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Impact of family control on the relationship between earning management and future performance in Indonesia

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Abstract: This study attempts to examine whether the family control has an impact on the relationship between earnings management and future performance. We also assess whether the auditor has the important role in family owned firms. The total sample in this study has covered 918 firms. We suggest that the average value of the future performance of family-based firms is better than the one of non-family firms. We also show that accrual earnings management in Indonesia is more opportunistic than efficiency. Finally, bigger auditor firms which selected by family firms have the positive effect on future performance.

JEL Classifications: M40

Keywords: Accrual-based earning management, future performance, family firms

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1. Introduction

Meeting or exceeding profits is one of benchmark of managers' performance measurements. Thus, managers tend to accomplish the earnings benchmark by conducting earnings management. It is believed that management policies can improve earnings information by providing private information to outsiders.

Some studies show that the incentive discrepancies between managers and shareholders can encourage managers to use the flexibility of accounting standards to act opportunistically by creating reported profit distortions (Watts, 2003). Previous research by Graham, Harvey, & Rajgopal(2005) stated that accrual-based earnings management negatively impact future performance. Cohen & Zarowin (2010) and Zhu, Lu, Shan, & Zhang (2015) also provide new evidence that earnings management tends to negatively affect future performance.

Instead, other researchers demonstrate the positive bearings of earning management. Efficient earnings management can bring a number of gains as the increasing persistence earnings (Gunny, 2010), the profitability of the company in the future (Siregar & Utama, 2008) or the quality of profit (Jara & Lopez, 2011). The underlying assumption is that a company management performs earnings management to influence the output of accounting system so as to provide better signal and performance in the future.

Bao & Lewellyn (2017) and Razzaque, Ali, & Mather (2016) found that family firms tend to be more involved to the earning management, but the question is whether earning management is opportunistic or efficient. We will assess the effect of family control in

Indonesia on relationship between earnings management and future performances and the role of auditors as governance mechanism in family firms.

2. Hypotheses

The survey results by PWC (2014) stated that more than 95% of businesses in Indonesia are family owned and 60% of publicly listed companies in Southeast Asia are family companies. The results of this survey support research conducted by Claessens, Djankov, & Lang (2000), Mulyani, Singh, & Mishra (2016), Habib, Haris, & Jiang (2017). The survey predicts that all Indonesian family owned businesses will have better growth due to several reasons. Indonesian family businesses play an important role in job creation. Indonesian family businesses admit not only profit as the success benchmark but also the business growth. The three Indonesian family businesses are more entrepreneurial and use the long-term approach in decision making. The four Indonesian family businesses have better defense mechanisms in the event of a recession.

Anderson & Reeb (2003), Bouzgarrou & Navatte (2013) stated that family ownership positively affects the company's performance. This conclusion is supported by research conducted by Adhikari & Sutton (2016), Wang & Shailer (2017) who concluded that the performance of family owned firms is better than the one of non-family companies. Family firms can improve monitoring of managers or can align the interests of majority and minority shareholders to improve company performance.

Based on the above review we can formulate the following hypothesis:

H1: Future performance of family firms is better than in non-family firms.

In positive accounting theory, Watts & Zimmerman (1990) state that motivation of management to execute earning management is to obtain external contract incentives and management compensation.

The management of a company seeks to influence reported earnings in the short term to meet profit targets and earnings projection (Sevin & Schroeder, 2005). Managers use earnings management as tool to convey positive signal to investor about future performance through recent income (Tucker & Zarowin, 2006). Siregar & Utama (2008) suggest that accrual-based earning management in Indonesia has positive effect on future performance.

The Family Business Survey from PWC (2014) shows Indonesian family firms are performing more efficiently than non-family firms. They have more entrepreneurial spirit and use the long-term approach in decision making. The family businesses have different governance than non-family owned firms; they have informal family meetings, professional bodies such as family offices, family foundations and family committees designed for special purposes (Jaffe & Lane, 2004; Ward, 2004).

Wang (2006) states that a family-controlled company can use two ways of controlling the firm: entrenchment and alignment. Both ways have different consequences for the company's performance in the future. Wen, Hung, Cheng, & Lieu (2015) explains that family companies are disposed to entrenchment which tends to be opportunistic; so that company performance becomes lower. This is because family-concentrated ownership tends to expropriate corporate resources at the expense of minority shareholder interests (Porta et al., 2002; Claessens et al., 2000; Xia, 2008).

Based on the above studies it can be hypothesized in this research that:

H2: Accrual-based earnings management in Indonesia is more efficient than opportunistic.

La Porta et al. (1999), Claessens et al. (2000) and Mulyani et al. (2016) state that firms listed in Indonesia stock exchange were largely controlled by the families. In the agency theory, Jensen & Meckling (1976) state that the existence of controlling shareholders can reduce agency costs and conflicts in order to improve the performance of the company; the shareholders also can reduce information asymmetry for external parties (Andres, 2008). Lins (2003) also adds that the controlling shareholder positively affects the value of the company, especially during the economic downturn. Mitton (2002) argues that the increasing control rights and cash flow rights owned by the majority shareholder align the interests of majority shareholders and minorities so that it will increase the value of the company.

Family firms have incentives and resources to monitor managers or can align the interests of majority and minority shareholders to improve company performance. Anderson & Reeb (2003), Bouzgarrou & Navatte (2013) stated that family ownership positively affects the company's performance, while Xia (2008) state that investors believe that their interests are better protected by founder-controlled firms than by non-founder controlled firms. This result is supported by research conducted by Adhikari & Sutton(2016), Wang & Shailer (2017) who concluded that the performance of family enterprises is better than the one of non-family companies.

Users of financial statements require better performance to protect their assets and interests. This is what motivates family companies to report higher earnings quality and improve long-term performance of the company. Tucker & Zarowin (2006) explain how companies conduct earnings management through income smoothing with the aim to convey private information to investors about future profits. The reported earnings growth rate allows investors to estimate the future cash flows. On the contrary if reported earnings are too fluctuating, it will reduce investor confidence in the company's performance (Sankar & Subramanyam, 2001). Research conducted by Tucker & Zarowin (2006) show that firms controlled by families and executing earnings management have higher future performance than non-family companies. These results are supported by Sankar and Subramanyam (2001) and Wang (2006).

Based on the above studies we can hypothesize in this research that:

H3: Accrual-based earnings management is more efficient in family firms than in non-family firms.

Family firms tend to choose auditor who has the high qualification (Bae & Jeong, 2007). Larger audit firms possess more chances to offer the high skilled and experienced auditors. They have much comparative advantages like technology, human resources, and experience. Advanced technology can help auditor to found audit evidence more efficiently and faster (Simunic, 1980) as audit judgment material. More experienced auditor will provide performance more effectively than the less experienced one(Bonner, Sarah, & Lewis, 1990); he will contribute to the increase of future performance of firms(Ashton & Brown 1980).

We suggest that the larger auditor firms can reduce the opportunistic behavior of the managers while conducting the accrual-based earning management. They can give

motivation to managers to work more effectively, so the future performance of the firm will be better. Bae & Jeong (2007) suggest that investors respond more favourably to positive earnings audited by the assigned auditors than to those audited by non-assigned auditors.

Based on these views we can formulate the following two hypotheses:

H4: Larger auditor firms have positive effect on future performance

H5: Larger auditor firms being selected by family firms have positive effect on future performance

3. Methodology

The population of this study were all companies listed in Indonesia Stock Exchange in the period 2012-2014 (1.461 companies) (Tables 1a-1b). Companies from the financial industries were excluded from this study (239 companies) because of the specific nature of their performance. Also, the firms with uncompleted data and having negative leverages were also excluded (304 companies). Therefore, there were 918 companies included in this study as a sample. Out of 918 firms, 586 were family firms and 332 were non-family firms.

TABLE 1a. SAMPLE OF FIRMS

PANEL A. SAMPLING CATEGORIES	2012	2013	2014	Total
Total number of companies observed	463	486	512	1.461
Financial companies excluded	(74)	(78)	(87)	(239)
Companies having uncompleted data and negative leverage	(83)	(102)	(119)	(304)
Total sample:	306	306	306	918

TABLE 1b. SAMPLE OF FIRMS BY INDUSTRIES

PANEL B. SAMPLING INDUSTRIES	Amount	%
Agriculture	45	4.9
Mining	78	8.5
Basic industry and Chemicals	159	17.3
Miscellaneous industry	90	9.8
Consumer goods industry	187	9.5
Property, Real estate and Building construction	29	14.1
Infrastructure, Utilities and Transportation	90	9.8
Trade, Services & Investment	240	26.1
Total sample:	918	100

Future performance was measured using two proxies, i.e. future cash flow CFO_{t+1} and future net income NI_{t+1} . CFO_{t+1} - cash flows operation in year $t + 1$ for firm i deflated by total asset $t - 1$, while NI_{t+1} - net income before tax and interest in year $t + 1$ for firm i deflated by total asset $t - 1$. The variable of earning management was measured using three models of earning management, i.e. Jones model (Jones, 1991), modified Jones model (Dechow, Sloan, & Sweeney, 1995) and Kaznik model (Kasznik, 1999).

1. Jones model (1991) with equality model as follows:

$$\frac{TA_{it}}{A_{it-1}} = \alpha_i \left[\frac{1}{A_{it-1}} \right] + \beta_{1i} \left[\frac{\Delta REV_{it}}{A_{it-1}} \right] + \beta_{2i} \left[\frac{PPE_{it}}{A_{it-1}} \right] + \varepsilon_{it}$$

2. Modified Jones model (1995) with this following equality model:

$$\frac{TA_{it}}{A_{it-1}} = \alpha_i \left[\frac{1}{A_{it-1}} \right] + \beta_{1i} \left[\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} \right] + \beta_{2i} \left[\frac{PPE_{it}}{A_{it-1}} \right] + \varepsilon_{it}$$

3. Modified Kaznik model (1999) with equality model as follow:

$$\begin{aligned} \frac{TA_{it}}{A_{it-1}} = & \alpha_i \left[\frac{1}{A_{it-1}} \right] + \beta_{1i} \left[\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} \right] + \beta_{2i} \left[\frac{PPE_{it}}{A_{it-1}} \right] \\ & + \beta_{3i} \left[\frac{\Delta CFO_{it}}{A_{it-1}} \right] \varepsilon_{it} \end{aligned}$$

Where: TA - total accrual in year t for firm i ; $TA = NI_{it} - CFO_{it}$; NI_{it} - net incomes in year t for firm i ; CFO_{it} - cash flows in year t for firm i ; ΔREV_{it} - revenues in year t less revenues in year $t - 1$ for firm i ; PPE_{it} - gross property, plant, and equipment in year t for firm i ; ΔREC_{it} - accounts receivables in year t less accounts receivables in year $t - 1$ for firm i ; A_{it-1} - total assets in year $t - 1$ for firm i ; ΔCFO_{it} - cash flows in year t less cash flows in year $t - 1$ for firm i .

Technique of data analyses used in this study was multiple regressions with this equation:

$$CFO_{t+1} = \alpha + \beta_1 DAC + \beta_2 Size + \beta_3 Lev + \beta_4 Prof + \varepsilon \quad (\text{Model1})$$

$$CFO_{t+1} = \alpha + \beta_1 DAC + \beta_2 Big4 + \beta_3 Family + \beta_4 ControlVariable + \varepsilon \quad (\text{Model2})$$

$$CFO_{t+1} = \alpha + \beta_1 DAC + \beta_2 Big4 + \beta_3 Family + \beta_4 DAC \times Family + \beta_5 Big4 \times Family + \beta_6 ControlVariable + \varepsilon \quad (\text{Model3})$$

Where: CFO_{t+1} serves as a proxy of future performance, DAC - is variable of earning management, $Family$ - is proxy of family ownership which measured by used Prabowo & Simpson (2011) approach. The family ownership is identified as the ownership of the individual (more than 20%), 1 is assigned to the family firm and 0 is assigned to the non-family firm. The variable $Big4$ is proxy of large auditors (1 - if audited by the big four audit firms and 0 - for the other audit companies). $DAC \times Family$ - is a moderator variable between earning management and family ownership. $Big4 \times Family$ - is a moderator variable between auditors and family ownership. $Size$ - is control variable of company size which is measured by ln of the total assets. Lev - is control variable of leverage which is measured by debt to equity ratio. And $Prof$ - is control variable of profitability which is measured by return on asset ratio.

4. Data and descriptive statistics

Table 2 shows the data of descriptive statistics for each variable. The DAC variable (proxy of earnings management accruals) for the average family company is 0.003 whereas for non-family companies the average is -0.0053. These two groups of companies are different way to doing earnings management. Family firms (value of DAC is positive sign) tend to execute accrual-based earnings management by increasing income, while non-family firms (DAC value is negative sign) tend to execute accrual-based earnings management by decreasing income. Future performance proxies CFO_{t+1} and NI_{t+1} for family owned firms are larger than for the non-family firms. Auditor variable for 61% family firms are audited by $Big4$, while 84% non-family firms are audited by $Big4$.

TABLE 2. DESCRIPTIVE STATISTICS

VARIABLES	FAMILY FIRMS				NON-FAMILY FIRMS			
	N	MEAN	MINIMUM	MAXIMUM	N	MEAN	MINIMUM	MAXIMUM
DAC	586	0.003	-0.79	1.46	332	-0.0053	-0.32	1.09
CFO_{t+1}	586	0.032	-1.24	4.5	332	0.0034	-1.34	2.37
NI_{t+1}	586	0.1348	-2.62	14.63	332	0.112	-1.31	7.8
$Big4$	586	0.610	0,00	1.00	332	0.84	0,00	1.00
$Size$	586	6355.2	12.65	85938.88	332	10104	10.58	236000
Lev	586	1.515	0.02	64.05	332	1.493	0.02	22.46
$Prof$	586	29.144	-24.56	7957.2	332	6.431	-34.05	66.91

Note: Size in billion Indonesian rupiah (Rp).

5. The evaluation of earnings management model

Following the Siregar & Utama (2008) approach, we want to measure the three earnings management models mentioned above: Jones model (1991), Jones modified model (1995), and Kasznik model (1999). Based on the data of the three-year average values (2012 to 2014) the adjusted R² for Jones (1991) model, Jones modified model (1995) and Kasznik model (1999) made 0.306, 0.300 and 0.510 respectively (Table 1). The Kasznik (1999) model produces a higher Adjusted R² value, so this model is chosen to measure accrual-based earning management.

TABLE 4. THE RESULTS OF EARNINGS MANAGEMENT MODEL EVALUATION

	Adjusted R ²			
	2012	2013	2014	Average
Jones model (1991)	0.203	0.447	0.267	0.306
Modified Jones model (1995)	0.184	0.454	0.261	0.300
Kasznik model (1999)	0.540	0.669	0.322	0.510

6. Empirical results

6.1 Future performance of family owned and non-family firms

The first hypothesis of this study is whether there are differences in the performance of family companies compared with non-family companies.

TABLE 4. RESULT OF MANN-WHITNEY U TEST

VARIABLES	GROUP	N	MEAN RANK	Z	ASYMP. SIG. (2-TAILED)
<i>DAC</i>	Non-family firms	332	457.159	-0.201	0.340
	Family firms	586	460.825		
	Total	918			
<i>CFO_{t+1}</i>	Non-family firms	332	446.778	-1.094	0.024
	Family firms	586	466.707		
	Total	918			
<i>NI_{t+1}</i>	Non-family firms	332	410.629	-4.203	0.002
	Family firms	586	487.187		
	Total	918			
<i>Size</i>	Non-family firms	332	496.382	-3.172	0.002
	Family firms	586	438.604		
	Total	918			
<i>Lev</i>	Non-family firms	332	465.930	-0.553	0.580
	Family firms	586	455.856		
	Total	918			
<i>Prof</i>	Non-family firms	332	429.879	-2.54768	0.010
	Family firms	586	476.281		
	Total	918			

Table 4 shows results of Mann-Whitney U test. The average value of the company's family future performance (CFO_{t+1} and NI_{t+1}) is greater than the future performance of non-family companies. These results support a survey conducted by PWC stating that the companies have a better performance outlook in the future. Therefore, this result contrasts with the research done by Prabowo & Simpson (2011) who found that family owned ownership has negative effect on the company's performance. This table also shows that for the first hypothesis test the significance value of Mann-Whitney U test is 0.024. Since the significance value is less than 5%, it is concluded that the **first hypothesis is supported**. Thus, the performance of family companies and non-family companies is different. On the *Size* variable seen that there is difference between family company with non-family company with significance value of 0.002.

TABLE 5. REGRESSION OF EARNINGS MANAGEMENT (*DAC*) AND FUTURE PERFORMANCE

Independent variable	Predict. sign	CFO_{t+1}			NI_{t+1}		
		Model 1(β)	Model 2 (β)	Model 3 (β)	Model 1 (β)	Model 2 (β)	Model 3 (β)
Constanta	+/-	61.771**	59.514**	58.544**	0.110**	2.698**	2.555**
<i>DAC</i>	+	8.690**	8.822**	6.482**	0.566**	0.158**	-0.065**
<i>Big4</i>	+		4.134**	4.195**		0.285**	0.294**
<i>Family</i>	+		3.668**	3.711**		0.306**	0.315**
<i>DAC</i> × <i>Family</i>	+			14.759**			2.575**
<i>Family</i> × <i>Big4</i>	+			12.456**			2.603**
CONTROL VARIABLES							
<i>Size</i>	-	-8.004**	-7.631**	-7.508**	0.001**	-0.339**	-0.321**
<i>Lev</i>	+	0.229	0.147*	0.157*	-0.001	0.008	-0.009
<i>Prof</i>	+	0.000	0.000	0.000*	-0.000	0.000	0.000
FIXED EFFECT							
Cross_Section		Yes	Yes	Yes	Yes	Yes	Yes
Total Obs		918	918	918	918	918	918
Adjusted R2		0.303	0.333	0.337	0.122	0.144	0.174
F (Statistic)		2.269	4.448	2.469	1.409	1.492	1.607
Probability		0.000	0.000	0.000	0.000	0.0000	0.000

Note: ** Significant at level 5%, * Significant at level 10%.

The model 2 (Table 5) shows that *Family* variable has positively effect on future performance (CFO_{t+1} and NI_{t+1}). The coefficient value for *Family* variable with dependent variable CFO_{t+1} is 3.668 with significance level more than 5%. Therefore, it is robustness test to suggest that family firms have better performance than non-family firms.

This study also shows that family companies though have small assets are able to produce greater profits; while non-family companies with large assets produce smaller benefits. This conclusion is in agreement with research conducted by Anderson & Reeb (2003), Bouzgarrou & Navatte (2013), Adhikari & Sutton (2016), Wang & Shailer (2017) who concluded that the performance of family firms is better than the one of non-family companies. This is because the family companies can improve monitoring to managers or can align the interests of majority and minority shareholders to improve the company's performance. This result is also in line with agency theory which states that the existence

of controlling shareholders can reduce agency costs and conflicts so as to improve company performance and can reduce information asymmetry for external parties.

6.2. The effect of earnings management (DAC) on future performance

In the model 1 (Table 5), it is found that the coefficient of *DAC* (earnings management) variable was 8.690 with significance level at 5% level. It can be concluded that earnings management tend to positively affect company's future cash flow. Therefore, it can be said that earnings management in Indonesia is more efficient than opportunistic. Thus, this supports concluding that the **second hypothesis is accepted**. If accrual-based earning management increases, future cash flow will increase also and vice versa. This finding supports the previous study which was conducted by Siregar & Utama (2008) who stated that earnings management positively effects on the firm future performance in Indonesia. However, it is not in line with the studies of Graham, Harvey, & Rajgopal(2005); Cohen & Zarowin (2010), and Zhu et al. (2015) which suggest that earnings management negatively effects on the firm future performance in Indonesia. In Table 5 as robustness test, we also can see that the other future performance (NI_{t+1}) was positively effected by accrual-based earning management with 5% significance level.

Table 5 also shows the results of the third hypothesis testing that states whether the accrual-based earnings management in family firms is more efficient than in non-family companies. The coefficient value for moderator variable between *DAC* and *Family* is 14.759 with significance level less than 5%. Therefore, it can be concluded that the accrual-based earning management conducted by family companies have a significant positive effect on the company's performance in the future; accrual-based earnings management of family firms is more efficient than the one of non-family companies. It means that **third hypothesis is accepted**. This research supports previous study of Anderson & Reeb (2003), Bouzgarrou & Navatte (2013), Xia (2008), Adhikari & Sutton(2016), and Wang & Shailer (2017).

6.3. The effect of auditor and family control on the future performance

Table 5 shows the results for testing the fourth hypothesis which states whether the type of auditor has positive effect on future performance. The coefficient value for *Big4* variable with dependent variable CFO_{t+1} is 4.134 with the 5%significance level. Obviously, we can suggest that *Big4* auditors can increase firm future performance. It means that **fourth hypothesis is accepted**.

For the moderator variable $DAC \times Family$ the obtained coefficient value of 12.456 with the 5% significance level. Thus, it can be concluded that auditor has important role in auditing the accrual-based earning management conducted by family companies; hedelivers a significant positive effect on the company's performance in the future. It means that **fifth hypothesis is accepted**. In other words, the auditor can protect manager from executing accrual-based earnings management opportunistically.

7. Additional tests

To support the results of this second hypothesis test we tried to do robustness test by separating samples between family firms and non-family firms. The Table 6 shows that for

family firms the coefficient value of *DAC* to CFO_{t+1} is 6.734 at significance level less than 10%. Contrasting for the non-family enterprise group, the value of *DAC* coefficient to CFO_{t+1} is -0.209 at a significance level of more than 10%.

TABLE 6. REGRESSION RESULT OF ACCRUAL-BASED EARNINGS MANAGEMENT AND FUTURE CASH FLOW CFO_{t+1} . FAMILY FIRMS VS NON-FAMILY FIRMS.

Independent variables	Predict.si gn	Family firms		Non-family firms	
		(β)	(Prob)	(β)	(Prob)
Constant	+/-	13.842**	0.000	0.186	0.824
<i>DAC</i>	+/-	6.734*	0.096	-0.209*	0.118
CONTROL VARIABLES					
<i>Size</i>	-	-1.732**	0.000	-0.025	0.773
<i>Lev</i>	-	0.156	0.217	0.047	0.743
<i>Prof</i>	+	0.019	0.728	-0.118	0.256
RANDOM EFFECT					
Cross_Section		Yes		Yes	
Total Obs		586		332	
Udjusted R2		0.054		0.002	
F (Statistic)		9.386		1.166	
Probability		0.000		0.032	

Note: ** Significant at level 5%, * Significant at level 10%.

TABLE 7. THE DIFFERENCE IN EARNINGS MANAGEMENT BEHAVIOR BETWEEN FAMILY FIRMS AND NON-FAMILY FIRMS (POSITIVE *DAC* VS NEGATIVE *DAC*)

Independent variables	Predict. sign	Family firms		Non-family firms	
		(Positive <i>DAC</i>)	(Negative <i>DAC</i>)	(Positive <i>DAC</i>)	(Negative <i>DAC</i>)
Constant	+/-	6.013	0.074	0.046	-0.195
<i>DAC</i>	+/-	3.002**	-0.035	-0.044**	0.057
CONTROL VARIABLES					
<i>Size</i>	-	0.005	-0.001	-0.009**	0.035*
<i>Lev</i>	-	0.002	-0.003	0.015	0.004
<i>Prof</i>	+	0.003**	0.010**	0.007**	0.008**
RANDOM EFFECT					
Cross_Section		Yes	Yes	Yes	Yes
Total Obs		586	586	332	332
Udjusted R2		0.006	0.037	0.362	0.066
F (Statistic)		3.179	2.632	10.194	2.901
Probability		0.024	0.036	0.000	0.025

Note: ** Significant at level 5%, * Significant at level 10%.

Therefore, it can be concluded that the accrual-based earning management conducted by the family firms has a significant positive effect on the future performance; while the accrual earning management conducted by non-family companies has a significant negative effect on the performance in the future. In other words, the accrual-based

earnings management of family firms is more efficient than the one of non-family companies. These results support research conducted by Tucker & Zarowin (2006) indicating that family-controlled firms performing earnings management to give positive signals to outsiders about the future company performance; whereas managers in non-family companies tend to make accrual-based earnings management as a tool for expropriating shareholder funds.

In order to support the findings, we also divided the two groups (family firms and non-family firms) based on the sign of accrual earning management (positive and negative sign). Table 7 shows how behavior of firm manager to manipulate recent income will effect the firm future performance We divide earnings management into two groups i. e. positive *DAC* and negative *DAC*. Positive *DAC* shows the behavior of managers to increase profits, while negative *DAC* shows the behavior of managers to decrease earnings. In family firms with the positive *DAC*, the value of *DAC* coefficient is 0.002 with significance level more than 10%. This result suggests that manager try to increase current earnings to improve their cash flows in the future. While family firms with the negative *DAC*, value of *DAC* coefficient is -0.035 with significance level more than 10%. It means that manager try to decrease current earnings to improve their future cash flows. Thus, it can be concluded that accrual earnings management conducted by family firms tend to give positive information for external shareholder.

The non-family firms also show differences when comparing positive *DAC* and negative *DAC*. In firms with the positive *DAC*, the value of *DAC* coefficient is -0.044 with significance level 5%. This result suggests that managers try to increase current earnings to reduce their cash flows in the future. In firms with the negative *DAC*, the value of *DAC* coefficient is 0.057 with significance level more than 10%; managers try to decrease current earnings to reduce their future cash flows. Therefore, it can be concluded that non-family firms conducting accrual earnings management tend to expropriate shareholder fund for private interest; accrual earnings management in non-family firms tend to be opportunistic than efficient.

8. Conclusion

This research gives evidence that the average value of the family companies' future performance (CFO_{t+1} and NI_{t+1}) is greater than the future performance of non-family companies. We also suggest that the discretionary accrual variable (*DAC*) as earnings management proxy affects positively on future performance variable (future cash flow). The type of earnings management in Indonesia tends to be rather efficient than opportunistic. This finding supports the results of Siregar & Utama (2008) which state that earnings management positively affects on the firm future performance in Indonesia. But it is not in line with the results of Graham et al. (2005), Cohen & Zarowin (2010), and Zhu et al. (2015) which suggest that earnings management negatively affects on the firm future performance. Finally, the big auditor firms selected by family firms have positive effect on future performance.

The research has some limitations. It covers only 3 years with restricted number of samples. The research only obtained value of Adj-R2 equal to 33.7%. Future research can add variables of corporate governance (e.g. commissioners, audit committees, institutional or governmental ownership and others) that may affect earnings management in

Indonesia. Determination of family firms appears yet disputable, further research can use other proxies to determine family firms.

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