EFFECT OF PROFIT MANAGEMENT ON COMPANY PERFORMANCE
(Study on Manufacturing Companies Listed on the Indonesia Stock Exchange for the Period 2017-2019)

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ABSTRACT

Profit is the concern of certain parties in assessing the performance of management's accountability in managing the resources entrusted to them, and can be used to estimate future prospects. The research method in this research is quantitative approach. This type of research used descriptive analysis. The data analysis techniques in this study were descriptive statistics, classical assumption test, multiple linear regression, hypothesis testing and data processing assisted by Excel and SPSS 22 version. The population of this study were manufacturing companies listed on the Indonesia Stock Exchange (IDX). The research observation period was carried out from 2017-2019. The research sample was taken by purposive sampling, with a total sample of 30 companies. Of the 30 companies there are 3 years of research period, so the data studied there are 90 company financial data. The results showed that (1) Real earnings management through operating cash flow partially had no effect on company performance, (2) Accrual earnings management through discretionary accruals partially affected company performance, and (3) Real earnings management and accrual earnings management partially simultaneous does not affect the company's performance.

***Keywords** : Real Earnings Management, Accrual Earnings Management, Company Performance*

1. INTRODUCTION

One of the information contained in the financial statements is information about company profits. Profit is also used as a tool to measure the performance of company management over a certain period. Profit is generally a concern for certain parties, especially in estimating the performance of management's accountability in managing the resources entrusted to them, and can be used to estimate their prospects in the future.

Earnings management is a management action in the form of intervention in the process of preparing financial statements with a view to improving personal welfare and increasing company value. If earnings as part of the financial statements do not present actual facts about the company's economic condition, the quality of the profits needed to be able to convey information to support decision making is doubtful. Profits that do not provide true information about management performance can mislead users of financial statements.

Earnings management cases are still common both in Indonesia and in other countries. For example, in the case that befell PT. Toshiba in Japan in 2015 where the board of directors has played an active role in increasing the operating profit of PT. Toshiba as much as Rp. 15.85 trillion from 2008. When this issue was revealed, the share price of PT. Toshiba dropped dramatically to 20%. In Indonesia, the case of earnings management that leads to fraud occurred at PT. Kimia Farma, Tbk. who made improvements to their financial statements. Another case also happened to PT. Akasha

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Wira International Tbk (ADES) which increased its net profit by 38.48% to Rp 52.96 billion from the previous year of Rp 38.24 billion.

There are several reasons why managers do earnings management. One of them is in the interest of increasing shareholder confidence in the company's performance and also to improve relations with creditors. Companies that are experiencing financial distress make it possible to take earnings management actions. Where the company will try to cover its debts and present financial statements to make it look good, while the actual situation the company is experiencing consecutive losses.

Based on the above phenomenon, the authors choose a manufacturing company as the object of research because manufacturing companies have large business risks, so the phenomenon of earnings management is most likely to occur in manufacturing companies. The phenomenon of earnings management is very interesting to study because it can provide a description of the behavior of managers in reporting their business activities in a certain period, namely with the possibility of the emergence of earnings management by managers by engineering their company profits to be higher, lower or always the same for several periods, because of certain motivations that encourage them to organize financial data, especially reported company profits. The 2017-2019 period was chosen because this period is the latest year that allows it to be used as a research population regarding the availability and completeness of research data.

Earnings management can be interpreted as an accounting trick where flexibility in the preparation of financial statements is used or utilized by managers who are trying to meet profit targets. Earnings management occurs when managers use their creativity in preparing financial statements and managing transactions to change financial statements with the aim of giving a certain impression or influencing the actions of stakeholders who depend on these financial statements.

Earnings management is divided into 2 types, namely real earnings management and accrual earnings management. According to Graham, real earnings management is a manipulation activity that occurs every accounting period with specific objectives such as meeting profit targets, avoiding losses and achieving profit targets for optimal business decisions. Meanwhile, according to Roychowdhury accrual earnings management is an activity that aims to accelerate or slow down the recognition of income. Accrual earning management can be practiced by manipulating earnings before the end of the period so that managers can find out the manipulations needed to achieve the desired profit.

2. METHODOLOGY

In this research, the writer uses descriptive quantitative research. The type of data used by the author is secondary data, namely in the form of company financial data obtained from the annual financial statements of manufacturing companies for the 2017-2019 period which was downloaded from the Indonesia Stock Exchange website. The population in this study are manufacturing companies, totaling 160 companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2019 period. Sampling was carried out using purposive sampling method. Based on the criteria that have been determined using purposive sampling, there are 90 samples consisting of 30 manufacturing companies listed on the Indonesia Stock Exchange with 3 years of financial statement data. The sample criteria used in this study are as follows:

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Table 1. Stages of Research Sample Selection

No̱i	Criteriai	Total
1	Number of Manufacturing Companies Listed on the Indonesia Stock Exchange in 2017 to 2019	160
2	Companies that are not in the consumer goods and industrial sector	(113)
3	Companies that do not consistently publish audited annual financial reports during the research period	(16)
4	Companies that do not use the rupiah currency in their annual financial statements	(1)
5	Total of samples	30
6	Total of observations (3 years x 90 companies)	90

The measurement of variables in this study is explained as follows:

a. *Real earnings management*

The measurement of real earnings management in this study uses a real earnings management proxy with an operating cash flow approach. The following is the calculation model for the operating cash flow approach:

$$\frac{CFO}{At-1} = a + a1\left(\frac{1}{At-1}\right) + a2\left(\frac{St}{At-1}\right) + a3\left(\frac{\Delta St}{At-1}\right) + e$$

Information :
CFO = Operating cash flow of the company in year t
At-1 = Total assets of ᵢthe company in the previous year
α = Regression coefficient
St = Sales of the company in the current year
St = Change in company sales in year t with t-1
e = error

b. *Accrual earnings management*

The measurement of accrual earnings management in this study uses the modified Jones model. The modified Jones model is a modification of the Jones model designed to eliminate the tendency to use the erroneous estimates of the Jones model to determine discretionary accruals when discretion exceeds income. This model is widely used in accounting research because it is considered the best model in detecting earnings management and gives the strongest results. As with other earnings management models, this model uses discretionary accruals as a proxy for earnings management.

The advantage of this model is that this model breaks down total accruals into four main components of accruals, namely discretionary current accruals, discretionary long-term accruals, nondiscretionary current accruals and discretionary long-term accruals. Discretionary current accruals and discretionary long-term accruals are

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accruals derived from current assets. Meanwhile, non-discretionary current accruals and discretionary long-term accruals are accruals derived from fixed assets.

This modified Jones model was developed by Kothari to calculate earnings management. There are stages of calculating the modified Jones model, which are as follows:

(1) Calculate the Total Accrual (TAC) which is the difference between net income and operating cash flow for each company and each year of observation.

$$TACit = NIit - CFOit$$

Information :
TACit = Total Accrual of the company in period t (now)
NIit = Net profit of the company in period t (now)
CFOit = Cash Flow from the company's operating activities in period t (current)

(2) Calculate the estimated accruals value with the OLS (Ordinary Least Square) regression equation.

$$\frac{TACit}{Ait-1} = \beta 1\left(\frac{1}{Ait-1}\right) + \beta 2\left(\frac{\Delta REVit}{Ait-1}\right) + \beta 3\left(\frac{PPEit}{Ait-1}\right)$$

Information :
TACit   = Total Accrual of the company in period t (now)
Ait-1   = Total assets of the company at the end of the year period t-1
(previous)
REVit   = Company revenue year t (current)
REVit-1 = Company revenue year t-1 (previous)
PPEit   = Total fixed assets of the company at the end of year t (now).

(3) After getting the regression coefficient, the next step is to calculate the value of nondiscretionary accruals (NDA) with the formula:

$$NDAit = \beta 1\left(\frac{1}{Ait-1}\right) + \beta 2\left(\frac{\Delta REVit}{Ait-1} - \frac{\Delta RECit}{Ait-1}\right) + \beta 3\left(\frac{PPEit}{Ait-1}\right)$$

Information :
NDAit   = Non-discretionary accruals of the company in year t (current)
Ait-1   = Total assets of the company at the end of the year period t-1
            (previous)
REVit   = Company revenue year t (current)
REVit-1 = Company revenue year t-1 (previous)
PPEit   = Total fixed assets of the company at the end of year t (now).

(4) Calculating discretionary accruals (DA) as a measure of earnings management.

$$DAit = \left(\frac{TACit}{Ait-1}\right) - NDAit$$

Information :

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DAit = Discretionary Accruals of the company in the year period t (current)
TACit = Total Accrual of the company in period t (now)
Ait-1 = Total assets of the company at the end of the year period t-1 (previous)
NDAit = Non-discretionary accruals of the company in year t (current).

Empirically, the value of discretionary accruals can be positive or negative. In this case, if there is a positive discretionary accruals, the company will perform income maximization, namely the management practices earnings management by increasing profits. if there is a negative discretionary, the company will do income minimization, namely management practice earnings by lowering profits.

c. *Company performance*
The company's performance in this study uses the calculation of Return On Assets (ROA). Return On Assets is a ratio that shows the level of return on business from all investments that have been made.
The following is the formula for calculating Return On Assets (ROA):

$$\text{ROA} = \frac{Net\ Income}{Total\ Assets}$$

3. RESULT AND DISCUSSION
Descriptive statistics
Descriptive statistical analysis is used to determine the factors that influence earnings management in manufacturing companies in 2017-2019.

Table 2. Test Results of Descriptive Statistical Data

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CFO	90	-,16	,19	,0812	,03728
JONES MODIFIKASI	90	-,03	,06	,0030	,01158
ROA	90	-,18	2,63	,1146	,30393
Valid N (listwise)	90				

Based on the results of calculations during the observation period, it can be seen that:
a. CFO has a minimum value of -0,16 and a maximum value of 0,19. The average value of CFO is 0,0812 with a standard deviation of 0,03728.
b. Modified Jones has a minimum value of -0,03 while a maximum value of 0,06. This shows that the company has a value of -0,03 to 0,06. The average value of Modified Jones is 0,0030 with a standard deviation of 0,01158.
c. Furthermore, ROA has a minimum value of -0,18 and a maximum value of 2,63. This shows that the level of ROA owned is -0,18 to 2,63. The average value of the ROA is 0,1146 with a standard deviation of 0,30393.

Classic assumption test
The classical assumption test used in this study consisted of normality test, multicollinearity test, and heteroscedasticity test as presented in the following table:

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Table 3. Data Normality Test Results
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		74
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,07708280
Most Extreme	Absolute	,073
Differences	Positive	,073
	Negative	-,068
Test Statistic		,073
Asymp. Sig. (2-tailed)		,200[c,d]

The normality test aims to test whether in the regression model the independent variables and the dependent variable are normally distributed or not. It is said to be normal if the significance level value is > 0.05 and vice versa if the significance level value is < 0.05 it is said to be abnormal. This test is carried out by seeing whether the residual research data variables have a normal distribution or not. To find out, the Kolmogorof-Smirnov test (K-S test) was carried out. Based on the test results contained in the table shows that the results of the normality test of the data are 0.200, meaning that the data is > 0.05, it can be said that the data is normally distributed.

Table 4. Results of Multicollinearity Test
Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	X1	,999	1,001
	X2	,999	1,001

Multicollinearity test aims to determine whether there is a relationship between variables. Multicollinearity test can be done by looking at the value of tolerance and VIF. It is said that there is multicollinearity if the tolerance value is 0.1 and VIF 10, and vice versa is free from multicollinearity if the tolerance value is 0.1 and VIF 10. Based on the test results contained in the table, it is known that the VIF value of Real Earnings Management (X1) and Accrual Earnings Management (X2) is 1.001 10 and the tolerance value is 0.999 0.1, it means that the data does not occur multicollinearity.
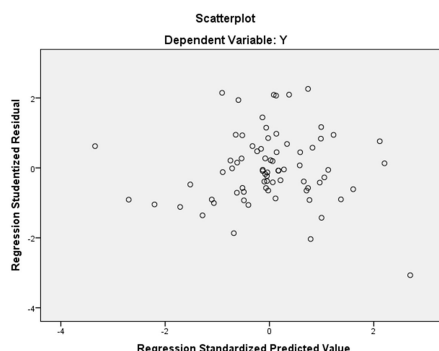

Figure 1. Heteroscedasticity Test Output

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Heteroscedasticity test aims to test whether there is an inequality of variance and residuals between one observation to another observation. The scatterplot results show that the data points spread above and below or around the number 0. So it can be concluded that the multiple linear regression model is free from the classical assumption of heteroscedasticity and is suitable for use in research.

Multiple Linear Regression Analysis

Multiple regression is the relationship between one dependent variable and more than one independent variable. General form $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$

Information :
Y   = Dependent variable
X_1 = The first independent variable
X_2 = The second independent variable
α   = Constant
β_1 = Regression coefficient of variable X1
β_2 = Regression coefficient of variable X2

Table 5. Multiple Linear Regression Test Results

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	,034	,052		,643	,523
X1	,272	,671	,049	,405	,687
X2	4,255	1,823	,281	2,333	,023

The results of calculations in the regression equation obtained a constant value of 0.034. For the regression coefficient of the X1 variable is 0.272 and the regression coefficient of the X2 variable is 4.255. Based on these results, the regression equation can be formulated as follows:

Y = 0,034 + 0,272 CFO + 4,255 JONES MODIFIKASI + e

From the above regression equation can be interpreted as follows:
a) The equation indicates that the absolute value of the company's performance is 0.034. This means that the value of the company's performance will remain 0.034 even without being influenced by other variables.
b) Values 0.272 and 4.255 are regression coefficient values that indicate the number of increases or decreases in the dependent variable based on the independent variable.

Hypothesis Test

The t test is used to determine whether the independent variables in the regression model have an individual effect on the dependent variable. The following is the result of the calculation in the SPSS application:

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Table 6. T-test results (variable X1)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	,052	,053		,971	,335
	X1	,162	,692	,029	,234	,816

Based on the significance value in the table, it can be seen that the X1 variable has a coefficient value of 0.162 and a significance level of 0.816 > 0.05, which means it is not significant. Based on the comparison of the T_{count} value with the T_{table} in the table, it is known that the T_{count} value of the X1 variable is 0.234 < 1.987, so it can be concluded that H1. This means that there is no effect of real earnings management (X1) on company performance (Y).

So from these results it can be concluded that H1 is rejected, which means that real earnings management does not partially affect the company's performance. This means that real earnings management actions taken by managers have no impact on the performance of a manufacturing company. The first hypothesis is rejected due to several factors, one of which is the company's management may not manipulate earnings through operating cash flows in the year of observation. Based on the results of this first hypothesis, real earnings management can affect company performance if it is accompanied by other variables that can moderate earnings management.

Table 7. T-test results (variable X2)

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	,054	,010		5,421	,000
X2	4,203	1,807	,277	2,326	,023

Based on the significance value in the table above, it can be seen that the X2 variable has a coefficient value of 4.203 and a significance level of 0.023 < 0.05, which means it is significant. Based on the comparison of the T_{count} value with the T_{table} in table 7, it is known that the T_{count} value of the X2 variable is 2.326 > 1.987, so it can be concluded that H2 or the second hypothesis is accepted. This means that there is an effect of accrual earnings management (X2) on company performance (Y).

So it can be concluded that H2 is accepted, which means that accrual earnings management has a partial effect on company performance. Accrual earnings management can affect the company's performance if the company is able to manage earnings reporting properly. Empirically the results of this study are relevant to the research of I Putu Agus Mahendra which states that accrual earnings management has an effect on company performance.

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The f test is used to see the overall ability of the independent variable to explain its effect on the dependent variable. Based on the table of results of hypothesis testing above, the F_{count} value is 2.752 and with a significant value of 0.071 > 0.05, it means that it is not significant. Based on the comparison of the value of F_{count} with F_{table} in table 8, it is known that the value of F_{count} is 2.752, which means it is smaller than F_{table} 3.10. The interpretation is, if F_{count} is less than or equal to F_{table} then the hypothesis is rejected, otherwise if F_{count} is greater than F_{table} then the hypothesis is accepted. Because in the SPSS results from the F test it is known that F_{count} is smaller than F_{table}, then H3 or the third hypothesis is rejected, which means that real earnings management (X1) and accrual earnings management (X2) simultaneously have no effect on company performance (Y).

So it can be concluded that the hypothesis is rejected, which means that real

Table 8. F-test results

ANOVAᵃ

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	,031	2	,015	2,752	,071ᵇ
	Residual	,360	87	,006		
	Total	,391	89			

a. Dependent Variable: Y
b. Predictors: (Constant), X2, X1

earnings management and accrual earnings management simultaneously or together have no effect on company performance. This shows that real earnings management and accrual earnings management cannot affect the company's performance if they are carried out together or simultaneously, but if done partially, accrual earnings management can affect the performance of manufacturing companies. This means that management's actions to regulate earnings through accounting activities and real activities together cannot affect the company's performance, because if done together a financial report will be clearly manipulated.

Table 9. Test results of the coefficient of determination

Model Summaryᵇ

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,281ᵃ	,079	,050	,07496

a. Predictors: (Constant), X2, X1
b. Dependent Variable: Y

The coefficient of determination is used to determine how much the independent variable's ability to explain the dependent variable is. The value of determination is determined by the value of Adjusted R Square. The table above shows that the R Square value of 0.079 means that the variation in company performance can be explained by the independent variable of 7.9% while the remaining 92.1% is explained by other variables outside the research variables such as company size, managerial ownership, institutional ownership and others.

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4. CONCLUSION

1. Real earnings management has no effect on company performance or in other words partially real earnings management does not affect a company's performance. With the results of the t-test calculation, the T_{count} value is 0.234, which means T_{coun} is smaller than T_{table} 1.987 and the significance value is $0.816 > 0.05$, which means it is not significant. The higher the real earnings management activity, the more it will affect the performance of a company. However, if the company only manipulates in real activities, it is not accompanied by accrual manipulation, it cannot affect the company's performance.

2. Accrual earnings management has an effect on company performance or in other words partially accrual earnings management can affect a company's performance. With the results of the SPSS output calculation, the t-test obtained a T_{count} value of 2.326, which means T_{count} is smaller than T_{table} 1.987 and a significance value of $0.023 < 0.05$, which means significant. Accrual earnings management can affect the company's performance if the company is able to manage earnings reporting properly.

3. Real earnings management and accrual earnings management have no effect on company performance, in other words real earnings management and accrual earnings management simultaneously cannot affect company performance but not significantly. It is proven by the calculation results from the SPSS output, the f test is obtained by F_{count} of 2.752, which means it is smaller than F_{table} 3.10 and the significance value is 0.071, which means it is greater than 0.05.

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