*International Journal of Application on Economics and Business (IJAEB)*
*Volume 1, Issue 4, 2023. ISSN: 2987-1972*

# FACTORS AFFECTING EARNINGS MANAGEMENT IN THE PLANTATION INDUSTRY IN INDONESIA DURING 2015-2019

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*Submitted: 06-06-2023, Revised: 21-08-2023, Accepted: 19-10-2023*

***ABSTRACT***

*The objective of this research is to obtain empirical evidence about the effect of profitability, leverage, firm size, and liquidity on earnings management on plantation companies listed on the Indonesia Stock Exchange (IDX) during the years of 2015-2019. This research uses secondary data. This research is conducted with a sample of 62 plantation company data with the technique used in this study is purposive sampling. The research data was processed using Statistical Product and Service Solution program for Windows version 26 (SPSS version 26). The results of this research show that the leverage and firm size have a positive and influence on earnings management practices, while profitability and liquidity have no effect on earnings management. The implication of this research is that companies must communicate intensively with shareholders so that this does not occur or can reduce information asymmetry in carrying out earnings management. By maintaining good communication with shareholders, and maintain profitability, proper leverage ratio and liquidity as well as optimizing assets to earn profit, it is believed that the financial report information issued by the company does not involve earnings management practices so that it becomes a positive signal for investors which can ultimately increase stock prices and company value.*

***Keywords**: Profitability, leverage, firm size, liquidity, earnings management*

## 1. INTRODUCTION

Thanks to the times and increasingly advanced technology, people can easily access all information. The Company has an obligation to provide complete, accurate and timely financial information. Financial statements are a means by which companies can disclose their financial information to the public and interested parties. Some parties use these financial statements to make decisions. One of the important financial measures in the financial statements used to evaluate and assess the management of the company by management is profit. As a result, profit is often the target of management in maximizing its profits. Financial statements that should have been prepared with the principle of prudence have been misused through earnings management practices. The result is inappropriate decision making and biased information for users of financial statements.

There are many reasons for management to carry out earnings management in both public and private companies. The goals of earning management are tax savings, income smoothing, showing management achievements to shareholders, and increasing the value of investor or shareholder wealth through increasing share prices in the market. Many factors or variables can be considered for earnings management, such as managing company profits, leverage, company size, liquidity, tax planning, revenue recognition, and others. However, the factors used by the company can be according to the conditions and characteristics of the industry.

Profitability is one of the important factors for managers when doing earnings management. Profitability, in this case, shows the ability of a company to generate profits over a certain period of time, where the higher the profitability of a company, the higher the company's performance and ability to generate profits (Yatulhusna, 2015). Profit will be an indication of investors' distrust of the correctness of the earnings reports made by management, because they are considered not to reflect conditions. Sometimes companies have experience in declining profits, or significant fluctuations in profits from year to year which cause bad perception by investors, but companies want to maintain investor confidence through stock prices in the market, then practice earnings management to make the company's profits in a steady state. On the other hand, if the profit is too high then the tax to be paid will be more. Thus, the higher the profitability generated by a company, the greater the management's desire to reduce or smooth out profits so that it is possible for management to make reported earnings not fluctuate by smoothing earnings to avoid high tax payments (Paramitha and Idayati, 2020). The profit earned by the company is far above the industry average does not mean that the company is in the best performance condition, or vice versa. However, the other study shows the opposite, with profitability having a negative and significant effect on earnings management (Aprina and Khairunnisa, 2015).

Another consideration factor is leverage. Leverage is one of the management's efforts to increase operating profit and can be used as a benchmark to see the behavior of managers in earnings management practices. In relation to leverage, the external source of funds in the form of debt is an alternative source of corporate funding in addition to selling shares in the capital market. However, high leverage, meaning that the debt is very large compared to capital, is very dangerous for the company. Debt has an impact on interest expenses which will reduce the comprehe4nsif company's profit. So, it can be said, companies need funds from third parties to develop their business, but funds from third parties will affect the company's performance in generating profits. Hence, companies with high leverage ratios due to the large amount of debt compared to assets owned by the company, are suspected of carrying out earnings management because the company is threatened with default or failure to pay which cannot fulfill debt repayment obligations on time (Mahawyahrti and Budiasih, 2016). On the other hand, the results of the other study concluded that leverage has a negative and significant effect (Arlita et al., 2019).

The addition of debt can increase the value of assets on the other hand, although the value of assets is also affected by the results of operations recorded in retained earnings. Company size is one of the factors that influences earnings management practices. Company size classifies a company into large companies and small companies. According to (Aprina and Khairunnisa, 2015) states that large companies have a large enough incentive to carry out earnings management, because large companies must be able to meet the expectations of investors and shareholders. The larger the size of the company, the greater the possibility for managers to be involved in earnings management (Angin, 2020). However, there are also small or medium-sized companies generating above-average profits due to extraordinary conditions, such as the healthcare industry during the Covid-19 pandemic, the petrochemical industry which was affected by oil prices. Or preferably, companies with large sizes experienced growth below average or lost compared to previous years such as the property industry, oil palm plantations during the Covid-19 pandemic. Based on this phenomenon other research conducted (Darsono, 2015) disagrees and has a different view where company size has a negative and significant effect on management. profit.

Another variable is liquidity. Liquidity is the company's ability to meet its short-term obligations. The liquidity variable correlates a lot with the previous third factor. Profits do not always reflect a liquid company because of the accrual approach. As is the case with leverage, not all companies with a good level of liquidity still take debt from third parties for reasons of prevention funds or for other investments. Likewise with the size of the company, large companies do not always indicate that the company is in a liquid state, because not all company's assets are in the form of liquid funds. However, if the company has too much liquidity, the company will not be able to manage its current assets optimally, in this case the company's financial performance is not good and it is possible that profit manipulation actions can occur to beautify the profit information (Marpaung, 2019). Different results are shown (Paramitha and Idayati, 2020) where the higher the company's liquidity, the higher the company's ability to pay off its short-term debt.

Based on the explanations above, the study tries to answer the following questions: 1) Does profitability have an effect on earnings management? 2) Does leverage have an effect on earnings management? 3) Does company size have an effect on earnings management? 4) Does liquidity have an effect on earnings management? Thus, the purpose of this study is to analyse the influence of profitability, leverage company size, and liquidity on earnings management, especially for the plantation industry.

choosing the object of the plantation industry is that industry requires large investments. Company should follow a process from land acquisition to producing plants resulting in sales or profits. It takes a long time. As long as the plant has not generated sales or profit, company required large funds, and the amount of these funds is generally obtained from debt. After the plants ready to produce, sales cannot be carried out optimally. On the other hand, the company has an obligation to repay debt and pay interest. In addition, this industry requires large capital, or with a large company size. So, starting from land acquisition to generating sales, the income of company will be fluctuated significantly. Hence, management is considering practicing earnings management While the period used is from 2015 to 2019, because of in 2020 the Covid-19 pandemic began worldwide so that the company's performance during the pandemic, especially in the first year, 2020. Therefore, the financial reports for 2020 and during the pandemic became an anomaly compared to last year. -the previous year.

With this research, it is hoped that it will contribute to management in considering earnings management, and investors can understand whether companies practice earnings management by comparing other information, both qualitative and company or product news in the community.

## 2. LITERATURE REVIEW

### Agency Theory

An agency relationship is one in which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent (Jensen & Meckling, 1976). Human beings are generally selfish, creating a conflict of interest between the owner and the agent. Such conflicts can arise because the agent may not always act in accordance with the interests of the principal. Managers' interests prioritize personal interests over shareholder interests (Lukman and Irisha, 2020) Management tries to make efforts so that the company's performance looks good so that they get satisfaction from the owner in the form of financial compensation. However, from the principal's point of view, the company is in an unfavorable condition and it is disadvantaged by management covering up what should be done by making the company's condition look good.

## Signalling Theory

Signal theory was put forward by Ross (1977). Ross found that internal company parties have better information about the state of the companies they manage and will be encouraged to publish this information to attract potential investors to be willing to invest, so that later it will affect the increase in the share price of the company (Ross, 1977) (Lukman and Irisha, 2020).

The content of information provided by the company can be seen from the market reaction of an information or announcement (Mulyana and Lukman, 2021). Good quality companies should signal their potential to the market so that it becomes a consideration for investment decisions (Yuriska and Lukman, 2020). Therefore, management tries to provide good information to investors so that the information will give a positive signal. However, unfavorable information will be a negative signal for investors

## The Effect of Profitability on Stock Earnings Management

Profitability is an indicator of management performance in managing the company's wealth, which is indicated by the profits generated by the company (Sudarmadji et al., 2007). Profitability shows the ability of management to generate profits by utilizing assets used in operating activities. Companies with large profits will continue to maintain their profits because it has an impact on investor confidence in investing. But if the profit generated is too high, it will increase the taxes that must be paid, therefore management is motivated to carry out earnings management. In addition, managers perform earnings management actions also related to the provision of bonuses or compensation (Paramitha and Idayati, 2020). This statement is not supported by the research conducted by Aprina and Khairunnisa (2015).

## The Effect of Leverage on Earnings Management

The higher the value of the company's capital funding obtained from debt will result in higher opportunities for management to carry out earnings management because for creditors the greater the ratio will be more unprofitable because the greater the risk borne for failures that may occur in the company. Companies with high levels of debt have a higher risk, the company's profits fluctuate and companies tend to do income smoothing so that company profits look stable because investors tend to observe fluctuations in profits in a company. Companies that are threatened with default tend to smooth earnings by increasing profits. This is done in order to improve the bargaining position during debt negotiations or to obtain fresh funds due to difficulties in finding loan funds.

## The Effect of Firm Size on Earnings Management

Firm size is considered to affect earnings management. The size of a company is seen by how many assets it has. Companies with large sizes have a tendency to carry out earnings management because their performance will be seen by the public so that the company will report its financial condition in an excellent position to meet the expectations of investors and shareholders. The government will charge various costs (operating costs, administrative costs) to large companies. Large companies with large total assets will have a tendency to generate large corporate profits as well. Large companies tend to practice earnings management by lowering profits because the company avoids fluctuations or drastic increases in profits in order to avoid increasing costs imposed by the government and society.

Research conducted by (Angin, 2020) explains that company size has a positive influence on earnings management. Meanwhile, another research (Darsono, 2015) has a different opinion that company size has a negative effect.

### The Effect of Liquidity on Earnings Management

The ratio used to measure the company's ability to meet its short-term obligations on time with its current assets. Usually, managers manipulate current assets owned by the company so that the company's liquidity looks good. The liquidity ratio can be an indicator in showing the earnings management actions taken by the company. Liquidity shows that the company is able to meet its financial obligations in the short-term using available current funds. However, if the company's liquidity is too large, it means that the company is not able to manage its current assets as much as possible so financial performance becomes less good and there may be profit manipulation to beautify the profit information. The results of research (Sudarmadji et al., 2007) conclude that liquidity has a positive influence on earnings management. Different results are shown (Paramitha and Idayati, 2020) where the higher the company's liquidity, the higher the company's ability to pay off its short-term debt. If the company's liquidity ratio is low, the manager will manipulate the company's current assets.

## 3. HYPOTHESES

Profitability is one measure of the company's financial performance to regulate the company's ability to achieve profit. In agency theory, management as an agent and shareholders as principals have different interests. Management has an interest in achievement to get rewards in the form of salaries and bonuses. While the principal has an interest in getting a return on the investment he does. Therefore, management will do various ways to fulfill its interests, one of which is by managing earnings, especially if there is a decrease in profits which is an indicator of management success. In terms of information, there is also information asymmetry between management and principals, and investors as inactive shareholders. Steady profit will be a positive signal for investors. Thus, it can be said that profitability influences the decision to practice earnings management. Companies that have large profits will maintain their profits at a certain level in order to have an impact on investor confidence, that's why management is motivated to carry out earnings management, so that reported earnings do not fluctuate (Paramitha and Idayati, 2020). Based on the explanation above and supported by previous research, the hypothesis that was built in this study as follows:
H1: Profitability has a positive influence on earnings management.

Leverage is a measure of the number of assets financed by debt. Leverage as an effort to increase company profits, can be a benchmark in seeing manager behavior in terms of earnings management. Companies that have high financial leverage are suspected of carrying out earnings management because the company is threatened with default, that is, it cannot fulfill its debt obligations on time. This situation indicates that companies with high leverage have weak supervision over management which causes management to make decisions on their own, and also set inappropriate strategies. In accordance with agency theory, management or agents will arrange leverage to create or manage profits so that management's interests to get bonuses are fulfilled, on the other hand, principals do not get actual information. This also applies to investors who do not get real information from the presentation of financial reports, especially profit reports. So, setting the level of leverage on earnings management is a signal for investors. The company or management will try to avoid this by doing earnings management that can increase revenue or profits in the period

(Mahawyahrti and Budiasih, 2016). Based on the explanation above and supported by previous research, the hypothesis that was built in this study as follows:
H2: Leverage has a positive influence on earnings management.

Based on the theory and previous research on firm size and its effect on earnings management, it can be concluded that firm size has an effect on earnings management practices. The difference interests between management and shareholders makes the size of assets a consideration in managing earnings. The use of assets that are not optimal does not produce good profits, and vice versa. Management will make arrangements for recording the use of assets to carry out earnings management, so that information asymmetry regarding the use of assets to generate profits between principals (agency theory) and investors (signaling theory) and management. It can be concluded that company size will influence earnings management. Large companies have more complex operational activities than small companies, making it more likely to carry out earnings management (Angin, 2020). Based on the explanation above and supported by previous research, the hypothesis that was built in this study as follows:
H3: Firm Size has a positive influence on Earnings

As same as the leverage and profitability variables, management with principals and investors will experience information asymmetry regarding business liquidity. Information asymmetry with principals is in accordance with agency theory, while with external parties in accordance with signalling theory. Liquidity shows that the company is able to meet its financial obligations in the short-term using available current funds. Liquidity is very closely related to the variable leverage (debt) profitability. Leverage causes interest expense which will affect comprehensive income. Interest payments and loan repayments affect liquidity. However, if the company's liquidity is too large, it means that the company is not able to manage its current assets as much as possible so that financial performance becomes not good. In other words, if management uses leverage and profitability variables as factors in managing earnings, then the variable liquidity also influences earnings management practices. Thus, liquidity will affect earnings management practices. This statement is supported by research (Sudarmadji et al., 2007) which concludes that liquidity affects liquidity. Based on the explanation above and supported by previous research, the hypothesis that was built in this study as follows:
H4: Liquidity has a positive influence on Earnings Management

From the hypothesis above, the design of this research is as shown below.

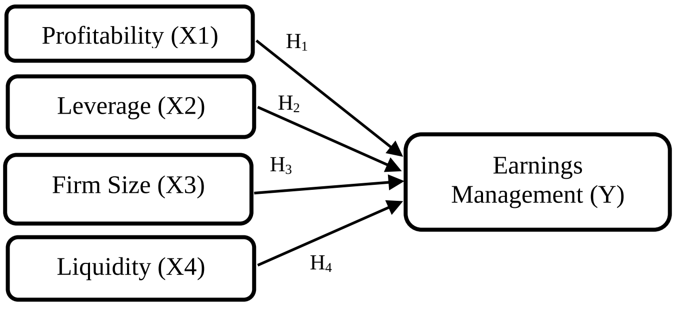


**Figure 1.** Research Model

## 4. METHOD

The population used in this study are companies in the plantation sector listed on the Indonesia Stock Exchange (IDX) during the 2015-2019 period. The number of plantation companies listed on the Indonesia Stock Exchange (IDX) for 2015-2019 are 29 companies.

Sample selection was done by purposive sampling method with several predetermined criteria. Companies were selected based on the criteria of 18 companies with a 5-year research period. The criteria used as the conditions for selecting the sample are as follows: (1) All plantation companies are listed on the IDX from January 1, 2015 to December 31, 2019; (2) Has published the annual financial report for the period 2015-2019; (3) Financial statements are both expressed in rupiah and USD; and (4) Companies that have debt for operations. It is known that there are 11 companies that cannot be used as research samples because they do not publish financial statements for the period of 2015-2019. The number of companies that meet the criteria are 18 companies with 5 years of observation, so the amount of data used is 90. However, there are 28 data with extreme values that must be excluded from the research sample as outlier data. The total research sample that meets the criteria is 62. The objects in this study consist of the dependent variable and the independent variable. The dependent variable in this study is earnings management. The independent variables in this study are profitability, leverage, firm size, and liquidity. The research object data was taken from plantation companies listed on the Indonesia Stock Exchange (IDX) for the period of 2015-2019.

**Table 1.** Variables Operationalization

| Variables | Reff. | Formula | Scale |
|---|---|---|---|
| Earnings Management (DA) | Sanjaya (2008) | 1. Total *Accruals*<br>$TAC_{it} = NI_{it} - OCF_{it}$<br>**5.** *Accruals Estimated* OLS (*Ordinary Least Square*)<br>$\frac{TAC_{it}}{A_{it-1}} = \beta_1(\frac{1}{A_{it-1}}) + \beta_2(\frac{REV_{it} - REV_{it-1}}{A_{it-1}}) + \beta_3(\frac{PPE_{it}}{A_{it-1}})$<br>**6.** *Non-Discretionary Accruals*<br>$NDA_{it} = \beta_1\left(\frac{1}{A_{it-1}}\right) + \beta_2([REV_{it} - REV_{it-1}]$<br>$-[REC_{it} - REC_{it-1}])/A_{it-1} + \beta_3(\frac{PPE_{it}}{A_{it-1}}) + \varepsilon$<br>**7.** Dis*cretionary accruals*<br>$DA_{it} = \frac{TAC_{it}}{A_{it-1}} - NDA_{it}$ | Nominal |
| Profitability (PRO) | Paramitha & Idayati (2020) | ROA = Net Income / Total Assets | Ratio |
| Leverage (LEV) | Ani & Hardiyanti (2022) | Debt Ratio = Total Debt / Total Assets | Ratio |
| Firm Size (FS) | Mahawyahrti & Budiasih (2016) | *Firm Size = Ln Total Aset* | Nominal |
| Liquidity (LQ) | Ani & Hardiyanti (2022) | Current Ratio = Current Debt / Current Liabilities | Ratio |

Source: Compiled by Authors

## 5. RESULT AND DISCUSSION

Before carrying out the classical assumption test, a descriptive test was carried out to find out the maximum, minimum and average values of the data to see the skewness of the processed data. The results of the descriptive test are as follows:

**Table 2.** Descriptive Statistics Test Result

| Variables | N | Minimum | Maximum | Mean | Std. Dev. |
|---|---|---|---|---|---|
| Profitability | 62 | -0.57 | 0.16 | -0.02 | 0.114 |
| Leverage | 62 | 0.11 | 1.65 | 0.57 | 0.228 |
| Company Size | 62 | 14.48 | 29.8 | 21.77 | 5.438 |
| Liquidity | 62 | 0.04 | 5.28 | 1.10 | 0.948 |
| Earnings Management | 62 | -1.86 | 0.85 | -0.06 | 4.064 |

Source : Output SPSS 26

From Table 2, it shows that the dependent variable, namely earnings management has a maximum value of 0.85 occurring at PT BISI International Tbk in 2018, and a minimum value of -1.86 occurring at PT Perusahaan Perkebunan London Sumatra Indonesia Tbk in 2018. For the independent variable profitability, the maximum value is at PT Sampoerna Agro Tbk in 2017 with a value of 0.16 and PT Bakrie Sumatra Plantations in 2019 for a minimum value of -0.57. For variable Leverage with maximum value 1.65 was obtained by PT Bakrie Sumatra Plantations Tbk in 2019 and the minimum value 0.11 occurred at PT Provident Agro Tbk in 2019. Meanwhile for the Company Size variable, it has a maximum value of 29.8 occurring at PT Austindo Nusantara Jaya Tbk in 2018 and a minimum value of 14.48 occurred at PT Gozco Plantations Tbk in 2019. Finally for liquidity variable, the maximum value occurred at PT PT BISI International Tbk 2016 with a value of 5.28, while the minimum value occurred at PT Golden Plantation Tbk. in 2018 and 2019 with a value of 0.04.

After carrying out the descriptive test, a classic assumption test is carried out which starts with a normality test.

Based on the test results in Table 3, the normality test using the One-Sample Kolmogrov-Smirnov (K-S) shows the magnitude of Asymp. Sig. (2-tailed) of 0.200 which means it is greater than 0.05. Thus, it can be concluded that the data is normally distributed so that the classical assumption test on the normality test is declared to have passed and can be continued to the next stage.

**Table 3.** One-Sample Kolmogrov Smirnov Test Result

| One-Sample Kolmogorov-Smirnov Test | |
|---|---|
| | Unstandardized Residual |
| Asymp. Sig. (2-tailed) | 0.200 |

Source: Output from SPSS 26

Based on the test results in Table 4 of the autocorrelation test, the Durbin Watson value (d) is 1.750. To find out the upper limit (dU) and lower limit (dL) can be seen in the Durbin Watson table with = 0.05. The number of samples used in this study was 62 with a significant level of 0.05 and 4 independent variables (k = 4). The upper limit of the Durbin Watson test (dU) in this study was 1.7288 and 4-dU was 2.2712. The results of the Durbin Watson test in this study were 1.750 and were located between dU and 4-dU (1.7288 < 1.750 < 2.2712), so it can be concluded that there is no autocorrelation symptom in the regression model of this study. The research regression model was declared feasible to be used in this study.

**Table 4.** Durbin-Watson (Autocorelation Test) Result

| Model Summary | |
|---|---|
| Model | Durbin-Watson |
| 1 | 1.750 |

Source: Output from SPSS 26

A good regression model should not have symptoms of multicollinearity. To detect the presence of multicollinearity in the regression model, it is expressed by the Variance Inflation Factor (VIF) value as follows: (1) VIF ≥ 10 and tolerance value ≤ 0.1, it is concluded that there is a multicollinearity problem in the study; (2) VIF value < 10 and tolerance value > 0.1, it was concluded that there was no multicollinearity in the study. Based on the test results in Table 5 of the multicollinearity test, it is known that each independent variable used by the study meets the requirements and there is no multicollinearity in the regression model of this study. So, the research regression model is declared feasible to be used in this study.

**Table 5** Multicollinearity Test

| Variables | *Tolerance* | VIF |
|---|---|---|
| Profitability (PRO) | 0.908 | 1.101 |
| Leverage (LEV) | 0.864 | 1.158 |
| Firm Size (FS) | 0.940 | 1.064 |
| Liquidity (LQ) | 0.971 | 1.030 |

Source: Output from SPSS 26

Heteroscedasticity testing in this study is supported by the Glejser Test method. The test is done by regressing the independent variable to the value of Absolute Residual or Abs_RES. If the significance value (Sig.) is greater than 0.05, it can be interpreted that there is no heteroscedasticity in the regression model. Otherwise, if the significance value (Sig.) is less than 0.05, then there is no heteroscedasticity in the regression model. Based on the test results in Table 6 about heteroscedasticity test, it can be seen the significance value of all independent variables in this study. The significance value on the profitability variable has a value of 0.894. The significance value of the leverage variable has a value of 0.111. Firm size variable has a significant value of 0.099. The liquidity variable has a significant value of 0.892. In the heteroscedasticity test using the Glejser Test method in this study, it can be concluded that the regression model does not have problems with heteroscedasticity symptoms.

**Table 6.** Heteroscedasticity Test Result

| Variables | Sig. |
|---|---|
| Profitability (PRO) | 0.894 |
| Leverage (LEV) | 0.111 |
| Firm Size (FS) | 0.099 |
| Liquidity (LQ) | 0.892 |

Source: Output from SPSS 26

A multiple linear regression test was conducted to find out how much influence the independent variable had on the dependent variable. The multiple linear regression analysis test used a significance level of 5% or 0.05.

**Table 7** Multiple Regression Analysis Result

| Model | Unstandardized Coefficients |
|---|---|
| | B |
| (*Constant*) | -0.296 |
| Profitability (PRO) | 0.092 |
| Leverage (LEV) | 0.190 |
| Firm Size (FS) | 0.055 |
| Liquidity (LQ) | 0.014 |

Source: Data Processed using SPSS 26

The regression equation can be formulated using the test result below on the Table 7:

$$DA = -0.296 + 0.092\ PRO + 0.190\ LEV + 0.05\ FS + 0.014\ LQ + \varepsilon$$

Notes:
DA = Earnings Management
$\alpha$ = Constant
$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients for Profitability, Leverage, Firm Size, and Liquidity
PRO = Profitability
LEV = Leverage
FZ = Company Size
LQ = Liquidity
$\varepsilon$ = Error

The t-test in hypothesis testing has the aim of showing how much influence one independent variable (Profitability, Leverage, Firm Size, and Liquidity) has partially in showing variations in the dependent variable or the dependent variable (Earnings Management).

**Table 8** t-statistics Test

| Variable | t | Sig. |
|---|---|---|
| Profitability | 0.7810 | 0.4380 |
| Leverage | 2.5460 | 0.0140 |
| Firm Size | 11.7770 | 0.0000 |
| Liquidity | 0.9620 | 0.3400 |

Source: Output from SPSS 26

Based on the test results in Table 8, it can be seen that there are variables that have a significant influence and there are those that do not have a significant influence on the earnings management variable. Variables that have a significant influence on earnings management variables in this study are leverage and firm size variables. While the variables that do not have a significant effect on earnings management in this study are profitability and liquidity variables.

The coefficient of determination test (Adjusted R-Square) in this study aims to measure how far the ability of the regression model used to explain the variation of the dependent variable (Earnings Management).

**Table 9** Coefficient of Determination Test

| Model | Adjusted R Square |
|---|---|
| 1 | 0.690 |

Source: Output from SPSS 26

Based on the test results in Table 9, it is known that the results of the coefficient of determination test that the Adjusted R Square value is 0.690 or 69%. This means that the dependent variable (Earnings Management) can be explained by the independent variables (Profitability, Leverage, Firm Size, and Liquidity) as much as 0.690 (or 69%) and the rest is explained by other variables not included in this study as much as 0.31 (or 31%).

## 6. CONCLUSION

Based on the results of the regression test, below is presented the hypothesis analysis table as follows:

**Table 10**. Hypothesis Analysis

| Influence | Hypothesis | Regression | Result |
|---|---|---|---|
| PRO on DA | Positive influence | Positive not influence | Rejected |
| LEV on DA | Positive influence | Positive influence | Accepted |
| FS on DA | Positive influence | Positive influence | Accepted |
| LQ on DA | Positive influence | Positive not influence | Rejected |

Source: Compiled by Authors

This study aims to empirically test the effect of the independent variables (profitability, leverage, firm size, and liquidity) on the dependent variable (earnings management). This result is similar to those of studies by Mahawyahrti and Budiasih (2016) and Angin (2020), but in contrast to the studies by Paramitha and Idayati (2020) and Ross (1977). The level of high or low company profitability does not affect decision making in implementing earnings management practices. Companies that have a high leverage ratio due to the large amount of debt compared to the assets owned by the company are suspected of carrying out earnings management because the company is threatened with default, which is not being able to meet debt repayment obligations on time. Large companies have a large enough incentive to carry out earnings management, because large companies must be able to meet the expectations of investors or shareholders. Liquidity does not have a significant effect on earnings management, indicating that the large or small liquidity value does not affect earnings management actions.

From the point of view of agency theory and signaling theory, profitability and liquidity do not affect earnings management because the selling price of products is not open in the market and follows the development of world commodity prices. Of course, developments in market prices are also monitored by shareholders and investors. Thus, profitability cannot be used as a variable in earnings management. Because this information is known to shareholders, it can be said that there is no or little information asymmetry. Thus, the problem in agency theory is relatively smaller in the industry in managing earnings using the variable profitability. Furthermore, profitability information in financial statements in this industry is a positive signal for investors. This situation is also faced by the liquidity variable. Prices are open to the market, so that shareholders also monitor the company's liquidity. Consequently, there is little possibility of information asymmetry on company liquidation information. Also, information on the liquidation position in the financial statements is a positive signal for investors.

However, it is different from the leverage and company size variables that affect earnings management. This indicates the possibility that there is still an information system between management and shareholders. This information asymmetry indicates that there are still significant differences in interests between management and shareholders. Also, this information will be a negative signal for investors

Implication of this study, companies must maintain the level of profitability, leverage, and liquidity, in order to prevent earnings management practices from occurring so that the financial information published by management gives a positive signal. A positive signal will increase the stock price in the market.

The limitations of this research are: (1) The study used companies in a relatively short period, namely 2015-2019; (2) The independent variables used in this study only consisted of four variables, namely profitability, leverage, firm size, and liquidity. Meanwhile, apart from these three variables, there are still other independent variables that can affect earnings management practices; (3) This study only examines the plantation company sector, with a limited number of companies, but there are many samples that do not meet the established criteria so the amount of data used is small; and (4) Status of researchers as employees at the time of conducting research. This makes the research conducted within a limited time.

Based on the conclusions and limitations of this study, it is suggested that further research can extend the research period. Adding other variables such as *corporate social responsibility*, tax planning, tax avoidance, and so on.

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