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THE EFFECT OF LEVERAGE, COMPANY SIZE, PROFITABILITY ON PROFIT MANAGEMENT OF MANUFACTURING COMPANIES LISTED ON THE IDX IN 2022

Raden Muhamad Adifa Arya Ningrat
Achmad Fauzi
Mardi

Universitas Negeri Jakarta

Abstract:
This research aims to determine the influence of Leverage, Company Size and Profitability on Manufacturing Companies Listed on the IDX in 2022. The approach used in this research is Quantitative. The population in this research is all chemical subsector manufacturing companies listed on the IDX. The sampling method was carried out by adopting the Purposive Sampling method so that a sample of 20 companies was obtained. Data analysis techniques use descriptive analysis, classical assumption testing, multiple linear regression analysis, and hypothesis testing. The research results show that partially the Leverage and Company Size variables have a negative and significant effect on Profit Management, while the Profitability variable has no effect on Profit Management. This research also found that simultaneously Leverage, Company Size and Profitability did not have a significant effect on Profit Management.

Keywords:
Profit Management, Leverage, Company Size, Profitability

BACKGROUND

In seeing business growth moving very quickly, business owners are required to have financial reports that can provide information about the company's financial performance. Every company must be able to prepare financial reports that have functions and objectives that are intended to help the company's interests. With the speed of information that can be obtained nowadays, financial reports are a means of communication that can be used as a bridge between parties with an interest in a business, where financial reports show the state of financial performance and financial position of a company. It was revealed that the importance of financial reporting is also to check the accountability of managers in managing the owner's resources (Gunawan, K., Darmawan, A. S., & Purnamawati, 2015). In the above case, companies often make financial reports which contain a description of the performance and obstacles of a company. Therefore, many companies try to make or show financial reports that

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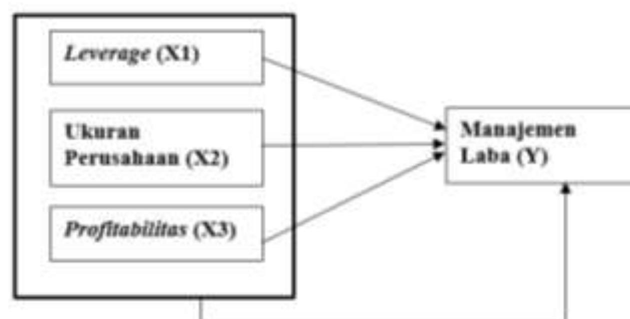
can be easily accepted by related parties, in this case investors, so that they are interested in collaborating with the company. Companies are generally founded with the aim of making a profit. A company needs profits to continue its survival.

In this case, the company must have good profit management. The amount of profit achieved is an indicator of management performance in achieving company goals. In addition, investors tend to use profit information contained in financial reports as a basis when making investment decisions. Therefore, managers will manipulate profits to improve performance. Based on previous research, researchers are interested in discussing earnings management because of differences of opinion. In previous studies, a lot of research has been conducted on earnings management. However, there are differences in the results of previous research. The first, according to (Ahadiyah et al., 2023), from the results of hypothesis testing using the T test, it was found that company size and profitability have no effect on earnings management. On the other hand, leverage has an effect on earnings management. The F test results show that company size, debt ratio, and profitability simultaneously influence earnings management.

Then according to research (Utari & Sari, 2016) leverage has a positive effect on earnings management. Leverage has a significant influence on earnings management because the company does not rely on debt to finance its assets so it does not influence management decisions in managing earnings. Meanwhile, according to (Nurdiniah & Herlina, 2015) the variable that has a big influence on earnings management is profitability, a company that shows a positive direction. The more profitable a company is, the more sophisticated the earnings management practices implemented in that company are. The leverage and company size variables do not have a significant influence on mining company earnings management practices. Furthermore, according to (Faranita & Darsono, 2017) and (Savitri & Priantinah, 2019) leverage does not have a significant influence on earnings management. Then according to (Fandriani & Tunjung, 2019) and (Ajisman & Yurniwati, 2023) leverage shows a positive effect on earnings management while company size does not have a significant effect on earnings management.



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METHOD

A quantitative approach is used in this research because the data in this research is in the form of numbers calculated using statistical methods to test the research hypothesis. This research explains the cause and effect relationship between two or more variables and analyzes how one variable influences other variables. This research examines the influence of leverage, company size and profitability on earnings management in chemical sub-sector manufacturing companies listed on the IDX in 2022. Secondary data refers to the data used in this research. The data collection method used in this research is the documentation method. The secondary data collected is data obtained from data collection institutions and will be presented to the public in the form of the company's 2022 annual report which has been published. In this research, data collection was carried out by downloading annual financial report data of chemical sub-sector manufacturing companies that met all sampling criteria via the official website of the Indonesia Stock Exchange (BEI) and the websites of each company. The analytical method of this research aims to partially and simultaneously analyze the influence of the independent variables leverage, company size and profitability on earnings management which is the dependent variable of this research. This research was assisted by using the SPSS program as a data analysis method.

RESULT & DISCUSSION

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.229	.194		-1.178	.247
	Leverage	-.001	.007	-.018	-.149	.883
	Ukuran Perusahaan	.006	.007	.110	.926	.362
	Profitabilitas	.007	.001	.722	5.903	.000

a. Dependent Variable: Manajemen Laba

Based on the test results table above, then:

1. The Leverage variable has a sig value. 0.883, with a calculated t value of -0.149 which is greater than the t table -1.734. Therefore, it can be concluded that Leverage has a negative and insignificant effect on Earnings Management.

2. The Company Size variable has a sig value. 0.362, with a calculated t value of 0.926 which is smaller than the t table of 1.734. Therefore, it can be concluded that company size has no effect and is not significant on earnings management.
3. The Profitability variable has a sig value. 0.000, with a calculated t value of 5.903 which is greater than the t table of 1.734. Therefore, it can be concluded that Profitability has a positive and significant effect on Profit Management.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.742[a]	.551	.509	.072940414

a. Predictors: (Constant), Profitabilitas, Ukuran Perusahaan, Leverage

The correlation value is 0.742 which shows the magnitude of the relationship between the Leverage, Company Size and Profitability variables on Profit Management. If this value is squared, it will produce an R square value of 0.551. The coefficient of determination aims to determine the magnitude of the influence of the independent variable on the dependent variable. The result of the coefficient of determination above is 0.551, which can be said to be that the Leverage, Company Size and Profitability variables are able to influence Profit Management by 55.1%, while the rest is influenced by other variables which are not the focus of this research.

4.3.1 The Effect of Leverage on Earnings Management
Based on the analysis carried out on the Leverage variable, it was found that Leverage has a negative and significant effect on Profit Management. This means that an increase in a company's leverage can reduce the value of earnings management. Companies with high levels of debt tend to have significant interest obligations, which can reduce their flexibility in carrying out earnings manipulation. Prioritization of interest payments may limit the opportunity to make unethical earnings adjustments. This is in line with the theory put forward by Kasmir (2017) where leverage is used to measure a company's ability to fulfill all its obligations.
Companies that are more open to shareholders and other external parties, especially those with debt, tend to be better monitored and more transparent in their financial reporting. This can reduce the opportunity to carry out earnings management practices due to stricter supervision. The results of this research are in line with research conducted by Veny at. al. (2019) and Sari & Khafid (2020) which show that Leverage has a negative and significant effect on Earnings Management.

4.3.2 Effect of Company Size on Profit Management
Based on the analysis of the Company Size variable, Company Size has no influence on Earnings Management. Company size often reflects operational complexity and greater

transparency in financial reporting. Larger companies tend to have more internal and external supervisory procedures as well as more monitoring from investors and regulators (Sari & Khafid, 2020). This can reduce the opportunity to engage in unauthorized or unethical earnings management practices because risks are more closely monitored.
Company size can also influence more formal and structured internal management policies and practices. The use of stricter accounting standards and higher compliance with regulations can reduce the scope for profit manipulation (Meilani & Widyastuti, 2022). In many cases, large companies also tend to prioritize reputation and long-term relationships with stakeholders, which encourages them to maintain integrity in financial reporting. The results of this research are in line with research conducted by Meilani & Widyastuti (2022) which shows that company size has a negative and significant effect on earnings management.

4.3.3 The Effect of Profitability on Earnings Management
Based on the analysis of the Profitability variable, it was found that the Profitability variable had a positive and significant effect on Profit Management. This means that increasing profitability can increase the value of a company's earnings management. Agency theory explains the relationship between company managers (agents) and shareholders (principals), as well as conflicts that may arise due to differences in interests between the two parties. In the context of earnings management, this theory highlights how managers as agents can manipulate financial reports for their personal interests, often to obtain performance-based bonuses or incentives. This usually occurs because managers have an incentive to show better financial results than they actually are in order to meet the targets set in their bonus contracts.
Profitability plays an important role in influencing company earnings management because high or low profit levels can influence accounting decisions and manipulation of financial reports by managers. Companies with high levels of profitability often have greater flexibility in revenue and expense recognition, giving managers room to make adjustments to financial statements. When profitability is high, managers may be motivated to carry out earnings management with the aim of showing even better results, strengthening the company's image in the eyes of investors, or meeting bonus targets tied to financial performance. Conversely, companies with low profitability may feel pressured to manipulate financial statements to avoid reporting losses or poor results that could affect market perception or the company's ability to obtain financing.
In both cases, profitability can be a major factor in determining how likely managers are to engage in earnings management to achieve personal goals or manage stakeholder expectations, with risks arising from information distortions that can harm investors and reduce the transparency of financial statements. The results of this research are in line with research conducted by Rosalina et. al (2023) and Meilani & Widyastuti (2022) which shows that wa profitability has a positive and significant effect on earnings management.

4.3.4 The Influence of Leverage, Company Size and Profitability on Earnings Management
The results of the analysis that have been carried out show that Leverage, Company Size and Profitability have a significant effect on Profit Management. This means that a simultaneous increase in Leverage, Company Size and Profitability can increase the value of a company's earnings management. Leverage, company size, and profitability are variables that are often associated with earnings management because of their influence on accounting decisions that

can affect earnings reporting. Leverage refers to the use of debt in a company's capital structure. Companies with high leverage tend to be riskier and may be under pressure to improve their financial reports to meet debt obligations or obtain approval from creditors (Sari & Khafid, 2020). This can trigger earnings management by manipulating profits to show better financial performance.

Company size also plays an important role; Larger companies usually have more resources and better information, and have greater ability to manipulate financial reports for internal and external purposes (Meilani & Widyastuti, 2022). Additionally, large companies may face more pressure from stakeholders to report consistent profits. Profitability is closely related to earnings management potential because more profitable companies have greater room to make adjustments in financial statements.

In accounting theory, profitability is often associated with flexibility in the assessment and recognition of income, which allows management to carry out more aggressive profit strategies to maximize reported profits (Meilani & Widyastuti, 2022). Thus, these three factors are interconnected and influence management decisions in managing profits for different purposes, whether to meet market expectations, fulfill contractual requirements, or optimize reported profits.

CONCLUSION

Based on the results of the data analysis that has been carried out, the conclusions in this research are: 1. There is a negative and significant influence between the Leverage variable on Earnings Management. This can be interpreted as the higher a company's leverage, the lower its earnings management, but it is not significant. Conversely, the lower a company's leverage, the less important it is for the company to carry out earnings management. 2. There is no influence of the Company Size variable on Earnings Management. This means that the bigger the company, the less management needs to manage its profits. The size of a company fluctuates and can influence a company's profit management. The large size of a company is caused by efficient profit management. 3. There is a positive and significant influence of the Profitability variable on Profit Management. This can be interpreted as the higher the company's profitability value, the stronger the earnings management carried out by the company, and the lower the profitability value, the smaller the occurrence of earnings management. 4. There is a significant simultaneous influence of the Leverage, Company Size and Profitability variables on Profit Management. In other words, the higher the leverage, the larger the company size and the more profitable earnings management will be.

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