

## **EARNINGS MANAGEMENT MODEL OF MANUFACTURING COMPANIES**

Lely Indriaty<sup>1</sup>, Gen Norman Thomas<sup>2</sup>, Laili Suryati<sup>3</sup>, Luqman Hakim<sup>4</sup>  
[lelynorman@gmail.com](mailto:lelynorman@gmail.com)<sup>1</sup>, [gen-nt@binus.ac.id](mailto:gen-nt@binus.ac.id)<sup>2</sup>, [laili.suryati574@gmail.com](mailto:laili.suryati574@gmail.com)<sup>3</sup>,  
[luqman.hakim@upi-yai.ac.id](mailto:luqman.hakim@upi-yai.ac.id)<sup>4</sup>

Universitas Persada Indonesia Y.A.I<sup>1,3,4</sup>, Universitas Bina Nusantara<sup>2</sup>

### **Abstract**

*This research is intended to analyze and answer the inconsistencies in the results of previous research, as well as the phenomenon of Return on Assets (ROA) which cannot mediate the influence of exogenous variables, MO, DER, FS on Earning Management (EM). This is what prompted the researcher to conduct research again using a different time series and cross-sectional. This type of research is descriptive quantitative with multiple regression analysis method of panel data using 18 samples of manufacturing companies and for three years. This research formula is to maximize Earnings Management through ROA as an intervening variable using the research object of Manufacturing companies on the Indonesia Stock Exchange. Two research models are integrated into one and each goes through model selection test stages, Chow Test, Hausman Test, and Lagrange Multiplier Test. Results in the first model; that Firm Size can explain its effect on ROA with a positive correlation and this is in line with the applicable theory. The results of the second research model show that ROA can explain its influence on Earnings Management, but is unable to mediate the influence of exogenous variables on the endogenous variable, EM. It is hoped that these results will help with maximum results for company management and capital market players on the Indonesia Stock Exchange.*

**Keyword:** Managerial Ownership (MO), Leverage (DER), Firm Size (FS), Return on Assets (ROA), Earnings Management (EM).

### **1. INTRODUCTION**

The company's management performance is reflected in the profits contained in the income statement. Profit information is the main concern for assessing management performance or accountability. The company's total profit is the most important information contained in the financial reports. Profit is a description of activities or efforts to advance the company. Profit is often the target of engineering carried out by management to minimize or maximize profits, in other words management carries out earnings management practices (Earnings Management). In Philips, et al (2003) there are two main incentives that encourage companies to carry out earnings management, namely avoiding a decrease in profits and avoiding losses. The first incentive aims to avoid a decrease in profits. This aims to ensure that the profits presented in the financial statements do not fluctuate because this will have an unfavorable impact, especially for investors. The second incentive is to avoid losses. This is done because companies that experience losses have the potential to lower share prices, lose trust in investors, and encourage the government to carry out tax audits.

In Yahaya et al., (2020) earnings management is an effort made by management to influence or manipulate reported profits by using certain accounting methods or speeding up expenditure or income transactions, or using other methods designed to influence short-term profits. The actions taken by managers when using judgment in financial reports and preparing transactions to change financial reports with the aim of manipulating the amount of profit of course have certain purposes. In Scott (2015) states that earnings management is a choice made by managers in determining accounting policies that influence profits so as to achieve targets by reporting certain

profits. According to Rosenzweig (1995), Sri (2008), earnings management is a manager's action to increase or decrease the current period profits of a company he manages without causing an increase or decrease in the company's long-term economic profits.

Company size is a measure, scale or variable that describes the size of the company based on several provisions, such as total assets, market value, total sales, shares, income, capital and others. Companies that have large amounts of assets will increase the value of the company so that management will pay more attention to company profits and will take profit management actions. Earnings management actions can also be taken for companies with small assets because management wants the company's assets to appear in large amounts in the financial reports. The results of previous research on Profit Management explain the results of their research in Purnama (2017), Agustia and Suryani (2018) stated that company size has a positive effect on earnings management. Meanwhile, the results of other research reveal that the opposite is significantly negative. These results are in Sumantri et al., (2021), Sakdyiah et al., (2020), Astuti et al., (2017), Indracahya and Faisol (2017), Ahmad et al., (2014).

Several researchers revealed results that managerial ownership had a positive effect on earnings management Kablan (2020), Evodila et al., (2020), Augustine, Y., and Augustine, D., (2019), while some had different results, namely significant negative Sumantri et al., (2021), Alexander and Christina (2017), Purnama (2017). Another very different research result is that managerial ownership has an insignificant effect on earnings management, Wilson & Arihadi Prasetyo (2020).

Leverage is the degree to which securities with fixed profits (debt and preferred shares) are used in the capital structure of a company Brigham and Houston (2013). The leverage ratio can be a benchmark for viewing manager behavior in earnings management as an effort to increase company profits. The use of debt that is too high will endanger the company because the company will fall into the extreme leverage category, namely a situation where the company is trapped in a high level of debt and it is difficult to release the debt burden. Astuti et al., (2017). Several researchers revealed the results that leverage had a positive effect Agustia and Suryani (2018), Widyaningrum et al., (2018), Astuti et al., (2017), Indracahya and Faisol (2017), Purnama (2017), while several researchers revealed the results the opposite is significant negative, Sakdiyah et al., (2020), Padmini and Ratnadi (2020), Jenifer and Sudirgo (2020) Evodila et al., (2020).

Profitability is a ratio that measures a company's ability to generate profits. Profitability can be measured using Return On Assets (ROA), which is a ratio to show the company's ability to manage assets to generate profits. The profitability value of a company can be used as an indicator to measure a company's performance. Companies that are able to generate profits by utilizing assets will have good financial performance. Previous research results state that profitability has a significant effect with a positive correlation to earnings management (Purnama, 2017).

In Pratama, A. (2021), Managerial Ownership has an insignificant effect on profitability. The research results support the research results in Nurkhin (2017), Wiranata (2017), Nurwahidah (2019) and Ilmi (2017) which explain that there is no influence of managerial ownership on profitability. However, the results of this research are different from the results of research conducted by Amalia (2017), which states that managerial ownership has a significant effect on profitability.

Research conducted by Anggraini, Qomari, & Negoro, (2018), Pashah, Paramita, & Oemar, (2018), Ramadhani, Nurul & Ningratri, Y. A., (2021), Yuni Asri Ningratri shows that leverage has an insignificant effect on profitability. On the other hand, Linawati & Suhardi, (2018), Nevada, (2016), Alamsyah & Muchlas, (2016) found that leverage has a significant effect on profitability.

High profitability can be a reflection that the company has achieved good financial performance. This can be influenced by the level of company size (firm size) if management can maximize the use of assets to obtain the maximum level of profitability. In Basyaib (2007) there are several scales that can be the basis for classifying company size, namely total income, total assets and total capital. If the company's total income, capital and assets are greater, it will give an idea of the company's condition becoming stronger and its performance better. Based on research by Fernández et al. (2019), states that the relationship between company size and profitability is based on two main theories, namely the resources based theory (RBV) and the industrial organization theory (IO). The resource based theory (RBV) is needed to find the mechanisms underlying profitability, especially the resources owned by each company which explain differences in profitability (Barney, 1991; Penrose, 1995; Bamiatzi & Hall, 2009; Barney et al., 2011; Bamiatzi et al., 2016). Meanwhile, the industrial organization theory (IO) is needed to determine whether there are differences in company structure in comparing the average profitability of different industries (Porter, 1979; Porter, 1980; Amato, 1995; McGahan & Porter, 2002; Amato & Amato, 2004). Although interest and the number of studies in this case continue to increase, studies regarding the relationship between company size and profitability still give rise to many different opinions.

## **LITERATURE REVIEW AND HYPOTHESIS**

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**H\_1:** There is an influence of Managerial Ownership on Profitability (ROA).

Research conducted by Anggraini, Qomari, & Negoro, (2018), Pashah, Paramita, & Oemar, (2018), Ramadhani, Nurul & Ningratri, Y. A., (2021), Yuni Asri Ningratri shows that leverage has an insignificant effect on profitability. On the other hand, Linawati & Suhardi, (2018), Nevada, (2016), Alamsyah & Muchlas, (2016) found that leverage has a significant effect on profitability.

**H\_2:** There is an influence of Leverage on Profitability (ROA).

In Barney (1991), Penrose (1995), Bamiatzi & Hall (2009), Barney et.al., (2011) Bamiatzi et.al., (2016), that company size is closely related to profitability. Different results in Porter (1979), Porter (1980), Amato (1995), McGahan & Porter (2002), Amato & Amato (2004). Although interest and the number of studies in this case continue to increase, studies regarding the relationship between company size and profitability still give rise to many different opinions.

**H\_3:** There is an influence of Firm Size on Profitability (ROA).

Several researchers revealed results that managerial ownership had a positive effect on earnings management Kablan (2020), Evodila et al., (2020), Augustine, Y., and Augustine, D., (2019), while some had different results, namely significant

negative Sumantri et al., (2021), Alexander and Christina (2017), Purnama (2017). Another very different research result is that managerial ownership has an insignificant effect on earnings management, Wilson & Arihadi Prasetyo (2020).

**H\_4:** There is an influence of Managerial Ownership on Earnings Management.

Leverage can be a benchmark in viewing managers' behavior in matters of earnings management as an effort to increase company profits. The use of debt that is too high will endanger the company because the company will fall into the extreme leverage category, namely a situation where the company is trapped in a high level of debt and finds it difficult to release the debt burden, Astuti et al., (2017). Several researchers revealed the results that leverage had a positive effect Agustia and Suryani (2018), Widyaningrum et al., (2018), Astuti et al., (2017), Indracahya and Faisol (2017), Purnama (2017), while several researchers revealed the results the opposite is significant negative, Sakdiyah et al., (2020), Padmini and Ratnadi (2020), Jenifer and Sudirgo (2020) Evodila et al., (2020).

**H\_5:** There is an influence of Leverage on Earnings Management.

In Purnama (2017), Agustia and Suryani (2018) stated that company size has a positive effect on earnings management. Meanwhile, the results of other research reveal that the opposite is significantly negative. These results are in Sumantri et al., (2021), Sakdiyah et al., (2020), Astuti et al., (2017), Indracahya and Faisol (2017), Ahmad et al., (2014).

**H\_6:** There is an influence of Firm Size on Earnings Management.

In the research results of Purnama (2017), Paramitha D. K. (2020), Suaidah Y. M. & Utomo L. P. (2018), revealed that profitability has a significant effect and is positively correlated with earnings management.

**H\_7:** There is an influence of Profitability on Earnings Management.

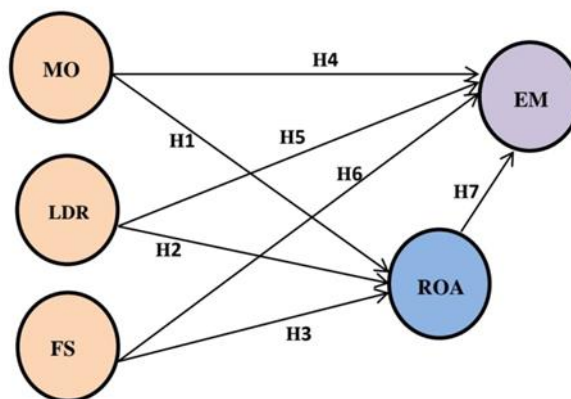


Figure 1  
Research Framework

## 2. RESEARCH METHODS

In this research, the approach used is descriptive qualitative and quantitative using time series and cross-section data. The analysis method used is panel data regression which uses a combination of time series data for the period 2013 to 2015 or for 3 years and cross-section data of public manufacturing companies on the Indonesia Stock Exchange (IDX). The sampling technique used purposive sampling with a sample of 18 manufacturing companies as the research sample.

Conceptually, five research variables are used in two research models which are divided into the first model using the endogenous variable profitability (ROA) and the second model using the endogenous variable Earnings Management (EM).

Table 1  
Operational Variables

No	Variables	Notation	Formulas
1	Managerial Ownership	MO <sub>it</sub>	$\frac{\text{Number of Managerial Shares}}{\text{Number of shares outstanding}} \times 100\%$
2	Leverage	DER <sub>it</sub>	$\frac{\text{Total Debt}}{\text{Total Equity}} \times 100\%$
3	Firm Size	FS <sub>it</sub>	Natural Logarithm of Assets
4	Return On Assets	ROA <sub>it</sub>	$\frac{\text{Earnings After Tax}}{\text{Total Assets}} \times 100\%$
5	Earnings Management	EM <sub>it</sub>	$TA_{it} = \beta_0 + \beta_1 \left( \frac{1}{\text{Assets}_{it-1}} \right) + \beta_2 \Delta \text{Sales}_{it} + \beta_3 \text{PPE}_{it} + \beta_4 \text{ROA}_{it} + \varepsilon_{it}$ Kothari et al., (2005)

Where:

TA<sub>it</sub> : The total net profit of company "i" for the current year minus the operating cash flow for the current year, scaled to total assets for year t-1.

Assets<sub>(it-1)</sub> : Total assets of company "i" year t-1

ΔSales<sub>it</sub> : Change in sales of company "i" scaled by total assets in year t-1

PPE<sub>it</sub> : Fixed assets of company "i" scaled to total assets in year t-1

ROA<sub>it</sub> : Return results on Total Assets

ε<sub>it</sub> : Residuals in the equation

### Panel Data Multiple Regression Estimation

The approach that can be taken in estimating multiple regression on panel data, which is a combination of time series data and cross section data, is to use analysis:

1. Common Effect Model (CEM)
2. Fixed Effect Model (FEM)
3. Random Effect Model (REM)

### Model Selection Test

By using the three basic analyzes above, you can then carry out three model suitability testing procedures to be used in selecting the best panel data multiple regression model as follows:

#### Chow Test

This test uses F-statistics to determine the choice between the Common Effect Model (CEM) or the Fixed Effect Model (FEM). Rejection or acceptance of the hypothesis is based on the level  $\alpha = 5\%$  in the null hypothesis (H<sub>0</sub>) and alternative hypothesis (H<sub>a</sub>). Between these two models, technically it can be determined that if the test results have a probability level of  $>5\%$  then acceptance can be made of the null hypothesis (H<sub>0</sub>) and conversely rejection can be made of the alternative hypothesis (H<sub>a</sub>), thus the appropriate model to use is the Common Effect Model (CEM), if the result is the opposite, that the test result has a probability level of  $<5\%$ , then it will reject the null hypothesis (H<sub>0</sub>) and accept the alternative hypothesis (H<sub>a</sub>), so that the appropriate model that can be used is the Fixed Effect Model (FEM).

Test Criteria:

Probability level test results  $>5\% = H_0$  be accepted (CEM)

Probability level test results  $<5\%$  =  $H_0$  rejected (FEM)

### **Hausman Test**

Hausman testing will determine the choice between the Fixed Effect Model (FEM) or the Random Effect Model (REM). This Hausman test uses the Chi-Square statistical distribution with  $k$  degrees of freedom as the number of exogenous variables. Or use a probability level based on the level  $\alpha = 5\%$ .

Test the hypothesis using the Hausman test if you accept the null hypothesis ( $H_0$ ) and reject the alternative hypothesis ( $H_a$ ) then the fit model that will be used is the Random Effect Model (REM), but if the results are the opposite, reject the null hypothesis ( $H_0$ ) and accept the alternative hypothesis ( $H_a$ ) then the fit model that will be used is the Fixed Effect Model (FEM).

Test Criteria:

Probability level test results  $>5\%$  =  $H_0$  be accepted (REM)

Probability level test results  $<5\%$  =  $H_0$  rejected (FEM)

### **Lagrange Multiplier Test (LM)**

Testing the Lagrange Multiplier (LM) is intended to determine the fit model between the Common Effect Model (CEM) or Random Effect Model (REM). The basis used in this LM test is the Chi-Squares distribution with a degree of freedom equal to the number of exogenous variables. This test needs to be carried out if the test results between the Chow Test and the Hausman Test produce different decisions.

If the LM statistical value is greater than the critical value of the Chi-Squares statistic, it will reject the null hypothesis ( $H_0$ ) and accept the alternative hypothesis ( $H_a$ ), this result means that the fit estimate is using the Random Effect Model. On the other hand, if the LM statistic value is smaller than the critical value of the Chi-Squares statistic, it will accept the null hypothesis ( $H_0$ ) and reject the alternative hypothesis ( $H_a$ ), this means that the use of the Common Effect Model is more appropriate. Or use a probability level based on the level  $\alpha = 5\%$ .

Test Criteria:

Probability level test results  $>5\%$  =  $H_0$  be accepted (CEM)

Probability level test results  $<5\%$  =  $H_0$  rejected (REM)

Carrying out the model suitability test as explained above can be simplified by looking at Figure 2 below.

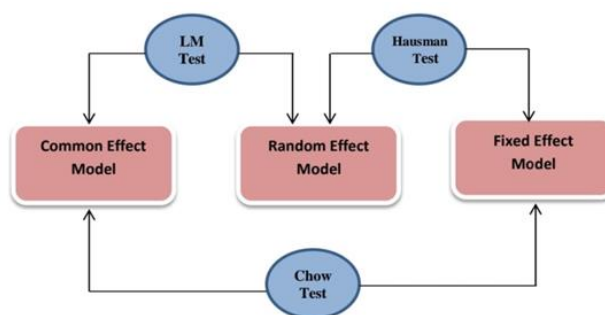


Figure 2  
Model Fit Test

### **Panel Data Regression Model**

First Research Model Structural Equation,

$$(I) \text{ ROA}_{it} = \alpha + \beta_1 \text{ MO}_{it} + \beta_2 \text{ DER}_{it} + \beta_3 \text{ FS}_{it} + \varepsilon_{it};$$

$$i = 1, 2, \dots, N; \quad t = 1, 2, \dots, T$$

Second Research Model Structural Equation,

$$(II) \text{ EM}_{it} = \alpha + \beta_1 \text{ MO}_{it} + \beta_2 \text{ DER}_{it} + \beta_3 \text{ FS}_{it} + \text{ROA}_{it} + \varepsilon_{it};$$

$$i = 1, 2, \dots, N; \quad t = 1, 2, \dots, T$$

Where:

MO	=	Managerial Ownership	$\beta$	=	Slope
DER	=	Debt to Equity Ratio	$\alpha$	=	Intercept
FS	=	Firm Size	N	=	Number of Observations
ROA	=	Return On Assets	T	=	Lots of time
EM	=	Earnings Management	N x T	=	Number of Panel Data
$\varepsilon$	=	Error component			

### 3. RESULTS AND DISCUSSION

#### A. Descriptive Statistics

Table 2  
Descriptive Statistics

	EM	MO	DER	FS	ROA
Mean	0.255683	0.285019	23.91267	5.823111	0.443241
Median	0.236600	0.245950	24.77770	6.121400	0.433000
Maximum	0.697400	0.789200	35.37020	8.596300	1.000000
Minimum	0.071900	0.027000	11.05660	2.010700	0.263000
Std. Dev.	0.127477	0.154702	6.782304	1.707862	0.122851
Observations	54	54	54	54	54

Sumber : Data diolah

#### Research Results Model 1 and 2

#### B. Return on Assets (ROA) and Earnings Management (EM) as Endogenous Variables in Testing the Suitability of Research Models

Table 3  
Chow Test

Research Model 1				Research Model 2			
Chow Test: Common Effect Vs. Fixed Effect				Chow Test: Common Effect Vs. Fixed Effect			
Endogenous Variable: ROA				Endogenous Variable: Earnings Management (EM)			
Effects Test	Statistic	d.f.	Prob.	Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.363831	(17,33)	0.0167	Cross-section F	1.999098	(17,32)	0.0445
Cross-section Chi-square	43.010175	17	0.0005	Cross-section Chi-square	39.079071	17	0.0017

Source: Data processed

The results of testing the Chow-test in Research Model I and Research Model 2 show that the F test statistics with the chi-square test produce statistical hypotheses: rejecting the null hypothesis ( $H_0$ ) and accepting the alternative hypothesis ( $H_a$ ) at the level of  $\alpha = 5\%$ . This can be interpreted as saying that the Fixed Effect Model will be better used than the Common Effect Model. (Table-3)

Table 4  
Hausman Test

Research Model 1				Research Model 2			
Hausman Test: Fixed Effect Vs. Random Effect				Hausman Test: Fixed Effect Vs. Random Effect			
Endogenous Variable: ROA				Endogenous Variable: Earnings Management (EM)			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.255858	3	0.0261	Cross-section random	8.406807	4	0.0778

Source: Data processed

The results are different between testing Research Model 1 and Research Model 2. The statistical results of the F test with chi-square test in Research Model 1 are to produce a statistical hypothesis: rejecting the null hypothesis ( $H_0$ ) and accepting the alternative hypothesis ( $H_a$ ) at the level of  $\alpha = 5\%$ . This means that the results of this test say that the use of the Fixed Effect Model is better than the Random Effect Model. In contrast, Hausman Test Research Model 2 produces statistical hypotheses: accepting null hypotheses ( $H_0$ ) and rejecting alternative hypotheses ( $H_a$ ) at the level of  $\alpha = 5\%$ . This means that the results of this test say that the use of the Random Effect Model is better than the Fixed Effect Model so it is necessary to carry out Lagrange Multiplier Tests (LM Test), (Table-4)

Table 5  
Research Model 2  
LM Test: Common Effect Vs. Random Effect  
Endogenous Variable: Earnings Management (EM)

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.406499 (0.5238)	1.280489 (0.2578)	1.686989 (0.1940)

Source: Data processed

The LM test results accept the null hypothesis ( $H_0$ ) and reject the alternative hypothesis ( $H_a$ ) at the level of  $\alpha = 5\%$ . This means that using the Common Effect Model is better than the Random Effect Model, (Table-5)

Table 6  
Endogenous Variable: Return on Assets (ROA)  
Total pool (balanced) observations: 54

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.095096	0.497939	-2.199258	0.0350
MO	0.007186	0.145820	0.049282	0.9610
DER	0.007962	0.012398	0.642183	0.5252
FS	0.054464	0.020038	2.718081	0.0104
Adjusted R-squared	0.323768			
F-statistic	2.268774			
Prob(F-statistic)	0.017933			

Source: Data processed

Table 7  
Endogenous Variable: Earnings Management (EM)  
Total pool (balanced) observations: 54

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.525773	0.114808	4.579570	0.0000
MO	-0.204531	0.110565	-1.849871	0.0704
DER	-0.004187	0.009987	-0.419205	0.6769
FS	-0.001270	0.002677	-0.474258	0.6374
ROA	-0.354330	0.141662	-2.501233	0.0158
Adjusted R-squared	0.104351			
F-statistic	4.247727			
Prob(F-statistic)	0.003498			

Source: Data processed



### C. Intervening Variable Test Using Sobel Test

- The influence of Managerial Ownership on Earnings Management (EM) through Return on Assets (ROA)

Table 8

A:	<input type="text" value="-0.2045"/>	?
B:	<input type="text" value="-0.3543"/>	?
SE <sub>A</sub> :	<input type="text" value="0.11056"/>	?
SE <sub>B</sub> :	<input type="text" value="0.14166"/>	?
<input type="button" value="Calculate!"/>		
Sobel test statistic: 1.48716107		
One-tailed probability: 0.06848614		
Two-tailed probability: 0.13697227		

Where:

A = Managerial Ownership (MO)

B = Return on Assets

SE<sub>A</sub> = Std. Error MO

SE<sub>B</sub> = Std. Error ROA

- The influence of Debt to Equity Ratio (DER) on Earnings Management (EM) through Return on Assets (ROA)

Table 9

A:	<input type="text" value="-0.0041"/>	?
B:	<input type="text" value="-0.3543"/>	?
SE <sub>A</sub> :	<input type="text" value="0.00998"/>	?
SE <sub>B</sub> :	<input type="text" value="0.14166"/>	?
<input type="button" value="Calculate!"/>		
Sobel test statistic: 0.40538913		
One-tailed probability: 0.34259575		
Two-tailed probability: 0.68519150		

Where:

A = Debt to Equity Ratio (DER)

B = Return on Assets

SE<sub>A</sub> = Std. Error DER

SE<sub>B</sub> = Std. Error ROA

- The Influence of Firm Size (FS) on Earnings Management (EM) through Return on Assets (ROA)

Table 10

A:	<input type="text" value="-0.0012"/>	?
B:	<input type="text" value="-0.3543"/>	?
SE <sub>A</sub> :	<input type="text" value="0.00267"/>	?
SE <sub>B</sub> :	<input type="text" value="0.14166"/>	?
<input type="button" value="Calculate!"/>		
Sobel test statistic: 0.44235277		
One-tailed probability: 0.32911698		
Two-tailed probability: 0.65823395		

Where:

A = Firm Size (FS)

B = Return on Assets

SE\_A = Std. Error FS

SE\_B = Std. Error ROA

1. The Managerial Ownership (MO) variable has an insignificant effect on Return On Assets (ROA), these results can be seen in table 6.
2. The variable Debt to Equity Ratio (DER) has an insignificant effect on Return On Assets (ROA), this result is as shown in table 6.
3. The Firm Size (FS) variable has a significant effect and is positively correlated with Return On Assets (ROA), as seen in the results in table 6.
4. The test results on Firm Size in the first research model are the dominant variable among the others as seen in table 6.
5. The first research model is fit to be used at the Prob level. (F-statistic) is significant 0.017933 and at the F-statistic level 2.268774 (table 6).
6. The three exogenous variables in this first research model can explain the endogenous variable, ROA of 32.38% (Adjusted R-squared). (table 6).
7. Managerial Ownership (MO) has an insignificant effect on Earnings Management (EM). (Table 7).
8. Variable Debt to Equity Ratio (DER) has an insignificant effect on Earnings Management (EM). (Table 7).
9. The Firm Size (FS) variable has an insignificant effect on Earnings Management (EM). (Table 7).
10. Return On Assets (ROA) has a significant and negative correlation with Earnings Management (EM). (Table 7).
11. The second research model is fit to be used at the Prob level. (F-statistic) is significant 4.247727 and at the F-statistic level 0.003498 (table 7).
12. The four exogenous variables in this second research model can explain the endogenous variable, EM by 10.44% (Adjusted R-squared). (table 7).
13. The intervening variable Return On Assets (ROA) failed to mediate the influence between MO and Earnings Management (EM) with a probability level of  $0.13697227 > 0.05$  (Table 8). The same results also occur in the influence of DER on EM with a probability level of  $0.68519150 > 0.05$  (Table 9), also on the influence of Firm Size (FS) on EM with a probability level of  $0.65823395 > 0.05$  (Table 10).

## Discussion

Banyaknya jumlah Managerial Ownership (MO) dalam perusahaan sector manufacturing tidak dapat menjelaskan secara signifikan pengaruhnya terhadap Return on Assets (ROA), sehingga dapatlah dikatakan exogenous variable ini tidak berfungsi untuk memaksimalkan profitabilitas. Hasil yang sama juga terjadi terhadap Earnings Manajemen (EM). Ini mendukung hasil di dalam Pratama, A. (2021), Nurkhin (2017), Wiranata (2017), Nurwahidah (2019) dan Ilmi (2017), juga di dalam Wilson & Arihadi Prasetyo (2020).

Pengujian selanjutnya terhadap variable Debt to Equity Ratio (DER) adalah tidak dapat menjelaskan pengaruhnya secara signifikan terhadap Return on Assets ROA). Hasil yang sama juga terjadi terhadap Earnings Manajemen (EM). Hasil penelitian ini mendukung penelitian di dalam Anggraini, Qomari, & Negoro, (2018), Pashah, Paramita, & Oemar, (2018), Ramadhani, Nurul & Ningratri, Y. A.,(2021), Yuni Asri

Ningratri bahwa leverage berpengaruh secara tidak signifikan terhadap profitabilitas, juga di dalam

Hasil pengujian terhadap Firm Size (FS), bahwa variable tersebut dapat menjelaskan pengaruhnya secara signifikan terhadap Return on Assets (ROA) dengan korelasi positif. Hasil tersebut dalam kaitannya dengan hubungan antar variable adalah searah dengan teori dimana semakin besar tingkat assets perusahaan sektor manufaktur akan semakin besar tingkat return yang diperoleh terhadap kepemilikan assetsnya (ROA). Hal tersebut dapat dikatakan bahwa manajemen perusahaan dapat memaksimalkan memperoleh keuntungan usaha dengan menggunakan assets yang dimiliki. Hasil pengujian ini mendukung yang dihasilkan di dalam Barney (1991), Penrose (1995), Bamiatzi & Hall (2009), Barney et.al., (2011) Bamiatzi et.al., (2016). Hasil yang berbeda di dalam, Indrachya dan Faisol (2017), Purnama (2017), Sakdiyah et al., (2020), Padmini dan Ratnadi (2020), Jenifer dan Sudirgo (2020) Evodila et al., (2020), bahwa FS dapat menjelaskan pengaruhnya terhadap Earnings Management (EM).

Pada hipotesis ke tujuh dalam penelitian ini menghasilkan bahwa Return on Assets (ROA) dapat menjelaskan secara signifikan dan berkorelasi negatif terhadap Earnings Management (EM). Exogenous variable ini dapat menjelaskan pada tingkat yang dominan diantara variable yang lain, tetapi sebagai intervening variable tidak dapat memediasi pengaruh exogenous variables terhadap endogenous variable Earnings Management (EM). Setiap kenaikan satu persen Return on Assets (ROA), manajemen perusahaan memodifikasi labanya menjadi turun sebesar 0.35 persen. Hasil tersebut sesuai di dalam Purnama (2017), tetapi memiliki hubungan antar variabel yang berbeda yaitu berkorelasi positif.

#### **4. CONCLUSION**

**Findings:** The results of this research conclude that the intervening variable, Return on Assets (ROA) cannot mediate the influence of all exogenous variables on Earnings Management (EM). Of all the exogenous variables, only Firm Size (FS) directly without intervening variables has a significant effect on Earnings Management (EM).

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