



# The Influence of Capital Structure, Company Growth, Profitability, and Firm Size on Earnings Management

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## Abstract

**Purpose:** This study aims to examine and analyze the influence of capital structure, growth, profitability, and company size on earnings management in mining companies listed on the Indonesia Stock Exchange for the 2016-2018 period, both partially and simultaneously.

**Research Methodology:** The research design used was a multivariate analysis. This study used a causal approach with quantitative research methods. Sampling was conducted using purposive sampling, including those in the mining sector listed on the Indonesia Stock Exchange for the 2016-2018 period. Multiple linear regression was used as the analysis method.

**Results:** The results of this study indicate that the capital structure variable has an insignificant effect on the earnings management variable, the growth variable has a significant effect on the earnings management variable, the profitability variable has an insignificant effect on the earnings management variable, and the company size variable has an insignificant effect on earnings management.

**Conclusions:** The capital structure, growth, profitability, and company size variables simultaneously/jointly have a significant effect on earnings management.

**Limitations:** This study is limited to the mining companies listed on the Indonesia Stock Exchange (IDX) during the period 2016-2018, which may not fully represent the broader industrial landscape. The sample size and time frame may restrict the generalizability of the results to other sectors or periods. Additionally, the study does not account for external economic factors or qualitative aspects that could influence earnings management practices.

**Contributions:** This research contributes to the existing body of knowledge by providing an empirical analysis of the factors influencing earnings management in the mining sector. It specifically highlights the effects of capital structure, growth, profitability, and company size on earnings management practices, offering valuable insights for academics, regulators, and practitioners concerned with financial reporting quality in emerging markets.

**Keywords:** *Earnings Management, Growth, Profitability, Size Company, Structure Capital*

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## 1. Introduction

Financial reports are a component of a company's information that must be published to parties requiring accountability for the company's management performance. Financial reports offer numerous benefits to

users, but profit information receives the most attention. While financial report information sometimes does not reflect the true state of a company's performance, this is due to earnings management. The profit information presented reflects the actual situation and is not the result of manipulation. Profit information is expected to serve as a guide for shareholders and investors. users report finance. Importance information profit something company make part party company management manipulates actual company profit data (Merkusiwati, 2007; Patrick et al., 2015).

This is intended to attract investors to the company. A company's unstable financial performance encourages management to engage in earnings management practices. Earnings management is a condition in which management intervenes in a company's operations. The process of preparing financial reports for external parties to smooth, increase, or decrease profits (Medyawati & Dayanti, 2016; Payamta, 1999). Earnings management is a specific topic in accounting theory, and the primary impact of earnings management practices is bias in financial reporting. Furthermore, in addition to affecting accounting profits, earnings management can influence stakeholders' decision-making (Uwuigbe et al., 2014).

Rahmani and Akbari (2013) put forward several factors that cause earnings management, namely: (1) Bonus Purposes; (2) Contracting Motivation; (3) to Meet Investor's Earnings Motivation; (4) Initial Public Offering (IPO); and (5) The Importance of Providing Information to Investors. Earnings management has led to several widely known accounting scandals. Many cases of earnings management have had detrimental effects on many parties, including creditors and investors. One case concerning alleged earnings management practices in a mining company, namely Indonesia Corruption Watch (ICW), reported the alleged manipulation of the sales reporting of three coal mining companies owned by the Bakrie Group to the Directorate General of Taxes. ICW suspects that PT Bumi Resources Tbk manipulated the report, and its subsidiaries resulted in state losses of US\$620.49 million. ICW's calculations, using various primary data, including audited financial reports, show that Bumi's sales reports from 2003 to 2008 were US\$1.06 billion lower than the actual figures. Consequently, state losses from revenue shortfalls are estimated to have occurred during this period (Ghozali, 2002; Gunawan et al., 2015).

A similar case was also committed by PT Timah (Persero), which in 2015 manipulated its financial report for the first half of 2015. PT Timah issued a statement that the company was experiencing poor performance. Chairman Bond Employee Tin (IKT), Ali Samsuri, said that PT Timah's financial condition has been poor for the past three years. The inability of the Board of Directors of PT Timah to escape the trap of losses resulted in the handover of 80% of PT Timah's mining area to business partners. Referring to the actual conditions that occurred at PT Timah, Ali believed that the financial report for the first semester of 2015 PT Timah (Persero) Tbk was fictitious. According to him, in the first semester of 2015, PT Timah experienced a loss of Rp 59 billion in operating profit. In addition to experiencing a decline in profits, PT Timah also recorded an increase in debt of almost 100% compared to 2013. In 2013, the company's debt reached Rp 263 billion. However, this debt increased to Rp 2.3 trillion in 2015.

The projected capital structure with leverage is one factor that influences earnings management (Wahyudi, 2020). Nozarpour and Norouzi (2015) state that leverage is one factor that influences earnings management. Leverage is the debt used by a company to finance its assets to carry out its operational activities. If a company is threatened with liquidation, management can immediately take action on earnings management (Putri & Rahyuda, 2020). By implementing earnings management, the company's performance appears good in the eyes of shareholders and the public, even though the company is threatened with liquidation. Nozarpour and Norouzi (2015) found that there is a significant influence of capital structure on earnings management in companies registered in Tehran during the 2008–2013 period. The same finding was reported by Rahmani and Akbari (2013), who found that capital structure influences earnings management.

A company's sales growth can motivate managers to achieve profit. According to [Syofyan \(2020\)](#), companies with high sales growth are less likely to manipulate earnings to report profits. Conversely, companies with low sales growth are more likely to misrepresent or alter earnings through earnings management ([Kumar et al., 2018](#)). However, companies with high growth rates also have the motivation to manage earnings. This situation can arise when companies face challenges in maintaining profits and sales trends. [Guna and Herawaty \(2010\)](#) explain that most companies have a tendency to control earnings. Sales growth can impact the measurement of company performance, both large and small firms. Sales growth is a proxy for measuring company growth, and predictions of future growth can be made based on past sales performance.

[Ghabdian et al. \(2012\)](#) defined profitability as a company's ability to generate profits. Profit is often used as a measure of company performance; high profits indicate good performance and vice versa. [Gunarianto et al. \(2014\)](#) found that company profitability does not significantly affect income smoothing (earnings management).

Furthermore, [Agustia and Suryani \(2018\)](#) and [Sun and Rath \(2010\)](#) found that profitability significantly and positively affects earnings management practices. Company size is another factor that can influence earnings management. Large companies have a significant incentive to engage in earnings management, as they are required to meet investors' or shareholders' expectations ([Samo & Murad, 2019](#)). Company size is often used as a proxy for asymmetric information in corporate disclosure. Managers of small companies are better able to maintain internal information compared to managers of large companies. Information about large companies is generally more publicly available and can be obtained at a lower cost than that of small companies. With more readily available information, investors and regulators can more easily assess large companies than small ones. [Rahmani and Akbari \(2013\)](#), [Sun and Rath \(2010\)](#), and [Medyawati and Dayanti \(2016\)](#) found that company size has a positive effect on earnings management.

This study draws on previous research examining the effect of capital structure, company growth, profitability, and company size on earnings management. The objective of this study is to re-examine the factors influencing earnings management due to research gaps in previous studies regarding independent variables. The variables used in this study are capital structure, company growth, profitability, and company size. The sample in this study is drawn from the mining sector in Indonesia. The mining sector is considered important because it is one of Indonesia's key natural resource-based industries. Coal mining companies have promising growth potential but face challenges such as relatively weak management practices and very high long-term investment costs. This situation provides opportunities for management to engage in earnings management practices to attract investment capital. Previous studies have rarely examined earnings management practices in the coal mining sector. Based on the explanation above, the author is interested in conducting a study entitled: "The Effect of Capital Structure, Company Growth, Profitability, and Company Size on Earnings Management in Mining Companies Listed on the Indonesia Stock Exchange for the 2016–2018 Period."

## 2. Literature Review & Hypothesis Development

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### 2.1 Agency Theory

Agency theory or agency relationships arise when one or more individuals (principals) employ another individual (agent) to provide a service and then delegate authority to the agent to make the best decisions for the principal ([Giarto & Fachrurrozie, 2020](#); [Satria, 2021](#); [Uwuigbe et al., 2014](#)). The relationship between principals and agents can give rise to conflicts of interest. Principals are motivated to improve their own welfare through increasing profitability, while agents are motivated to maximize their economic and psychological needs, including obtaining investment, loans, and compensation contracts.

The differences in interests and information between principals and agents encourage agents to consider how accounting figures can be used to maximize their own interests. This condition is known as information asymmetry. Information asymmetry occurs when managers have access to information about a company's prospects that is not available to external parties.

## **2.2 Management Profit**

[Abdullah \(2021\)](#) and [Bassiouny \(2016\)](#) explain that earnings management is an attempt by company managers to influence information in financial reports to deceive stakeholders who want to know the company's performance and condition. Earnings management is one factor that can reduce the credibility of financial reports and increase bias in financial reports, and can interfere with the trust of financial report users in the figures in the financial reports. [Aprillita and Perkasa \(2021\)](#) and [Patrick et al. \(2015\)](#) stated that earnings management can occur due to the preparation of financial statements, use base accrual. Base accrual has implications for profit accounting between other determined by the amount of accruals, both discretionary and non-discretionary. Earnings management practices, reflected in management's opportunistic behavior, can be explained through agency theory. Management, as an agent, tries to prioritize its own interests first by sacrificing the interests of the owner as a principal, which reflects the opportunistic behavior of management. Conflicts of interest between the two parties (management and owners) arise because each party tries to maximize its utility ([Gujarati, 2000](#)).

[Anggraini \(2021\)](#) and [Werdaningtyas \(2002\)](#) explains that the practice of earnings management as part of financial reports results in the company's economic condition being misrepresented, thus casting doubt on the expected earnings that would provide information to support decision making. Managers attempt to misrepresent information by manipulating components in financial reports, either by manipulating profit size or by concealing or delaying the disclosure of certain components. Managers can use several methods to manipulate profit size.

## **2.3 Capital Structure**

Capital structure is the proportion that determines the fulfillment of the company's spending needs ([Baker, 2019](#); [Caers et al., 2006](#)), where funds are obtained using a combination or blend of sources originating from long-term funds consisting of two main sources, namely, those originating from within and outside the company ([Ali et al., 2015](#); [Sumaryati et al., 2020](#)). Capital structure is usually measured by leverage, which is used to determine the size of a company's assets, financed by corporate debt ([Nenu et al., 2018](#); [Saif-Alyousfi et al., 2020](#)). Therefore, if a company's leverage level is high, it will tend to carry out large profit management so that the quality of the resulting profit is low ([Gunawan et al., 2015](#); [Vu et al., 2020](#)).

## **2.4 Growth Company**

Growth is the change (decrease or increase) in a company's assets. Asset growth is calculated as the percentage change in assets at a specific point in time, compared to the previous year. Growth is the change in total assets, either an increase or a decrease, experienced by a company over a period (one year). According to [Agustia and Suryani \(2018\)](#), growth can be defined as an increase in a company. The higher the company's growth, the greater the company's growth opportunities, and the greater the funding requirements. Companies with rapid growth rates tend to use debt as a funding source rather than issuing equity.

## **2.5 Profitability**

Profitability is a company's ability to generate profits and measures the level of operational efficiency and efficiency in using its asset utilization ([Karami & Akhgar, 2014](#)). Profitability is an indicator for assessing a company's performance and financial ability to generate profits. Financial ratios that describe profitability are called profitability ratios, which measure a company's ability to generate profits in

relation to sales and total assets. And capital Alone (Merkusiwati, 2007). Profitability is also important in maintaining continuity in the long term, as it shows whether a company has good prospects for the future. Therefore, every company will always strive to increase its profitability because the higher the level of profitability, the more assured its survival.

## 2.6 Size Company

Size refers to the extent of a company's assets, as determined by its total assets. Bassiouny (2016) assumed that large companies are politically more likely to incur political transfer costs within the political process than small companies, thus establishing this as the size hypothesis (Ali, 2006; Solihin, 2021). Company size is one factor influences earnings management. Large companies tend to be more cautious in managing their operations and earnings efficiently. Large companies receive more public attention and are therefore more cautious in their financial reporting. This results in the company reporting its conditions more accurately. The tendency to report positive profits is strongly suspected to be more common among medium-sized and large firms.

## 2.7 Research Framework

Based on the study library and previous studies, the researchers formulated the research framework as follows:

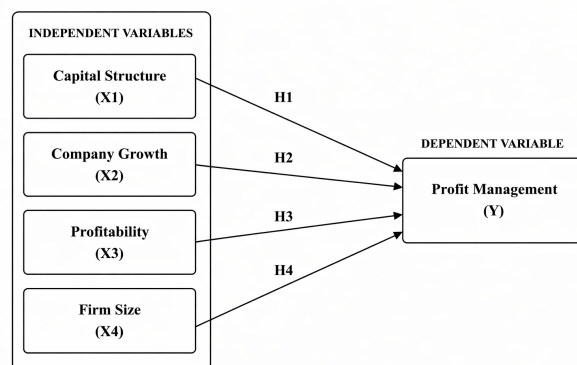


Figure 1. Framework Research

Based on Figure 1, the framework illustrates the relationships between four independent variables; Capital Structure ( $X_1$ ), Company Growth ( $X_2$ ), Profitability ( $X_3$ ), and Firm Size ( $X_4$ ), and the dependent variable, Profit Management ( $Y$ ). Each independent variable is connected to Profit Management with corresponding hypotheses ( $H_1$  to  $H_4$ ), suggesting that these factors may influence the management of profit within a company.

## 2.8 Hypothesis Development

The hypothesis of this study, with the theme of influence of discipline and motivation on employee performance, is determined as follows:

- $H_1$ : Structure Capital ( $X_1$ ) influential to Management Profit ( $Y$ ).
- $H_2$ : Growth ( $X_2$ ) has an effect on Profit Management ( $Y$ ).
- $H_3$ : Profitability ( $X_3$ ) influential to Management Profit ( $Y$ ).
- $H_4$ : Size Company ( $X_4$ ) influential to Management Profit ( $Y$ ).

### 3. Methodology

This study uses a quantitative approach, and based on its objectives, this type of research is causal, namely, research that explains the influence of an independent variable. variable) to bound variables (dependent variable). The independent variables in the study include capital structure, growth, profitability, and company size. The dependent variable in this study is earnings management (EM). This study aimed to analyze capital structure, growth, profitability, and company size. on earnings management. To achieve the objectives of this study, the research stages can be described in the research flowchart in Figure 2.

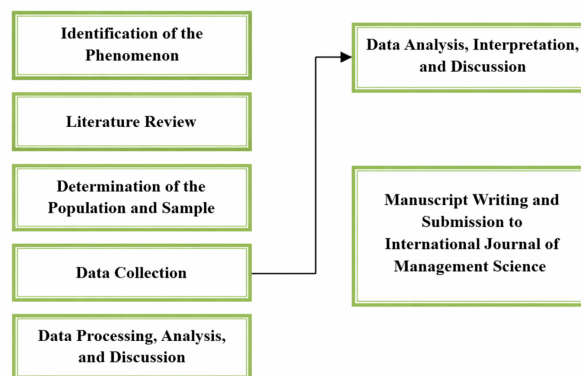


Figure 2. Stages Study

Based on Figure 2, the research process begins with the Identification of the Phenomenon, where the focus of the study is determined. The next step is the Literature Review, which involves reviewing previous studies related to the topic. Following this, the Determination of the Population and Sample defines the target group for the research. The process then moves to Data Collection, where relevant data is gathered. Once data is collected, it undergoes Data Processing, Analysis, and Discussion to derive meaningful insights. Finally, the results are presented through Manuscript Writing and Submission to the International Journal of Management Science, completing the research cycle.

### 4. Results and Discussion

#### 4.1 Results

##### 4.1.1 Results Testing Coefficient of Determination Hypothesis

The coefficient of determination ( $R^2$ ) measures the model's ability to explain the variation in the dependent variable. The coefficient of determination ranges between zero and one. A small  $R^2$  indicates that the ability of the independent variables to explain the variables is very limited. A value close to one indicates that the independent variables provide nearly all the information required to predict the dependent variables.

Table 1. Coefficient Determination

R-squared	0.251311
Adjusted R-squared	0.196861

Source: Data Exercise E-reviews

Based on the data in Table 1, it can be seen that the coefficient of determination is 0.251311 or equal to 25.13%, meaning that the variables of Capital Structure, Growth, Profitability, and Size together/simultaneously influence Profit Management by 25.13%, and the remainder is influenced by other variables/factors outside this research.

#### 4.1.2 Result Testing Simultan (F Test)

The F-test is a simultaneous regression relationship test that aims to determine whether all independent variables have a significant influence on the dependent variable. The criteria are:

Table 2. F Test

F-statistic	4.615445
Prob(F-statistic)	0.002764

Source: Data Exercise E-reviews

Based on Table 2, the Prob (F-Statistic) value is 0.002764, which is less than the significance level of 0.05; therefore, it can be concluded that the variables of Capital Structure, Growth, Profitability and Company Size together have a significant effect on Earnings Management.

#### 4.1.3 Results Testing Partial (T Test)

The t-test was used to partially test the hypotheses to show the effect of each independent variable on the dependent variable. The t-test is a test of the regression coefficient of each independent variable on the dependent variable to determine the extent of the influence of the independent variable on the dependent variable.

Table 3. T Test

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	-3.14E+08	2.22E+08	-1.416091	0.1624
Capital Structure	8289323.	10245479	0.809071	0.4220
Growth	-8.82E+08	2.25E+08	-3.921584	0.0002
Profitability	-194025.6	7528852.	-0.025771	0.9795
Size	14264495	11206761	1.272847	0.2084

Source: Data Exercise E-reviews

Based on Table 4.12, partial testing for the variables Capital Structure, Growth, Profitability and Size can be explained as follows:

1. The Capital Structure variable has a probability value of 0.4220, which is greater than the significance value of 0.05; therefore, it can be concluded that the Capital Structure variable has no significant effect on the Earnings Management variable.
2. The Growth variable has a probability value of 0.0002, which is smaller than the significance value of 0.05; therefore, it can be concluded that the growth variable has a significant effect on the Profit Management variable.
3. The Profitability variable has a probability value of 0.9795, which is greater than the significance value of 0.05; therefore, it can be concluded that the profitability variable has no significant effect on the Profit Management variable.
4. The Size variable has a probability value of 0.2084, which is greater than the significance value of 0.05; therefore, it can be concluded that the Size variable has no significant effect on the Earnings

Management variable.

## **4.2 Discussion**

### **4.2.1 Influence Structure Capital to Management Profit**

Based on the results of the T test, the Capital Structure variable has a prob value of 0.4220, which is greater than the significance value of 0.05; therefore, it can be concluded that H1 is rejected, or the Capital Structure variable has no significant effect on the Earnings Management variable. This is in accordance with the theory proposed by [Ghabdian et al. \(2012\)](#), who stated that Capital Structure affects Earnings Management. However, there are differences in their research, which have a significant effect, while in this study, it has an insignificant effect. A greater leverage ratio indicates a higher level of company dependence on external parties (creditors) and a higher burden of debt costs (interest costs) that must be paid by the company. When viewed based on this research, it states that there is a similar direction between capital structure and earnings management, which means that the higher the leverage ratio, the greater the possibility of managers carrying out earnings management because the company is threatened with being unable to pay the interest costs that must be paid or default.

### **4.2.2 Influence Growth to Management Profit**

The results of the T the Growth variable have a probability as large as 0.0002, which is smaller than the significance level of 0.05. Therefore, we can conclude that H 2 is accepted, and the growth variable has a significant negative influence on Profit Management. This is consistent with the research findings of [Nozarpour and Norouzi \(2015\)](#), who state that growth significantly impacts earnings management. A negative correlation between growth and earnings management indicates that any decrease in growth leads to an increase in earnings management. Low growth reflects poor company performance, and by engaging in earnings management, the company is expected to retain funds from investors and continue to grow. The research findings, which show an inverse relationship between growth and earnings management, suggest that the lower the growth, the greater the likelihood of managers engaging in earnings management, and the higher the growth, the less likely the managers are to engage in earnings management.

### **4.2.3 Influence Profitability to Management Profit**

Based on the results of the T test, the profitability variable has a prob value of 0.9795, which is greater than the significance value of 0.05; therefore, it can be concluded that H3 is rejected, or the profitability variable has an insignificant effect with a negative/opposite direction on the Earnings Management variable. This is in accordance with what was stated by [Sun and Rath \(2010\)](#), who stated that profitability has an effect on earnings management, although there are differences in the research of [Sun and Rath \(2010\)](#), who had a significant effect, while in this study, it stated an insignificant effect. If we look at the direction of the results of this study, it appears that the direction is negative or opposite between variables profitability And variables management profit., can concluded that the more small mark profitability, the possibility of managers engaging in earnings management increases. This is done to improve a manager's performance so that they appear to be good at managing and producing results for the company. The taller the mark profitability, the smaller the possibility that the manager engages in earnings management.

### **4.2.4 Influence Size Company to Management Profit**

Based on the results of the T-test, the Company Size variable has a probability value of 0.2084, which is greater than the significance value of 0.05; therefore, it can be concluded that H4 is rejected, or the Company Size variable has an insignificant influence with a positive/unidirectional direction on the Earnings Management variable. This is in accordance with the results of research conducted by [Karami and Akhgar \(2014\)](#), who in their research stated that the Company Size variable influences Earnings Management. Although there are differences in the research, [Karami and Akhgar \(2014\)](#) have a

significant influence, while in this study, it states an insignificant influence. When viewed in the opposite direction, the larger the company, the less likely the managers are to engage in earnings management. This is because larger companies receive more attention from shareholders, investors, and the public, thus reducing their incentive to engage in earnings management. Conversely, the smaller the company, the greater the likelihood that managers will engage in earnings management.

## 5. Conclusions

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Based on the results of the data analysis and the results of the discussion that have been described in the previous chapter, the conclusion is Which can withdrawn from study This is as following:

1. Variables Structure Capital have influence No significant to variables Management Profit.
2. Variables Growth have influence significant to variables Management Profit.
3. Variables Profitability have influence No significant to variables Management Profit.
4. Variables Size Company have influence No significant to variables Management Profit.
5. The variables Structure, Capital, Growth, Profitability, and Size Company simultaneously have a significant effect on the Earnings Management variable.

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## Author Contributions

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F. conceptualized and designed the study, collected data, wrote the manuscript, reviewed and approved the final manuscript for publication. I.H.N. contributed to the methodology, supervised the research process, reviewed and edited the manuscript, and approved the final version for publication.

## Conflicts of Interest

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The authors declare that there is no conflict of interest regarding the publication of this study. This research was conducted independently, and no financial or personal relationships influenced the results or interpretation of the findings.

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