ABSTRACT

Initial Public Offering is usually done by company to get any additional fund to develop the company. In order to attract the investors to invest to the company, manager can report higher profit that said as earning management. The purpose of this study is to investigate earnings management during periods around the Initial Public Offering of a company. This study also examine the effect of earning management to stock return and examine institutional ownership in moderating the relationship between earning management and stock return.

Sample of the study consists 52 companies that take place IPO during 2001 – 2008. Earning management is measure with discretionary accrual from modified Jones model. The data is collected from Prospektus and yearly financial report of the company. One sample t test is used to examine whether significant discretionary accrual among the companies for T-1, T+1 and T+2 around the IPO and regression analysis is used to examine the effect of earning management to market reaction and the effect of institutional ownership in moderating the earning management-market reaction relationship.

The results of the study shows that no significant earning management in last year before IPO. Earning management do not significantly effect the market reaction (CAR). Institutional ownership also not significantly moderate the relationship between earning management and CAR.

Keywords : discretionary accruals, earnings management, cumulative abnormal return, institutional ownership.