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IPO PROFIT GUARANTEES AND INCOME SMOOTHING

A thesis submitted to the Graduate School in partial
fulfillment of the requirements for the degree
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by

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Jaminan Keuntungan IPO dan Pelarasan Pendapatan

Abstrak

Pengenaan jaminan keuntungan bagi terbitan awam awalan (Initial Public Offering atau IPO) adalah ketara terutamanya bagi syarikat-syarikat yang ingin disenaraikan di Papan Kedua Bursa Saham Kuala Lumpur (BSKL) sepanjang 1996-1999. Berdasarkan kajian yang lepas terhadap pelarasan pendapatan (income smoothing), kajian ini cuba menyelidik samaada wujudnya aktiviti pelarasan pendapatan dikalangan 92 buah syarikat yang mempunyai jaminan keuntungan IPO. Dari jumlah tersebut, 54 buah syarikat melaporkan lebihan dalam jaminan keuntungan. Bagi tujuan mengesan samaada wujudnya aktiviti pelarasan pendapatan terhadap sampel yang dikaji, kajian ini menggunakan Indeks Pelarasan Pendapatan yang dibangunkan oleh Eckel (1981) menggunakan dua jangkamasa, iaitu (1) sepuluh tahun di mana ianya merangkumi lima tahun sebelum dan lima tahun selepas syarikat tersebut disenaraikan, dan (2) lima tahun meliputi satu tahun sebelum dan satu tahun selepas tempoh jaminan keuntungan. Ujian Chi-Square dan Kruskal-Wallis telah digunakan untuk menguji samaada wujudnya aktiviti pelarasan pendapatan dikalangan syarikat-syarikat yang melaporkan lebihan dalam jaminan keuntungan. Kajian mendapati bahawa tidak ada perbezaan di antara aktiviti pelarasan pendapatan dikalangan syarikat-syarikat yang mempunyai lebihan atau defisit dalam jaminan keuntungan IPO bagi kedua-dua jangkamasa tersebut. Di samping itu, kajian ini juga mendapati bahawa aktiviti pelarasan pendapatan tidak ada kaitan dengan faktor-faktor lain yang dikaji iaitu jenis sektor, juruaudit dan tahun syarikat itu disenaraikan.

IPO Profit Guarantees and Income Smoothing

Abstract

The imposition of Initial Public Offering (IPO) profit guarantees is widespread among companies that seek listings on the Second Board of the Kuala Lumpur Stock Exchange (KLSE). It is a unique feature of the IPO market in Malaysia during 1996-1999. Extending prior research on income smoothing, this study investigates the income smoothing behavior on a sample of 92 IPO companies with profit guarantees of which 54 of them reported profit guarantee surpluses. For each of the companies, Eckel's Income Smoothing Index (1981) is calculated based on two sub-periods: i.e. (1) ten-year period comprising five years before and five years after listing, and (2) five-year period comprising one year before and one year after the profit guarantee period. Chi-Square and Kruskal-Wallis tests are used to test the association between the incidence of income smoothing and whether a company reported a profit guarantee shortfall or surplus. The evidence accepts the null hypothesis that there is no significant difference in income smoothing between companies with IPO profit guarantee surplus and IPO profit guarantee shortfall for both sub-periods. In addition, the findings also indicate that income smoothing is not associated with factors such as company's sectoral classification, type of auditor and year of listing.

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1.0 Introduction

Income smoothing is a specific example of earnings management (Beattie, Brown, Ewers, John, Manson, Thomas and Turner, 1994). It refers to the deliberate attempt by management to level the trend of earnings. Or as Worthy (1984) colorfully put it, executives engage in income smoothing "to purge the wiggles and spikes from the lines that chart their profits." Moses (1987) defines the smoothing behavior as an effort to reduce fluctuations in reported earnings, rather than to maximize or minimize reported earnings.

Hepworth (1953) was the first to introduce the concept of income smoothing. He suggests that income smoothing creates stable earnings that give owners and creditors a more confident feeling towards management. To smooth income, a manager takes actions that increase reported income when income is low and takes actions that decrease reported income when income is relatively high (Stolowy and Breton, 2000) rather than tries to exaggerate earnings in all states (Fudenberg and Tirole, 1995).

Dascher and Malcolm (1970), Imhoff (1977), Horwitz (1977) and Eckel (1981) distinguish between different types of income smoothing; naturally smoothed and intentionally smoothed (real or artificial). Ashari, Hian, Soh and Wei (1994), Zhemin and Williams (1994), Beattie et al. (1994), Fern, Brown and Dickey (1994), Carlson and Bathala (1997) and Godfrey and Jones (1999) examine the factors that motivate managers to smooth income.

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