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The Effect of Profitability, Leverage and Company Size on Profit Management (Empirical Study of LQ 45 Companies Listed on the Indonesia Stock Exchange in 2018-2020)

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A B S T R A C T

This article presents to find out the motivate managers in managing earnings, including profitability, leverage, and company size. This studies is still a hot topic of discussion among researchers, so much research has been conducted since 2018. This study aims to discuss the effect of profitability, leverage, company size on earnings management in LQ 45 companies listed on the Indonesia Stock Exchange for the 2018-2020 period. This study uses descriptive statistical analysis using secondary data with descriptive statistical tests. Followed by the classical assumption test using the multiple regression model hypothesis testing method. Several conclusions can be drawn that there is profitability that has no effect on earnings management, the leverage variable has a negative effect on earnings management, the firm size variable has no negative effect on earnings management. It is recommended for further research to increase the number of years tested, so that the research results can be more accurate.

Keywords:Profit Management, Profitability, Company Size, Leverage, LQ 45

1. Introduction

With the rapid development of the business world, financial reports are an important medium for making decisions for every company. Financial statements are information that describes the financial condition of a company, and furthermore this information can be used as a description of the company's financial performance. One of the components in the financial statements is the income statement which is one of the main focuses of users of financial statements. Where the income statement describes the company's performance in a certain period of time. The assessment of the performance carried out by the company is reflected in the profit or loss generated in that period. Therefore, the income statement is one part that is subject to manipulation activities carried out by management with the aim of gaining unilateral benefits but on the other hand it will be detrimental to other parties such as investors or creditors or others. To be able to achieve a profit target, usually management will choose certain accounting policies so that later company profits can be regulated. The selection of accounting policies is intended so that the company can increase or decrease the profit earned according to management's needs and desires so that the company's financial statements look good in the eyes of users.

Until now, earnings management is still a common phenomenon among companies. There are several companies involved in cases related to the implementation of this earnings management. The case of earnings management that recently occurred was the case of PT Tiga Pilar Sejahtera Food Tbk (AISA) where it was suspected that there had been an increase in the amount of Rp. 4 trillion by the old management in the company's 2017 financial statements. The results of a Fact-Based Investigation conducted by PT Ernst & Young Indonesia (EY) on AISA's new management dated March 12 2019, alleged inflation allegedly occurred in accounts receivable, inventories and assets remain AISA Group. This case example illustrates that the implementation of earnings management in a company will have a negative impact on the company, besides that it will also harm other external parties who have an interest in the company, investors are one of them.

There are many factors that motivate managers in managing earnings, profitability shows the company's ability to generate profits for a certain period of time. In general, the profitability value of a company can be used as an indicator to measure the performance of a company.The link between the level of leverage and earnings management lies when the high level of the leverage ratio will trigger the company to carry out earnings management by increasing profits so that it can show the company's ability to fulfill existing debt agreements.Company size describes the size of a company as indicated by total assets, total sales, average total sales, and average total assets. Large companies receive more attention from external parties such as investors, creditors, and the government. Therefore, large companies are more careful in reporting their financial condition, while smaller companies tend to do earnings management by reporting larger profits to show satisfactory financial performance.Based on the explanation above, the writer chooses profitability, leverage and company size as a benchmark for company earnings management.

2. Methodology

Types of Research

This type of research is a type of quantitative research. According to Sugiyono (2013)quantitative research is a type of research where the data is presented in the form of numbers. The data used in this study is secondary data from LQ 45 companies listed on the Indonesia Stock Exchange in 2018-2020.

Data Source

LQ 45 company data used in this study is secondary data obtained from www.idx.co.id. Sources of data also come from the financial statements of each company published by the company concerned.

Population

The population according to Sugiyono (2013) is a generalized area consisting of objects/subjects that have certain quantities and characteristics determined by researchers to be studied and then conclusions drawn. The population used in this study is LQ 45 companies listed on the Indonesia Stock Exchange in 2018-2020.

Sample

The sample according to Sugiyono (2013)is part of the number and characteristics possessed by the population. The sample used in this study is LQ 45 companies listed on the Indonesia Stock Exchange as of 31 December 2018-2020. The criteria for determining the sample in this study are as follows:

a. LQ 45 company listed on the Indonesia Stock Exchange from 2018-2020.
b. LQ 45 company that publishes annual financial reports in rupiah.
c. Companies that have complete data regarding information on total receivables, fixed assets, total assets, total revenue, net profit, operating cash flow, profit after interest and taxes, and total debt are needed in this study.

Data collection technique

According to Sugiyono (2013), data collection techniques are the main steps in research, because the main goal of research is to obtain data. Without knowing the data collection techniques, the research will not get data that meets the established data standards. The data collection technique used in this study is a documentation technique. The data used is secondary data, namely data that has been published or published for the general public. Data was obtained through the Indonesian Stock Exchange website in the form of LQ 45 company financial reports in 2018 - 2020.

Independent Variable

1. Profitability

In this study, profitability is measured by Return On Assets (ROA), this ratio measures how much a company's ability to generate profits from the assets used in the company(Noviyanti, 2014). This ratio is used as a measure of management's effectiveness in managing its investments. Profitability can be considered as the relationship between income and costs arising from the use of assets, both current and non-current assets, in operating activities (Gitman, 2009).

2. Leverage

In this study the leverage ratio is calculated using the debt to assets ratio. The debt to assets ratio describes the total assets owned by the company which are financed by the company's debtKasmir (2016).

3. Firm Size

In this study, company size is proxied by using Log Natural Total Assets with the aim of reducing excessive data fluctuations. By using natural logs, the number of assets with a value of hundreds of billions or even trillions will be simplified, without changing the proportion of the actual number of assets.Apriyanti & Budiasih (2016) company size has a negative effect on earnings management practices.

Dependent Variable

The dependent variable in this study is Earnings Management. Earnings management is an action taken by management that affects the reporting of profits generated by a company. Earnings management is detected by using discretionary accruals as a measure of earnings management.

Data Analysis Method

1. Descriptive Statistical Analysis

According to Sugiyono (2013), descriptive statistical analysis is used to explain data descriptions of all variables in the study seen from the minimum value, maximum value, mean (mean) and standard deviation. Descriptive statistical analysis aims to provide an overview of the distribution and behavior of research sample data.

2. Classic Assumption Test

The classical assumption test was carried out to find out whether the data used is feasible for analysis, because not all data can be analyzed by regression. The purpose of the classical assumption test is to find out whether the estimation results of the regression performed are free from bias which results in the regression results not being used as a basis for testing hypotheses and drawing conclusions. In this study, 4 classic assumption tests were used, namely the normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

3. Hypothesis Testing

This study uses a multiple regression model hypothesis test. This analysis aims to determine the direction of the relationship between the independent variables and the dependent variable, whether each independent variable is positively or negatively related and to predict the value of the dependent variable if the value of the independent variable increases or decreases.

3. Results and Discussion

Results of Descriptive Statistical Analysis

Financial Performance Descriptive Statistics

Variabel	N	Nilai Min.	Nilai Max.	Mean	Std. Deviasi
Profitabilitas	87	-0.0572	0.4793	0.0764	0.0870
Leverage	87	0.1264	1.0432	0.5260	0.2351
Ukuran Perusahaan	87	19.4538	27.9416	24.5248	1.8491
ManajemenLaba	87	-7.1846	5.2330	0.18623	1.7568

Based on the table above on the LQ 45 companies listed on the Indonesia Stock Exchange. The profitability ratio as measured through ROA shows a mean value of 7.64% with a standard deviation of 8.70%. The lowest ROA of -5.72% is owned by PT. XL Axiata, Tbk in 2018 while the highest ROA of 47.93% was owned by PT. Unilever Indonesia, Tbk in 2018. The leverage ratio as measured through DAR shows a mean value of 52.60% with a standard deviation of 23.51%. The lowest DR of 12.64% is owned by PT. Vale Indonesia, Tbk in 2019, while the highest DAR of 104.32% was owned by PT. Adhi Karya, Tbk in 2020. Company size as measured through firm size shows a mean value of 24.52 with a standard deviation of 1.84. The lowest frim size of 19.45 is owned by PT. Vale Indonesia, Tbk in 20119, while the highest firm size of 27.94 was owned by PT. Sri RejekiIsman, Tbk in 2018. Earnings Management which shows a mean value of 0.18 with a standard deviation of 1.75. The lowest profit management of -7.18 is owned by PT. Indofood CBP SuksesMakmur, Tbk in 2018, while the highest profit management of 5.23 is owned by PT. AKR Corporindo, Tbk in 2019.

Classical Assumption Test Results

1. Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		87
Normal Parameters[a,b]	Mean	0.1655839
	Std. Deviation	1.05955149
Most Extreme Differences	Absolute	0.088
	Positive	0.088
	Negative	-0.060
Test Statistic		0.088
Asymp. Sig. (2-tailed)		0.091[c]

From the table above, the results of the One-Sample Kolmogrov-Smirnov Test statistic show that all company variable data have a significance value of 0.091c > 0.05 or 5% (α = 5%). Based on these results, it can be said that the data in this study are normally distributed.

2. Multicollinearity Test Results

Variabel	**VIF**	***Keterangan***
Profitabilitas	1,144	Tidak Ada Gejala
Leverage	2,058	Tidak Ada Gejala
Ukuran Perusahaan	2,015	Tidak Ada Gejala

Based on table above, where Table 4.3 has a VIF value for the variables Profitability, Leverage, and Firm Size ⩽ 10, it can be concluded that it does not contain symptoms of multicollinearity.

3. Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.301[a]	0.091	0.058	1.7054151	1.920

The calculation results above show that the DW of 1.920 lies between the dU and (4-dU) values of 1.7243 and 2.2757 (dU< DW < 4-dU) so it can be concluded that there is no autocorrelation in the regression model used in this study.

4. Heteroscedasticity Test Results

Variabel	***Sig.***	***Keterangan***
Profitabilitas	0.895	Tidak Ada Gejala
Leverage	0.803	Tidak Ada Gejala
Ukuran Perusahaan	0.979	Tidak Ada Gejala

Based on the results of the SPSS output on table above it shows that the data on all variables of profitability, leverage, and company size have a significant value above 0.5. It can be concluded that there is no heteroscedasticity in the regression model.

Hypothesis Test Results

1. Results of Multiple Linear Regression Analysis

Unstandardized Coefficients		Standardized Coefficients		
B	Std. Error	Beta	t	Sig.
-8.349	3.134		-2.664	0.009
0.375	2.260	0.019	0.166	0.869
-2.512	1.122	-0.336	-2.239	0.028
0.401	0.141	0.422	2.839	0.006

The SPSS output results on the regression model in table 4.5 are giving a beta value of profitability (X1) of 0.375, leverage (X2) of -2.512, and firm size (X3) of 0.401. With the regression equation formula as follows:

Y1= -8.349+ 0.375 X1-2.512 X2+0.401 X3

2. Test Results F

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	24.027	3	8.009	2.754	.048[b]
	Residual	241.401	83	2.908		
	Total	265.427	86			

Based on the table above, it has a sig. 0.048b where the value is <0.05. So it can be concluded that the variables Profitability, Leverage, and Firm Size have a simultaneous effect on the Earnings Management variable.

3. Test Results T

a. The Effect of Profitability on Earnings Management

Based on the results of the linear regression test where the profitability variable as measured through ROA shows that it has no effect on earnings management, this is indicated along with the sig value. on the ROA variable worth 0.869 > 0.05 and has a beta result of 0.375. So it can be concluded that the profitability variable has no effect on earnings management.

b. Effect of Leverage on Earnings Management

Based on the results of the linear regression test where the leverage variable as measured by DAR shows that it has a negative and significant effect on earnings management, this is indicated along with the sig value. on the DAR variable worth 0.028 <0.05 and has a beta result of -2.512. So it can be concluded that the leverage variable has a negative effect on earnings management.

c. The Effect of Company Size on Earnings Management

Based on the results of the linear regression test where the company size variable as measured through firm size shows that it has no negative effect on earnings management, this is indicated along with the sig value. on firm size variable valued at 0.006 <0.05 and has a beta result of 0.401. So it can be concluded that the variable firm size has no negative effect on earnings management.

Discussion

1. The Effect of Profitability on Earnings Management

Based on the test results, it shows that profitability, as measured using the Return On Assets (ROA) ratio, has no effect on earnings management. This is evident because of the significant value of 0.869 > 0.05, it can be concluded that profitability has no effect on earnings management.

2. Effect of Leverage on Earnings Management

Based on the test results, it shows that leverage as measured using the Debt to Asset Ratio (DAR) has a negative effect on earnings management. This is proven because a significant value of 0.028 <0.05, and has a beta value of -2.512, thus leverage can be concluded to have a negative effect on earnings management.

3. The Effect of Company Size on Earnings Management

Based on the test results show that company size as measured using firm size does not have a negative effect on earnings management. This is proven because a significant value of 0.006 <0.05, and has a beta value of 0.401, thus it can be concluded that company size has no effect on earnings management.

4. Conclusion and Suggestion

Conclusion

Based on the results of the research and discussion conducted regarding "The Influence of Profitability, Leverage and Company Size on Profit Management (Empirical Study of LQ 45 Companies Listed on the Indonesia Stock Exchange in 2018-2020)", the following conclusions can be drawn:

1. Profitability as measured through Return On Assets (ROA) has no effect on earnings management. This is because the ROA ratio of LQ 45 companies has decreased due to the Covid-19 pandemic outbreak, even though the company's ROA ratio is still in accordance with applicable standards, but this decline has made it difficult for companies to make profits, thereby being able to have an impact on earnings management.
2. Leverage as measured using the Debt to Assets Ratio (DAR) has a negative effect on earnings management. This happened due to the increase in the DAR ratio due to the Covid-19 pandemic outbreak. So that the company has difficulty paying its obligations in a timely manner because the lack of income that enters the company results in a small profit, this certainly affects earnings management.
3. Firm size as measured by firm size has no effect on earnings management. This is due to a decrease in total assets of LQ 45 companies due to the Covid-19 outbreak which did not affect earnings management.

Suggestion

Based on the results of this study, the profitability variable measured through ROA has no effect and the firm size variable has no effect on earnings management, while the leverage and firm size variables measured through DAR have a negative effect on earnings management. So it is recommended for further research to increase the number of years tested, so that the research results can be more accurate.

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