

PROFIT MANAGEMENT POLICY: PROFITABILITY AND LEVERAGE IN MANUFACTURING COMPANIES

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ABSTRACT

This study aims to determine the effect of profitability and leverage on earnings management in Food and Beverage Manufacturing Companies listed on the IDX for the 2019-2023 period. The population of this study was 40 companies and a sample of 15 companies within a period of 5 years. The sampling technique used was purposive sampling technique. The data used were secondary data, namely quantitative data. The analysis method used was descriptive analysis and multiple linear regression analysis, then tested in the classical assumption test. In this study, earnings management was measured using discretionary accruals (modified Jones), profitability was measured using return on assets (ROA), leverage was measured using the debt to asset ratio (DAR). The results of this study indicate that profitability and leverage do not have a simultaneous and insignificant effect on earnings management. and the partial test results in two independent variables show that profitability has a negative and insignificant effect on earnings management and leverage has a positive and significant effect on earnings management

Keywords: Profitability, Leverage and Earnings Management

INTRODUCTION

Earnings management serves as a signaling mechanism that allows managers to communicate their private information to the public. If conducted properly and ethically, this practice can help reduce information asymmetry between company insiders and outside investors. Furthermore, earnings management, applied within an appropriate range, can help stabilize reported earnings over time, thereby providing a more accurate picture of the company's underlying economic performance and reducing unnecessary price fluctuations. Earnings management can also play a role in improving market efficiency by providing more relevant information to investors. This practice can help companies meet market expectations and avoid extreme stock price fluctuations that might raise credibility issues. Furthermore, responsible earnings management can help companies meet contractual requirements, maintain creditor confidence, and maintain stable business relationships, which are essential for the company's long-term survival. Earnings management is also a crucial aspect of accounting and finance, relating to the management of financial statements to achieve specific objectives. Empirically, earnings management can have a significant impact on the perceptions of investors and other stakeholders. By optimizing the income statement, a company can improve its market image. This shows that companies that implement effective earnings management tend to have better performance stability, thus having more investment.

On the other hand, poor business practices can pose long-term risks to a company. Revenues are manipulated to show better performance than actual, thus eroding investor

confidence and damaging its reputation. In fact, numerous studies have shown that companies that engage in aggressive financing often face negative legal and regulatory consequences. Therefore, it is crucial for companies to find a balance between strategic financial management and reliable financial reporting to maintain and sustain a good reputation in the market. This research was conducted on manufacturing companies listed on the Indonesia Stock Exchange (IDX). The Stock Exchange is a group that organizes and provides a system or facility for collecting securities buying and selling offers from interested parties for the trading of securities. Various companies, particularly manufacturing companies in the food and beverage sector, play a vital role in the economy, creating jobs and providing products needed by the community. However, many businesses in this sector face challenges such as price volatility, competition, and regulatory changes.

The data above shows that 15 food and beverage manufacturing companies listed on the IDX experienced profit increases, decreases, and stabilized earnings. Regarding profitability (Return on Assets) and earnings management (discretionary accrual), several companies exhibited relatively stable ROA and fluctuating discretionary accruals, such as DLTA, which demonstrated efforts to stabilize earnings but had negative discretionary accruals. FOOD exhibited negative ROA in several periods (-0.15 and -0.40), possibly indicating actual financial distress. This decline was due to a decrease in average net profit with an increase in total assets. Higher profitability indicates a company's ability to generate profits. Meanwhile, leverage (Debt to Asset Ratio) increased in DLTA and FOOD companies from 2020 to 2023, and leverage increased in several companies from 2021 to 2023. Therefore, it can be concluded that this increase was due to high total debt followed by an increase in average total assets. This negatively impacts the company, as it could lead to bankruptcy. The higher the leverage, the greater the likelihood that the company will default on its obligations. Lower leverage indicates fewer assets available for repayment. In earnings management, three companies experienced negative earnings from 2019 to 2023, and several companies experienced negative earnings from 2021 to 2023.

Profitability has a complex and significant relationship with earnings management practices in companies. When companies face pressure to meet market and stakeholder expectations regarding profitability targets, managers may be compelled to engage in earnings management through various accounting techniques permitted by financial reporting standards. Low profitability levels can motivate managers to engage in earnings management that increases revenue to maintain investor confidence, secure debt contracts, or meet regulatory requirements.

Leverage Leverage is a crucial financial instrument in a company's funding strategy because it allows an organization to increase its operational capacity and growth potential through the use of external funds. Proper use of leverage can optimize a company's capital structure, increase Return on Equity (ROE) for shareholders, and provide tax benefits through tax protection from deductible interest expenses. However, the use of leverage also carries the consequence of increased financial risk due to the obligation to pay interest and principal, which is fixed regardless of the company's business conditions. Therefore, management must carefully determine the optimal level of leverage according to industry characteristics, business cycles, and the company's ability to generate operational cash flow. Well-managed

leverage can be a catalyst for business growth, but if not properly managed, it can jeopardize business continuity, especially

METHODS

This research is quantitative and associative. The approach used is descriptive quantitative with a documentation study supported by a list of documents. The nature of the research is descriptive explanatory. The population in this study is 40 food and beverage manufacturing companies listed on the Indonesia Stock Exchange. The data collection technique used in this study is documentation. The data used in this study were collected by reviewing audited financial reports sourced from the Indonesia Stock Exchange (IDX). The data analysis technique in this study is quantitative data analysis. The data analysis method used in testing the hypothesis in this study is the multiple linear regression statistical analysis method. Hypothesis testing is the most important data analysis because it plays a role in answering the research problem formulation and proving the research hypothesis.

RESULTS AND DISCUSSION

t-test (Partial Test)

When analyzing partial regression (an independent variable with a dependent variable), the value used to test the hypothesis is the "t value", so the probability value can be seen.

The criteria for accepting/rejecting the hypothesis are as follows:

Reject H0 if the probability value $\leq$ significance level of 0.05 ($\text{sig} \leq \alpha 0.05$).

Accept H0 if the probability value $>$ significance level of 0.05 ($\text{sig} > \alpha 0.05$).

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.089	0.122		-0.726	0.470
	profitability	-0.756	0.521	-0.166	-1,451	0.151
	leverage	0.604	0.284	0.243	2,130	0.037

The profitability value is ($0.151 > \alpha 0.05$). Therefore, H0 is accepted and Ha is rejected. Therefore, the effect of profitability on earnings management is negative and insignificant. Leverage value ($0.037 \leq \alpha 0.05$). Therefore, H0 is rejected and Ha is accepted. Therefore, the effect of leverage on earnings management is significantly positive.

The Influence of Profitability on Profit Management in Food and Beverage Manufacturing Companies Listed on the IDX

Based on the research findings, the significant t-value for profitability is 0.151, which is greater than 0.05 ($0.151 > \alpha 0.05$). This indicates that H_0 is accepted and H_a is rejected, meaning there is no relationship between profitability and earnings management. This theory contradicts agency theory. Agency theory proposed by Jensen and Meckling (1976) explains that there is a conflict of interest between owners (principals) and managers (agents). Managers as agents have more information about the company (information asymmetry), which can be exploited for personal gain through earnings management practices. Profitability's negative but insignificant effect on earnings management can be interpreted as an indication that companies with high profitability levels have a lower tendency to engage in earnings management practices, although this effect is not statistically strong enough to be generalized. This insignificance may be due to the complexity of the relationship between profitability and earnings management incentives, which are influenced by various contextual factors. Companies with high profitability may feel less pressured to manipulate financial statements because their performance already meets market and stakeholder expectations. At the same time, a good level of profitability also provides management with the flexibility to exercise accounting discretion without arousing suspicion, so this negative effect is offset by other motives. Furthermore, this relationship may be influenced by other moderating variables such as ownership structure, audit quality, or corporate governance not captured in the research model. These results support the findings of Agustina Ira, Ni Lu Putu Sri Purnma, & Eka Put (2022), and Fitriyah (2020), which stated that profitability has no effect on earnings management.

The Effect of Leverage on Profit Management in Food and Beverage Manufacturing Companies Listed on the IDX

Based on the research findings, the t-significance value at leverage of 0.037 is smaller than 0.05 ($0.037 \leq \alpha 0.05$). This indicates that H_0 is rejected and H_a is accepted. This theory does not contradict Jensen and Meckling (1976) who explain that agency conflicts can occur between shareholders and creditors. Companies with high leverage face strict supervision from creditors, which can reduce managers' flexibility in conducting earnings management. Leverage's positive and significant effect on earnings management illustrates that companies with higher debt levels have a greater opportunity to engage in earnings management practices. This can be explained through debt contract theory, which states that companies with high leverage ratios are under pressure to meet various debt covenant requirements and therefore tend to use accounting policies that can increase profits or avoid contract violations. In addition, companies with high debt also face a higher cost of capital and are therefore encouraged to display better financial performance to reduce the perception of risk by creditors and investors. The statistical significance of this relationship indicates that the effect of leverage on earnings management is relatively consistent across samples and market conditions. These results support research by Syachrul Yudi Habibie & Mutiara Tresna Parasetya (2022), and Ni Made Rianita & Ni Made Dita Pramaesti (2021), which found that leverage exhibits significant positive results.

The Influence of Profitability and Leverage on Earnings Management

Based on the findings of this study, the calculated f-value is 2.968. Meanwhile, the sig. f value is 0.058, which is greater than 0.05. Therefore, H₀ is accepted and H_a is rejected. This means that profitability and leverage do not have a simultaneous effect on earnings management. The F-test results, which indicate no simultaneous effect between profitability (negative, insignificant) and leverage (positive, significant) on earnings management, can be explained by several factors. First, the weak statistical power of the profitability variable likely reduces the overall significance of the model when tested together with leverage. Weak statistical power of the profitability variable can reduce the overall significance of the model in the F-test because the simultaneous test relies on the collective contribution of all independent variables in the model. When profitability has a negative but insignificant effect, this indicates that the variable has low predictive power on earnings management and the observed relationship may occur due to chance. The variation in earnings management that can be explained by profitability is very small, so when combined with leverage in a simultaneous model, profitability adds statistical "noise" without making a meaningful contribution.

CONCLUSION

Based on the research results that have been presented, it can be concluded from the research on the Effect of Profitability and Leverage on Earnings Management in Food and Beverage Sector Manufacturing Companies listed on the IDX for the 2019-2023 period with 15 sample companies as follows: There is a negative and insignificant effect of Profitability on Earnings Management in Food and Beverage Sector Manufacturing Companies listed on the IDX for the 2019-2023 period. There is a positive and significant effect of Leverage on Earnings Management in Food and Beverage Sector Manufacturing Companies listed on the IDX for the 2019-2023 period. Profitability and Leverage do not have a simultaneous effect on Earnings Management in Food and Beverage Sector Manufacturing Companies listed on the IDX for the 2019-2023 period.

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