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ANALYSIS OF THE EFFECT OF PROFITABILITY, SOLVENCY, CORPORATE SOCIAL RESPONSIBILITY ON EARNINGS MANAGEMENT IN MANUFACTURING COMPANIES

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ABSTRACT

This study aims to determine the effect of profitability, solvency and Corporate Social Responsibility on earnings management. This research uses quantitative methods. The population in this study were all manufacturing companies listed on IDX in 2018-2020, totaling 542 companies. The sampling technique used was purposive sampling and resulted in 15 companies being selected as samples with a total of 38 data. This study uses secondary data. The results show that profitability has a positive and significant effect on earnings management, solvency has a positive and significant effect on earnings management, and Corporate Social Responsibility has no effect on earnings management. Simultaneously profitability, solvency, Corporate Social Responsibility affect earnings management..

Keywords: Earning Management, Corporate Social Responsibility, Profitability, Solvency.

1. INTRODUCTION

Earnings management is an activity to increase or decrease profits on financial statements carried out by a manager which of course is also the personal responsibility of a manager himself (Pratama et al., 2014). With this earnings management to present good financial reports, in order to attract the attention of investors to invest and will also make it easier for companies to borrow money from creditors (Wardan, 2020).

The phenomena of earnings management in manufacturing companies in Indonesia include: PT Kimia Farma, which is the largest manufacturing company with a net profit of Rp. 132 billion, where in fact the total profit is only Rp. 99 billion (https://bisnis.tempo.Co/read/ 28937/kimia-farma-do-mistake-recording-financial reports, 2018). Thus, the consequences caused by earnings management practices are quite high, namely the company will experience losses and a bad company image, investors who begin to lose confidence in the company, and the company will be subject to sanctions (Wardan, 2020).

The phenomenon that occurs shows that earnings management actions are inseparable from opportunistic actions taken by management. Management as a party mandated by the owner of the company may violate the agreed contract. This may happen, given that the actions taken by managers are not fully known by shareholders and creditors. It is different if management is also the owner of the company it manages (Pracihara, 2016). This makes researchers interested in re-examining these variables on earnings management. In addition, these variables are considered important to be re-examined because they can motivate management to practice earnings management..

2. METHODS

The research time used is the 2018-2020 period. The location of this research was carried out in manufacturing companies listed on the Indonesia Stock Exchange (IDX) which can be accessed through the website www.idx.co.id. This type of research is a quantitative research. The data analysis method used in this study is using the classical assumption test, multiple linear regression analysis and hypothesis testing.

The population in this study are all manufacturing companies that have been listed on the Indonesia Stock Exchange (IDX) from 2018-2020. The sample in this study that complies with the sample criteria is 38 sample data from 15 manufacturing companies that have been listed on the Indonesia Stock Exchange (IDX) for the period 2018-2020.

The dependent variable in this study is earnings management (Y). Earnings management can be measured using Discretionary Accrual as a proxy for earnings management in accordance with the Modified Jones Models (1995). The first independent variable is profitability (X1). In this study, to calculate the level of profitability of a company using Return On Assets (ROA). ROA can be calculated by dividing net income by total assets (Hery, 2016: 106).

The second independent variable is solvency (X2). In this study, to calculate the level of solvency of a company using the Debt to Asset Ratio (DAR). DAR can be calculated by dividing total debt by total assets (Kasmir, 2016:157).

The third independent variable is Corporate Social Responsibility (X3). CSR is measured using the Corporate Social Responsibility Index (CSRI). The CSRI measurement instrument that will be used in this study refers to the Global Instrument Initiative (GRI) instrument. CSRI measurement is done through content analysis in measuring the variety of CSRI. CSR disclosure in the research instrument is given a score of 1 if the information category is disclosed and a value of 0 if the information category is not disclosed. Next, the scores from each category of sustainability report information are summed to obtain the overall score for each company.

3. RESULTS AND DISCUSSION

1. The Effect of Profitability on Earnings Management

Based on the results of the study, it shows that profitability has a positive effect on earnings management, as evidenced by a significant value of 0.02 which is smaller than 0.05 and the value of t arithmetic is greater than t table (3.406 > 2.034). This is because companies that have high profits according to political costs will tend to be more noticed by the public and the government than companies with small profits.

The higher the profitability, the more earnings management occurs, and conversely the lower the profitability, the lower the earnings management. Companies that have high profitability tend to practice earnings management in the form of lowering profits, so that companies can minimize tax payments and make it easier for companies to borrow money from creditors. The results of this study are in line with Karamoy and Tala (2017), Astari and Suryanawa (2017), and Sari et al. (2020). However, this study is not in line with the research of Suryani and Agustia (2018).

2. The Effect of Solvency on Earnings Management

Based on the results of the study, it shows that solvency has a positive effect on earnings management, as evidenced by a significant value of 0.000 <0.05 and the t-count value is greater than t-table (3.965> 2.034). This is because the company has to carry out earnings management in order to fulfill the obligation to pay debts on time.

A high solvency value indicates that the company has higher loans for the company's operations so that this ratio is used as an indicator for investors in determining investment. The higher the solvency, the greater the possibility for managers to carry out earnings management because the company is threatened with default, which is unable to meet its debt obligations. Managers will carry out earnings management by increasing company profits, this is done to restore investor confidence. The results of this study are in line with Astari and Suryanawa (2017) and Suryani and Agustia (2018). However, this study is not in line with Karamoy and Tala (2017).

3. The Effect of Corporate Social Responsibility (CSR) on Earnings Management

Based on the results of the study, it shows that corporate social responsibility has no effect on earnings management, as evidenced by the partial significant test (t test) with a significant value of 0.105 > 0.05 and the t arithmetic value is smaller than t table (1.663 < 2.034). This is because the implementation of corporate social responsibility in Indonesian companies does not guarantee a reduction in earnings management practices. Differences in perspective and culture greatly affect the implementation of corporate social responsibility in Indonesia and developed countries.

The high or low value of the disclosure of corporate social responsibility of a company still does not ensure the existence or absence of earnings management practices, because earnings management is carried out through accrual management of the company's financial statements by increasing or decreasing the reporting on corporate social responsibility disclosure in the form of a sustainability report so that the report contains information on the company's corporate social responsibility activities. The results of this study are in line with Palupi and Alexander (2019). However, this study is not in line with Santi and Wardani (2018)

4. The Effect of Profitability, Solvency and Corporate Social Responsibility (CSR) on Earnings Management

Based on the results of the study, it shows that profitability, solvency, and corporate social responsibility have a significant effect on earnings management, as evidenced by the F test with a significant value of 0.00 less than 0.05. The coefficient value is 0.443 which shows the contribution of variables that have an influence on earnings management of 44.3%, namely profitability, solvency of corporate social responsibility, while 55.7% is influenced by other variables not examined in this study. This is because high profitability reflects the company's healthy financial condition. The high level of solvency indicates that the liabilities owned by the company are more than the assets owned so that it reflects the company's unhealthy condition. Corporate social responsibility expressed by managers in the financial statements is an added value for the company to increase the company's credibility in the eyes of the public. This research is in line with Karamoy and Tala (2017), Suryani and Agustia (2018) Santi and Wardani (2018) Pratiwi et al. (2020).

4. CONCLUSIONS

Profitability has a positive and significant effect on earnings management, this is because companies that have high profits according to political costs will tend to be paid more attention by the public and the government than companies with small profits. Solvency has a positive and significant effect on earnings management, this is because the company has to carry out earnings management in order to fulfill the obligation to pay debts on time. Corporate social responsibility has no significant effect on earnings management, this is because the implementation of corporate social responsibility in Indonesian companies does not in fact guarantee a reduction in earnings management practices. Differences in perspective and culture greatly affect the implementation of corporate social responsibility in Indonesia and developed countries.Profitability, solvency, and Corporate Social Responsibility (CSR) simultaneously have a significant effect on earnings management, this is because high profitability reflects the company's healthy financial condition. The high level of solvency indicates that the liabilities owned by the company are more than the assets owned so that it reflects the company's unhealthy condition. Corporate social responsibility expressed by managers in the financial statements is an added value for the company to increase the company's credibility in the eyes of the public. Future researchers are expected to be able to use different research subjects other than manufacturing, besides that they can also increase the observation period and can find other proxies to measure earnings management besides

Discretionary Accrual to support more accurate research related to earnings management.

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