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Impact of Intellectual Capital on Earnings Management: Financial Statement Fraud In Indonesia

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ABSTRACT: Many previous studies have interpreted the concept of intellectual capital based on one's values. However, if the company's management uses their intelligence intellectually to commit fraud by manipulating earnings in financial reports, this condition is certainly interesting to discuss further. This research method includes comparative quantitative. The research test applied descriptive statistics, normality test, multicollinearity test, t test, model feasibility test (F test) and multiple linear regressscions. A total of 70 companies were in accordance with the research criteria during the 11 years of observation. Based on the numbers, the observations were made on 770 data. The results of this study concluded that intellectual capital as measured by using the value added method of intellectual capital (capital employed efficiency, human capital efficiency and structural capital efficiency) was proven to have a significant effect on earning management behavior or financial statement fraud in the company's financial statements.

KEYWORDS: Intellectual Capital; fraudulent financial statements; and earnings management.

1. INTRODUCTION

Intellectual capital (IC) is generally understood as part of the intangible assets owned by a company (Kehelwalatenna & Premaratne, 2010). Intellectual capital has also gained recognition as an important strategic asset in a knowledge-based economy. Previous literature states that intellectual capital appears as a subset of company resources, which is known as the fourth factor of production (Goh, 2005; Lev & Daum, 2004). Intellectual capital is able to create competitive advantages and superior performance in a sustainable approach for modern organizations (Yalama & Coskun, 2007). Efficient utilization of IC resources can increase a country's economic growth. IC resources also enable modern organizations to maintain their strategy in a highly competitive market.

The concept of IC remains encompassing various complex issues related to the conceptualization, determination, measurement and modeling of its impact on the company performance (Stahle, & Aho, 2011). A qualitative study report among Northern European small and medium enterprises concluded that intellectual capital needs to be adopted and taken into account as a portrait in financial report (Ross & Ross, 1997). On the other hand, intellectual capital has also been considered an important factor in creating company value (Bontis et al., 1998; Jardon and Martos, 2012). Firm value is the result of a combination of tangible value and intellectual capital. Tseng & Goo (2005) stated that a company's competitive advantage does not only depend on physical and financial resources, but more on its intellectual capital.

Previous research has interpreted the concept of intellectual capital based on one's values through academic/scientific degrees, expertise, information, databases, and organizational structures which are very crucial to be used to create economic value in order to gain competitive advantage (Edvinsson and Sullivan, 1996; Sveiby, 1997; Bontis, 1998; Sullivan, 1999). Intellectual capital is also known as intellectual property, intellectual assets and knowledge assets; however, the three terms have different concepts (Mc Connachie, 1997). Bontis (2000) states that the term of intellectual capital was first suggested by Galbraith (1969) as follows "I wonder if you realize how much those of us the world around have owed to the intellectual capital you have provided over the last decades". The definition of intellectual capital contains two main elements, namely its nature and impact (Mananeke and Mandey, 2008).

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From its nature, intellectual capital focuses more on intangible assets or intangible resources. In terms of impact, intellectual capital is often associated with value, competitive advantage or company performance. During the last two decades, intellectual capital has developed in several accounting and finance researchers (Baldini and Liberatore, 2016; Hamdan, 2018; Nadeem et al., 2018) which prove that intellectual capital has a positive and significant impact on the company's financial performance (Abdolmohammadi , 2005; Ghosh and Wu, 2007; Orens et al., 2009; Sharabati et al., 2010; Nimtrakoon, 2015; Scafarto et al., 2016). Consequently, by good company performance, the level of welfare of its shareholders will increase.

The company's financial performance can be reflected in its financial statements. Information in the financial statements is shown by management to assess the quality of company performance and to show its responsibilities to stakeholders (investors, employees, customers, society, and government). Therefore, management will try to make financial reports in such a way that the company's performance looks good (Jensen and Meckling, 1976); (Fama, 1980). Good financial reports (accountable, transparency, fairness, and responsibility) are difficult to achieve if the information presented is not in accordance with the actual conditions of the company.

This is done by the management to achieve certain goals by cheating on financial statements (financial statement fraud).

No.	Type Fraud	Case Percentage
1.	Corruption	76%
2.	Asset Missappropriation	62%
3.	Financial Statement Fraud	10%

Association of Certified Fraud Examiners (ACFE), 2018.

The data from the Association of Certified Fraud Examiners (ACFE) in 2018 shows that the types of fraud that occurred in Southern Asia, including Indonesia, are divided into 3 major groups, to be precise corruption, misuse of assets, and fraudulent financial statements. Even though, fraudulent financial statements are the third rank, it is still an action which can harm the stakeholders. This fraudulent behavior is carried out by individuals by means of manipulative data in the company's financial statements. The act of manipulating financial statements can be through department, accounting, operations, sales, executive or upper level management, customer service, purchasing and finance. The manipulation of financial statements based on the perspective of agency theory and positive accounting theory (PAT) is known as earnings management (Jensen and Meckling, 1976); (Fama, 1980); (Watt and Zimmerman, 1986).

Information on earnings (returns) is very important in the company's financial statements. Eccles et al. (2001) describe the results of a survey conducted by Price Waterhouse Coopers (PWC) on the types of information needed by investors. Among the 10 types of information that are considered the most important for investors. Three (3) important informations for investors are in the form of financial information (cash flow, earnings and gross margin). Earning can act as a signal of the performance results of a company. In addition, it is also influenced by the company's resources and capabilities. The well-known hypotheses in PAT that can be used as a basis for understanding earnings management actions, namely the Bonus Plan Hypothesis, The Debt to Equity Hypothesis (Debt Covenant Hypothesis), and The Political Cost Hypothesis (Size Hypothesis) (Watts and Zimmerman, 1986); Healy (1985); Jones (1991). Meanwhile, Agency theory occurs when each individual (principal and agent) is motivated by their own behalf, causing a conflict of behalf (Jensen and Meckling, 1976); (Fama, 1980).

Several developed countries have started to pay attention to the important role of intellectual capital in order to maintain their business continuity (Wernerfelt, 1984); Belkaoui, 2003). Several companies in Indonesia still tend to apply conventional based concepts in building their business, so that this causes their products to be less able to compete with international markets. Although, there are some products in Indonesia have been exported to several other countries. However, the overall competitiveness of Indonesian products is still weak compared to foreign products which are produced with more sophisticated and advanced technology. Therefore, it is expected to keep studying the importance of intellectual capital based on knowledge management in carrying out business activities. Intellectual capital greatly determines the company's operational performance. If the management applied by company owners has high intellectual intelligence, then this will also have an impact on company performance. This is because a manager who has high intelligence can solve problems faster, so that the company can continue to operate smoothly every day (Schultz and Schultz, 1994). The better the company's performance, the more prosperity of the owners and stakeholders is guaranteed.

However, if the company's management uses their intelligence to cheat (fraud) by manipulating earnings in financial reports, this is certainly an interesting condition to discuss further. This deviant behavior can definitely provide results that can support the previous theory about intellectual capital which contributes positively to the prosperity of shareholders, or vice versa. This

study was conducted to investigate intellectual capital measured using the Value Added Intellectual Capital method (capital employed efficiency, human capital efficiency and structural capital efficiency) on the behavior of earning management or financial statement fraud in the financial statements of companies in Indonesia.

2. LITERATURE REVIEW AND THE FORMULATION OF HYPOTHESIS

The theoretical basis to explain the intellectual capital used in this research is stakeholder theory and legitimacy theory. Stakeholder theory states that stakeholders have the right to obtain information about all company activities for their decision making (Deegan, 2004). Thus, based on stakeholder theory, it can be understood that those who have interests are not only the owner or management of the company, but also other stakeholders who contribute to the company (Freeman, 1983). As a result, company management activities can run well and optimally to encourage the company's financial performance. Organizational legitimacy can be seen as something that companies want or seek from society, and vice versa (O'Donovan, 2002). Legitimacy can be used as a potential resource for the company to survive (going concern). Deegan, Robin and Tobin (2002) state the opinion that legitimacy can be obtained when there is an agreement between the existence of a company that is not disturbing or appropriate (congruent) with the existence of a value system that exists in the environment around the company (society and other environments). Thus, legitimacy theory can be used as the basis for a company to ensure that its activities and performance can be widely accepted by the community. The growing consensus in the context of stakeholder theory is that accounting profit is merely a measure of return for shareholders, while value added is a more accurate measure created by stakeholders and then distributed to stakeholders. Based on the conception of stakeholder theory, Public classifies Intellectual Capital in terms of value added obtained from the difference between the company's revenue (input) and all costs (output). The added value of intellectual capital is divided into capital employment, human capital and structural capital.

High human capital can encourage the company's performance improvement on financial. Human capital is a combination of knowledge, skills, innovation and a person's ability to carry out their duties, so as to create value for the company. Human capital also reflects the company's collective ability to produce the best solutions based on the knowledge possessed by top management people in the company. Structural capital is an organizational capability consisting of infrastructure, information systems, routines, procedures and organizational culture that supports employees' efforts to produce optimal intellectuals. Good procedures within an organization can help achieve optimal company performance. Relational capital is a harmonious relationship between a company and its partners. Relational capital is knowledge formed in marketing channels in order to develop all the potential that a company has according to its business flow. Therefore, if the relational capital is high, it can encourage an increase in the company's financial performance.

A. Positive Accounting Theory

Positive accounting theory is a further study of normative accounting theory (Watt and Zimmerman, 1986). This failure is due to the inaccuracy of normative accounting theory in explaining practical phenomena that occur in real terms. Positive accounting theory has a very important role in the development of accounting theory. Positive accounting theory can provide guidance for accounting policy makers in determining the consequences of these policies. Positive accounting theory develops along with the need to explain and predict the reality of accounting practices in the society, whereas normative accounting explains more about accounting practices that should apply (Fama, 1980); (Watt and Zimmerman, 1986). According to Nelson, et.al (2003) normative accounting theory only exploits an investigative approach, and is only structured to produce accounting postulates.

A well-known hypothesis related to positive accounting theory is the bonus plan hypothesis, that is, a manager will choose an accounting model that can increase the bonus he will get. Debt covenant hypothesis, the determination of an accounting model aims to reduce the occurrence of violations of debt terms and bond covenants. Political cost hypothesis, sometimes, large companies and companies which have considerable influence in government can determine the accounting model they use in order to reduce or increase their profits during a certain period (Watt & Zimmerman, 1986). Other literature proves that there are other factors in a manager's choice of accounting policies to implement, namely contracting factors, political factors, and information asymmetry (Seng & Su, 2010). Contracting factors explain the behavior of managers in choosing an accounting policy for the benefit of a company's debt contract. Political factors are similar to the political cost hypothesis, which aims to reduce the company's profit in its financial statements for political visibility and possible political costs (Watt & Zimmerman, 1986). Information asymmetry is about determining accounting policies based on information asymmetry in influencing the valuation of an asset. A manager who has high intellectual power can perform unique patterns in determining accounting policies in preparing his financial statements. Thus, this raises another analysis that this freedom determination is also equal to one's intellectual power. Errors in determining policies can lead to irregularities such as earnings management or fraud financial statements. This basic logic is applied in the completion of this research.

B. Agency Theory

Agency theory is used to underlie the relationship between principal and agent (Jensen & Meckling, 1976); (Fama, 1980). Agency theory simply explains that each individual can freely act according to his own interests. The principal is the party that mandates the agent to act on behalf of the principal and run the company. A good work contract between the principal and the agent is carried out by conducting the management of the company in accordance with the contract or the profit sharing mechanism (profit, return and risk) and has been approved by each parties. This is because each individual has a unique character; a manager basically works according to his orders and responsibilities in the company. On the other hand, they also have tremendous pressure from various parties; so that this condition can lead the managers to take actions which are beyond their limits, such as manipulating financial statements or manipulating profits.

Managers who act on behalf of the principal can have more flexibility and have more information about the company than the principal. Therefore, in reality the manager will keep the accounting information for his own benefit. This caused suspicion by the company owners and led to conflict. This conflict also triggers managers to carry out earnings management and misleads stakeholders regarding the company's actual performance. If a manager has high intellectuality in controlling company information, then this certainly poses a threat to the principal and stakeholders towards financial statements. This is because the financial statements reported by the agent to the principal are the results of the evaluation of an agent's achievement in working to improve his welfare and as a basis for providing compensation to the agent (Jensen and Meckling, 1976); (Watts and Zimmerman, 1986).

C. Earnings Management

Earnings management is considered as an intervention that has a specific purpose (personal gain) in the external financial reporting process (Schipper, 1989). Earnings management carried out by company managers can impact the quality of reported earnings to be low. Thus, the profit figures presented do not reflect actual performance conditions. There are several factors that can motivate managers to carry out earnings management (Scott, 1997), namely the Bonus Scheme, Debt Covenant, Political Motivations, Taxation Motivations, Change of CEO (Chief Executive Officer), and Initital Public Offering.

Earnings management can be done by means of accrual manipulation and real activities manipulation (Roychowdhury, 2006). Earnings management by manipulating real activities is carried out starting from normal operational practices; to mislead stakeholders for certain financial reporting that has been fulfilled in normal operations (Roychowdhury, 2006). Meanwhile, real earnings management is carried out by management through the company's operational activities during the accounting period. Thus, real earnings 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 model of Dechow et al. (1998), namely manipulating 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 earnings management behavior is very disadvantageous to many parties. However, to carry out earnings management, a manager must understand and be clever in observing the company's macro condition or even the accounting policies that will be used for the preparation of financial statements. Thus, one's intellectuality also deserves to be tested to convince stakeholders of its ability to commit fraudulent financial statements or earnings management.

D. Research Hypothesis

The influence of intellectual capital on earnings management. Someone at work must be smart in completing their job and good at solving problems (Schultz and Schultz, 1994). Academics and practitioners must be prepared with particular knowledge and skills in order to enhance the development of their intelligence (Jones, 2009). Thus, accountants will later be able to compete and better understand their role in preparing financial reports according to the old and new standards used by the company.

Physical capital which plays a role in achieving sustainable profits has started to decrease when compared to intellectual capital. The need to predict accounting profit is of utmost importance to users and economic decision makers. Thus, intellectual capital plays an important role as part of the overall capital of the company. This is because with intellectual capital, one can observe its ability to predict future earnings which is vital and needed for investors.

Several previous literatures that prove the relationship between intellectual capital and future stock returns have shown different results, including Vishnu and Gupta (2013); Pal and Soriya (2012); Chen et al (2010); Ghosh and Mondal, (2009) concluded that there was a significant effect. Meanwhile, Vazifehdoust et al. 2013 stated that there was no significant effect. Another literature belongs to Darabi et al (2012) which examines using a sample of 158 companies and 948 company observations from the Tehran Stock Exchange shows that intellectual capital and human capital components have a significant positive effect on earnings quality as proxied by discretionary accruals. Galdipour et al (2014) also gave the same result, where

earnings management and intellectual capital were significantly positively related to each other. Based on the description above, the following hypothesis is compiled.

H1 : Intellectual Capital (VACA) affects earnings management (discretionary accruals)

H2 : Intellectual Capital (VAHU) affects earnings management (discretionary accruals)

H3 : Intellectual Capital (STVA) affects earnings management (discretionary accruals)

3. RESEARCH METHOD

This research includes comparative quantitative (casual comparative research) in which this type of research is conducted descriptively in order to find answers fundamentally about the factors that cause the occurrence or emergence of a certain phenomenon (earning management: fraud financial statement). Thus, this study conducted hypothesis testing. The population used in this study is a public company listed on the Indonesia Stock Exchange during the 2008-2018, as many as 684 companies. The sampling technique applied is non-probability sampling, with judgment sampling or purposive sampling. The sample is selected based on particular conditions and certain characteristics so that it can be studied based on scientific considerations, such as: 1) The sample is a public company listed on the Indonesia Stock Exchange during 2008-2018, 2) The sample has financial statement data for the period of 2008-2018 regarding to useful information for this study, 3) The sample did not experience delisting during the period of 2008-2018.

Table 2: Operational Definition and Variable Measurement

No.	Variable	Operational Definition	Measurement	Scale
1.	**X**	This variable is measured using the added value created by the three main components of Intellectual capital, namely Value added Capital Employed, Value added Human Capital, and Structural Capital Value added.	Intellectual Capital applies Pulic model (1998), namely: a. Counting Value added **VA = OUT – IN** **Notes:** VA : Value added OUT : Total sales IN : Cost of production (apart from employess expenses) b. Value added of capital employed (VACA) / (X_1): **VACA = VA/CE** **Notes:** VACA : Value added Capital Employed VA : Value added CE : Capital Employed, available capital (total asset) c. Value added Human Capital (VAHU) / (X_2): **VAHU = VA/HC** **Notes:** VAHU : Value added Human Capital VA : Value added HC : Human Capital (employee expenses) d. Structural Capital Value added (STVA) / (X_3): **STVA = SC/VA** **Notes:** STVA: Structural Capital Value added VA: Value added SC: Structural Capital = VA - HC.	Ratio

2.	**Y**	Measurement of earnings management using Accrual-Based Earning Management (AEM) which is calculated using the modified jones model. This model was chosen because it is able to provide more accurate discretionary results. Jones (1991); (Dechow et al., 1995). Another reason is because until now the accounting standards and regulations applied in Indonesia still allow accrual-based financial reporting (Agustia, 2020).	Profit management (*discretionary accruals*) applies the formula (Jones, 1991; Dechow et al., 1995) as follows. 1. $\mathbf{TAC_{it} = EXBT_{it} - OCF_{it}}$ Notes: • TAC_{it} : Company's *Total Accruals* i in period t • $EXBT_{it}$: Company's *Earning Before Extraordinary Item* i in period t • OCF_{it} : Company's *Operating Cash Flow* i in period t The regression equation above is used in calculating the company's actual total. NDAC is calculated by re-entering the following coefficients: 2. $\frac{TAC_{it}}{TA_{it-1}} = \alpha 1\left(\frac{1}{TA_{it-1}}\right) + \alpha 2\ \frac{[(\alpha REV_{it} - \alpha REC_{it})]}{TA_{it-1}} + \alpha 3\ \frac{(PPE_{it})}{TA_{it-1}}$ 3. $NDAC_{it} = \alpha 1\left(\frac{1}{TA_{it-1}}\right) + \alpha 2\ \frac{[(\alpha REV_{it} - \alpha REC_{it})]}{TA_{it-1}} + \alpha 3\ \frac{(PPE_{it})}{TA_{it-1}}$ 4. $DAC_{it} = \left(\frac{TAC_{it}}{TA_{it-1}}\right) - NDAC_{it}$ Notes : • TA_{it-1} : Total company assets i in period t • REV_{it} : Company *Total Revenue* i in period t • REC_{it} : Company *Total Receivable* i in period t • PPE_{it} : Company Fixed Asset Value (*gross*) i in period t	Ratio

The analysis test in this study used the descriptive statistical test, normality test, multicollinearity test and multiple linear regression analysis. The normality test in this study applied the Kolmogorov-Smirnov test. The multicollinearity test utilizes the Tolerance Value or Variance Inflation Factor (VIF) measurement. Meanwhile, the form of the model equation test is as follows:

$$\mathbf{Y = \alpha + \beta X + \varepsilon}$$

$$\mathbf{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$$

$$\mathbf{DAC = \alpha + \beta_1 VACA_1 + \beta_2 VAHU_2 + \beta_3 STVA_3 + \varepsilon}$$

Notes:

Y = Profit management
X = Intellectual Capital
α = Constant
X_1 = Value added Capital Employed **(VACA)**
X_2 = Value added Human Capital **(VAHU)**
X_3 = Structural Capital Value added **(STVA)**
β_1, β_2, dan β_3 = Regression Coefficient
ε = Error

4. RESULTS AND DISCUSSION

The data obtained through Osiris, then sorted based on criteria. A total of 614 out of 684 companies did not meet the criteria, so they were eliminated from the research observations. Much of this discrepancy is caused by inconsistent and available data over the period of observation. Consequently, as many as 70 companies have data that is in accordance with the research for 11 years of observation. Based on the numbers, observations were made on 770 data. The results of the observations are as follows.

Table 3: Descriptive Statistical Analysis

	VACA-X1	VAHU-X2	STVA-X3	DAC
Minimum	-9,526	6,657	,029	-8,58739
Maximum	2,440	190,728	,998	-,09218
Mean	,029	97,88045	,92024	-,8309913
Std. Deviation	-8,58739	53,546299	,104011	,68233205
N	770	770	770	770

Source: Results of data processing, 2020.

Based on Table 3, it shows the results of descriptive statistics based on the 770 total data that have been tested. Based on Table 3 it also illustrates that the VACA-X1 variable measured based on Value added Capital Employed has an average value of 0.60529. It can be said that the average company has intellectual capital based on VACA-X1 of 0.0232 of the total data tested. This data also confirms that the value of the VACA-X1 Standard deviation is 1.364901, in which this number is greater than the average value, which means that the distribution of VACA-X1 data is uneven.

The VAHU-X2 variable measured based on Value added Human Capital has an average value of 97.88045. This implies that the average company has intellectual capital capacity based on VAHU-X2 of 97.88045 of the total data tested. This data also shows that the value of the VAHU-X2 Standard deviation is 53.546299, in which this number is smaller than the average value, which means that the distribution of VAHU-X2 data is evenly distributed.

The STVA-X3 variable measured based on Structural Capital Value Added has an average value of 0.92024. This confirms that on average, the company has intellectual capital ability based on STVA-X3 of 0.92024 from the total data tested. This data also explains that the standard deviation value of STVA-X3 is 0.104011, in which this number is smaller than the average value, which implies that STVA-X3 data is evenly distributed.

The DAC variable as measured by Modified Jones (1991) has an average value of -0.8309913. It means that, on average, companies that practice earnings management tend to have earnings decreeing based on the overall sample data of the companies being tested. This data also shows that the value of the DAC Standard deviation is 0.68233205, where this number is greater than the average value which means that the DAC data distribution is uneven.

Table 4: Data Test Results

	Adjusted R Square	Unstandardized Residual	B	t	Sig.	Tolerance	VIF	Annova
N	-	770	-	-	-	-	-	-
Kolmogorov-Smirnov Z	-	3,368	-	-	-	-	-	-
Asymp. Sig. (2-tailed)	-	,083	-	-	-	-	-	-
(Contstant)	-		4,992	-	-	-	-	-
VACA-X1*	-	9,066	1,036	9,066	,000	,883	1,132	-
VAHU-X2*	-	-18,976	-,055	-18,976	,000	,882	1,134	-
STVA-X3***	-	1,741	2,456	1,741	,082	,999	1,001	-
F	-	-	-	-	,000	-	-	124,521
R^2	0,325	-	-	-	-	-	-	-

a. Dependent variable: DAC.

Source: Results of data processing, 2020.

Based on table 3, it illustrates the recapitulation of the data tests results that have been carried out, starting from the normality test, multicollinearity test, and multiple linear regression tests. Data testing was carried out on 770 company data for 11 years. The data tested is in the form of independent variable data, namely intellectual capital which is sub-divided into 3 measurements, namely VACA, VAHU, and STVA. Thus, this result in solving the variable X into X_1, X_2, and X_3. The first test is data normality test using the Kolmogorov-Smirnov Z test and a significance value of 0.083>0.05 was obtained. These results indicate that all data from each variable are normally distributed. Furthermore, it was also tested with multicollinearity and the results showed that all tolerance values of all independent variables were > 0.10. In addition, the variance inflation factor (VIF) value for all independent variables also shows that <10. These two results indicate that the regression equation of this study does not experience multicollinearity symptoms. The results of the model feasibility test (F test) that have been carried out also obtain a significance value of 0.000 with an F value of 124.521. It confirms that the estimated multiple linear regression models are suitable to explain the effect of intellectual capital variables (VACA-X1, VAHU-X2, and STVA-X3) towards earnings management.

The next test applies multiple linear regressions, where a significance result of 0.000 is obtained, which means that the VACA-X1 variable is proven to have a significant effect on earnings management at the 1% level in a positive direction. This result means that when there is an increase in the value of Value added Capital Employed in the research sample companies, the profit management will also increase. Therefore, this test result means that H1 is not rejected. The next test was carried out on the

VAHU-X2 variable and obtained a significance result of 0.000, which means that the VAHU-X2 variable was proven to have a significant effect on earnings management at the 1% level in a negative direction. This result means that the higher the value of Value added Human Capital in the research sample companies, the lower the earnings management, and vice versa. Consequently, this test result means that H2 is not rejected. The test on STVA-X3 gave a significance result of 0.082. This result means that the STVA-X3 variable is proven to have a significant effect on earnings management at the 10% level in a positive direction. Thus this result implies that the higher the value of Structural Capital Value Added in the research sample companies, the higher the earnings management that occurs and vice versa. The three tested intellectual capital variables were also proven to have an amount of influence on earnings management of 0.325 or 32.5% (R^2).

An interesting discussion in this study is that this deviant behavior (earnings management) does not support the previous theory of intellectual capital which contributes positively to the welfare of shareholders (Abdolmohammadi, 2005; Ghosh and Wu, 2007; Orens et al., 2009; Sharabati et al. al., 2010; Nimtrakoon, 2015; Scafarto et al., 2016). These results support the Theory of Reasoned Action formulated in 1967 in an attempt to provide consistency in the study of the relationship between behavior and attitudes (Fishbein and Ajzen, 1975). In simple terms, this theory states that a person will do an action according to his ego when he views the action positively and if he believes that other people want him to do it as well.

Thus, no matter how much intellectual capital the company provides to offer value to the company, management actually uses it for its own interests, by carrying out earnings management. These results also provide new insights, especially new variables in fraud detection research (Sari Dewi, 2016; Pratiwi and Siswantoro, 2017; Meitriana and Irwansyah, 2018; Jaya and Ajeng, 2019; Prena and Kusmawan, 2020).

5. CONCLUSIONS

The results of this study conclude that intellectual capital as measured by using the Value Added Intellectual Capital method (capital employed efficiency, human capital efficiency and structural capital efficiency) is proven to have a significant effect on earning management behaviour or financial statement fraud in the financial statements of companies in Indonesia. Of course, the results of this test only apply to the 70 companies that were tested during the years 2008-2019. The large amount of data makes this sorting of data very careful and quite detailed. However, as many as 614 other companies in Indonesia still need to be further tested in advance research. It should be done to provide the test results which are more general. Thus, the contribution of this research is deemed sufficient to criticize the positive theory of intellectual capital up to now (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 of one's ego that can influence deviant behaviour, such as financial statement fraud, especially earnings management in Indonesia.

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