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The Influence of Profitability, Leverage, Tax Planning and Company Size on Profit Management (Empirical Study on Technology Companies Registered on JII 70)

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Abstract

Introduction to the Problem: In Indonesia, there has been a strong increase in the Muslim stock market. 60% of issuers listed on the Indonesia Stock Exchange (BEI) fall into the Sharia category. In 2022 several corporate sectors will experience a decline in shares. The technology sectors was one of them that fell by 33.24 % in the 2022 period.
Research Aims/Objectives: This research aims to determine the influence of profitability, leverage, tax planning and company size on earnings management partially and simultaneously
Design/Methodology/Approach: The method used in this research is quantitative descriptive. With a population of all technology companies registered in the Jakarta Sharia Index 70 throughout 2018 - 2022. The sampling technique uses saturated sampling. This research data uses secondary data types and is obtained from www.idx.co.id and company's websites. The software used in panel analysis in this research is Eviews 12.0 and Microsoft Office Excel.
Research results: Results The research found that profitability, leverage and company size each have an influence on Profit Management. while Tax Planning has no effect on Profit Management.
Paper Type: Research Article
Keywords: Profit Management, Profitability, Leverage, Tax Planning, Company Size

Introduction

In general, the Islamic capital market is not a separate system from the capital market. Sharia capital market activities are also in line with the capital market as a whole. However, the Islamic capital market offers a number of special characteristics, especially products and transaction mechanisms that do not conflict with Islamic sharia principles. The sharia stock market in Indonesia is experiencing significant growth. There are 434 listed issuers in the sharia category. This figure has increased significantly compared to the previous year which was only 318 issuers. Based on the latest records,

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60% of issuers listed on the Indonesia Stock Exchange (BEI) fall into the Sharia category. Based on data from the Financial Services Authority (OJK), the growth of sharia shares in Indonesia in 2022 will still be low compared to conventional ones. Several corporate sectors in 2022 will experience a significant decline. One of the technology sectors experienced a decline of 33.24 % throughout 2022. Not only the technology sector, the property sector, the infrastructure sector, and others.

Investors usually see the condition of a company from financial reports. The purpose of financial reports is to provide information regarding financial position, financial performance and profits obtained to report users as a basis for decision making and as a form of management accountability for the use of resources entrusted to them. The financial reports presented must be correct and in accordance with applicable financial accounting standards. Good financial reports show that the company does not distort or manipulate existing data. This can maintain the trust of creditors and shareholders (Mas et al., 2017)

According to Sagung (2021), one of the indicators used in assessing company performance is profit. The company provides profit information within a certain period of time. For creditors and investors, profit information helps them assess business performance, estimate future profits, and also calculate investment risks. In the Profit and Loss financial report, management often manipulates to show that the company's performance looks good, even though the company's condition is not good. This is done by management so that investors always have confidence in the company and attract other investors to invest. This action is called earnings management (PROFITS Empirical Study of Manufacturing Companies Listed on the Stock Exchange et al., 2016) .

Earnings management is an attempt by company managers to manage or influence financial report information with the aim of manipulating earnings reports. There are several parties who suffer losses, namely potential investors, creditors, suppliers, regulators and other stakeholders (Purnama, 2017) . According to Ratna (2016), earnings management is a process of changing, deceiving or manipulating financial report data using accounting methods and procedures used by the company. The main factor that causes financial reports to not reflect the company's core values is efforts to collect information through earnings management practices. As a result, the issue of engineering financial reports has become a source of misuse of information that is detrimental to stakeholders. Therefore, some of the information provided is not accepted according to the actual conditions of the company. This condition is known as information asymmetry, namely a condition where there is an imbalance in obtaining information between management as the provider of information, shareholders and stakeholders (Eka & Astutik, nd 2016)

In Sagung's research (2021), one of the factors that influences earnings management is profitability. A company certainly cannot be separated from profitability. Profitability will show the company's ability to generate profits in a certain period. The higher the profitability, the company's ability to generate profits also increases. The relationship between profitability and earnings management can also occur when the profits obtained by the company decrease or are low in a certain period. This can make the company increase its profits and income so that it can show good share movements and maintain the company's reputation in the eyes of investors.

Research on the profitability of earnings management has been conducted by Dendi Purnama (2017), Fathihani and Fitri (2022). Profitability influences earnings management. This is due to the provision of compensation with a bonus scheme to company management. Company management will produce good financial performance by showing great profitability through earnings management

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practices. Meanwhile, in research by Asim and Ismail (2019), Devanka Endiana, and Kumalasari (2022), there was no influence between profitability and earnings management.

Another factor that influences earnings management is leverage. leverage ratio which shows how much assets are financed by debt (Devanka et al., 2022) . Leverage shows how much debt the company has, the greater the risk the company will face, so as a result, this condition encourages company management to practice *income smoothing.* (Purnama, 2017) . The size of leverage greatly influences a company's earnings management practices. This is because the greater the leverage value of a company, the greater the value of debt in funding the company, which means it can incur interest expenses from the company's debt (Fathihani & Ayu Kusuma Wijayanti, 2022) . Leverage research has been conducted by Fathihani (2022) and Astari (2017). There is an influence of leverage on earnings management. This is because the greater the leverage value of a company, the greater the value of the debt used to finance the company's assets. Meanwhile, in the research of Purnama (2017) and Atriah (2017), there was no influence of leverage on earnings management.

Profit is related to the taxes that the company must pay, so tax planning can be one of the factors that influences earnings management. Tax planning is one medium for fulfilling tax obligations appropriately, but the amount of tax can be kept as low as possible to obtain profits and liquidity according to management's wishes (Pradnyawati et al, 2021) . Research on tax planning has been carried out by Santana and Wirakusuma (2016). There is an influence of tax planning on earnings management. The higher the tax planning, the greater the company's opportunity to practice earnings management.

The next variable that influences earnings management practices is company size. There are two views regarding the form of company size on earnings management. Firstly, small companies are considered to practice more earnings management than large companies. This is because small companies tend to want to show that the condition of the company is always performing well so that investors invest their capital in the company. Large companies pay more attention to the public so they will be more careful in making financial reports, which will impact the company to report its condition more accurately. However, the second view views company size as having a positive influence on earnings management. Large companies that have high political costs tend to choose accounting methods to reduce reported profits compared to small companies. Research on company size has been carried out by Astari (2017) and Astriah (2021). There is an influence of company size on earnings management. Meanwhile, in research by Fathihani (2022) and Agustia (2018), there was no influence of company size on earnings management.

The update to this journal is to take the research object of Technology Sector Companies which are listed in the Jakarta Islamic Index 70 for 2018 – 2022 and have not been studied much by other researchers. Based on the explanation outlined above, researchers are interested in examining the extent of the influence of profitability, leverage, tax planning and company size on profit management (empirical study of technology companies registered with JII 70).

Methodology

The method used in this research is quantitative descriptive. In this study, the data used was obtained from financial reports and annual reports on technology companies listed on the Jakarta Sharia Index 70 for 2018 - 2022. With a population of all technology companies listed on the Jakarta Sharia

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Index 70 for 2018 - 2022. The sampling technique used sampling fed up. This research data uses secondary data and was obtained from www.idx.co.id and the company website. The software used in panel analysis in this research is Eviews 12.0 and Microsoft Office Excel.

The data analysis method in this research uses six data tests, namely: (1) Descriptive statistical tests to describe the characteristics of the data from the sample studied (Fathihani & Ayu Kusuma Wijayanti, 2022) . (2) Multicollinearity, autocorrelation, heteroscedasticity and normality tests were used to test classical assumptions in this research. (3) Multiple panel data regression analysis is used to test the influence of Profitability, Leverage, Tax Planning and Company Size on Profit Management. The multiple linear regression equation used in this research is as follows:

$$Yit = \alpha it + \beta 1X1it + \beta 2X2it + \beta 3X3it + \beta 4X4it + eit$$

Information :

Yit	= Profit Management	X2it	= leverage
ait	= Constant	X3it	= Tax Planning
β it	= Variable Coefficient	X4it	= Company Size
X1it	= Profitability		

Results and Discussion

Research result

This section describes the results of data processing, First, to determine which model will be used, this analysis uses three models, namely pooled OLS/common effect, fixed effect, and random effect obtained from:

Table 1.
Chow Test Results

Redundant Fixed Effects Tests Equation: Untitled Cross-Section Fixed Effect Test			
Effects Test	Statistics	df	Prob.
Chi-square cross-section	2.973422	(8.32)	0.0132

Table 2.
Hausman Test Results

Correlated Random Effects – Hausman Test

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Equation: Untitled
Cross-Section Random Effect Test

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Problem.
Random cross-section	4.994642	4	0.2878

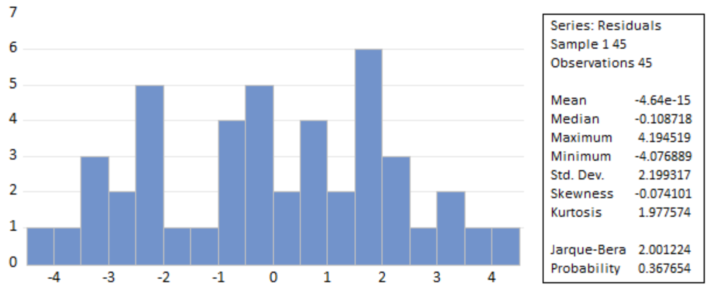
Based on the test results above, it is known: (1) The cross-section probability value, namely Chi-square, is 0.013, which is smaller than 0.05, which states that the fixed effect model is better to use than the common effect. (2) The random cross-section probability value of 0.28 is greater than 0.05, which means that the random effect model is better to use than the fixed effect. It can be concluded that this research used a random effect model.

Classic Assumption Analysis

There are 4 stages in the classical assumption test, namely normality test, heteroscedasticity test, multicollinearity test and autocorrelation test.

Normality test

Table 3.
Normality Test Results



Based on these results, there is a probability value of 0.3676 which is above the major rate of 0.05. The resulting residual values can be considered generally distributed.

Heteroscedasticity Test

Table 4.
Heteroscedasticity Test Results

Heteroscedasticity Test: Breusch -Pagan-Godfrey
Null hypothesis: Homoscedasticity

F-statistic	1.751947	Prob. F(4.40)	0.1577
Obs*R-squared	6.708472	Prob. Chi-Square(4)	0.1521
Scaled explained SS	2.590824	Prob. Chi-Square(4)	**0.6284**

It is known that the probability value of 0.6284 is higher than the significance level of 0.05 based on the results above. In this research it can be concluded that there is no heteroscedasticity problem.

Multicollinearity Test

Table 5.

Multicollinearity Test Results

Variance Inflation Factors
Date: 05/29/23 Time: 07:09
Sample: 1 45
Included observations: 45

Variable	Coefficient Variance	Uncentered VIF
X1	9.85E-05	10.01543
X2	5.56E-05	1.358298
X3	0.001166	1.800150
X4	0.000134	11.16000

The provisions for reading the test results are that if the tolerance value is > 0.1 or the VIF value is < 10, it can be concluded that there was no multicollinearity found between the independent variables in the research data. Based on the results of the multicollinearity test in the research, there are symptoms of multicollinearity.

Autocorrelation test

Table 6.
Autocorrelation Test Results

Breusch–Godfrey Serial Correlation LM Test:
Null Hypothesis: No serial correlation at up to 2 lags

F-statistic	2.628644	Prob. F(2.38)	0.0853
Obs*R-Square	5.469089	Prob. Chi-Square(2)	**0.0649**

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It is known that the probability value of 0.0649 is higher than the significance level of 0.05 based on these results. In the study, the autocorrelation problem was found to be non-existent.

T-test

Table 7.
T test results

Dependent Variable: Y
Method: Least Square
Date: 06/18/23 Time: 10:03
Sample: 1 45
Includes observations: 45

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	-28.06454	5.331941	-5.263476	0.0000
X1	-0.714656	0.340750	-2.097302	0.0423
X2	-1.653384	0.268749	-6.152138	0.0000
X3	-1.065812	1.174233	-0.907667	0.3695
X4	14.32656	1.845375	7.763495	0.0000

R-Square	0.805623	Mean dependent var	16.94212
Adjusted R-Squared	0.786185	SD dependent var	4.988447
SE of regression	2.306663	Akaike info criterion	4.613920
Sum squared resid	212.8278	Schwarz criterion	4.814661
Log likelihood	-98.81321	Hannan-Quinn Criter.	4.688754
F-statistic	41.44639	Durbin-Watson stat	1.500867
Prob(F-statistic)	0.000000		

The table above is the result of testing independent variables, namely profitability, leverage, tax planning, and company size on earnings management registered with JII 70 for the 2018-2022 period. Here's the interpretation:

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1. The Effect of Profitability on Profit Management Based on the test results, it shows that the probability value for the profitability variable X1 is lower than 0.0423 < 0.05 significant level. This shows that profitability has a positive effect on earnings management.

2. The effect of leverage on earnings management. The test results show that the leverage variable (X2) has a probability value smaller than 0.000 < 0.05 significant level. This shows that leverage has an effect on earnings management
3. The Effect of Tax Planning on Profit Management. The test results show that the probability of the Tax Planning Variable X3 is greater than 0.3695 > 0.05, so the level is significant. This shows that there is no influence of tax planning on earnings management.
4. The Influence of Company Size on Profit Management. The test results show that the company size variable (X4) has a probability value of less than 0.000 < 0.05 significant level. This shows that the size of a company has an influence on profitability management.

F test

The F test is used to test whether the independent variable simultaneously influences the dependent variable. The guidelines used in drawing conclusions for the F test are as follows:

1. If $F_{Hitung} > F_{Tabel}$ or the probability value is <0.05 then the test results have the meaning of simultaneously finding a significant influence on the independent variable and the dependent variable.
2. If $F_{Hitung} < F_{Tabel}$ or probability value > 0.05 then the test results mean that simultaneously no influence was found.

Table 8.
F test results

F-statistic	41.44639
Prob(F-statistic)	0.000000
F Table	2.61

Based on the F test in table 8 above, it is known that F count > F table, so it can be concluded that there is an influence between profitability, leverage, tax planning and company size on earnings management simultaneously.

TestR^2 (DETERMINATION COEFFICIENT)

The coefficient of determination test is intended to assess the ability of the independent variable to explain the dependent variable. In this research, the coefficient used is the adjusted coefficient of determination or adjusted R2. This is because the adjusted R2 is a coefficient that has been corrected so that it allows the data to increase or decrease as new variables are added to the model.

R-squared	0.977851

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Table 9.
Test R^2

Adjusted R-Squared	0.969545

Based on the results above as stated in the table, it is known that the Adjusted R-squared value is 0.9695. This shows that variations in the dependent variable, namely earnings management, can be explained by the independent variables profitability, leverage, tax planning and company size by 96%, while the remaining 4% is influenced by other factors outside the variables studied.

Discussion

The Relationship Between Profitability and Earnings Management

Based on the test results, it shows that the probability value for the profitability variable X1 is lower than 0.0423 < 0.05 significant level. This shows that profitability has a positive effect on earnings management. The aim of establishing a company is to obtain profitability. Profitability is the level of net profit that a company manages to obtain in carrying out its operational activities. If the profitability obtained is low, then the bonuses that management will get will also be low. This causes management to tend to carry out earnings management practices so that management gets bonuses. If profitability looks high, investors will believe that the company's performance is good. Profitability (PROFIT) is proxied by Return On Assets (ROA). The results of this research are in line with research by Wulan Atriah (2021) Dendi Purnama (2017) and Kalbuana et al (2022) state that profitability has a positive effect on earnings management

The Relationship Between Leverage and Profit Management

The test results show that the leverage variable (X2) has a probability value smaller than 0.000 < 0.05 significant level. This shows that leverage has an effect on earnings management. Leverage is a ratio that shows the quantity of debt or company liabilities to total assets. The higher the leverage ratio, the higher the company's risk in paying its obligations, this will have an impact on creditor confidence (Purnama, 2017) . A high leverage ratio will encourage companies to carry out earnings management. The results of this research are in line with research by Wulan Atriah et al (2021) and Devanka et al (2022) which states that leverage has a positive effect on earnings management.

The Relationship Between Tax Planning and Profit Management

The test results show that the probability of the Tax Planning Variable X3 is greater than 0.3695 > 0.05, so the level is significant. This shows that there is no influence of tax planning on earnings management. Tax Planning (PP), is a step taken by taxpayers to minimize the tax burden for the current and future years , so that the tax paid can be reduced as efficiently as possible and in various ways that

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meet tax regulations. In this research, tax planning is measured using the tax retention rate formula, which analyzes a measure of the effectiveness of tax management in the company's financial statements for the current year. The measure of tax management effectiveness referred to in this research is the measure of tax planning effectiveness. The results of this research are not in line with research by Eka and Astutik (2016) which states that tax planning has an effect on earnings management. A series of studies have found that tax planning does not have a significant direct influence on earnings management (Handayani, 2020; Rosharlianti, 2019; Mudjiyanti, 2018).

The Relationship Between Company Size and Profit Management

The test results show that the company size variable (X4) has a probability value of less than 0.000 < 0.05 significant level. This shows that the size of a company has an influence on profitability management. Company size is a measure of the size of a company's value based on total assets. Total assets are used as a proxy for company size considering that the company's total assets are relatively more stable compared to total sales and market capitalization value (Devanka et al, 2022). The research results are in line with research by Mas et al (2017) which states that company size has a positive effect on earnings management.

Conclusion

Based on the research results, it was found that profitability had a significant positive effect on earnings management, leverage had an effect on earnings management and company size had an effect on company size. Meanwhile, Tax Planning has no effect on earnings management. Simultaneously, Profitability, Leverage, Tax Planning and Company Size influence earnings management.

It is hoped that the results of this research will provide insight into the field of economics and can be an additional reference for other researchers. For managerial parties, it is hoped that this research can be a reference in making decisions or policies within the company. This research has limitations and there are still several things that need to be improved, namely, the lack of completeness of the data, thereby reducing the sample used. This research also only uses technology companies as research objects, so it does not cover all corporate sectors.

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