

MODEL AN IMPROVEMENT OF MANAGEMENT PROFIT MANUFACTURING COMPANIES

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ABSTRACT

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This study aims to determine whether Inventory management, Company Size, and Leverage jointly affect Earnings Management in manufacturing companies listed on the IDX, both partially and simultaneously. The data from this study were obtained from the financial statements of manufacturing companies listed on the IDX. The sample of this study was 30 manufacturing companies listed on the IDX and data from 2013 - 2017. Sample determination using purposive sampling method. The type of data used is secondary data with media in the form of audited financial statements of manufacturing companies listed on the IDX. The results showed that Inventory management and leverage have no significant effect on earnings management in manufacturing companies listed on the IDX. Company size has a significant effect on earnings management in manufacturing companies listed on the IDX. Inventory management, company size, and leverage together have a significant effect on earnings management in manufacturing companies listed on the IDX.

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1. INTRODUCTION

In the business world which is currently growing very rapidly, financial reports are an important tool in decision-making efforts for every company. Financial reports are a tool used to process financial accounting information on an ongoing basis which will be informed to investors and the public to provide an overview of the company's financial condition. So that financial reports must be published because they are considered to have an important meaning to assess the performance of a company, and can make it easier for parties who need financial statement information so that it can help in the decision-making process (Fahmi, 2011). In general, users of financial statements are very focused on the profit information contained in the income statement and pay less attention to the method used to generate that profit or loss.

According to Sulistyanto (2008) Profit is one of the indicators in the financial statements used to measure company performance. Profit is one of the most important information for internal and external parties of the company in seeing the performance of management accountability in achieving predetermined operating goals and can facilitate the owner in estimating the company's earning power in the future. However, earnings information is often used as a target for manipulation through management's opportunistic actions to fulfil their satisfaction. This opportunistic action can be done with several accounting policies so that the company can manage its profits. The managers managers can increase, decrease, and flatten earnings according to their wishes for certain purposes known as earnings management.

Earnings management is basically done by shifting future period costs to current costs and current income to future period income so that the reported profit is higher than the actual profit. According to Scott (2009: 405) earnings management is carried out with four patterns, namely: taking a bath, income minimisation, income maximisation and income smoothing. This study focuses on the effect of inventory management, company size, and leverage on earnings management. According to Cashmere (2010: 205), inventory management describes the inventory of goods in a company that is used for production activities. Inventory management as the main part of working capital is an asset that always rotates continuously undergoing changes. Inventory turnover is a ratio used to measure how many times the funds embedded in inventory can rotate in one period.

According to Raharjasaputra (2009), the higher the inventory turnover ratio, the better for the company because the longer the sale of trade goods inventory the faster the inventory is sold in a relatively short period of time so that the capital invested in inventory can be disbursed into cash. With

the changes that continue to occur, it will trigger management to carry out earnings management. Too little inventory will reduce sales which will affect the decline in profit. Conversely, if too much inventory is stored, it can increase the risk of loss due to falling prices, obsolescence, damage or changing consumer purchasing patterns. In addition, the problem of investment in inventory can directly affect the company's profits. An error in determining the amount of investment in inventory will suppress the company's profits.

In addition to inventory management, company size can also affect earnings management where large companies have more complex operational activities that allow earnings management. The size of the company greatly affects the occurrence of earnings management practices because the larger the company must be able to meet the expectations of investors or shareholders. Large companies must be able to disclose more information so that investors can see the prospects for the company's performance. In earnings management, the leverage ratio can be used as a benchmark in seeing manager behaviour in an effort to increase company profits. According to Azlina (2010) a high level of leverage will make the company more profitable.

Literature Review

Agency Theory

Agency theory is a description of the relationship between those who have authority, namely investors (principals) and managers (agents) who are given authority / responsibility in running the company. According to Jensen and Meckling (in Luayyi, 2010) explain that an agency relationship is a contract between the owner (principal) and the manager (agent) in carrying out a task in the interests of the owner by delegating decision-making authority to the manager. So that in practice it can be seen that shareholders and owners of capital do not know more information about both internal and external companies or about the company's prospects in the future than managers. Therefore, managers have an obligation to provide information about the condition of the company to the owners of capital and shareholders. However, in reality, managers in reporting the condition of the company sometimes do not match the actual conditions.

According to Irawan and Zainal A.T. Silangit (2018) In agency theory, management presenting financial reports can be motivated by two motivations opportunistic and signaling. This motivation encourages management do earnings management. In opportunistic motivation, management tends to present earnings higher than they really are, because it is related to compensation. While in the signalling motivation, management tends to present earnings that have quality, because it is related to performance evaluation and then used as a signal to shareholders. In the agency model, a system is designed that involves both parties, namely management and owners.

This agency theory indicates the existence of information asymmetry between managers and shareholders as principals. This information asymmetry that occurs between the principal and agent can encourage managers (agents) to carry out earnings management in providing incorrect information to the principal, especially if the information is related to measuring management performance. With the information asymmetry between managers and company owners, the assumption of human nature to explain agency theory is explained by (Eisenhardt in Pujiningsih, 2011: 51), namely:

- a. Humans are generally selfish where humans are basically unwilling to sacrifice for others.
- b. Humans are always risk averse.
- c. Humans have limited thinking power regarding future perceptions.

Definition of Earnings Management

Earnings management is an attempt by company managers to intervene in information in the financial statements with the aim of deceiving stakeholders who want to know the company's performance and condition (Sulistyanto, 2008: 47). Meanwhile, according to Schipper (in Subramanyam 2010: 131) states that earnings management is a deliberate management intervention in the profit determination process, usually in fulfilling personal goals. From the above definition, it can be concluded that earnings management is the behaviour of managers in maximising their interests.

Managers carry out earnings management by choosing accounting policies to increase earnings or decrease earnings by shifting future period profits to the current period and shifting current period profits to future periods. Earning management occurs when managers use policies in financial statements to trick stakeholders about the condition of the company. The existence of differences in interests between owners and managers often triggers earnings management problems. Recently, earnings management is a common phenomenon that often occurs in several companies. In practice, it is done to influence profit figures, which can occur legally or illegally.

According to Warmadewa (2010), states that earnings management is a process of taking deliberate steps within the limits of general accounting principles in producing the desired level of profit. Based on the several definitions above, it can be concluded that earnings management is an action taken by managers in manipulating the profit earned in the period. manipulate the profit earned in the current period by increasing, decreasing and flattening earnings.

According to Sulistyanto (2008) fraud in financial reporting usually occurs due to conditions that exist in the internal environment, poor ethical behaviour of management and the liquidity or profitability of the company. There are several factors that can affect earnings management, among others:

Leverage (Debt to Equity Ratio)

This leverage (Debt to Equity Ratio) explains that the higher the company's debt / equity is equal to the closer the future period. The manager's effort to settle his debt obligations is by managing and managing the amount of profit as an indicator of the company's ability to postpone expenses in the relevant period and will be settled in the future period. Firm size Large companies tend to diversify their businesses more than small companies. Therefore, the possibility of failure in running a business or bankruptcy will be smaller. Company size is often used as an indicator of the possibility of bankruptcy for a company, where companies of a larger size are seen as more capable of facing a crisis in running their business.

Inventory management is the management of the function of storing and handling inventory to achieve a better level of customer service, increase inventory turnover and profit for the company The purpose of inventory management is to determine the balance between inventory investment and customer service in meeting market demand. The implementation of good corporate governance is a commitment to the achievement of the company's stated objectives. The company's goal is none other than to meet the needs, desires, and expectations of the consumer market so as to achieve maximum profit by paying attention to the social environment.

Companies with high profitability certainly have more internal funds than companies with low profitability. Companies with a high rate of return will invest using relatively small debt. A high rate of return makes it possible to finance most of the funding needs with internally generated funds. This shows that profitability affects the capital structure of the company. The company's opportunity to invest in profitable things. Agency theory describes a negative relationship between growth opportunity and leverage. Where, a company with a high level of leverage tends to miss the opportunity to invest in profitable investment opportunities.

Research Hypothesis

The hypothesis is a temporary statement or conjecture from the questions in the formulation of research problems. It is said to be a temporary answer because the answer is an answer that comes from theory. (Marihot and Manuntun, 2014: 64). Statements or conjectures are formulated in the form of variables so that they can be tested empirically. This study will examine the effect of inventory management (ITR), company size (Ln Total Asset) and leverage (DER) on earnings management (discretionary accrual), namely:

Inventory management has a significant effect on earnings management in manufacturing companies listed on the IDX. Company size has a significant effect on earnings management in manufacturing companies listed on the IDX. Leverage has a significant effect on earnings management in manufacturing companies listed on the IDX. Inventory management, company size, and leverage together have a significant effect on earnings management in manufacturing companies listed on the IDX.

2. METHOD

This research is a study using an associative approach associative research is research that aims to determine the degree of relationship and pattern / form of influence between two or more variables, where with this research a theory will be built that serves to explain, predict and control a symptom (Rusiadi, 2013: 14). This research is supported by a panel regression model that is used as a predictive analysis tool. The data used in this study are secondary data. The variables to be tested in this study are the effect of inventory management, company size and leverage as independent variables on earnings management as the dependent variable in manufacturing companies listed on the IDX.

According to Sugiyono (2011: 61) population is a generalisation area that consisting of objects / subjects that have certain qualities and characteristics set by researchers to study and then draw conclusions. The population in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2013-2017, namely 149 manufacturing companies. The sample is part of

the number and characteristics represented by the population. If the population is large, and it is impossible for researchers to study everything in the population, due to limited time, energy and funds, then researchers can use samples taken from the population. So that what is learned from the sample, the conclusions from the results will be applicable to the population. For this reason, samples taken from the population must be truly representative.

The sampling technique was carried out using purposive sampling method, which is a sampling technique with certain considerations (Sugiyono, 2011: 68). The sampling technique was selected using purposive sampling method with the aim of obtaining a representative sample according to the criteria set in this study. The sample selection criteria in this study are as follows:

- a. a.Manufacturing companies listed on the Indonesia Stock Exchange for the period 2013-2017.
- b. b.Manufacturing companies that publish complete financial reports for the period 2013-2017.
- c. Manufacturing companies that have positive profits during the period 2013-2017.

Of the several factors that influence earnings management, the authors will only examine the effect of inventory management (ITR), company size (Ln Total Asset), and leverage (DER) on earnings management (discretionary accrual). The Effect of Inventory Management on Earnings Management a higher the inventory turnover rate, the greater the possibility of the company making a profit, and vice versa. the company makes a profit, and vice versa. If the inventory turnover rate is low, the less likely the company will make a profit. This is what causes inventory to greatly affect the company's profits, which indicates earnings management (Raharjasaputra, 2009).

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The Effect of Company Size on Earnings Management Large companies have the motivation to carry out earnings management by lowering profits to reduce political costs (Sulistyanto, 2008). This is supported by the results of Azlina's research (2010) which found that company size has a significant effect on earnings management. Large companies will have considerable encouragement in carrying out earnings management practices, because large companies must be able to meet the high expectations of shareholders.

In companies that have a high debt to equity ratio, company managers tend to use accounting methods that can increase earnings management. managers tend to use accounting methods that can increase revenue or profit (Watts and Zimmerman in Dwisepta, 2011). The results of research conducted by Wisnu Arwinda Irawan (2013) state that the leverage and profitability variables have a proven positive and significant effect on earnings management. This is supported by research conducted by Sesti Yurfita Sari (2015) proving that leverage affects earnings management. The higher the level of leverage in the company, the

3. RESULT AND DISCUSION

Descriptive Statistics

Descriptive statistics provide an overview or description of data seen from the number of samples, minimum value, maximum value, average value (mean value), and standard deviation of each variable.

Table 1. Descriptive Statistics\

	MI	UP	LEV	MJL
Mean	5.882800	23.64500	1.113800	0.967800
Median	4.915000	26.29500	0.745000	1.050000
Maximum	27.67000	30.33000	7.400000	3.180000
Minimum	1.830000	13.00000	0.080000	0.010000
Std. Dev.	3.637350	5.026574	1.063072	0.724130
Skewness	2.828465	-0.617494	2.577568	0.454972
Kurtosis	15.41280	1.921034	12.44871	2.480979
Probability	0.000000	0.000224	0.000000	0.032409
Sum	882.4200	3546.750	167.0700	145.1700

Sum Sq. Dev.	1971.317	3764.701	168.3881	78.13017
Observations	150	150	150	150

Based on the descriptive statistics table, it can be explained that:

Inventory management is the management of the function of storing and handling inventory to achieve a better level of customer service by increasing inventory turnover and company profits. company. Based on the data obtained, the lowest inventory management during the study period was in the GGRM company in 2013 of 1.830000, this shows the level of effectiveness of inventory in generating the lowest profits and experiencing the highest losses compared to other companies. While the highest value in the ARNA company in 2014 was 27.67000, this shows that the level of effectiveness of inventory (inventory) generates large profits compared to other companies. while the mean is 5.8828000 and the standard deviation is 3.637350, this indicates that the data is normally distributed, where the mean is 5.8828000 > standard deviation 3.637350, with a total data of 150 data.

Company size is a grouping of companies in several groups including large companies and small companies. Based on the data obtained, the lowest value of company size in the ADES company in 2013 was 13.00000, this indicates that the company is a small company with a low level of assets. While the highest value in the MYOR company in 2017 was 30.33000, this indicates that the company is a fairly large company with a high level of total assets. While the mean is 23.64500 and the standard deviation is 5.026574, this indicates that the data is normally distributed, where the mean is 23.64500 > standard deviation 5.026574, with a total of 150 data. Leverage is a ratio that describes the company's debt to capital, this ratio can see the extent to which the company is financed by debt or capital.

Common Effect Model

Dari hasil perhitungan dengan menggunakan metode estimasi *common effect mode* dengan *common intercept*, dengan menggunakan software Eviews versi 7, didapatkan hasil sebagai berikut:

Tabel 2. Common Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MI?	2.470005	0.000489	0.050427	0.9599
UP?	-0.360418	0.141759	-2.542464	0.0120
LEV?	0.087158	0.307509	0.283433	0.7772
R-squared	0.142353	Mean dependent var		-0.265467
Adjusted R-squared	0.129324	S.D. dependent var		0.897087
S.E. of regression	0.883837	Akaike info criterion		2.610708
		Schwarz		
Sum squared resid	114.8316	criterion		2.670921
Log likelihood	-192.8031	Hannan-Quinn criter.		2.635171
Durbin-Watson stat	0.693544			

$$MJL = 2,470 MI - 0,360 UP + 0,087 LEV$$

$$R\text{-squared} = 0.142$$

Based on table 2, it can be seen that the estimation results with pooled least square with common intercept, provide significant variable results at $\alpha = 5\%$, namely company size of 0.012 < 0.05. It can be concluded that with the pooled least square analysis method with a common intercept, the variation in the independent variables in this study is only able to explain 14.2% of the variation in the dependent variable, namely earnings management in manufacturing companies listed on the Stock Exchange.

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Panel Regression Model

Based on the results of the panel model selection, it can be concluded that the best model chosen is the fixed effect model. Panel regression aims to calculate the effect of two or more independent variables on one dependent variable and predict the dependent variable using two or more independent variables.

The panel data analysis formula is as follows:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \epsilon$$

Table 3. Regression Panel

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	113.4599	79.22229	1.432171	0.1548
MI?	0.055367	0.042811	1.293298	0.1985
UP?	0.783537	0.250455	3.128450	0.0022
LEV?	-0.280951	4.264174	-0.065886	0.9476
Fixed Effects (Cross)				
_ADES--C	0.201018			

Based on table 3, the multiple linear regression is obtained as follows

$$Y = 113.459 + 0.055X_1 + 0.783X_2 - 0.280X_3 + e$$

The interpretation of the panel data regression equation is: If everything in the independent variables is considered zero, earnings management (Y) is 113,459. If there is an increase in inventory management by 1, then earnings management (Y) will increase by 0.055 and vice versa if there is a decrease in inventory management by 1, then earnings management (Y) will decrease by 0.055. meaning that inventory management can improve earnings management.

Table 4. Partial Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	113.4599	79.22229	1.432171	0.1548
MI?	0.055367	0.042811	1.293298	0.1985
UP?	0.783537	0.250455	3.128450	0.0022
LEV?	-0.280951	4.264174	-0.065886	0.9476

The results of the Eviews output coefficient table, the regression equation is:

$$Y = 113.459 + 0.0558X_1 + 0.7835X_2 - 0.2809X_3 + e$$

The Effect of Inventory Management on Earnings Management Based on Analysis data

According to Sulistyanto (2008) earnings management is an effort by company managers to intervene in information in financial reports for external parties who want to know the company's performance and condition so that they can increase profits (income increasing), reduce profits (income decreasing) and flatten profits (income smoothing). One way to carry out earnings management is by managing inventory and managers will take advantage of financial standards related to inventory such as changing the method of recording inventory from the FIFO method to the LIFO method so that current costs can improve earnings management.

The results of this study are not in accordance with Rusli's (2011) research which states that inventory management affects earnings management, but the results of this study are in accordance with the results of Sri Suwanti's (2016) research, where inventory management has no significant effect on earnings management. Inventory is not the only consideration for investors in making investment decisions, because the high level of inventory turnover does not guarantee good performance. The implication of this study is that even though the level of inventory turnover is high, manufacturing companies listed on the IDX are not significant in making profits. This is what causes inventory to not significantly affect the earnings management of manufacturing companies listed on the IDX. Based on data analysis and hypothesis testing that has been carried out in this study, it can be seen that the tcount is 3.128 while the t table is 1.976 and significant at 0.002, so that the tcount is $3.128 < t \text{ table } 1.976$ and significant $0.002 < 0.05$, then H_0 is accepted and H_a is rejected, meaning that company size has a significant effect on earnings management.

According to Sulistyanto (2008), large companies have the motivation to carry out earnings management by reducing profits (income decreasing) in order to reduce political costs. With the company getting a large profit, it will also be subject to greater taxes. This situation makes managers motivated to set and manage the amount of profit in order to minimise the tax costs that must be paid. In the concept of earnings management describes the access of managers in determining profits, one of which is to take advantage of the size of the company by using company profits to buy and increase company assets, so that it will reduce political costs and tax interest costs. In addition, large companies tend to carry out earnings management because large companies must be able to meet the high expectations of shareholders.

The results of this study are in accordance with Azlina's research (2010), where company size has a significant effect on earnings management. However, it is not in accordance with the results of research by Sesti Yurfita Sari (2016) which states that company size has no effect on earnings management.

4. CONCLUSION

Based on the results of the analysis that has been discussed, it can be concluded as follows: In the inventory management variable, the tcount value is 1.293 > ttable 1.967 and significant 0.198 > 0.05, then H₀ is rejected and H_a is accepted, it can be concluded that inventory management partially has no significant effect on earnings management. In the company size variable, the tcount value is 3.128 > t table 1.967 and significant 0.002 < 0.05, then H₀ is accepted and H_a is rejected, it can be concluded that company size partially has a significant effect on earnings management. In the leverage variable, the tcount value is -0.065 < t table 1.967 and significant 0.947 > 0.05, then H₀ is rejected and H_a is accepted, it can be concluded that leverage partially has no significant effect on earnings management. From the regression results Fcount of 6,880 > Ftable of 2.67 with a significant level of 0.0000 < 0.05, it can be concluded that H₀ is accepted and H_a is rejected. This means that the independent variables (inventory management, company size, and leverage) simultaneously affect the dependent variable earnings management.

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