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The Influence of Profitability and Company Growth on Earnings Management in The Consumer Goods Industry Sector

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Abstract

Objectives - This study aims to identify the influence of Return on Assets (ROA), Return on Equity (ROE), and Company Growth on Earnings Management in the Consumer Goods Industry sector, specifically in the Cosmetics and Household Needs sub-sector listed on the Indonesia Stock Exchange.

Methods - The analysis methods employed include descriptive analysis, classical assumption tests, multiple linear regression analysis, hypothesis testing (both partial and simultaneous), and the coefficient of determination test (R^2).

The results - Return on Assets (ROA) has a direct positive and significant effect on Earnings Management, with a significance level of 0.021. Return on Equity (ROE) also has a direct positive and significant effect on Earnings Management, with a significance level of 0.001. Company Growth likewise has a positive and significant effect on Earnings Management, with a significance level of 0.046, which is less than 0.05. Furthermore, ROA, ROE, and Company Growth simultaneously have a positive and significant effect on Earnings Management, with a significance level of 0.001.

Keywords: *Return On Asset, Return On Equity*, Company Growth, *Earnings Management.*

1. Introduction

The cosmetics and household goods companies are part of the Consumer Goods sector on the Indonesia Stock Exchange (IDX), which has significant potential for growth and development. The cosmetics and household industry is predicted to improve in terms of performance. This is evident from the increasing growth of the cosmetics and household sector in the country, especially during prolonged periods of crisis. This situation has led to increasingly fierce competition, prompting company or business managers to compete in attracting investors to invest their funds in cosmetics and household goods companies.

A commonly used measure to assess the success or failure of a business or company's management is the profit or earnings generated by the business.

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Naturally, every company or business has specific goals it aims to achieve, such as maximizing profit, ensuring operational continuity, driving growth, or even improving societal welfare. However, the increasingly complex environment and the development of a company can make it more difficult and complicated for top management to achieve these goals. Social and environmental issues have become challenges that companies must face in order to continue operating and sustaining their business.

There are several reasons why managers engage in earnings management, including company profitability and growth. Profitability reflects a company's ability to generate profits over a certain period. In general, a company's profitability can be used as an indicator to measure its performance. The higher the company's profitability, the greater its ability to generate profits. The relationship between the profitability achieved by a small company within a certain time period may trigger the company to engage in earnings management by increasing its revenue and profits, in order to show better stock performance and retain investors.

Earnings management can be influenced by several factors, one of which is profitability and company growth. The relationship between profitability and earnings management lies in the fact that profitability can affect a manager's decision to engage in earnings management. When a company's profitability is low, managers typically resort to earnings management practices to ensure their performance appears favorable in the eyes of the company's stakeholders (Gunawan, Darmawan, & Purnamawati, 2015). This is closely related to the manager's efforts to demonstrate the best possible performance of the company they lead.

Company growth refers to a value that indicates the size of a company. When investors invest their capital, they expect to gain profitable returns. However, under certain circumstances, large companies tend to withhold their financial statements, making their performance appear weaker and profits lower than their actual value, especially during times of high prosperity. Companies with high revenues are generally more attractive to investors because they are expected to generate higher profits, particularly if investors first examine and analyze the company's financial statements. Therefore, before making investment decisions, they consider all possible factors that could lead to investment losses. A good net profit will have a positive impact on a company's performance and growth. The relationship between company growth and earnings management is that companies seek to maintain their credibility in the public eye. To uphold the trust of the public, government, investors, and creditors, companies will reduce their engagement in earnings management. This is because companies want to avoid the disclosure of fraudulent activities carried out through earnings management (Muthmainah, 2011 in Annisa & Hapsoro, 2017).

On this occasion, further testing was conducted on the effect of profitability and company growth on earnings management. This is because there are many supporting references for the proposed research, which will help the researcher in completing the proposal going forward. In this study, I use Return on Equity (ROE) and Return on Assets (ROA) as variables to measure profitability.According to Mawardi (2005), Return on Assets (ROA) focuses on a company's ability to generate profit from its overall operations, while Return on Equity (ROE) only measures the return generated from the company's investments. These indicators can also be used to assess whether a company remains viable in the future. Meanwhile, company growth refers to the increase or decrease in a company's total assets. According to Supratiningrum (2013), company or business growth is calculated as the percentage change in assets in a given year compared to the previous year.

This study aims to determine whether profitability and company growth have a positive influence on earnings management in cosmetics and household goods companies within the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX). The results of this study are expected to provide benefits to related parties, serving as input and a consideration in decision-making, offering practical contributions for companies in managing financial reports and making future decisions, as well as serving as a reference for others who wish to conduct further research in the future.

Many studies have been conducted on the variables that influence earnings management. Several of these studies have produced different results. The study by Janna Clarentia, Johana Wowor Jenny, and Morasa Sintje Rondonuwu (2021) showed that the profitability variable, measured using ROA and ROE ratios, does not have an effect on earnings management. Meanwhile, the research conducted by Kurnia Cahya Lestari and S. Oky Wulandari (2018) indicated that the profitability variable, measured using Return on Assets (ROA) and Return on Equity (ROE), has a positive effect on earnings management. The study by Sitti Agridayanti Dwi Cahya Ningsih (2019) showed that company growth variables simultaneously have a significant effect on earnings management. On the other hand, the research by Dwiarti and Hasibuan (2019) found that company growth does not have an effect on earnings management.

There are inconsistent findings from previous studies regarding the effect of return on assets, return on equity, and company growth on earnings management. Therefore, the researcher is interested in examining the influence of return on assets, return on equity, and company growth on earnings management. The reason the researcher chose cosmetic and household goods companies listed on the Indonesia Stock Exchange as the research subject is because these companies are large, have strong prospects, and are resilient during economic crises. This is due to the fact that most products in the consumer goods industry are essential and their production activities are continuous, which minimizes the risk of losses. It is expected that the profits earned by these companies will either increase or remain stable. This study focuses on companies in the Consumer Goods Industry sector, specifically cosmetics and household goods, listed on the Indonesia Stock Exchange during the period 2018–2022.

2. Methodology

This research was conducted on companies in the Consumer Goods Industry sector, specifically the Cosmetics and Household Goods sub-sector, listed on the Indonesia Stock Exchange (IDX). The population in this study consists of 6 Cosmetics and Household Goods companies listed on the IDX. The sample identification process in this research used the purposive sampling technique.

The data collection methods used in this study were literature study and documentation study. The literature study was conducted by analyzing data, articles, journals, and other written media related to the topic of this research. The documentation study was carried out by collecting and reviewing literature relevant to the preparation of this study. The data sources were obtained from the official website of the Indonesia Stock Exchange (IDX) at www.idx.co.id. The required data include the financial statements of Cosmetics and Household Goods companies published on the IDX for the period 2018–2022.

The data analysis technique used includes classical assumption testing on the secondary data, which involves normality test, multicollinearity test, and autocorrelation test. In addition, this study applies multiple linear regression analysis, t-test statistics, and the coefficient of determination test (R^2) to test the hypotheses, which are:

- **H1**: Return on Assets has an effect on earnings management.
- **H2**: Return on Equity has an effect on earnings management.
- **H3**: Company Growth has an effect on earnings management.
- **H4**: Return on Assets, Return on Equity, and Company Growth simultaneously have an effect on earnings management.

3. Result and Discussion

The descriptive statistics in this study present the mean, median, maximum value, and standard deviation.

Table 4.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return On Asset	30	-20,47	35,80	9,4947	12,48476
Return On Equity	30	-4,20	145,09	33,4769	48,06872
Pertumbuhan Perusahaan	30	-,13	,36	,0773	,11987
Manajemen Laba	30	,13	,86	,4194	,18758
Valid N (listwise)	30				

Source: Processed SPSS output, 2024

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,949[a]	,902	,890	,06217

a. Predictors: (Constant), Company Growth, Return On Equity, Return On Asset
b. Dependent Variable: Earnings Management

The above shows that the Adjusted R Square value is 0.890 or 89%. This indicates that the independent variables Return on Assets, Return on Equity, and Company Growth contribute 89% to the dependent variable Earnings Management, while the remaining 11% is influenced by other factors not examined in this study.

Simultaneous test (Uji F)

Table 4.7 F Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,920	3	,307	79.342	.000[b]
	Residual	,100	26	,004		
	Total	1,020	29			

a. Dependent Variable: Earning Management (2024)
b. Predictors: (Constant), Growth Company, Return On Equity, Return On Asset

The ANOVA (Analysis of Variance) test produced a significance value of 0.001. With a significance level of α = 0.05, it can be seen that the sig. F value is less than α (0.001 < 0.05), thus H_0 is rejected and H_a is accepted. Therefore, it can be concluded that there is a significant simultaneous effect of Return on Assets, Return on Equity, and Company Growth on Earnings Management in cosmetic and household goods companies listed on the Indonesia Stock Exchange.Uji Signifikansi Parameter Individual (Uji statistik t)

Tabel 4.8 T Statistik Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	,247	,016		15,217	,000
	Return On Asset	,004	,002	,234	2,103	,045
	Return On Equity	,002	,000	,389	3,607	,001
	Pertumbuhan Perusahaan	1,140	,114	,728	9,980	,000

Dependent Variable: Earning Management

The multiple linear regression equation is as follows:

$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6$

Earnings Management = 0.409 + 0.008 ROA - 0.003 ROE + 0.096 CG + e

Description:

Y = Earnings Management
α = Constant
X_1 = ROA (Return on Assets)
X_2 = ROE (Return on Equity)
X_3 = CG (Company Growth)
b_1 = Coefficient of X_1
b_2 = Coefficient of X_2
b_3 = Coefficient of X_3
e = Standard Error

Based on the results of this study, it can be concluded that in cosmetic and household goods companies listed on the Indonesia Stock Exchange, Return on Assets, Return on Equity, and Company Growth have a positive influence on Earnings Management.

The influence of Return on Assets (ROA) on Earnings Management in this study indicates that ROA affects earnings management in the consumer goods industry, specifically in the cosmetics and household goods sub-sector, listed on the Indonesia Stock Exchange for the period 2018–2022. This can be seen from the hypothesis test, where the significance value of Return on Assets is 0.045. When compared to the significance level of 5% (0.05), the result is smaller ($0.045 < 0.05$). This test shows that H_a is accepted, thus it can be concluded that Return on Assets has a significant effect on earnings management.

The results of the hypothesis testing in this study indicate that ROA significantly influences earnings management.

The low correlation between ROA and earnings management suggests a weak relationship between the two. It is possible that management engages in earnings management practices when ROA increases. According to Riahi and Belkaoui (2012:194), the relationship between Return on Assets (ROA) and earnings management is significant, as earnings management can directly impact ROA. ROA measures a company's efficiency in utilizing its assets to generate profit.

The higher the return on assets, the greater the fluctuation in managerial ability to generate profit. This boosts investor confidence in the company and reduces investment risk. Furthermore, management is motivated to engage in earnings smoothing practices to ensure that profit results do not fluctuate excessively, thereby increasing investor trust (Sri Wulandari et al., 2013).

The influence of Return on Equity (ROE) on earnings management in this study shows that ROE has an effect on earnings management in the consumer goods industry, specifically the cosmetics and household goods sub-sector, listed on the Indonesia Stock Exchange during the period 2018–2022. This is evident from the hypothesis testing, in which the significance value of ROE is 0.001. Compared to the 5% significance level (0.05), this value is smaller ($0.001 < 0.05$). This result indicates that H_a is accepted, leading to the conclusion that Return on Equity has a significant effect on earnings management.

An increase in Return on Equity (ROE) can lead to an increase in earnings management.

This means that businesses may attempt to reduce their profits when they are too high in order to maintain stable earnings, reflecting effective use of capital (Prastiwi & Prabowo, 2022). This ratio can be influenced by various earnings management strategies, such as net income manipulation and changes in shareholders' equity. Understanding the relationship between ROE and earnings management is essential to obtaining an accurate picture of a company's performance. In-depth analysis and the use of various evaluation tools can help identify potential manipulation and provide a more realistic overview of the company's financial health.

The influence of Company Growth on Earnings Management in this study shows that Company Growth affects earnings management in the consumer goods industry, specifically the cosmetics and household goods sub-sector, listed on the Indonesia Stock Exchange for the period 2018–2022. This is evident from the hypothesis test, in which the significance value of Company Growth is 0.000. Compared to the 5% significance level (0.05), this value is smaller (0.000 < 0.05). This result indicates that H_a is accepted, leading to the conclusion that Company Growth has a significant effect on earnings management.Company growth, which is often measured by the rate of increase in revenue, profit, or assets, reflects how quickly a company is expanding.

However, earnings management can influence the perception and response to this growth in various ways. Earnings management can enhance a company's performance by managing cash flow, net income, and assets. These strategies can generate more favorable growth outcomes, which in turn often boost investment and improve company performance. To obtain accurate information regarding a company's growth, it is essential to conduct financial analysis and consider the context and accountability methods being applied.

Companies with consistent revenue growth from year to year tend to attract investors, as investors are more likely to place their funds in companies with stable income, which are perceived to reduce the risk of investment loss. To maintain stability and encourage healthy growth, businesses must implement sound earnings management practices to facilitate investor participation in the company (Hapsoro & Annisa, 2017).

Table 3.1 Example Table

Interval	Customer Loyalty	Frequency	Percentage
80 – 100	Very Loyal	12	36,13
70 – 79	Loyal	17	50,02
60 – 69	Fairly Loyal	6	12,87
50 – 59	Not Loyal	0	0
≤ 49	Very Disloyal	0	0

Source: Processed data

4. Conclusion

The results of the tests conducted using the multiple linear regression analysis method lead to the following conclusions:

1. Based on the results of the partial (t-test) in the regression model, it can be concluded that H1 is accepted. Partially, the Return on Assets (ROA) variable has a significant effect with a positive coefficient direction on the Earnings Management variable.
2. Based on the results of the partial (t-test) in the regression model, it can be concluded that H2 is accepted. Partially, the Return on Equity (ROE) variable has a significant effect with a negative coefficient direction on the Earnings Management variable.
3. Based on the results of the partial (t-test) in the regression model, it can be concluded that H3 is accepted. Partially, the Company Growth (CG) variable has a significant effect with a positive coefficient direction on the Earnings Management variable.

4. Based on the results of the simultaneous test (F-test), it can be concluded that simultaneously, the independent variables Return on Assets, Return on Equity, and Company Growth have a significant effect on the dependent variable Earnings Management.

5. Suggestions

Based on the research conducted, the following suggestions can be made:

1. For the company: Develop strategies to enhance the company's profitability, such as operational efficiency, product innovation, and cost management. Create a realistic and sustainable growth plan that considers the company's capacity and resources.
2. The company must ensure that its financial reports are transparent and comply with applicable accounting standards. This includes ensuring that earnings management practices do not lead to distortions in the financial statements.
3. Future researchers may consider extending the study period and including more companies to explore other variables that could influence earnings management.
4. The author acknowledges that there are still many shortcomings in this research. For future studies, it is hoped that this can serve as a consideration in terms of the number of variables and sample criteria, the selection of financial ratios, and more accurate detection models to identify the factors that influence earnings management.

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