


The Influence Of Financial Distress, Return On Assets (ROA) And Company Size On Profit Management (Study On Pharmaceutical Companies Listed On The Indonesian Stock Exchange (BEI) In 2016-2022)

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Article Info	ABSTRACT
Keywords: Leverage Level, Firm Size, Profit Growth	The aim of this research is to examine and analyze the influence of financial distress, Return on assets (ROA) and company size on earnings management in Food and Beverage Companies listed on the Indonesia Stock Exchange in 2016 -2022 . Financial distress uses model Altman Z - score , return on assets and company size (size) which are measured using natural logarithms. The total sample used in this research was 8 companies through purposive sampling. The data used in this research is secondary data. To test the hypothesis in this research, the multiple linear regression analysis method was used with a significance level of 0.05 using eviews 12 . The coefficient of determination in this research is 5 7 % which can be explained by the independent variables, namely financial distress, return on assets (ROA) and company size on earnings management variables . The results of this research indicate that financial distress influences earnings management , return in assets (ROA) influences earnings management , but company size has no influence on earnings management . Financial distress, return on assets and company size influence simultaneously or together on earnings management in pharmaceutical companies listed on the Indonesia Stock Exchange (BEI). Because the significance level is <0.05.
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INTRODUCTION

Earnings management can be interpreted as the method chosen by management in preparing its financial reports where the manager's efforts are to increase or decrease profits according to the company's needs, but in the long term this will have a bad impact on the company. In practice, the company wants large profits so that the investors will be interested in investing in the company. But not all companies report their actual profit levels so investors and shareholders do not get real information. This action carried out by management in manipulating company profits is known as earnings management. Management has an important role in the relevance and reliability of financial reports, thus management is often associated with manipulating financial report data (Giovani, 2017).

In Indonesia itself, there have been many cases involving large companies, including pharmaceutical companies. During the Covid-19 pandemic, the growth of companies in the

pharmaceutical, chemical and traditional medicine sub-sectors increased in terms of demand and need for medicines and health supplements, therefore this will have an impact on the growth of pharmaceutical sector companies. This will certainly encourage investors to invest their shares in pharmaceutical companies (Harahap et al., 2021). The following are trend data on the growth of the chemical, pharmaceutical and traditional medicine industries for 2011 – 2022

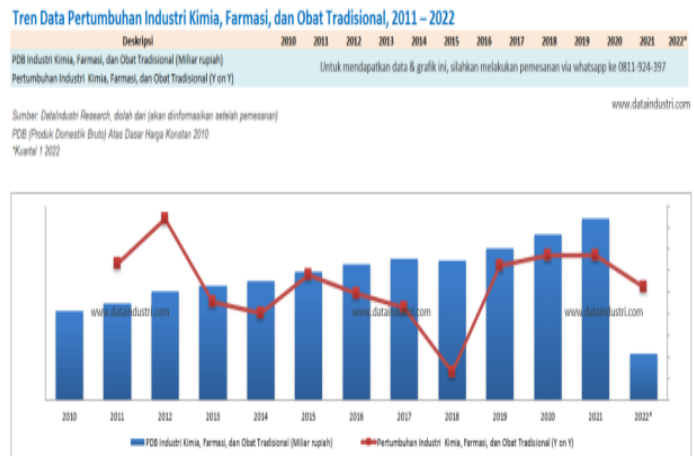


Figure 1. 1Trend data on the growth of the chemical, pharmaceutical and traditional medicine industries for 2011 – 2022

Source: katadata.co.id , 2023 Research Processed

METHOD

This research uses quantitative research methods because this research consists of numbers and analysis using statistics. Quantitative research methods are research methods used to study populations and samples, data collection will be carried out using research instruments and data analysis will be carried out quantitatively/statistically with the aim of testing predetermined hypotheses (Sugiyono, 2019:17) .

RESULTS AND DISCUSSION

This test was carried out to determine the best model used in this research. There are 3 tests carried out to find out the best model to use, these three tests are the Chow Test , Hausman Test , and Lagrange Multiplier Test.

Test Chow

This test was carried out to compare between the 2 estimation models. Is CEM (Common Effect Model) or FEM (Fixed Effect Model) the best to use in this research? The basis for decision making used is that if the probability result is > 0.05 then the CEM model is chosen. If probability <0.05 then FEM is selected. This test was carried out using eviews 12. The results of the Chow Test in this research are as follows:

Table 4.6 Chow Test Results

Redundant Fixed Effects Tests
 Equation: Untitled
 Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.580030	(7,44)	0.1666
Cross-section Chi-square	12.333070	7	0.0901

Source: data processed by eviews 12

From the results of the data that has been previously processed, it can be seen that the probability chi square value is 0.0901, where this value is greater than 0.05, so it can be concluded that the results of the Chow test , the best model chosen for this research is CEM (Common Effect Model).).

Hausman test

After finding the best model using the Chow test , it is necessary to test it using the Hausman Test . This test was carried out to compare the selected model again with another model, namely FEM (Fixed Effect Model). The decision taken is that if the probability result is > 0.05 then the FEM model is chosen. And if probability < 0.05 then REM is selected. Hausman test data :

Table 4.7 Hausman Test Results

Correlated Random Effects - Hausman Test
 Equation: Untitled
 Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.730117	3	0.0210

Source: data processed by eviews 12

From the results of the Hausman test data, it can be seen that the probability value is smaller than 0.05, namely 0.0210, which means the model chosen is FEM (Fixed Effect Model). Because the results of the two tests that have been carried out are different, it is necessary to carry out a third test, namely the Lagrange Multiplier Test.

Lagrange Multiplier (LM) Test

The Lagrange multiplier (LM) test was carried out to test the best common effect model and random effect model . The decision to reject the hypothesis or not is formulated as follows: If the Breusch – Food value is >0.05, that means the CEM (Common effect model) was chosen. And if the Breusch - food value < 0.05 that means REM (Random effect model) was chosen. The following are the results of the Lagrange Multiplier test data :

Table 4.8 Lagrange Multiplier Test Results

Lagrange Multiplier Tests for Random Effects
 Null hypotheses: No effects
 Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.627977 (0.4281)	2.451383 (0.1174)	3.079360 (0.0793)
Honda	-0.792450 (0.7860)	1.565689 (0.0587)	0.546763 (0.2923)
King-Wu	-0.792450 (0.7860)	1.565689 (0.0587)	0.610538 (0.2708)
Standardized Honda	-0.213993 (0.5847)	1.953711 (0.0254)	-2.114472 (0.9828)
Standardized King-Wu	-0.213993 (0.5847)	1.953711 (0.0254)	-2.034073 (0.9790)
Gourieroux, et al.	--	--	2.451383 (0.1321)

Source: data processed by eviews 12

From the results of previously processed data, judging from the Breusch-Pagan figure of 0.4281, it is smaller than 0.05, the model chosen is REM (Random Effect Model). Because the three tests produce the same 2 models, namely REM (Random Effect Model). Therefore, there is no need to test classical assumptions. According to Basuki & Yuliadi (2014: 183), the classical assumption test was not carried out because the model chosen was REM (Random Effect Model).

Panel Data Regression Analysis

Based on the test of selecting the best regression model which has been explained previously, the selected model table is as follows:

Table 4.9 Fixed Effect Model

Dependent Variable: Y
 Method: Panel EGLS (Cross-section random effects)
 Date: 07/03/24 Time: 16:29
 Sample: 2016-2022
 Periods included: 7
 Cross-sections included: 8
 Total panel (balanced) observations: 56
 Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	172.9787	156.4583	1.105589	0.274
X1	-0.899980	2.968898	4.303136	0.000
X2	0.460868	1.616985	2.285017	0.000
X3	-0.050287	0.055275	-0.909766	0.367

Effects Specification		S.D.	Rho
Cross-section random		0.000000	0.000
Idiosyncratic random		56.93294	1.000

Weighted Statistics			
R-squared	0.570165	Mean dependent var	25.4937
Adjusted R-squared	0.432021	S.D. dependent var	55.0826
S.E. of regression	56.07519	Sum squared resid	163510.
F-statistic	0.356715	Durbin-Watson stat	1.83948
Prob(F-statistic)	0.000001		

Unweighted Statistics			
R-squared	0.020165	Mean dependent var	25.4937
Sum squared resid	163510.2	Durbin-Watson stat	1.83948

Source: data processed by eviews 12

Panel Data Regression Equation

From the selected Fixed Effect Model above, then the following equation can be made:

Estimated Command:

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LS(?) YC X1 X2 X3

Estimation Equation:

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$$Y = C(1) + C(2)*X1 + C(3)*X2 + C(4)*X3$$

Substituted Coefficients:

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$$Y = 172.98 + 0.89*X1 + 0.47*X2 + 0.051*X3$$

Regression Equation Analysis:

1. The constant value obtained is 172.98, which means that if the independent variable increases by one unit on average, the dependent variable will also increase by 172.98.
2. The regression coefficient value for variable X1 is positive (+) at 0.89, so it can be interpreted that if variable
3. The regression coefficient value for variable X2 is positive (+) at 0.47, so it can be interpreted that if variable
4. The regression coefficient value for variable X3 is positive (+) at 0.051, so it can be interpreted that if variable

Hypothesis testing

t test

Dependent Variable: Y
 Method: Panel Least Squares
 Date: 07/03/24 Time: 16:32
 Sample: 2016 2022
 Periods included: 7
 Cross-sections included: 8
 Total panel (balanced) observations: 56

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	172.9787	154.1011	1.122501	0.2668
X1	-0.899980	2.924168	3.307773	0.0000
X2	0.460868	1.592623	2.289376	0.0000
X3	-0.050287	0.054442	-0.923682	0.3599

The influence of the independent variable on the dependent variable partially is as follows:

1. For the Financial Distress variable (X1), the calculated t value is 3.307773 > t table, namely 1.67356 and the sig value is 0.0000 < 0.05. So H0 is rejected and Ha is accepted the Financial Distress variable (X1) has an effect on earnings management

2. In the Return On Assets (X2) variable, the calculated t value is $2.289376 > t$ table, namely 1.67356 and the sig value is $0.0000 < 0.05$. So H_0 is rejected and H_a is accepted the Return On Assets (X2) variable has an effect on earnings management
3. In the variable company size (X3), the calculated t value is $-0.923682 < t$ table, namely 1.67356 and the sig value is $0.3599 < 0.05$. So H_0 is accepted and H_a is rejected This means that the Company Size variable (X3) has no effect on earnings management

Test f

This F test is used to determine whether or not there is a joint or simultaneous influence between the independent variable (X) on the dependent variable (Y). The basis for the decision for this test is that if the probability F statistic value is < 0.05 , then the independent variable simultaneously or concurrently influences the dependent variable. The results of the F test in this research are as follows:

R-squared	0.570165
Adjusted R-squared	0,432021
S.E. of regression	56.07519
Sum squared resid	163510.2
Log likelihood	-302.8804
F-statistic	0.356715
Prob(F-statistic)	0.032473

From the F test results above, it can be seen that the probability value of the F statistic is 0.032473, in accordance with the basis for decision making, this value is smaller than 0.05. So it can be concluded that the variables Financial Distress, Return On Assets (ROA) and Company Size have a joint or simultaneous influence on earnings management.

Coefficient of Determination Test Results

The coefficient of determination is used to find out whether the variables used in a dominant regression model influence the dependent variable. To find out the results of the coefficient of determination in a study, you need to look at the R Square in the regression model. The greater the R Square value , the better the regression model used. The results of the coefficient of determination in this study are as follows:

R-squared	0.570165
Adjusted R-squared	0,432021
S.E. of regression	56.07519
Sum squared resid	163510.2
Log likelihood	-302.8804
F-statistic	0.356715
Prob(F-statistic)	0.032473

From the table of coefficient of determination test results above, it can be seen that the R Square value is 0.570165, which means that in this research, the independent variable has an effect of 57.0165% on the dependent variable. Meanwhile, the remaining 42.9835% is influenced by other variables not examined in this research.

Meanwhile, the Adjusted R Square value is a value that has been corrected by standard error. In this research, the Adjusted R Square value is 0.432021 and the standard error indicated by the label " SE of regression" is 58.07519. in this model it can be interpreted that the regression model chosen is valid as a predictor model.

Effect of Return on Assets (ROA) towards Profit Management

Based on the results of hypothesis testing, the results of this research show that for the variable Return On Assets (ROA), the calculated t value is $2.289376 > t$ table, namely 1.67356 and the sig value is $0.0000 < 0.05$. Therefore it can be explained that Return On Assets (ROA) partially or individually influence earnings management. So H2 is accepted with the hypothesis that financial distress has an effect on earnings management.

The Influence of Financial Distress, Return On Assets (ROA) and Company Size on Profit management

From the F test results above, it can be seen that the probability value of the F statistic is 0.032473, in accordance with the basis for decision making, this value is smaller than 0.05. So it can be concluded that the variables Financial Distress, Return On Assets (ROA) and Company Size have a joint or simultaneous influence on earnings management. Then the R Square value is 0.570165, which means that in this research, the independent variable has an effect of 57.0165% on the dependent variable. Meanwhile, the remaining 42.9835% is influenced by other variables not examined in this research.

CONCLUSION

Financial Distress, Return On Assets (ROA) and company size influence simultaneously or together on earnings management in pharmaceutical companies listed on the Indonesian Stock Exchange for the period 2016 - 2022. With a calculated value, the probability value of the F statistic is 0.032473, in accordance with the basic decision making, this value is smaller than 0.05. Then the R Square value is 0.570165, which means that in this research, the independent variable has an effect of 57.0165% on the dependent variable. Meanwhile, the remaining 42.9835% is influenced by other variables not examined in this research. There is Financial Distress, Return On Assets (ROA) and Company Size which simultaneously influence earnings management by 57%, therefore it is recommended for future researchers to add other variables related to earnings management besides the variables of company size and financial distress so that they can be studied more widely. in further research

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