpose of leveling annual profits (Agustia et al., 2020).

The shift from accrual profit management to real profit management is caused by several factors. First, accrual manipulation is more often the center of observation or inspection by auditors and regulators than decisions about pricing and production. Second, only focusing on accrual manipulation is a risky action because companies may have limited flexibility to manage accruals, for example, limitations in reporting discretionary accruals (Jaya and Narsa, 2020).

On the other hand, the emergence of a new view in the business world due to technological developments in this era of globalization makes companies begin to transform and capitalize on knowledge, or other terms intellectual capital

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(Maharani & Faisal, 2019). Intellectual capital has been growing in Indonesia since the issuance of PSAK 19 on intangible assets (Sari, 2020). Intellectual capital is divided into three components, namely: capital employed (CEE), human capital (HCE), and structural capital (SCE) (Suseno et al., 2019). Proper and balanced utilization and management of intellectual capital can improve company performance, which will also have an impact on company value (Sari, 2020). If the company's performance increases, then investor confidence also rises. The assumption of investors is that if there is an increase in demand for shares, then the stock price will also rise. This certainly creates a positive return and also affects the company's profit coefficient (Pradnyaparamita & Rahyuda, 2017).

Some literature related to intellectual capital mostly focuses on the influence of company performance and value (Baroroh, 2014; Gogan et al., 2016; Juwita & Angela, 2016; Septiana, 2018; Widyaningdyah et al., 2016; Zeng & Wudhikam, 2018), even the findings provide a difference or research gap in each of its research objects (its industry). However, developments carried out in this study emphasize more on the relationship between intellectual capital and profit quality and profit management, so this change distinguishes it from the previous literature a. In addition, the banking sector was chosen because the banking industry is one of the most intellectual capital-intensive sectors (Widyatini, 2019). In addition, overall employees in the banking sector are more homogeneous compared to other sectors of the economy (ACFE, 2018).

Based on the background of the problem and theoretical foundations that have been stated above, the relationship between variables in this study can be expressed in a theoretical framework, as follows:

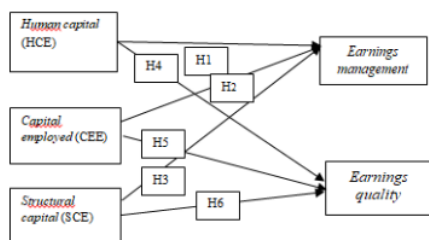


Figure 1 Theoretical Framework

**Hypotheses development**

**Effect of Intellectual Capital (HCE, CEE, SCE) on Earnings Management**

A person at work must be smart in completing his work and good at solving problems (Sari, 2020). Academics and practitioners must be prepared with special knowledge and skills to improve the development of their intelligence (Jaya et al., 2021). So, accountants can later compete and better understand their role in preparing financial statements according to the old and new standards used by the company (Riduwan & Andayani, 2019). The need to predict accounting profits is very important for users and economic decision

makers (Kristanti, 2019). Thus, intellectual capital plays an important role as part of the company's overall capital. This is intended because, with intellectual capital, a person can be observed his ability to predict future profits which is very vital and needed for investors.

Several previous literature that proved the link between intellectual capital and results provided mixed findings, including (Abdullah, 2002; Liu et al., 2020; Wato, 2017; Wu et al., 2021) concluded that there was a significant influence. Meanwhile, some others state there was no significant influence (Beattie & Smith, 2013; Jordão & Novas, 2017; Marzban et al., 2014). Other literature shows that intellectual capital positively affects the quality of profit proxied by discretionary accruals (Yahya Asadollahi et al., 2013). The same result is also found, where earnings management and intellectual capital are positively related to each other (Galdipour et al., 2014). Thus, based on the description above, the development of the hypothesis is structured as follows.

- H<sub>1</sub>: Intellectual Capital (HCE) affects earnings management
- H<sub>2</sub>: Intellectual Capital (CEE) affects earnings management
- H<sub>3</sub>: Intellectual Capital (SCE) affects earnings management

**Effect of Intellectual Capital (HCE, CEE, SCE) on Earnings Quality**

Intellectual capital can be classified into 3 parts (Suseno et al., 2019). First is human capital (Setyaningsih & Nengzih, 2020). This component allows the workforce owned by the company to use its knowledge, to provide solutions to various conditions experienced perusahaan. A good human capital component can be reflected in the way management makes effective and efficient decisions. Thus, good human capital management can result in improved performance, and support the quality of financial statements, because of the high level of knowledge possessed by its employees.

Second, which is the structural capital component. This component includes the work environment and or organizational culture of an enterprise. Both of these things can provide support for their workers, to achieve maximum performance or vice versa. A company with a good work environment and organizational culture can trigger its employees to improve their performance (Sari, 2020). This increase will certainly also have an impact on the quality of the profit it gets.

The utilization of operating assets that can contribute to increasing the company's income can be done by increasing capital employed. This increase certainly coincides with the increase in the company's production activity. Capital employed that has increased also shows that the company's management has maximized in managing production supporting assets, and meeting consumer needs has been fulfilled. This of course also increases sales and revenue which will lead to company profits (Riyadh et al., 2020).

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Based on the description above, the development of hypotheses compiled as follows.

- H<sub>4</sub>: Intellectual Capital (HCE) affects earnings quality
- H<sub>5</sub>: Intellectual Capital (CEE) affects earnings quality
- H<sub>6</sub>: Intellectual Capital (SCE) affects earnings quality

**RESEARCH METHODS**

The research carried out is a type of quantitative research, because it uses an approach that is more concerned with the existence of variables as the object of research and these variables must be defined in the form of operationalization of their respective variables so that they are easier to understand statistically (Jaya, 2020a). The population in this study is all banking companies listed on the Indonesia Stock Exchange from 2016-2021. This research data collection technique uses literature studies and field research. Study literature is obtained through books, articles, journals, the internet, and literature.

This study also distributed questionnaires to several respondents who fit the criteria of this study, namely: (1) Banking companies that have been listed on the IDX before 2016 and are still active today (in 2022); (2) Orderly banking companies report audited financial statements annually from 2016-2021; and (3) Banking companies that have variable research components in their financial statements (audited) from 2016-2021.

The data used in this study is classified as secondary data which is a number of data obtained from the Indonesia Stock Exchange website or the banking company website itself. In addition, the secondary data used in this study is also in the form of research journals, and other scientific references derived from the internet. The data analysis method used is a multiple linear regression method that uses descriptive analysis and classical assumption tests. In this analysis test using the model form, as follows.

a. Regressing the first equation, i.e.

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

$$(EM = \beta_0 + \beta_1 HCE + \beta_2 CEE + \beta_3 SCE + \epsilon)$$

b. Regressing the second equation, i.e.

$$Y_2 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

$$(EQ = \beta_0 + \beta_1 HCE + \beta_2 CEE + \beta_3 SCE + \epsilon)$$

**Information:**

- EM = Earnings Management
- = Earnings Quality
- HCE = Human Capital
- CEE = Capital Employed
- SCE = Structural Capital
- $\beta_0$  = constant
- $\epsilon$  = Error

**Table 1 Variable Measurement Indicator**

No.	Variable	Indicator	Scale
1.	Intellectual Capital (HCE)	Value Added Human Capital	Ratio
2.	Intellectual Capital (CEE)	Value Added Capital Employed	Ratio
3.	Intellectual Capital (SCE)	Value Added Structural Capital [VAIC = HCE + CEE + SCE]	Ratio
4.	Earnings management	DISXi,t / ASSETS <sub>i,t-1</sub> = $\alpha_0 + \beta_1 (1/ASSETS_{i,t-1}) + \beta_2 (SALES_{i,t-1} / ASSETS_{i,t-1}) + \epsilon$ ABNDEXP PRODCS <sub>i,t</sub> / ASSETS <sub>i,t-1</sub> = $\alpha_0 + \beta_1 (1/ASSETS_{i,t-1}) + \beta_2 (SALES_{i,t} / ASSETS_{i,t-1}) + \beta_3 (SALES_{i,t} / ASSETS_{i,t-1}) + \beta_4 (SALES_{i,t-1} / ASSETS_{i,t-1}) + \epsilon$ ABNPROD EM= ABNCFO + ABNDEXP + ABNPROD	Ratio
5.	Earnings quality	TAC <sub>i,t</sub> = NI <sub>i,t</sub> – CFO <sub>i,t</sub> $DAC_{it} = \frac{TAC_{it}}{SALES_{it}} - \frac{TAC_{it-1}}{SALES_{it-1}}$	Ratio

The method of analysis of this research uses multiple linear regression methods. The data test stages carried out are descriptive statistical tests, classical assumption tests (data normality tests and multicollinearity tests), model feasibility tests, t tests, and coefficient of determination tests.



6  
**RESULT AND DISCUSSION**

**Statistical Descriptive**

**Table 2.** Descriptive Statistical Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
HCE	150	1.0041	3.9728	2.465625	.7754103
CEE	150	.1925	2.9833	1.657623	.7046898
SCE	150	.4149	16.9923	7.906025	5.0638251
EM	150	.0969	1.9519	1.178233	.6951919
EQ	150	-.7636	2.7772	1.351968	.8298604
Valid N (listwise)	150				

Source: IBM SPSS output results, 2022.

Variable HCE (human capital) shows an average value of 2.465. The smallest HCE value was obtained 1.0041. While the largest HCE value was obtained at 3.972. Its standard deviation shows 0.775 where this value is less than the average. This means that the distribution of human capital data has been evenly distributed. Variable CEE (capital employed) shows an average value of 1.657. The smallest CEE value was obtained 0.1925. While the largest CEE value was obtained 2.983. The standard deviation shows 0.704 which is less than the average. This means that the distribution of capital employed data has been evenly distributed. Variable SCE (structural capital) shows an average value of 7.906. The smallest SCE value is obtained 0.414. While the largest CEE value was obtained 16.992. The standard deviation shows 5.063 which is less than the average. This means that the distribution of structural capital data has been evenly distributed.

Variable EM (earnings managements) shows an average value of 1.178. The smallest EM value was obtained 0.096. While the largest EM value was obtained 0.6951. Its standard deviation shows 0.695 where this value is less than the average. This means that the distribution of earnings management data has been evenly distributed.

Variable EQ (earnings quality) shows an average value of 1.351. The smallest EQ value is obtained -0.763. While the largest EQ value was obtained. Its standard deviation shows 0.829 where this value is less than the average. This means that the distribution of earnings quality data has been evenly distributed.

**Test Classical Assumptions**

This classical assumption test is carried out with several tests, consisting of a normality test and a multicollinearity test, the test results are as follows.

**1. Normality Test Model Equation 1**

The test was carried out to determine the overall normality level of the data used for the completion of the study. Here are the test results.

**Table 3 Model Normality Test Results 1**

		Unstandardized Residual
N		150
Normal Parameters <sup>a,b</sup>	Mean	0E-7
	Std. Deviation	.55587514
Most Extreme Differences	Absolute	.257
	Positive	.257
	Negative	-.194
Kolmogorov-Smirnov Z		3.150
Asymp. Sig. (2-tailed)		.525
a. Test distribution is Normal.		
b. Calculated from data.		

Source: IBM SPSS output results, 2022.

From table 4 above, you can see the value of its significance or Asymp. Sig. (2-tailed) of 0.525 indicating that the significant value > 0.05. Thus, the residual values of all research variables in the model of equation 1 have been normally distributed.

**Multicollinearity Test of Equation 1 Model**

This test was carried out to determine the occurrence of multicollinearity between each research variable used in this study.

**Table 5 Model 1 Multicollinearity Test Results**

Model	Unstandardized Coefficients	Standardized Coefficients	Collinearity Statistics		
	B	Std. Error	Beta	Tolerance	VIF
(Constant)	-.369	.122			
1 HCE	.365	.061	.407	.572	1.750
CEE	.164	.066	.167	.580	1.723

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SCE	.047	.009	.344	.579	1.726
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a. Dependent Variable: EM

Source: IBM SPSS output results, 2022.

Based on table 5 above, it can be seen that the results of the multicollinearity test show a tolerance value above 0.1 and a Variance Inflation Factor (VIF) value below 10 for each variable. The results of the multicollinearity test of model 1, it can be concluded that all independent variables in this regression model have no correlation between one variable and another.

**Multicollinearity Test of Equation 2 Model**

**Table 6 Model 2 Multicollinearity Test Results**

Type	Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics	
	B	Std. Error	Beta	Tolerance	VIFs	
(Constant)	-.482	.158				
HCE	.502	.078	.469	.572	1.750	
CEE	.168	.086	.143	.580	1.723	
SCE	.040	.012	.244	.579	1.726	

a. Dependent Variable: EQ

Source: IBM SPSS output results, 2022.

Based on table 6 above, it can be seen that the multicollinearity test results show tolerance values above 0.1 and Variance Inflation Factor (VIF) values below 10 for each variable. The results of the multicollinearity test of model 2, it can be concluded that all independent variables in this regression model have no correlation between one variable and another.

**Test Model Equation 1**

**Test F (Model Feasibility)**

This test was conducted to determine the feasibility of a research regression model. When the equation model is fit, it can be done for the next stage of the test.

**Table 7 Model Feasibility Test Results**

Type	Sum of Squares	Df	Mean Square	F	Sig.
Regression	44.609	3	14.870	79.228	.000 <sup>b</sup>
Residual	27.401	146	.188		
Total	72.010	149			

a. Dependent Variable: EM

b. Predictors: (Constant), SCE, CEE, HCE

Source: Data processing, 2022.

Based on Table 7 significant values < from 0.05, so it means that the research regression equation model is fit and feasible to use to complete this study.

**Significant Test of Individual Parameters**

**Table 8 t-Test Results**

Type	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	-.369	.122			-3.014	.003
HCE	.365	.061	.407		6.033	.000
CEE	.164	.066	.167		2.487	.014
SCE	.047	.009	.344		5.131	.000

a. Dependent Variable: EM

Source: Data processing, 2022.

The first hypothesis of this study examines the influence of intellectual capital (human capital) on earnings managements. t value this variable is worth 6.033 as well as sig. 0.000 or < 0.05. This result means **H<sub>1</sub> is accepted**. These results support the research of Galdipour et al (2014), where earnings management and Intellectual Capital are significantly positively related each other. The second hypothesis of this study examines the influence of intellectual capital (capital employed) on earnings managements. T value this variable is worth 2.487 as well as sig. 0.014 or < 0.05. This result means **H<sub>2</sub> is accepted**. This result supports the research of Jaya, et al. (2021) which states that there is a significant influence between intellectual capitals (capital employed) on earnings management in Indonesia. The third hypothesis of this study examines the influence of intellectual capital (structural capital) on earnings managements. t value this variable is worth 5.131 as well as sig. 0.000 or < 0.05. This result means **H<sub>3</sub> is accepted**. This result supports the research of Jaya, et al. (2021) which states that there is a significant influence between intellectual capitals (structural capital) on earnings managements.

**Coefficient of Determination Test (R<sup>2</sup>)**

**Table 9 Coefficient of Determination Test Results (R<sup>2</sup>)**

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.787 <sup>a</sup>	.619	.612	.4332217

a. Predictors: (Constant), SCE, CEE, HCE

b. Dependent Variable: EM

Source: Processed Results, 2022.

The SPSS output results in Table 9 above show that the magnitude of the R<sup>2</sup> value of 0.612 or 61.2 % is the magnitude of the percentage of variation in HCE, CEE, and SCE variables in influencing earnings management. While the remaining 38.8%, shows that there are still other possible

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factors that have an influence on earnings managements that were not studied in this study.

**Test Model Equation 2**  
**Test F (Model Feasibility)**

This test was conducted to determine the feasibility of a research regression model. When the equation model is fit, it can be done for the next stage of the test.

**Table 10 Model Feasibility Test Results**

Type	Sum of Squares	Df	Mean Square	F	Sig.
Regression	56.571	3	18.857	59.798	.000 <sup>b</sup>
Residual	46.041	146	315		
Total	102.612	149			

a. Dependent Variable: EQ

b. Predictors: (Constant), SCE, CEE, HCE

Source: Data processing, 2022.

Based on Table 10 significant values < from 0.05, so it means that the research regression equation model is fit and feasible to use to complete this study.

**Significant Test of Individual Parameters**

**Table 11 t -Test Results**

Type	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	Std. Error	Beta	
(Constant)	-.482	.158		3.041 .003
HCE	.502	.078	.469	6.399 .000
CEE	.168	.086	.143	1.965 .051
SCE	.040	.012	.244	3.355 .001

a. Dependent Variable: EQ

Source: Data processing, 2022.

The fourth hypothesis of this study is to examine the effect of intellectual capital (human capital) on earnings quality. t value this variable is valued at 6.399 and sig 0.000 or < 0.05. This result means **H<sub>4</sub> is accepted**. These results support the research of Darabi et al (2012) which examined using a sample of 158 companies and 948 company observations from the Tehran Stock Exchange showing that Intellectual Capital and human capital components have a significant positive effect on the quality of profits proxied with discretionary accruals. The fifth hypothesis of this study is to examine the effect of intellectual capital (capital employed) on earnings quality. T value this variable is valued at 1.965 and sig. 0.051 or > 0.05. This result means that **H<sub>5</sub> is rejected**. These results support the research Darabi et al (2012) which shows that Intellectual Capital has a significant positive effect on the quality of profits. The sixth hypothesis of this study is to examine the effect of intellectual capital (structural capital) on

earnings quality. t value this variable is valued at 3.355 and sig. 0.000 or < 0.05. This result means **H<sub>6</sub> is accepted**. These results support the research of Darabi et al (2012) which shows that Intellectual Capital has a significant positive effect on the quality of profits.

**Test coefficient of determination (R<sup>2</sup>)**

**Table 12 Test Results R<sup>2</sup>**

Type	R	R Square	Adjusted Square	RStd. Error of the Estimate
1	.743 <sup>a</sup>	.551	.542	.5615571

a. Predictors: (Constant), SCE, CEE, HCE

b. Dependent Variable: EQ

Source: Processing Results, 2022.

The SPSS output results in Table 12 above show that the magnitude of the R<sup>2</sup> value of 0.542 or 54.2% is the percentage of variation in the HCE, CEE, and SCE variables in influencing earnings quality. While the remaining 55.8%, shows that there are still other possible factors that have an influence on earnings quality that were not studied in this study.

**DISCUSSIONS**

An interesting discussion in this study is that this deviant behavior (earnings management) does not support the previous theory of intellectual capital that contributes positively to the prosperity of shareholders (Abdolmohammadi, 2005; Ghosh and Wu, 2007; Orens et al., 2009; Sharabati et al., 2010; Nimtrakoon and Tayles, 2015; Scafarto et al., 2016). These results support the Theory of Reasoned Action theory formulated in 1967 in an attempt to provide consistency in the study of the relationship between behavior and attitudes (Sari et al, 2022). In simple terms, this theory says that a person will do an act according to his ego when he views the deed positively and if he believes that others want him to do it too. Thus, no matter how much intellectual capital the company provides to provide value for the company, management uses it for its own interests, by doing profit management. These results also provide new insights, especially new variables in fraud detection research (Sari et al, 2022; Pratiwi and Siswanto, 2017; Meitriana and Irwansyah, 2018; Jaya and Narsa, 2020; Prena and Kusmawan, 2020).

Earnings management by manipulating real activities is carried out starting from normal operational practices, to mislead stakeholders over certain financial reporting that has been fulfilled in normal operations (Roychowdhury, 2006). Meanwhile, real profit management is carried out by management through the company's operational activities during the accounting period. Thus, real profit management behavior can be carried out at any time during the accounting period with the aim of meeting certain profit targets, avoiding losses, and achieving analyst forecast targets. The manipulation method used by researcher Roychowdhury

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(2006) uses the Dechow et al model. (2010), namely manipulation of sales, increasing profits, or avoiding reporting negative profits by reducing discretionary costs and overproducing or increasing stock of goods. Based on this, it is understood that profit management behavior is very detrimental to many parties. However, to carry out profit management, a manager must understand and be good at observing the situation of the company's macro conditions or even accounting policies that will be used for the preparation of financial statements. Thus, a person's intellect should also be tested to convince stakeholders of his ability to commit financial statement fraud or profit management.

A manager who has high intellectual power can carry out unique patterns in determining accounting policies in the preparation of his financial statements. Thus, this gives rise to another view that the flexibility of determining this policy is also parallel to one's intellectual power. Policy determination errors can cause irregularities such as profit management or fraud financial statements. It is this logical basis that is used in the completion of this research.

## CONCLUSION

This research found several findings, such as intellectual capital variables (human capital, capital employed, structural capital) affect earnings management. Meanwhile, intellectual capital (human capital and structural capital) affects earnings quality and intellectual capital (capital employed) does not affect earnings quality. The results of this test apply to the 2016-2020 corporate financial statements of the sample companies in this study. The contribution of this study is considered sufficient to criticise the positive theory of intellectual capital so Abdolmohammadi, 2005; Ghosh and Wu, 2007; Orens et al., 2009; Sharab et al., 2010; Nimtrakoon, 2015; Scafarto et al., 2016). In addition, the results of this study also serve as a new criticism about one's ego that can encourage deviant behaviour, such as financial statement fraud, especially earnings management in Indonesia.

Suggestions for future research, namely adding other company data in Indonesia to be further tested in future studies, in order to provide more general test results. The limitations of this study include, first, the large amount of data that makes sorting is data too long and with great care and detail. Secondly, the results of this study are the development of hypotheses from several previous researchers, allowing new hypotheses for future researchers. This is due to the breadth of research themes used.

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