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THE EFFECT OF PROFITABILITY, FINANCIAL LEVERAGE, COMPANY SIZE ON EARNINGS MANAGEMENT IN THE AUTOMOTIVE SUBSECTOR

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ABSTRACT

Listed on the Indonesia Stock Exchange (BEI) over the years 2021–2023, this study aims to analyze the impact of profitability, financial leverage, and company size on profits management in the automotive subsector. In this quantitative research, PT Astra International Tbk, PT Astra Otoparts Tbk, and PT Gajah Tunggal Tbk are among the ten automotive firms that were selected using a purposive sampling process. The data used for this study came from yearly financial reports and was analyzed using SPSS software for multiple linear regression. Based on the data, it seems that firms with greater levels of debt are less likely to manipulate their profits. This might be because creditors are more vigilant in their surveillance of companies with high levels of debt. Contrarily, earnings management is unaffected by business size or profitability, which may indicate that enterprises are focusing on recovering from the epidemic rather than manipulating their financial statements. These results provide important insights for regulators and investors in comprehending the elements impacting the reliability of financial reporting, in addition to making theoretical contributions to the field of accounting. Financial reporting should be more open and honest, according to the study, and future research should look at other aspects including audit quality.

Keywords : Profitability; Financial Leverage; Firm Size

ABSTRAK

Penelitian ini bertujuan untuk menganalisis dampak profitabilitas, financial leverage, dan ukuran perusahaan terhadap manajemen laba di subsektor otomotif yang terdaftar di Bursa Efek Indonesia (BEI) selama tahun 2021–2023. Dalam penelitian kuantitatif ini, PT Astra International Tbk, PT Astra Otoparts Tbk, dan PT Gajah Tunggal Tbk adalah beberapa dari sepuluh perusahaan otomotif yang dipilih menggunakan proses purposive sampling. Data yang digunakan untuk penelitian ini berasal dari laporan keuangan tahunan dan dianalisis menggunakan perangkat lunak SPSS untuk regresi linear berganda. Berdasarkan data, tampaknya perusahaan dengan tingkat utang yang lebih tinggi cenderung lebih kecil kemungkinannya untuk memanipulasi laba mereka. Hal ini mungkin disebabkan karena kreditor lebih waspada dalam pengawasan mereka terhadap perusahaan dengan tingkat utang yang tinggi. Sebaliknya, manajemen laba tidak dipengaruhi oleh ukuran perusahaan atau profitabilitas, yang mungkin mengindikasikan bahwa perusahaan lebih fokus pada pemulihan dari pandemi daripada memanipulasi laporan keuangan mereka. Hasil ini memberikan wawasan penting bagi regulator dan investor dalam memahami elemen-elemen yang memengaruhi keandalan pelaporan keuangan, selain memberikan kontribusi teoretis pada bidang akuntansi. Pelaporan keuangan harus lebih terbuka dan jujur, menurut penelitian ini, dan penelitian di masa mendatang harus melihat aspek lain termasuk kualitas audit.

Kata Kunci : Profitabilitas; Financial Leverage; Ukuran Perusahaan

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INTRODUCTION

Financial statement accountability and transparency are critical components of a healthy capital market in this age of digitization and globalization. When making economic decisions, investors, creditors, and regulators rely on financial statements. Earnings management, also known as profit management, remains a major obstacle that may cloud the veracity of financial reports. Although not necessarily unlawful, earnings management may deceive stakeholders by manipulating accounting data to satisfy market expectations, keep stock prices stable, or evade outside influences (Tanusdjaja & Calista, 2021).

This is also true in Indonesia, particularly in the post-COVID-19 era, when many significant firms, including those in the automotive industry like PT Astra Tbk and PT Indomobil Sukses Internasional Tbk, engage in profit management in order to keep their investors interested (Gedhe, 2021). As a result of supply chain interruptions, falling consumer buying power, and worldwide economic pressures, the automobile sector faces a pivotal time between 2021 and 2023. Several automobile firms' financial accounts point to falling net profit and flat sales, lending credence to the idea that management may engage in earnings management to keep the public's opinion of the business in a good light.

It is believed that profitability, financial leverage, and company scale are three of the main drivers of the current trend toward earnings management approaches. There is a delicate balance between the freedom to set accounting practices enjoyed by highly profitable companies and the obligation to keep up performance in order to satisfy market expectations (Latifah & Hernawati, 2024). Meanwhile, in order to keep their creditors interested, high-leverage corporations are encouraged to maintain certain financial ratios (A. N. Putri & Dwiarti, 2024). Another factor is the company's size; bigger businesses are subject to more scrutiny and typically have more leeway in how they compile their financial statements (Mahri et al., 2024).

In order to fill the gaps left by the previous research, this study set out to empirically assess how automotive companies listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023 handled profit management in relation to profitability, financial leverage, and company size. Academics, market participants, policymakers,

and management can all benefit from this study's findings as they investigate and attempt to regulate the variables that affect the credibility of financial statements.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

According to S. A. Putri & NR, (2023) A theory that explains the contractual relationship between the company owner (principal) and the management of the company (agent). In the context of agency theory, the principal entrusts certain tasks to the agent (authorized recipient) to be carried out on his behalf. In this relationship, the agent is given the right to make decisions that may affect the principal's interests.

For example, in a company, the shareholder as the principal gives the mandate to the manager as an agent to run business operations, including making strategic decisions that are considered best for the company. However, due to the existence of potential differences of interest, agency issues often arise, where the agent may act more in his own interests than the principal's interests (Margaret & Daljono, 2023). Therefore, oversight mechanisms and incentives are needed to ensure that agents work in accordance with the principal's objectives.

Profitability

According to Wulandari & Suganda (2021), Profitability is a financial ratio used to evaluate a company's ability to generate profits from the total source of funds it has. This ratio reflects how effectively the company manages capital, both from internal equity and external funds such as investors, to generate income. Profitability is the ability of an entity, such as a company or organization, to generate profits from its operational activities relative to the resources used, such as capital, assets, or revenues (Hakim & Hindasah, 2025). This indicator is often used by investors to assess the potential return on investment as well as the operational efficiency of a company. Companies that show high profitability are usually more attractive to investors because they signal financial stability and better growth prospects in the future (Mardian, 2024). Based on the calculation method proposed by Anjelina (2022), ROA is calculated by dividing pre-tax profit by total assets, using the following formula:

$$ROA = \frac{\text{Laba Bersih}}{\text{Total Aset}}$$

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Financial Leverage

Menurut Madbouly (2021) Financial leverage is a measure of how much debt a company uses in its capital structure. Companies that have high debt levels usually have a greater incentive to do earnings management to stay financially healthy. This is often done to fulfill debt covenants, which are certain conditions set by creditors so that the company can still get loans or avoid sanctions due to default.

Following calculations conducted by Hardirmaningrum et al., (2021), financial leverage in this study is measured using the ratio between total debt and total assets or known as the debt to total assets ratio. This ratio is calculated using a ratio scale, with a formula that shows the proportion of the company's liabilities to the total assets it owns:

$$DAR = \frac{\text{Liabilitas}}{\text{Total aset}}$$

Firm Size

According to Kristiana & Rita (2021) Firm size is a level in identifying the size of a company, the size of the company can be determined based on the number of employees, market capitalization, total asset value and total sales. The larger a company, the more parties involved in overseeing its operations, including regulators, auditors, and investors.

Following the calculations carried out by Kristiana & Rita (2021) to determine financial leverage using the natural logarithm of total assets. The measurement scale used is a ratio scale with the formula:

$$Firm\ Size = \text{Ln (Total Aset)}$$

Earnings management

According to Wulandari & Suganda (2021), earnings management is an action taken by management by adjusting or modifying financial information in the report to make it appear more profitable, even though it does not fully reflect the company's actual financial state. This strategy is generally used to form a positive perception from outside parties such as investors, creditors, and other stakeholders on the company's performance.

According to Hardirmaningrum et al. (2021), the following is one way to calculate the total value of accruals using the cash flow approach:

$$TACit = NIit - CFOit$$

Hypothesis development

The Effect of Profitability on Earnings Management

A company's profitability may be defined as its capacity to turn a profit after deducting all of its expenses (Wulandari & Suganda, 2021). Profitability at a high level may inspire management to engage in earnings management, according to Undrian and Yanti (2023). This involves altering profit statements in order to present a consistent and lucrative financial performance to creditors and investors. From an agency theory vantage point, conflicts of interest are inevitable in any connection between a principle and the administration of a corporation. Despite the fact that shareholders appreciate a healthy profit margin, managers are often tempted to manipulate financial records for their own benefit, whether it be a bonus or a boost to their image.

Concerning the impact of profitability on earnings management, prior studies have yielded contradictory findings. For instance, according to studies conducted by Al-Shahadah et al., (2023), there is a strong negative correlation between Return on Equity (ROE), Return on Debt (ROD), and earnings management. On the other hand, Return on Investment (ROI) has a strong positive correlation. The profitability of firms featured in the Jakarta Islamic Index influences their accrual-based profit management techniques, according to Wulandari & Suganda (2021). Income smoothing procedures are positively impacted by profitability, according to Milasari et al., (2024). Contrarily, Millenia & Fung Jin (2021) and Christella & Santo (2024) both found that profitability does not significantly impact earnings management.

H1: Profitability has a significant effect on earnings management.

The Influence of Financial Leverage on Earnings Management

A company's financial leverage may be defined as the ratio of its debt to equity funding. Earnings management is more common among companies with significant amounts of debt since it helps them keep their financial situation looking good. Businesses that have a lot of debt tend to focus on manipulating accrual-based accounting rather than making actual changes to their operations, as Madbouly (2021) explains. To maintain the appearance of profitability in financial accounts, this method often involves postponing the recognizing of costs or speeding up the recording of revenues.

Using a large amount of debt might put managers under more strain within the framework of agency theory. To avoid breaching the debt covenant, they should maintain financial ratios within safe bounds, regardless of the consequences to actual accounting rules. The impact of financial leverage on earnings management is a topic of debate, as shown by various empirical results. According to Awad et al. (2024), there is a negative correlation between the two. Contrarily, financial leverage is beneficial, according to Madbouly (2021). Wanri and NR (2021) came to a different conclusion, this time regarding financial leverage and its favourable impact on actual earnings management. While some studies have indicated a correlation between financial leverage and earnings management, others have showed conflicting findings (Hardirmaningrum et al., 2021; Padmini & Ratnadi, 2020).

H2: Financial leverage has a significant effect on earnings management.

The Effect of Firm Size on Earnings Management

A company's operational scale may be gauged by looking at its firm size. Factors like sales volume, market capitalization, total assets, and employee count are often used to determine this size. In the context of earnings management, managers often have less leeway to alter financial statements since big organizations are often subject to more stringent external oversight. However, big corporations may keep engaging in earnings management if they feel pressured to do so in order to keep their reputations in good standing with investors and other stakeholders. Apriliana and Sukaris (2022)

Accounting manipulation is less likely to occur in larger organizations because, according to agency theory, these entities often have better internal control systems and get more attention from shareholders. Having said that, other research has shown different outcomes. When looking at Indonesian manufacturing organizations, Nalarreason et al. (2019) discovered that larger firms were better at earnings management. Another source that backs this up is Kusuma Dewi et al. (2023), who found a positive and statistically significant influence of company size. Nonetheless, Purwoto (2024) found the opposite to be true. Firm size does not significantly affect earnings management techniques, according to Kristiana & Rita (2021) and Muqsith & Murtianingsih (2022).

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

RESEARCH METHODS

Profitability, financial leverage, and company size are the three variables that this quantitative research uses to determine how they affect profits management strategies. From 2021 through 2023, sixteen businesses from the automotive industry that were listed on the Indonesia Stock Exchange (IDX) make up the study population. A total of ten firms were selected for the sample after undergoing the screening procedure. These included ASII and its subsidiaries AUTO and GJTL as well as MASA and PT Multistrada Arah Sarana Tbk. In addition to PT Garuda Metalindo Tbk (BOLT), other firms that are the subject of the study include PT Indo Kordsa Tbk (BRAM), PT Indospring Tbk (INDS), PT Mitra Pinasthika Mustika Tbk (MPMX), PT Multi Prima Sejahtera Tbk (LPIN), and PT Selamat Sempurna Tbk (SMSM). Secondary data is drawn from the car company's yearly financial accounts for the previous three years. In order to get this information, we rely on databases and other secondary sources. A multiple linear regression analysis was conducted using SPSS software to examine the association between the independent and dependent variables either all at once or in part.

RESULTS OF RESEARCH AND DISCUSSION

Descriptive Statistical Analysis

Table 2 presents a preliminary picture of the statistical characteristics of the four main variables observed in 31 observations. This initial understanding is important as a foundation for interpreting the results of regression analysis and anticipating possible problems in modeling. For the profitability variable, the values ranged from 0.05782 to 0.22658 with an average of 0.0823634 and a standard deviation of 0.02844416. A low spread value indicates that a company's profit performance in the sample is relatively even and uniform, reflecting similarities in industry conditions or business strategies. The financial leverage variable shows a more striking difference. The minimum value of 0.25202 and the very high maximum of 3235.09120 reflect the wide gap between companies in terms of debt utilization. An average leverage of 104.6907 with a high standard deviation (580.9777) indicates a significant inequality and the possibility of an outlier that is noteworthy as it may affect the accuracy of the regression model. For firm size, the range of values between 12.38025 to 16.88619 with an average of 14.9264 and a standard deviation of 1.0428 indicates a relatively narrow distribution. This indicates that the size of the firms in the sample is fairly uniform, which has the potential to

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strengthen the stability of the model due to the lack of extreme variation. Meanwhile, the earnings management variable shows a very volatile pattern. The values ranged from -91088.0000 to 2737.38000 with an average of -3751.459 and a high standard deviation of 16328.384. This indicates significant variation in profit manipulation practices, including strong indications of companies shifting profits drastically, both to lower and increase reported profits.

Classic assumption test

Normality test

One of the fundamental assumptions of linear regression analysis is that the residual values will follow a normally distributed pattern. To verify this, a normality test is run on the regression model. A significance level of 0.05 was overridden by an Asymp. Sig. (2-tailed) value of 0.200 in the Kolmogorov-Smirnov One-Sample test. It follows that the normal distribution is not significantly different. That being the case, we may say that the residual distribution is normal.

Multicollinearity test

Based on the coefficients table, the Tolerance value for profitability and financial leverage is both 0.115, with the Variance Inflation Factor (VIF) value of 8.727 and 8.726, respectively. Meanwhile, the firm size had a high tolerance (0.994) and a low VIF (1.006), indicating no symptoms of multicollinearity. Although VIF profitability and financial leverage have not exceeded the 10 mark.

Heterokedacity test

The results of the Glejser test showed significance values for profitability (0.673), financial leverage (0.938), and firm size (0.936) all above 0.05. This indicates that there is no heteroskedasticity problem, since the residual variance is homogeneous across all independent variable values.

Auto-correlation test

The absence of a statistically significant autocorrelation in the regression model is supported by the Durbin-Watson value of 1.931. There seems to be no sequential link between mistakes from one observation to another, since this number is near to the ideal value of 2. Statistical tests like t-tests and F-tests may be legitimately evaluated now that the assumption of error independence has been satisfied.

Hypothesis Test

Coefficient Determination Test

The degree to which the independent variable can explain the variability of the bound variable may be evaluated by testing the determination coefficient. There is a very significant correlation (R = 0.993) between company size, financial leverage, profitability, and earnings management, as shown in Table 4.6 of the Model Summary. These three independent variables account for 98.6% of the variation in earnings management variables (as measured by an R-Square value of 0.986), with additional factors explaining the remaining 1.4%. However, with an Adjusted R Squared value of 0.984, we may conclude that the model is stable and accurately shows the connection between variables, ruling out overfitting.

T Test

The regression hypothesis test tests the influence of each independent variable on earnings management.

1. For the profitability variable, the regression coefficient -3927.481, t calculated -0.100, and significance 0.921 showed that profitability had no significant effect on earnings management.
2. The financial leverage variable has a regression coefficient of -27.750, t count -14.503, and a significance of 0.000, which means that financial leverage has a negative and significant effect on earnings management.
3. For the firm size variable, the regression coefficient of 237.317, t calculated 0.656, and significance 0.517 showed that firm size had no significant effect on earnings management.

Discussion

The Effect of Profitability on Earnings Management

One important metric for evaluating a company's efficiency in turning its operational operations into profit is profitability. One way to determine a firm's profitability is by looking at its Return on Assets (ROA) ratio. This ratio shows how well the company uses its assets to make money. The average profitability was recorded at 0.082 with a standard deviation of 0.028, showing rather good consistency, based on data acquired from 10 automotive businesses listed on the Indonesia Stock Exchange (IDX) in the 2021-2023 timeframe.

A regression coefficient of -3927.481 and a significance level of 0.921 were shown by the results of the hypothesis test; this value was significantly higher than the critical limit of 0.05. That profits management is unaffected by profitability is evident from this. That is to say, the propensity to falsify financial records was unaffected by the sample's companies' profitability. This research runs counter to the results of other studies that found an inverse or positive correlation between earnings management and profitability.

The findings are consistent with those of Christella & Santo (2024) and Millenia & Fung Jin (2021), who found no substantial impact of profitability on earnings management. The post-pandemic status of the automobile sector, where corporations prioritize operational recovery above financial statement manipulation, might be one explanation for the lack of significance of profitability. This proves that profits management is driven by factors other than profitability in the automobile business.

The Influence of Financial Leverage on Earnings Management

A company's financial leverage shows how much debt financing it utilizes in its capital structure. This research measured leverage by comparing a company's total debt to its total assets, a metric known as the Debt to Asset Ratio (DAR). The research shows that leverage has a negative and substantial affect on earnings management, with a regression coefficient of -27.750 and a significance level of 0.000 (below the threshold of 0.05). Put simply, management's propensity to falsify the profits statement decreases as a company's debt level rises. Despite the fact that heavily indebted corporations are under constant pressure to pay their bills, our results show that creditors' stringent oversight makes financial statement manipulation less likely. Companies are motivated to increase their transparency when they have creditors that scrutinize the veracity of financial reports.

The findings are in line with those of Awad et al. (2024), who discovered an inverse correlation between financial leverage and earnings management; this lends credence to the hypothesis that creditors' pressure might put a stop to profit manipulation. These results, however, contradict those of other research that has shown that high leverage really motivates management to engage in manipulative practices in order to get loan agreements.

The Effect of Firm Size on Earnings Management

Large companies are more likely to engage in earnings management. The natural logarithm of the total assets possessed is used to assess the size of the firm in this research. The majority of the sampled automotive firms are considered to be on the larger side, as the data shows that their average size is 14.92 with a standard deviation of 1.04.

The regression coefficient was 237.317, the t-value was 0.656, and the significance level was 0.517, all of which indicate that there was no significant relationship between business size and profit manipulation. Research like this shows that managers' propensity to engage in financial statement engineering is independent of firm size. These results are consistent with those of studies that found no significant correlation between company size and earnings management (Kristiana & Rita, 2021; Muqsith & Murtianingsih, 2022). Large organizations, according to agency theory, tend to have more intricate systems of supervision; yet, management may be motivated to maintain the company's image by external pressures and the expectations of stakeholders. Profit manipulation may not be as important as other post-pandemic issues in Indonesia's automotive industry, but other variables, such the process of businesses recovering, are certainly important.

CONCLUSION

While profitability had no impact on earnings management methods, the research did find that financial leverage had a negative effect, with more indebted firms being less likely to manipulate their financial accounts. However, there is no statistically significant correlation between firm size and engaging in profit-manipulating tactics. The study's findings have real-world consequences, such as the need for investors to look at more than just profits when making investment decisions and for companies to be more transparent with their financial statement presentations (particularly for highly leveraged companies). One weakness of this research is that it does not look at audit quality or market pressures as potential additional variables influencing earnings management techniques. For this reason, it is advised that these elements be further investigated using case studies or qualitative methods in order to provide a more thorough understanding of the motivations behind profit manipulation in various industry sectors.

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TABEL

Tabel 1. Definisi opersional variabel

No	Variabel	Definition	Indicator	Scale	Source
1	Profitability (X1)	Profitability describes a company's ability to obtain a profit that is able to improve the quality of the company (Prabowo & Sahlan, 2021)	$ROA = \frac{\text{Net profit}}{\text{Total Assets}}$	Race	(Anjelina, 2022)
2	*Financial leverage* (X2)	*Leverage* is a biased ratio that measures how far a company spends debt to finance the company's operational activities (Prabowo & Sahlan, 2021)	$DAR = \frac{\text{Liabilitas}}{\text{Total aset}}$	Race	(Hardirmaningrum et al. 2021)
3	*Firm size* (X3)	*Capital intensity* is closely related to company investment and fixed assets (Prabowo & Sahlan, 2021)	*Firm Size*= Ln (Total Aset)	Race	(Kristiana & Rita, 2021)
4	*Earnings management* (Y)	*Earnings management (earnings management)* is an intervention with managerial considerations in the external financial reporting process, with the aim of obtaining some personal gain (Leksono et al., 2019)	$TACit = NIit - CFOit$	Race	(Hardirmaningrum et al. 2021)

Tabel 2 Analisis Deskriptif

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
profitabilitas	31	,05782	,22658	,0823634	,02844416
financial leverage	31	,25202	3235,09120	104,6907404	580,97773954
firm size	31	12,38025	16,88619	14,9264339	1,04283263
earnings management	31	-91088,00000	2737,38000	-3751,4593548	16328,38391037
Valid N (listwise)	31				

Tabel 3. Uji Normalitas

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		31
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	1955,33232722
Most Extreme Differences	Absolute	,091
	Positive	,074
	Negative	-,091
Test Statistic		,091
Asymp. Sig. (2-tailed)		,200[c,d]

Tabel 4. Uji Multikolinieritas

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	profitabilitas	,115	8,727
	financial leverage	,115	8,726
	firm size	,994	1,006

a. Dependent *Variabel: earnings management*

Tabel 5. Uji heteroskedasitas

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2582,516	3372,404		,766	,450
	profitabilitas	-9131,316	21383,069	-,233	-,427	,673
	financial leverage	-,082	1,047	-,043	-,079	,938
	firm size	-16,098	197,979	-,015	-,081	,936

a. Dependent *Variabel:* absresid

Tabel 6. Uji autokorelasi

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,993[a]	,986	,984	2061,10124552	1,931

a. Predictors: (Constant), *firm size*, *financial leverage* , profitabilitas
b. Dependent *Variabel: earnings management*

Tabel 7. Uji determinasi

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,993[a]	,986	,984	2061,10124552

a. Predictors: (Constant), *firm size*, *financial leverage* , profitabilitas
b. Dependent *Variabel: earnings management*