DETERMINANTS OF EARNINGS MANAGEMENT ON MANUFACTURING COMPANIES

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Abstract

The purpose of this research is to analyze and explain the effect of profitability, leverage, firm size, and sales growth with earnings management of manufacturing companies that listed in Indonesian Stock Exchange during 2017 up to 2019. Data collection method used is purposive sampling method, which resulted in 102 companies during three years of observation. And the statistical method used is multiple linear regression and performed classical assumption first. The results showed, profitability and leverage does not affect the earnings management, while firm size has a negative and significant effect on earnings management, and then sales growth has effect the earnings management. Thus Agency Theory, Stewardship Theory, (Positive Accounting Theory are accepted.

Keywords: Earnings Management, Profitability, Leverage, Firm Size, Sales Growth.

INTRODUCTION

The world economy is currently experiencing a very rapid development where companies grow into giant companies as well as the emergence of new technology-based companies today (Melinda and Widyasari, 2019). Facing competition in the modern era, every company is required to be able to manage important functions contained in the company effectively and efficiently so that the company can lead in the competition faced. According to Melinda and Widyasari (2019) financial managers have a very important role in a company, and are threatened with losing their careers if they fail to run and produce good financial statements for the company. Investors love managers who can increase the value of the company and can lead the company towards sustainable growth. This becomes a difficult pressure and challenge for managers to increase profits continuously in dynamic economic conditions. Every company, whether legal entity or individual, cannot be separated from the need for information. One of the information needed is accounting information in the form of financial reports (Syamsudin & Primayuta, 2009).

One of the important parts of the financial statements is the profit section. Profit is used as a measurement of the performance and improvement of an entity. Profit information contained in the financial statements is the main information in making investment decisions. Therefore, earnings information is usually the goal of conducting earnings management practices with a specific purpose (called earnings management) (Savitri, 2019). The company's profit used to measure operational performance, business success or failure and the achievement of set operational goals. External and internal parties of the company often use profits in decision making, so that financial statements containing profit and loss information must be of good quality so as not to mislead users (Khoiruddin, 2016).

Over time, issues related to earnings management have developed in such a way and become an important concern related to the problems faced by the company. Earnings management involves the use of acceptable accounting rules and procedures as well as avoiding business activities to achieve the desired end goal. Earnings management is a form of management disclosure that affects financial reporting, a process for personal gain (Cudia & Dela, 2018).

Sutino and Khoiruddin (2016) said that earnings management practices have eroded investor confidence in the quality of the company's financial reporting and hindered the smooth flow of capital in the capital market. Earnings management practices will not occur if the expected profit does not differ much from the actual profit. Achmad's research (2007) found that companies in Indonesia were detected conducting earnings management with motivation: (1) management compensation, (2) dividend payments, (3) debt covenants, (4) Debt restructuring, (5) tax payments (political costs), (6) performance shifting, and (7) business continuity constraints.

This is a several phenomena of earnings management that occurred in Indonesia several years ago, PT. Indofarma (Persero) (2001), PT. Kimia Farma Tbk (2001), PT. Lippo Tbk (2002), Perusahaan Indomobil (2002), PT. Garuda Indonesia (persero) (2015), PT Hanson International Tbk (2016), PT Tiga Pilar Sejahtera Food Tbk (2019), and PT Asuransi Jiwasraya (Persero) (2020). Based on the phenomena that occur, it can be concluded that the practice of earnings management has actually occurred, there are many factors that can influence management to carry out earnings management, in addition to management factors, the public accountant factor is also in auditing the company's financial statements can also be a factor that can minimize management.

in practicing earnings management. There are several factors that are thought to have an effect on earnings management, including profitability, leverage, firm size, and sales growth. These variables have indeed been taken in several studies by previous researchers, but they still show variations in research results and are not consistent.

The first factor which affecting earnings management is profitability. Profitability is the ability of a company to be able to achieve profit. According to Wardani & Isbela (2017), the higher the profitability value, the company will tend to practice earnings management, because the company is motivated to reflect the company in prime condition.

Based on research conducted by Lusmeida (2019), Cudia & Dela (2018), Firnanti et al. (2019), and Fahmie (2018) profitability has a significant positive effect on earnings management. In contrast to the research conducted by Melinda & Widyasari (2019), Sihombing et al. (2020), Dwiarti & Hasibuan (2019), Damayanti & Kawedar (2018), and Trisnawati et al. (2015) results that profitability has no effect on earnings management.

The second factor which affecting earnings management is leverage. Leverage is a ratio that indicates the amount of assets owned by a company financed by debt. The higher the company's debt, the higher the risk faced by the company, so that as a result this condition encourages company management to practice income smoothing (Purnama, 2017).

Based on research conducted by Fitri et al. (2018), Dang et al. (2017), Fajri (2019), Hapsari & Kurnia (2016), and Fahmie (2018) result that leverage has no effect on earnings management. In contrast to research conducted by Nalarreason et al. (2019), Cudia & Dela (2018), Kusumawati (2019), Agustia (2013), Priharta & Rahayu (2019), and Firnanti et al. (2019) which results that leverage has a significant positive effect on earnings management.

The third factor which affecting earnings management is firm size. Firm size is a scale that can indicate whether the company is large or small. Large companies tend to be careful in making their financial statements because the financial statements of large companies are usually noticed by investors (Purnama and nurdiniah, 2019). Small companies are considered to do more earnings management than large companies because small companies want to show good performance so that investors will be interested in investing in these companies (Bulutoding et al., 2019).

Based on research conducted by Dang et al. (2017), Nalarreason et al. (2019), Kusumawati (2019), and Hapsari & Kurnia (2016) firm size has a significant positive effect on earnings management. In contrast to the research conducted by Cudia & Dela (2018), Firnanti et al. (2019), Djashan & Lawira (2019), Haider (2020), and Purnama & Nurdiniah (2019) resulted that firm size had no significant effect on earnings management.

The last factor that is thought to affect earnings management is sales growth, sales growth shows that the greater the sales, the greater the profits obtained by the company so that the profits obtained by the company will be even greater (Dewinta and Setiawan, 2016). This variable is used in the research model to detect cases of companies with very high sales growth which will result in information asymmetry. This situation can improve earnings management (Linasmi, 2016).

Based on research conducted by Lusmeida (2019), Linasmi (2017), Djashan & Lawira (2019), and Melinda & Widyasari (2019) resulted that sales growth has no significant effect on earnings management. In contrast to Firnanti et al. (2019), Turot (2019), Edison & Nugroho (2020), and Bulutoding et al. (2019) sales growth has a significant positive effect on earnings management.

Earnings management is a management action in improving the quality of financial reports so that these financial statements have a good impact on the company such as increasing investors, taxation interests and decision making for the company's own management. The cause of earnings management often occurs due to differences in interests between management (agent) and shareholders (principal) which is often referred to as agency theory. Managers are internal parties who get more information than external parties. By utilizing information, managers can manipulate earnings to present it to external parties for personal gain so that external parties do not get real information, this condition is referred to as information asymmetry.

LITERATURE REVIEW

Agency Theory

In (1976) research conducted by Jensen and Meckling described that the agency relationship is a contract between the manager (agent) and the investor or shareholder (principal). There is a conflict of interest between the owner and the agent due to the possibility that the agent acts not in accordance with the interests of the principal, thus triggering an agency conflict.

The problem that arises as a result of the company's ownership system is that the agent does not always make decisions that aim to meet the best interests of the principal but only cares about the benefits of the agent or manager. This results in an imbalance of information (information asymmetry) which causes agency problems, due to differences in information knowledge from management (agents) and investors (principals) so that management can manipulate financial statement information without the shareholders knowing the truth. According to Scott (2010) Adverse selection is one of the information asymmetry where potential business actors have more information than other business actors. Meanwhile, moral hazard is a form of asymmetry information where a business actor can observe the activities of business actors in full compared to other parties. Eisenhardt (1989) stated three assumptions of human nature to explain the theory of agency, including (1) humans generally put self interest first, (2) humans have limited thoughts about future perceptions (bounded rationality), and (3) humans always stay away from risk (risk averse).

Stewardship Theory

The study is based on stewardship theory. Stewardship theory appears along with the development of accounting. Stewardship theory is based on psychology and sociology theory and comes from management accounting thinking, where stewards are motivated to behave as the principal wishes. Stewardship theory is a motivated depiction of a manager's condition from the target of the main outcome of the organization's interests rather than motivated against his personal interests (Donaldson and Davis, 1989).

Stewardship theory explains that common interests are the basis of a manager's actions. If there is a difference of interest between the principal and steward, then the steward will try to cooperate because acting in accordance with the principal's actions and in the interests of the common good can be a rational consideration in order to achieve the common goal. The important thing in stewardship theory is that the manager aligns his goals according to the Principal's goals but that does not mean that the steward has no needs (Raharjo, 2017).

Positive Accounting Theory

Positive Accounting Theory is closely related to the practice of earnings management, because this theory that explains the practice of earnings management in the company. Positive accounting theory was put forward by Watts and Zimmerman (1986) with the aim of describing and explaining how the accounting process from the beginning to the present and how accounting information is presented so that it can be communicated to other parties within the company. According to Watt and Zimmerman (1986), in positive accounting theory there are 3 hypotheses that can be a source of reference in explaining and predicting symptoms or events of earnings management in accounting, namely: Bonus Plan Hypothesis, Debt Convenant Hypothesis, Size Hypothesis.

Earnings Management

Based on the agency theory that has been described previously that there is a conflict of interest between the agent (manager) and the principal (stockholder) as a result of information as symmetry so that the agent makes deviations to benefit himself, one of them is by making profit arrangements to make it look good which is called earnings management. (Indah et al., 2018).

There is no specific or clear definition of earnings management. Previous research has provided many definitions for earnings management. Schipper (1989) was among the first to provide a definition of earnings management. Schipper (1989) defines it as “Purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain”. According to Healy and Wahlen (1999) “Earnings management occurs when managers use judgment in financial reporting and structuring transactions to alter financial statements to mislead some stakeholders about the firm's underlying economic performance or to influence contractual outcomes that depend on reported accounting numbers".

According to Amidu et al. (2019), Healy (1985) and Putra * Simanungkalit (2014) state that there are 3 techniques that can be used by managers in earnings management, (1) Taking a bath, which is the act of deleting some assets by imposing future costs on current period so that the profit earned in the next period increases. (2) Income maximization, is carried out when profits experience a decrease or loss by increasing profits in the financial statements with the aim of obtaining a bigger bonus. (3) Income minimization, is carried out when the company's profit is high, by eliminating capital goods, advertising costs, intangible assets, and other expenses. (4) Income smoothing, is done by smoothing reported profits for the benefit of external parties because in general investors (stakeholders) prefer stable profits.

Profitability and earnings management

Profitability is the company's ability to generate profits by selling, adding assets and own capital. Profitability ratios produced by companies that show high or low will showed the company's performance, good company performance so that is reflected by high profitability, companies tend to carry out earnings management in controlling company profits so that they are not too high or low (Kusumawati, 2019). If the profitability of the company is low, the bonuses received by the company's managers will also be low. Therefore, in general, management tends to take earnings management actions so that the company's management gets bonuses or compensation. So that if profitability is high, investors will believe that the company's performance is good (Purnama, 2019).

Research on profitability (ROA) and earnings management has been conducted by Firnanti et al. (2018), Kusumawati (2019), Fahmie (2018), Cudia & Dela (2018), and Lusmeida (2019) state that profitability proxied by ROA has a significant effect on earnings management.

Leverage and earnings management

Leverage is a comparison between total liabilities and total equity of the company. The higher the leverage ratio, the higher the risk of the company paying its debt, it will directly impact the trust of creditors. The high leverage ratio represents the amount of debt to external parties. According to Purnama (2017) The situation will stimulate the company's managers to practice income smoothing. In agency theory, the closer a company is to a breach of an accounting-based debt agreement, allowing managers to perform accounting procedures to move reported profits from a future period to the current period. This is in line with the hypothesis in the debt covenant hypothesis which states that managers are motivated to conduct earnings management to avoid breach of debt covenants (Kusumawati, 2019). In managing the finances of management companies are sometimes wrong in the selection of corporate strategies. This error can result in a greater level of corporate leverage, which encourages the company to conduct earnings management so that its performance is well judged by shareholders. If the leverage level is large then the company will take earnings management action to keep the company getting loan assistance from creditors.

Research on leverage and earnings management has been conducted by Firnanti et al. (2019), Kusumawati (2019), Cudia & Dela (2018), Edison & Nugroho (2020), and Nalarreason et al. (2019) states that leverage has a significant effect on earnings management.

Firm size and earnings management

Firm size is one of the factors driving earnings management practices and according to Reviani & Sudantoko (2012) firm size is a value that provides an illustration of how big a company is with a proxy that represents firm size through the number of employees, total assets, total sales, and market capital. The greater the total assets, income, and market capacity, the greater the size of an entity (Rice, 2016). The bigger a company, the more attention it will get from analysts, investors, or even the government. thus, the company will play down the amount of profit and take earnings management actions to attract investors to invest in the company. Scott (2014) stated that one of the factors that encourage managers to carry out earnings management is political cost. Political cost in positive accounting explains the motivation of management to trick various government regulations. The company carries out earnings management to reduce profits so that tax revenues are not too large. The selection of accounting methods in reporting income (profit) will give different results to the calculation of taxes as the basis for tax payments.

Research on firm size and earnings management has been conducted by Kusumawati (2019), Dang et al. (2017), Hapsari & Kurnia (2016), and Nalarreason et al. (2019) states that firm size has a significant effect on earnings management.

Sales growth and earnings management

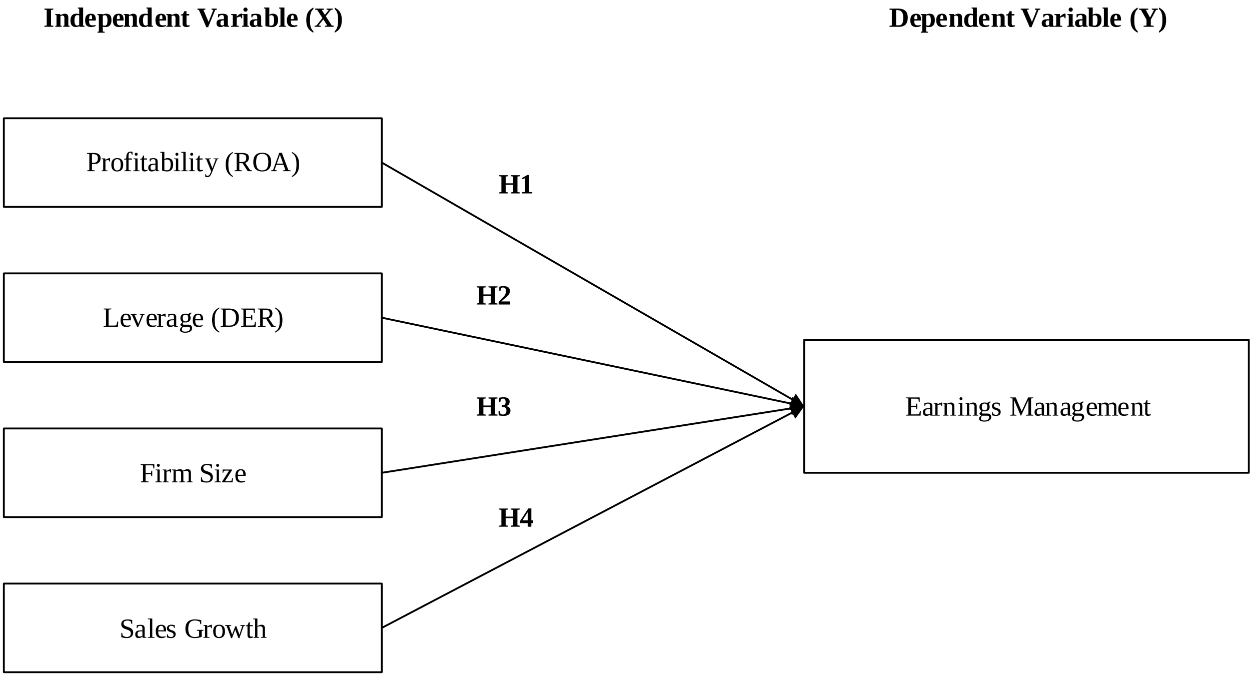
This variable is used in research to determine the case of companies with very high sales growth will produce information asymmetry, so in this condition will encourage managers to practice earnings management (Anindya et al., 2020). According to Astari & Suryanawa (2017) companies that have a high sales growth rate will encourage motivation in conducting earnings management in their financial statements. Management will always maintain the trend of revenue and sales earned if the profitability of the company is low, usually the manager will take earnings management actions to save the company's performance on the investors side.

Research on sales growth and earnings management has been conducted by Anindya et al. (2020), Firnanti et al. (2018), Edison & Nugroho (2020), Bulutoding et al. (2019), and Turot (2019) stated that sales growth has a significant effect on earnings management.

Research model

Figure 1 presents the research model of our study. The independent variable of profitability is measured by ROA, leverage is measured by DER, firm size is measured by Ln(Total Assets), and sales growth. The dependent variable of earnings management is measured by DAC (Discreationary Accrual).

Figure 1. Research model used in this study.



Hypothesis proposed in this study is as follows:

H1: Return on Assets has a significant positive effect on earnings management

H2: Leverage has a significant positive effect on earnings management

H3: Firm size has a significant positive effect on earnings management

H4: Sales Growth has a significant positive effect on earnings management

RESEARCH METHOD

Data and sample

This study investigates earnings management practice. The sample in this study were manufacturing companies in Indonesia. The initial sample of the study consisted of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the time period from 2017 to 2019. By using secondary data, annual reports are used for research purposes in manufacture companies listed on the IDX in 2017 - 2019.

We used a purposive sampling method to maintain the same number of observations during the observed years. With the criteria used in determining the sample: 1) the sample must be actively registered on the IDX 2010 to 2018; 2) the sample operates in a banking sector company; 3) the sample publishes an annual report by presenting the complete data. A more detailed sample distribution is presented in Table 1.

Table 1: Sample selection criteria

	Criteria	Total
1	Manufacturing companies listed on theIndonesia Stock Exchange (IDX) for the period 2017 – 2019.	185
2	Banking sector companies that issued consecutive financial reports for at least one year in the period 2017 – 2019	(50)
3	Manufacturing companies that do not use rupiah currency in their financial statements	(30)
4	Manufacturing companies that have negative leverage levels	(3)
5	Manufacturing companies with annual reports that do not provide complete data and information on variables in the study.	0
	Total sample used	102
	Number of obeservation	306

Variable measurement

Dependent variables

Dependent variables in this research are earnings management, earnings management is an action of managers who choose accounting policies to achieve some specific objectives and accounting policies in question is the use of accrual in preparing financial statements (Agustia, 2013). Earning management in this study was measured by identifying/measuring discretionary accrual using *modified jones* model (Dechow et al., 1996).

Independent variables

In this research, the authors examined four independent variables. each of the independent variables is (1) Return On Assets (ROA), ROA is used to measure the effectiveness of companies in making profits by utilizing their assets (Dwiarti & Hasibuan, 2019; Lusmeida, 2019). (2) Debt Equity Ratio (DER), Debt Equity Ratio is one of the ratios used to measure the solvency rate of the company, The higher the leverage ratio, the higher the operational activities financed by debt (Fahmie, 2018). (3) Firm Size, firm size is a scale to classify the size of the company according to total assets. Basically the size of the company is only divided into three categories, namely large companies, medium companies, and small companies (Machfoedz, 1994). (4) Sales growth, Sales growth is an important indicator of market acceptance of the company's products and or services. This is because the revenue generated from sales will be used to measure the rate of sales growth (Swastha & Handoko, 2008).

Table 2: Variable Definiton

No	Variable	Definition	Formula
Dependent Variable			
1	Earnings Management	Measurement of earnings management practices with DA (Discretionary Accruals) values with modified Jones model 1991 model	*Step 1:* $\boldsymbol{TACit = Nit - CFOit}$
			Step 2: $\left(\frac{\boldsymbol{TACit}}{\boldsymbol{Ai(t-1)}}\right) = \boldsymbol{\beta 1}\left(\frac{\boldsymbol{1}}{\boldsymbol{Ai(t-1)}}\right) + \boldsymbol{\beta 2}\left(\frac{\boldsymbol{\Delta REVt}}{\boldsymbol{Ai(t-1)}}\right) + \boldsymbol{\beta 3}\left(\frac{\boldsymbol{PPEt}}{\boldsymbol{Ai(t-1)}}\right) + e$
			Step 3: $\boldsymbol{NDAit} = \boldsymbol{\beta 1}\left(\frac{\boldsymbol{1}}{\boldsymbol{Ai(t-1)}}\right) + \boldsymbol{\beta 2}\left(\frac{\boldsymbol{\Delta REVt}}{\boldsymbol{Ai(t-1)}} - \frac{\boldsymbol{\Delta RECt}}{\boldsymbol{Ai(t-1)}}\right) + \boldsymbol{\beta 3}\left(\frac{\boldsymbol{PPEt}}{\boldsymbol{Ai(t-1)}}\right)$
			Step 4: $\boldsymbol{DACit} = \left(\frac{\boldsymbol{TACit}}{\boldsymbol{Ai(t-1)}}\right) - \boldsymbol{NDAit}$
Main independent variables			
1	ROA	Ratio that compares earnings after tax with total assets owned by the company	$\boldsymbol{ROA} = \frac{\boldsymbol{Earnings\ After\ Tax}}{\boldsymbol{Total\ Asset}}$
2	DER	The ratio that compares the total liability with the total equity owned by the company	$\boldsymbol{DER} = \frac{\boldsymbol{Total\ Liability}}{\boldsymbol{Total\ Equity}}$
3	Firm Size	The size of the company is based on the natural logarithm of the total assets owned by the company	$\boldsymbol{SIZE = Ln\ (Total\ Aset)}$

4	Sales Growth	Ratio that showing sales growth in the year compared to the previous year	$\boldsymbol{S\_Growth} = \left(\frac{\boldsymbol{Sales\ Total\ t - Sales\ Total\ (t-1)}}{\boldsymbol{Sales\ Total\ (t-1)}}\right)$

Regression model

To estimate the relationship between profitability (ROA), leverage (DER), firm size, and sales growth on the earnings management in manufacturing companies on listed in Indonesia Stock Exchange period of 2017-2019, we adopted a panel data regression analysis by combining time-series (three years) and cross-sectional (106 companies) data. The relationship between profitability (ROA), leverage (DER), firm size, sales growth and earnings management was investigated through panel data regression with the following equation model:

$$\mathbf{ML = \alpha 0 + \beta 1\ ROA_{it} + \beta 2\ DER_{it} + \beta 3\ SIZE_{it} + \beta 4\ S\_Growth_{it} + \varepsilon_{it}}$$

Where:

ML	= Earnings Management
ROA	= Return On Asset
DER	= Debt Equity Ratio
SIZE	= Firm Size
S_Growth	= Sales Growth
α0	= Constanta
β1- β4	= Regression coefficient of each variable
ε	= *Error*

RESULT AND DISCUSSION

Descriptive statistics

We begin discussing our findings by first presenting the descriptive statistics of our variables of interest. Hereby, we provide the information based on the mean value, standard deviation, minimum, median, and the maximum values of each variable. Table 3 presents the basic information with regard to descriptive statistics analysis.

Table 3: Descriptive statistics analysis

	MALAB	***ROA***	***LEV***	***SIZE***	***S_GROWTH***
Mean	0.000724	0.036517	3.883419	7.072.489	0.081952
Maximum	0.045102	0.921000	786.9300	96.537.796	1.036100
Minimum	-0.010644	-4.21000	0.090589	117.423	-0.7020
Std. Dev.	0.003606	0.310444	44.97298	14.837.938	0.205163
Observations	306	306	306	306	306

Based on table 3 descriptive statistical results of earnings management in manufacturing companies on the IDX, the minimum value is -0.010, the maximum value is 0.045 with an average of 0.000724. The average manager performs earnings management by increasing the profit rate.

The average profitability of 0.036517 indicates the company is capable of making a profit. The calculation of average leverage is 3.883419, this shows the average leverage level above 1 which indicates the level of debt in manufacturing companies is very high followed by high risk so it is concluded that the average manufacturing company is financed by debt. The average firm size of 7.072.489 indicates that the company is able to manage a significant amount of assets. The average sales growth of 0.081952 indicates that the company is able to maintain a positive trend of sales.

Correlation analysis

Table 4 presents the correlation analysis output. Based on the results in Table 4 shows the results that there is no multicollinearity or no correlation coefficient between variables with a value of more than 0.9000, it can be concluded that there is no correlation between the independent variables used in this study.

Table 4: Correlation analysis output

	ROA	***LEV***	***SIZE***	***S_GROWTH***
ROA	1	-	-	-
LEV	-0.042962***	1	-	-
SIZE	0.101654*	-0.008613***	1	-
SGROWTH	0.212580*	-0.163522*	0.009520***	1

*Note: *,**,*** menandakan signifikansi pada level 10%, 5% dan 1%

Main analysis

the results of the regression test which is the main regression analysis. In this research hypothesis, it is assumed that ROA have a positive and significant effect on earnings management, DER have a positive and significant effect on earnings management, firm size have a positive and significant effect on earnings management, sales growth have a positive and significant effect on earnings management. The researcher tested the research hypothesis by providing empirical evidence about the relationship between ROA, DER, firm size, sales growth and earnings management. The regression test model this time uses a fixed effect model, because that model is the most appropriate model chosen for this study. evidenced by the Chow test and Hausman test.

Table 5: Panel data regression analysis uses independent variables to explain the effect of earnings management on other independent variables

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Dependent Variable: MALAB
Method: Panel Least Squares
Sample: 2017 2019
Periods included: 3
Cross-sections included: 102
Total panel (balanced) observations: 306
===========================================================================
    Variable          Coefficient   Std. Error    t-Statistic     Prob.
===========================================================================
       C                0.105994     0.024715      4.288656      0.0000
      ROA               0.000292     0.000671      0.435249      0.6639
      DER               7.24E-07     4.84E-06      0.149525      0.8813
      SIZE             -0.007252     0.001694     -4.281118      0.0000
    SGROWTH             0.006245     0.001015      6.155238      0.0000
===========================================================================
                          Effects Specification
===========================================================================
 Cross-section fixed (dummy variables)
===========================================================================
 R-squared              0.558461    Mean dependent var       0.000724
 Adjusted R-squared     0.326653    S.D. dependent var       0.003606
 S.E. of regression     0.002959    Akaike info criterion   -8.540299
 Sum squared resid      0.001751    Schwarz criterion       -7.250429
 Log likelihood         1412.666    Hannan-Quinn criter     -8.024435
 F-statistic            2.409151    Durbin-Watson stat       2.130332
 Prob(F-statistic)      0.000000
===========================================================================
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Discussion

The Effect of Profitability (ROA) on Earnings Management

The results showed that the probability value of ROA was more than 0.05 (0.6639 > 0.05) and a coefficient of 0.000292 indicating that ROA parially did not effect on earnings management.

This means that companies that have high and low ROA does not effect on earnings management. In fact, managers do not always act opportunist to get positive results and have a positive performance in front of the owner. This is supported by stewardship theory put forward by (Davis, Schoorman, & Donaldson, 1997) which states that there is a psychological and sociological relationship where the manager is as steward will act in the interests of the owner. Stewardship theory assumes a strong relationship between organizational success and owner satisfaction that is evident in the manager's behavior when faced with a situation of difference of interest between steward and owner, where stewards prefer to cooperate rather than oppose it. Thus the manager will straighten the goals in accordance with the owner's goals so that the tendency to perform earnings management does not occur and the company's goals can be achieved. The results of this study are in line with Anindya et al. (2020), Melinda & Widyasari (2019), Damayanti & Kawedar (2018) which state that profitability has no effect on earnings management. In contrast to the research conducted by Lusmeida (2019), Firnanti et al. (2018), Cudia & Dela (2018) which provide empirical evidence that profitability has a significant positive effect on earnings management. This difference in results is probably due to the difference in the year of the study, the difference in proxies, and the type of company sampled.

The Effect of Leverage (DER) on Earnings Management

The results showed that the leverage value of DER was more than 0.05 (0.8813 > 0.05) and a coefficient of 0,0000000724 indicating that DER partially did not effect on earnings management.

This means that companies that have high and low DER does not effect on earnings management. Because debt to equity ratio (DER) is the ability of the company in paying its debts through its own capital owned by the company. With the higher liabilities this will increase the risk of the company to the debt. This is because the company does not need actions that will help the company in certain situations, so the debt to equity ratio (DER) has no effect on earnings management. The results of this study are in line with research by Fahmie (2018), Anindya et al. (2020), Dang et al. (2017), Hapsari & Kurnia (2016) which state that the debt to equity ratio (DER) has no effect on earnings management in manufacturing companies listed on the Indonesia Stock Exchange (IDX). In contrast to the research conducted by Kusumawati (2019), Firnanti et al. (2018), Cudia & Dela (2018), Nalarreason et al. (2019) which provides empirical evidence that Debt Equity Ratio (DER) has a positive effect on earnings management.

The Effect of Firm Size (SIZE) on Earnings Management

The results showed that the firm size value of SIZE was less than 0.05 (0.0000 < 0.05) and a coefficient of -0.007252 indicating that SIZE partially has a significant effect on earnings management in a negative direction.

This means the larger the size of the company, the earnings management practices carried out by managers will decrease, on the contrary the smaller the size of the company, the earnings management practices conducted by managers will increase. Firm size is one of the factors driving earnings management practices. The larger the company, the more attention it will receive from many parties, especially the government and the public. The company will minimize earnings management practices or not play with the amount of profit to attract investors to invest in the company. Large companies tend not to carry out earnings management, due to maintaining the trust of shareholders and investors (Muslih & Panjaitan, 2019). The results of this study are supported by Agusti & Pramesti (2013), Swastika (2013), Kusumawardhani (2012) and Sunaryo (2010) who provide empirical evidence that company size has a significant negative effect on earnings management. In contrast to the research conducted by Anindya et al. (2020), Firnanti et al. (2018), Cudia & Dela (2018) who stated that firm size has no effect on earnings management.

The Effect of Sales Growth (S_Growth) on Earnings Management

The results showed that the sales growth value was less than 0.05 (0.0000 < 0.05) and a coefficient of 0,00624 indicating that S_Growth partially has a significant effect on earnings management in a positive direction.

This shows that the higher sales growth in manufacturing companies will improve earnings management practices. otherwise, if sales growth decrease, earnings management practices will also decrease. This is due to the chairman, when the company has a high level of sales growth, managers will use it to get a bigger bonus for that manager will carry out earnings management in an effort to show its performance. According to Watts and Zimmerman (1986), there are 3 PAT (Positive Accounting Theory) hypotheses, one of which is The Bonus Plan Hypothesis, “managers of firms with bonus plans are more likely to use accounting methods that increase current periode reported income”. So in the case of managerial bonuses or compensation, the owner of the company promises that the manager will receive a certain amount of bonus if the company's performance reaches a targets that have been set before. The results of this study are supported by research conducted by Anindya et al. (2020), Firnanti et al. (2018), Edison & Nugroho (2020), Bulutoding et al. (2019) which found that sales growth had a significant positive effect on earnings management, because management will always show good performance for company owners. In addition, it also contradicts research conducted by Fahmie (2018), Lusmeida (2019) which states that sales growth has no effect on earnings management.

CONCLUSION

This study aims to determine the effect of profitability (ROA), leverage (DER), firm size, and sales growth on earnings management. This study uses a sample of manufacturing companies listed on the IDX during the 2017-2019 period. The following are the conclusions obtained in this study:

Profitability proxied by ROA has no effect on earnings management. High or low level of profitability does not affect earnings management. This is due to increased profitability indicating good company performance and shareholders will receive increasing profits. Because the manager also gets a profit so he does not take any earnings management action.

Leverage as proxied by DER has no effect on earnings management. High or low level of leverage has no effect on earnings management. This is because the company does not need actions that will help the company in certain situations. The company is in a good or safe condition and is able to pay the debt used to finance the company's assets so that managers are not interested or motivated to practice earnings management.

Firm size has a negative and significant effect on earnings management. The larger the size of a company, the lower the practice of earnings management. This shows that company size can explain the possibility of earnings management, because larger companies have less incentive to carry out earnings management than small companies, because large companies are seen as more critical by shareholders and government.

Sales growth has a positive and significant effect on earnings management. The higher the rate of sales growth it will increase the practice of earnings management. Described in the positive accounting theory (bonus plan hypothesis), when the company has a high sales growth rate, the manager will use it to get a bigger bonus for which the manager will perform earnings management in an attempt to demonstrate his performance.

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