The Effect of Earnings Management, Profitability, and Capital Structure on Firm Value in Manufacturing Companies Listed on the IDX 2021-2023

Fariqha Ulin Nuha[1], Zeni Rusmawati[2*], Dedy Surahman[3*]
fariqha.ulin.nuha-2021@fe.um-surabaya.ac.id

[*1,2,3] Accounting Study Program, Faculty of Economics and Business, University of Muhammadiyah Surabaya;

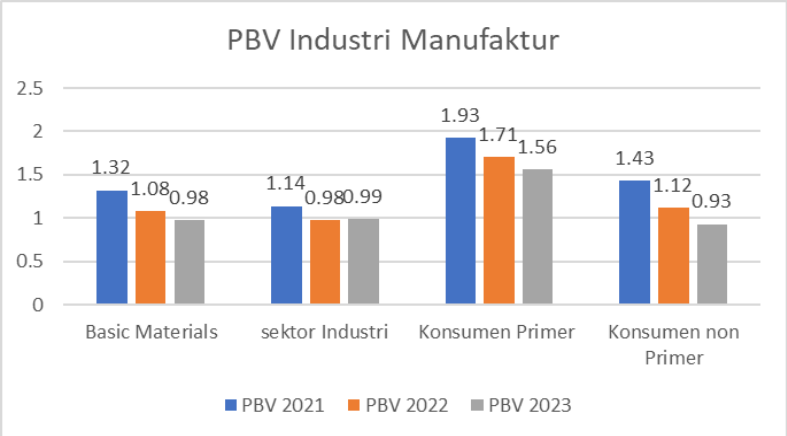
Abstract. Manufacturing companies are companies that play an important role in the economy in Indonesia. It has an impact on increasing the company's value in a view of stakeholders and investors. This research aims to determine the influence of profit management, profitability (ROE) and capital structure (DER) on company value (PBV) in manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2021- 2023. This research is quantitative research with secondary data obtained from the company's annual report. The population is manufacturing companies listed on the Indonesia Stock Exchange for the 2021- 2023 period with sampling techniques using purposive sampling. The data analysis technique used multiple linear regression analysis to test the hypothesis using SPSS (Statistical Package for Social Science) software. The results of multiple linear regression analysis showed that profit management had no significant effect on the company's value with a significance value of 0.171 > 0.05, profitability measured using ROE had a significant positive effect on the company's value with a significance value of 0.000 < 0.05, and capital structure measured using DER had no significant effect on company value with a significance value of 0.110 > 0.05. Simultaneously, profit management, profitability, and capital structure simultaneously have a positive and significant effect on the company's value.

Keywords: Profit Management, Profitability, Capital Structure, Company Value

1 INTRODUCTION

Manufacturing companies play a crucial role in Indonesia's economic growth. The manufacturing sector contributed significantly to IDR 178.7 trillion, or 41.4% of total investment in 2024 (Indonesia.go.id). This indicates that manufacturing companies have an impact on increasing company value in the eyes of stakeholders and investors (Anggraini & Lestari, 2023).

Company value is crucial for providing a positive outlook to investors, attracting potential investors to invest in a company. Company value can be measured by its Price to Book Value (PBV). A higher PBV ratio indicates market optimism about a company's future. Therefore, the PBV ratio is very useful for investors in making investment decisions (Manurung et al., 2023). PBV data from the manufacturing industry for 2021-2023 is presented in the following graph.



Source: Indonesia Stock Exchange 2021-2023

Figure 1. PBV Value of Manufacturing Industry 2021-2023

For manufacturing companies listed on the IDX, the PBV value for each sector showed a downward trend from 2021 to 2023, starting from the basic materials sector, the primary consumer sector, and the non-prime consumer sector, each year. This sustained decline in PBV reflects weakening market perception of the companies, which can impact share prices and reduce investor confidence. Meanwhile, the Industrial sector had the lowest PBV compared to other sectors. In 2022, this sector experienced a 14.04% decline compared to the

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previous year, but rebounded by 1.02% in 2023. This increase is expected to continue, as high PBV values reflect market optimism regarding the companies' future prospects.

2 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Agency Theory.

A theory that explains the relationship between two parties: shareholders (principals) and company management (agents). This agency theory was first proposed by Jensen and Meckling in 1976. Agency theory states that an agency relationship arises when one party (the principal) appoints another party (the agent) to perform a task and grants the agent decision-making authority. An agency relationship that transfers power from the company owner to the company manager can create an imbalance in information control between shareholders and management, thus leading to information asymmetry.

2.2 Packing Order Theory.

This theory was first introduced by Donaldson in 1961. It was later developed in capital structure analysis by Myers and Majluf in 1984. This theory states that there is a certain order in which companies use capital. The ideal source of initial funding for a company should come from retained earnings. If retained earnings are insufficient, the company can increase its capital by first applying for a loan. If further needs arise, it can then issue new shares.

2.3 Company Value.

Company value is one of the primary goals a company seeks to achieve. This value is used as an indicator of success, as increasing company value reflects the increased well-being of the company's owners. According to Agus Sartono (2012:9) in (Robby & Angery, 2021), the definition of company value can be explained as follows: "Efforts to maximize shareholder welfare can be achieved by increasing the present value of all profits earned." Shareholder welfare will increase if the price of their shares increases.

2.4 Earnings Management.

Schipper (1989) explains that earnings management is the act of manipulating external financial reports with the specific intent of gaining specific benefits (Aulia Hendra & NR, 2020). This practice can reduce the reliability of financial reports in the decision-making process, although it also serves as a means of communication between management and external parties (Rajab et al., 2022).

2.5 Profitability.

According to Sutrisno (2012:222) in Robby & Angery (2021), profit is the result of management decisions. Profitability ratios serve to assess a company's ability to generate profits. The higher the profits achieved, the better it demonstrates the quality of management in managing the company. Profitability reflects the efficiency and effectiveness of a company in managing its operations to achieve profits. Profitability ratios are often used to evaluate a company's financial performance and provide an overview of its condition.

2.6 Capital structure

Capital structure is the balance between long-term debt and equity used to finance a company's investment activities. According to Riyanto (2001), capital structure is the ratio of equity to long-term debt. Decisions regarding capital structure relate to the selection of funding sources, both internal and external to the company. Internal funding typically comes from retained earnings and depreciation, while external funding comes from creditors and the company's owners.

2.7 Hypothesis Development

2.7.1 The Influence of Earnings Management on Company Value.

Earnings management arises from a conflict of interest between owners (principals) and managers (agents), where managers possess more information about the company's condition and can exploit this information to manipulate financial reports (Joko, 2020). Earnings management practices can degrade the quality of financial reports and make the information presented less relevant to investors, potentially reducing the company's value (Darwis, 2012).

The above explanation aligns with research by Panjaitan et al. (2022) and Pernamasari & Melinda (2019), which shows that earnings management has a negative and significant effect on firm value. Therefore, the following hypothesis is proposed:

H_1: Earnings management has a negative and significant effect on firm value.

2.7.2 The Influence of Profitability on Company Value.

Profitability is a measure of management performance in meeting the interests of owners. Based on agency theory, high profitability can indicate good management performance, thereby increasing firm value and reducing agency conflicts. Conversely, low profitability can trigger agency conflicts because managers will manipulate earnings to conceal poor company performance.

The above explanation aligns with research by Palayukan et al. (2024) and Anila Ambarani et al. (2024), which shows that profitability has a positive and significant effect on firm value. Therefore, the following hypothesis is proposed:

H2: Profitability has a positive and significant effect on firm value.

2.7.3 The Influence of Capital Structure on Company Value.

Capital structure is the ratio between long-term debt and equity to achieve efficient financing (Amro, 2021). Based on the pecking order theory, companies prioritize internal funding, followed by debt, and finally, issuing new shares. A capital structure involving the use of debt is considered part of a financing strategy that follows the pecking order theory's priority order. Therefore, companies need to carefully consider the use of debt, as this decision can impact a company's value.

The results presented above align with research conducted by Silalahi et al. (2022), which showed that capital structure has a negative and significant effect on firm value. Therefore, the following hypothesis is proposed:

H_3 : Capital structure has a negative and significant influence on firm value.

2.7.4 The Influence of Earnings Management, Profitability and Capital Structure on Company Value.

H_4 : Earnings management, profitability, and capital structure have a positive and significant influence on firm value.

3 RESEARCH METHODS

This study uses a quantitative approach. The data used in this study is secondary data obtained from the financial reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. This data will then be tested and analyzed using statistical techniques using SPSS (Statistical Package for Social Science) software to examine the relationship between the X variables, namely earnings management, profitability, and capital structure, and the Y variable, namely firm value.

The population in this study includes 163 manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period, according to the IDX Channel. This study used a purposive sampling technique in the sample selection process. Based on the sample selection, 62 manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period met the criteria.

4 RESULTS AND DISCUSSION

4.1 Descriptive Analysis

Descriptive analysis is used as an initial analytical tool to provide a numerical representation of the characteristics of the independent and dependent variables by observing the central tendency and dispersion of the data, including the minimum, maximum, mean, and standard deviation values. The independent variables include earnings management, profitability, and capital structure.

The dependent variable in this study is firm value. The following are the results of the descriptive analysis test in this study:

Table 1. Descriptive Analysis Test

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Manajemen Laba	186	-.22	.45	-.0105	.07955
ROE	186	.00	1.42	.1439	.19201
DER	186	.00	3.93	.6916	.61757
PBV	186	.25	44.86	2.7915	5.50171
Valid N (listwise)	186				

4.2 Classical Assumption Testing

4.2.1 Normality Test

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		186
Normal Parameters[a]	Mean	.0000000
	Std. Deviation	2.21744618
Most Extreme Differences	Absolute	.096
	Positive	.096
	Negative	-.096
Kolmogorov-Smirnov Z		1.313
Asymp. Sig. (2-tailed)		.064

a. Test distribution is Normal.

Based on the results of the normality test using the Kolmogorov-Smirnov method, the Asymp. Sig. (2-tailed) value is 0.064, which is greater than the significance level of 0.05 (5%). These test results indicate that the residuals in the regression model have a normal distribution.

4.2.2 Multicollinearity Test

Table 3. Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Manajemen Laba	.903	1.108
ROE	.700	1.428
DER	.650	1.538

The results of the multicollinearity test indicate that the tolerance value for all independent variables is greater than (>) 0.10, and the Variance Inflation Factor (VIF) indicates that all independent variables have a VIF value of less than (<) 10.

Therefore, it is concluded that there is no correlative relationship between the independent variables in the regression model, indicating that multicollinearity does not occur in this study.

4.2.3 Autocorrelation Test

Table 4. Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.915[a]	.838	.835	2.23565	1.969

a. Predictors: (Constant), X3, X1, X2

b. Dependent Variable: Y

Based on the autocorrelation test results in the table above, the DW value generated by the regression model is 1.969. This means the DW value (1.969) lies between -2 and +2 (-2 < 1.969 > 2), thus concluding that there is no autocorrelation problem.

4.2.4 Heteroscedasticity Test

Table 5. Heteroscedasticity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.400	.251		1.593	.116
	LN_X1	-.074	.062	-.146	-1.206	.232
	LN_X2	-.034	.062	-.066	-.548	.586
	LN_X3	.117	.068	.206	1.709	.092

a. Dependent Variable: Abs_RES

The results of the heteroscedasticity test using the Glejser Abs test using LN showed that all variables in this study showed significance values exceeding 0.05: 0.232 for earnings management, 0.586 for profitability, and 0.92 for capital structure. Therefore, it can be concluded that there is no heteroscedasticity in the regression model.

4.3 Multiple Linear Regression Test

Table 6. Multiple Linear Regression Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.279	.460		2.783	.007
	LN_X1	-.156	.113	-.146	-1.385	.171
	LN_X2	.553	.114	.507	4.845	.000
	LN_X3	.203	.125	.171	1.622	.110

a. Dependent Variable: LN_Y

Based on the results of the hypothesis test after LN data transformation, the following multiple linear regression equation was obtained:

$$\text{Firm Value (Y)} = 1.279 - 0.156\ \text{Earnings Management}\ (X_1) + 0.553\ \text{Profitability}\ (X_2) + 0.203\ \text{Capital Structure}\ (X_3) + e$$

4.4 Coefficient of Determination Test

Table 7. Test of Determination Coefficient

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.544[a]	.296	.264	.76632	2.341

a. Predictors: (Constant), LN_X3, LN_X2, LN_X1

b. Dependent Variable: LN_Y

Based on the table, the coefficient of determination R Square (R^2) value after LN data transformation was recorded at 0.296. This means that the independent variable is able to explain 29.6% of the variation that occurs in the dependent variable. Meanwhile, the remaining 70.4% is influenced by other factors outside the scope of this study.

4.5 Test T

Table 8. T-Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.279	.460		2.783	.007
	LN_X1	-.156	.113	-.146	-1.385	.171
	LN_X2	.553	.114	.507	4.845	.000
	LN_X3	.203	.125	.171	1.622	.110

a. Dependent Variable: LN_Y

Based on the table above, after performing LN data transformation, the following results were obtained:

1. The t-test results show that the earnings management variable (X_1) has a significance value of 0.171 > 0.05. This indicates that earnings management does not have a significant effect on firm value. Therefore, it can be concluded that H_1 is rejected.
2. The t-test results show that the profitability variable (X_2) has a significance value of 0.000 < 0.05. This means that a company's profitability has a significant effect on firm value and the relationship is in the same direction. Therefore, it can be concluded that H_2 is accepted.
3. Based on the table above, the capital structure significance value is 0.110, which is greater than 0.05. This means that a company's profitability does not have a significant effect on firm value. Therefore, it can be concluded that H_3 is rejected.

4.6 Test F

Table 9. F Test

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.053	3	5.351	9.112	.000[a]
	Residual	38.171	65	.587		
	Total	54.224	68			

a. Predictors: (Constant), LN_X3, LN_X2, LN_X1

b. Dependent Variable: LN_Y

Based on the results of the F test after LN data transformation, the significance value is 0.000 <0.05, so it can be concluded that H_4 is accepted, which means that simultaneously earnings management, profitability, and capital structure have a positive and significant effect on the company's value.

4.7 Discussion

4.7.1 The Influence of Earnings Management on Company Value.

In 2021–2023, many manufacturing companies reported negative figures in their financial reports as a strategy to lower profits, for example to reduce tax burdens. However, internal control systems and good governance limited earnings management practices, so its impact on company value was insignificant. This aligns with agency theory, which emphasizes the importance of transparency and oversight to reduce information asymmetry between owners and managers. Investors or principals tend not to use earnings management as a basis for investment decisions, as it is considered unethical and does not reflect the company's true condition. Previous research (Suryadi, 2022; Juliani et al., 2023; Anggraini & Lestari, 2023) also showed that earnings management does not significantly impact company value.

4.7.2 The Influence of Profitability on Company Value

According to agency theory, high profitability indicates good management performance, thus reducing agency conflicts because there is no need to manipulate data. High profitability indicates a healthy company, which can attract investor interest and drive share prices upwards, ultimately increasing company value (Efendi, 2019). This finding is consistent with research by Wijaya (2023), Palayukan et al. (2024), and Anila Ambarani et al. (2024), which states that profitability has a positive and significant effect on company value.

4.7.3 The Influence of Capital Structure on Company Value

Capital structure (DER) data for manufacturing companies from 2021–2023 shows fluctuations, indicating inconsistent financing policies across companies. This instability creates a perception of risk for investors, so the benefits of using debt do not always increase company value. According to the pecking order theory, companies prefer internal financing due to its greater efficiency and lower financial risk. Excessive reliance on debt can actually increase interest expenses and bankruptcy risk, making investors less confident in the company's prospects. This research finding aligns with the findings of Irawan & Kusuma (2019) and Suryadi (2022), which found that capital structure does not significantly impact company value.

4.7.4 The Influence of Earnings Management, Profitability, and Capital Structure on Company Value.

Earnings management, profitability, and capital structure play a crucial role in increasing company value because they reflect the operational and financial conditions that investors care about. Appropriate earnings management can provide insight into the quality of earnings and a company's prospects (Aulia Hendra & NR, 2020). Meanwhile, profitability indicates the ability to generate profits, and optimal debt management reflects a company's ability to manage financial risks (Wahidmurni, 2017). These three variables interact to shape market perceptions, making strategic management of these variables key to sustainably increasing company value.

5 CONCLUSION

5.1 Conclussion

1. Earnings management does not significantly influence firm value in manufacturing companies listed on the Indonesia Stock Exchange during the 2021-2023 period, with a significance value of 0.171 > 0.05.
2. Profitability has a positive and significant influence on firm value in manufacturing companies listed on the Indonesia Stock Exchange during the 2021-2023 period, with a significance value of 0.000 < 0.05.
3. Capital structure does not significantly influence firm value in manufacturing companies listed on the Indonesia Stock Exchange during the 2021-2023 period, with a significance value of 0.110 < 0.05.

4. Earnings management, profitability, and capital structure simultaneously have a positive and significant influence on firm value in manufacturing companies listed on the Indonesia Stock Exchange during the 2021-2023 period, with a significance value of 0.000 < 0.05.

5.2 Suggestion

Manufacturing companies need to improve their operational efficiency and business strategies to maintain and sustainably increase profitability, thereby strengthening their market position and attracting investor interest.

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