

## **THE IMPACT OF PROFITABILITY, LEVERAGE, AND TAX AVOIDANCE ON EARNINGS MANAGEMENT IN CONSUMER GOODS COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE**

Theophilus Tan Ariel<sup>1</sup>, Yanuar Dananjaya<sup>2</sup>

<sup>1,2</sup> Universitas Pelita Harapan, Surabaya, Indonesia

<sup>1</sup>[yanuar.dananjaya@uph.edu](mailto:yanuar.dananjaya@uph.edu)

### **ABSTRACT**

This study analyzes the impact of profitability, leverage, and tax avoidance on earnings management in consumer goods companies listed on the Indonesia Stock Exchange (IDX) for the period 2018-2020. Data were collected using purposive sampling technique with a sample of 93 companies. Using multiple linear regression analysis, this study finds that profitability, leverage, and tax avoidance do not have a significant impact on earnings management either partially or simultaneously. These findings suggest that other factors not studied may play a greater role in earnings management practices in consumer goods companies.

**Keywords - Earnings Management, Profitability, Leverage, Tax Avoidance**

### **INTRODUCTION**

Financial statements are essential for companies to communicate their performance to stakeholders, and a critical aspect of these statements is earnings management, where managers may alter financial reports to present a more favorable view of the company. This practice is often motivated by the desire to meet performance targets or to attract investments by enhancing the company's financial image. Various factors influence earnings management, including internal factors like profitability, leverage, and tax avoidance, which are often cited as drivers that affect managerial decisions to engage in earnings management.

Profitability, leverage, and tax avoidance each have distinct roles in motivating earnings management. Profitability reflects a company's ability to generate profits relative to its assets, and managers in less profitable companies may feel pressure to manipulate earnings to maintain stakeholder confidence. Leverage indicates the degree of company financing through debt, with higher levels potentially increasing pressure from creditors to show financial stability. To avoid breaching debt covenants, managers may engage in earnings management to present a more stable financial outlook. Tax avoidance strategies, aimed at reducing tax liabilities legally, may also drive earnings management as companies seek to enhance cash flow and reinvest retained profits, although the degree of influence tax avoidance has on earnings manipulation remains debated.

This study explores the impact of profitability, leverage, and tax avoidance on earnings management in consumer goods companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2020. As a significant sector in Indonesia's economy, the consumer goods industry, which covers essential products like food and beverages, offers a valuable context for this analysis. Through this study, we aim to contribute insights into how these internal factors influence earnings management practices, providing valuable information for investors, regulators, and corporate managers in identifying key drivers of earnings manipulation.

## LITERATURE REVIEW

Earnings management has been a widely studied area in accounting and finance, as it holds significant implications for corporate governance, stakeholder trust, and market efficiency. Earnings management refers to the deliberate manipulation of financial statements by managers to achieve desired financial outcomes (Scott, 2018). This practice can range from legally permissible choices in accounting estimates to more aggressive actions that may compromise the integrity of financial reporting. According to Healy and Wahlen (1999), earnings management is often driven by incentives related to performance targets, market expectations, or regulatory requirements, making it a pervasive issue in corporate governance.

Profitability is frequently linked to earnings management. According to Jensen and Meckling's (1976) Agency Theory, managers in firms with lower profitability may face pressure to meet expectations from investors or to secure bonuses tied to profit targets. High profitability is generally associated with operational success, reducing the likelihood of earnings manipulation. In contrast, low profitability may prompt managers to adjust earnings to meet performance benchmarks or to maintain an appearance of stability (Anindya & Yuyetta, 2020). Studies by Kasmir (2019) show that firms with higher profitability ratios, such as return on assets (ROA), are less likely to engage in earnings manipulation since their operational efficiency is already evident.

Leverage, or the extent to which a firm is financed through debt, also plays a role in earnings management. Agency Theory suggests that firms with high leverage levels experience greater scrutiny from creditors, leading to increased monitoring costs (Amri, 2020). As a result, managers may be incentivized to manipulate earnings to maintain favorable financial ratios, ensuring compliance with debt covenants and reducing the perceived risk of default (Sweeney, 1994). However, some studies, such as by Antonius and Tampubolon (2019), argue that leverage may not significantly influence earnings management, as companies are motivated by other factors to maintain a stable financial image.

Tax avoidance strategies, aimed at minimizing tax liabilities within legal boundaries, are also relevant to earnings management. Firms practicing tax avoidance often adjust financial figures to optimize after-tax income, which may also impact reported earnings (Sinambela, 2019). According to Chen et al. (2010), firms with aggressive tax strategies may manipulate earnings to reduce tax expenses while still meeting shareholder expectations for profit. Nonetheless, empirical evidence on the relationship between tax avoidance and earnings management remains inconclusive, as some studies, like those of Maysani and Suaryana (2019), show a positive association, while others indicate a minimal effect.

This study builds on previous research by examining how profitability, leverage, and tax avoidance individually and collectively impact earnings management practices within the consumer goods sector in Indonesia. This sector is particularly relevant due to its economic significance and the competitive pressures faced by firms to maintain financial stability and investor appeal.

## METHODOLOGY

### Research Design

This study employs a quantitative approach to analyze the relationship between profitability, leverage, and tax avoidance on earnings management in consumer goods companies listed on the Indonesia Stock Exchange (IDX) from 2018-2020.

### Population and Sample

The population includes all IDX-listed consumer goods companies from 2018 to 2020, selected using purposive sampling based on criteria: companies are listed on IDX, publish complete financial reports, and report positive profits for each year. A final sample of 93 companies was obtained.

## Data Collection

Secondary data from IDX and company financial reports were used, including financial ratios relevant to profitability, leverage, and tax avoidance.

## Variable Measurement

- Earnings Management (Dependent Variable): Measured using the Phillips et al. (2003) distribution approach model:

$$\Delta E = \frac{E_{it} - E_{it-1}}{MVE_{t-1}}$$

- Profitability (ROA): Calculated as Net Income / Total Assets
- Leverage (DER): Measured as Total Debt / Shareholders' Equity
- Tax Avoidance (ETR): Measured as Tax Expense / Net Income Before Tax

## Data Analysis

Data analysis includes multiple linear regression to test the individual and combined effects of profitability, leverage, and tax avoidance on earnings management. Key analysis steps:

1. Descriptive Statistics: Summarizes data characteristics.
2. Classical Assumption Tests: Tests for normality (Kolmogorov-Smirnov), multicollinearity (VIF and tolerance), heteroscedasticity (Spearman's Rho and scatterplot), and autocorrelation (Run Test).
3. Hypothesis Testing: Uses t-tests (individual variables) and F-tests (combined variables) for significance.
4. Coefficient of Determination (R<sup>2</sup>): Assesses the explanatory power of the model. Data processing was conducted using SPSS software (version 26) to ensure statistical accuracy.

## RESULTS

### Descriptive Statistics

TABLE 1.  
DESCRIPTIVE STATISTICS

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ROA	93	.00050	.44676	.1077056	.09293959
DER	93	.13014	3.15902	.7036016	.56930551
ETR	93	.03201	.96206	.2751298	.12769309
Earning_Management	93	-.29713	9.50920	.1208498	.99372055
Valid N (listwise)	93				

Source : Data processed using SPSS version 26 (2024)

This table presents the minimum, maximum, mean, and standard deviation values for Profitability (ROA), Leverage (DER), Effective Tax Rate (ETR), and Earnings Management. Most

# IConEnt

The 4<sup>th</sup> International Conference on Entrepreneurship

companies show positive profitability and moderate leverage, while ETR varies, indicating diverse tax management strategies among companies.

## Classical Assumption Test

### Normality Test

TABLE 2  
ONE-SAMPLE KOLMOGOROV-SMIRNOV TEST AFTER OUTLIER ELIMINATION

			Unstandardized Residual
N			53
Normal Parameters <sup>a,b</sup>	Mean		.0000000
	Std. Deviation		1.25503050
Most Extreme Differences	Absolute		.113
	Positive		.061
	Negative		-.113
Test Statistic			.113
Asymp. Sig. (2-tailed)			.087 <sup>c</sup>
Monte Carlo Sig. (2-tailed)	Sig.		.475 <sup>d</sup>
	99% Confidence Interval	Lower Bound	.462
		Upper Bound	.488
a. Test distribution is Normal.			
b. Calculated from data.			
c. Lilliefors Significance Correction.			
d. Based on 10000 sampled tables with starting seed 624387341.			
Source: Data processed using SPSS version 26 (2024)			

After outlier removal, the Kolmogorov-Smirnov test results indicate a near-normal distribution of residuals ( $p = 0.475$ ), confirming that the data is suitable for regression analysis.

### Heteroscedasticity Test

TABLE.3  
HETEROSCEDASTICITY TEST

Correlations						
			ROA	DER	ETR	Unstandardized Residual
Spearman's rho	ROA	Correlation Coefficient	1.000	-.413**	-.157	.087
		Sig. (2-tailed)	.	.000	.175	.535
		N	76	76	76	53
	DER	Correlation Coefficient	-.413**	1.000	.023	-.066
		Sig. (2-tailed)	.000	.	.842	.638
		N	76	76	76	53
	ETR	Correlation Coefficient	-.157	.023	1.000	-.128
		Sig. (2-tailed)	.175	.842	.	.360
		N	76	76	76	53

# IConEnt

The 4<sup>th</sup> International Conference on Entrepreneurship

	Unstandardized Residual	Correlation Coefficient	.087	-.066	-.128	1.000
		Sig. (2-tailed)	.535	.638	.360	.
		N	53	53	53	53
**. Correlation is significant at the 0.01 level (2-tailed).						
Source: Data processed using SPSS version 26 (2024)						

The Spearman's Rho test results show no significant heteroscedasticity, as correlation significance levels are above 0.05. This confirms that variance is consistent across the data points, supporting the reliability of regression results.

## Multicollinearity Test

TABLE 4a  
MULTICOLLINEARITY TEST USING TOLERANCE AND VIF

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	ln_ROA	.648	1.544
	ln_DER	.673	1.486
	ln_ETR	.939	1.065
a. Dependent Variable: ln_Earning_Management			

Source: Data processed using SPSS version 26 (2024)

TABLE 4b  
MULTICOLLINEARITY TEST USING TOLERANCE AND VIF

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3.494	1.258		-2.777	.008
	ln_ROA	-.018	.372	-.008	-.049	.961
	ln_DER	.483	.333	.243	1.452	.153
	ln_ETR	.675	.595	.161	1.136	.262
a. Dependent Variable: ln_Earning_Management						

Source: Data processed using SPSS version 26 (2024)

The VIF and Tolerance values demonstrate no multicollinearity issues, as Tolerance values are above 0.10 and VIF values are below 10. This indicates that the independent variables do not overly correlate, ensuring the validity of individual variable effects.

## Autocorrelation Test

TABLE 5  
RUNS TEST

	Unstandardized Residual
--	-------------------------

# IConEnt

The 4<sup>th</sup> International Conference on Entrepreneurship

Test Value <sup>a</sup>	.08300
Cases < Test Value	26
Cases >= Test Value	27
Total Cases	53
Number of Runs	24
Z	-.969
Asymp. Sig. (2-tailed)	.333
a. Median	
Source: Data processed using SPSS version 26 (2024)	

The Run Test shows no significant autocorrelation in the residuals ( $p = 0.333$ ), indicating independence among observations, which meets the assumptions for regression analysis.

## Hypothesis Testing

Table 1.6 Multiple Linear Regression Analysis

The regression analysis shows the relationship of each independent variable—Profitability (ROA), Leverage (DER), and Tax Avoidance (ETR)—with Earnings Management. All variables demonstrate minimal and non-significant impacts, suggesting limited influence on earnings management practices.

TABLE 7  
COEFFICIENT OF DETERMINATION ( $R^2$ )

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.273 <sup>a</sup>	.075	.018	129.288
a. Predictors: (Constant), ln_ETR, ln_DER, ln_ROA				
a. Dependent Variable: ln_Earning_Management				
Source : Data processed using SPSS version 26 (2024)				

The  $R^2$  value of 0.018 indicates that Profitability, Leverage, and Tax Avoidance together explain only 1.8% of the variance in Earnings Management, implying that other factors outside the study play a larger role.

## Simultaneous F-Test

TABLE 8  
F-TEST RESULTS

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.609	3	2.203	1.318	.279 <sup>b</sup>
	Residual	81.905	49	1.672		
	Total	88.514	52			
a. Dependent Variable: ln_Earning_Management						
b. Predictors: (Constant), ln_ETR, ln_DER, ln_ROA						
Source: Data processed using SPSS version 26 (2024)						

The F-Test results reveal no significant combined effect of the independent variables on Earnings Management ( $p = 0.279$ ), indicating that, together, these variables do not significantly drive earnings manipulation in the sample companies.

## Partial t-Tests

TABLE 9  
T-TEST RESULTS

	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	-3.494	1.258		-2.777	.008
	ln_ROA	-.018	.372	-.008	-.049	.961
	ln_DER	.483	.333	.243	1.452	.153
	ln_ETR	.675	.595	.161	1.136	.262
a. Dependent Variable: ln_Earning_Management						

Source: Data processed using SPSS version 26 (2024)

Each t-test result shows that none of the independent variables (ROA, DER, ETR) has a statistically significant individual effect on Earnings Management, with p-values exceeding 0.05. This reinforces the minimal role of these factors in influencing earnings manipulation within the sample.

## DISCUSSION

These results imply that in the Indonesian consumer goods sector, earnings management practices are not heavily influenced by profitability, leverage, or tax avoidance alone or in combination. This finding highlights the possible influence of other variables, such as corporate governance mechanisms, market conditions, or external regulatory pressures, which may exert greater control over earnings management. Future research could explore these alternative factors to gain a more comprehensive understanding of earnings management drivers in this sector.

## CONCLUSION

This study investigates the impact of profitability, leverage, and tax avoidance on earnings management in consumer goods companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2020. The results show that profitability (measured by ROA), leverage (measured by DER), and tax avoidance (measured by ETR) do not significantly influence earnings management practices, whether assessed individually or collectively. The lack of a meaningful relationship suggests that managers in this sector may not rely on earnings manipulation to respond to profitability, debt, or tax considerations, possibly due to the essential nature of the consumer goods industry, which provides stable demand and less pressure for exaggerated financial reporting. Additionally, the relatively conservative debt usage in this sector and regulatory tax frameworks in Indonesia may limit incentives and opportunities for earnings manipulation.

These findings imply that other factors, such as corporate governance structures, regulatory oversight, or managerial incentives, may play a larger role in shaping earnings management practices within this industry. Future research could explore these additional variables to provide a more comprehensive understanding of earnings management drivers in Indonesia's consumer goods sector.

This study contributes valuable insights for investors, regulators, and company management, suggesting that the motivations behind earnings management in emerging markets like Indonesia may differ from those in more mature economies, emphasizing the importance of context-specific analysis

## REFERENCES

- Amri, N. F. (n.d.). *Agency Theory (Teori Agensi) Dalam Perusahaan Dan Efeknya*. Retrieved from e-akuntansi: <https://www.e-akuntansi.com/agency-theory-teori-agensi-dalam-perusahaan-dan-efeknya/>
- Anindya, W., & Yuyetta, E. (2020). Pengaruh Leverage, Sales Growth, Ukuran Perusahaan Dan Profitabilitas Terhadap Manajemen Laba. *DiponegoroJournal of Accounting*, 9(3), 1-14. Artikel Pendidikan. (2022, March 18). *Teori Agensi Menurut Para Ahli Dalam Praktek Akuntansi*. Retrieved from Artikel Pendidikan: <https://artikelpendidikan.id/teori-agensi/>
- Asyati, S., & Farida. (2020). Pengaruh Good Corporate Governance, Leverage, Profitabilitas dan Kualitas Audit terhadap Praktik Manajemen Laba (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di BEI Periode 2014-2018). *Journal of Economic, Management, Accounting and Technology (JEMATech)*, 3(1), 36 -38. doi:<https://doi.org/10.32500/jematech.v3i1.1073>
- Barton, K. (2022). *Consumer Goods*. Retrieved from wallstreetmojo.com: <https://www.wallstreetmojo.com/consumer-goods/>
- Ghozali, I. (2018). *Aplikasi Analisis Multivariate Dengan Pogram IBM SPSS Edisi Sembilan*. Semarang: Universitas Diponegoro.
- Hayati, R. (2021). *Pengertian Teknik Pengumpulan Data, Macam, Cara Menulis, dan Contohnya*. Retrieved from PenelitianIlmiah.Com: [https://penelitianilmiah.com/teknik-pengumpulan-data/#:~:text=Riduwan%20\(2010\)%2C%20Teknik%20pengumpulan,untuk%20memperoleh%20data%20yang%20diperlukan.](https://penelitianilmiah.com/teknik-pengumpulan-data/#:~:text=Riduwan%20(2010)%2C%20Teknik%20pengumpulan,untuk%20memperoleh%20data%20yang%20diperlukan.)
- Hayes, A. (2022, March 17). *Leverage*. Retrieved from Investopedia: <https://www.investopedia.com/terms/l/leverage.asp>
- Hestanto. (2020). *Teori Keagenan Menurut Beberapa Cendekiawan*. Retrieved from hestanto personal website: <https://www.hestanto.web.id/teori-keagenan-menurut-beberapa-cendekiawan/>
- Kamil, I. (2018). Konsep Praktik Manajemen Laba Dalam Persepsi Etis Mahasiswa (Studi Kasus Pada Universitas Xyz). *Jurnal Profita Vol.11 No.1*, 55.
- Kasmir. (2019). *Analisis Laporan Keuangan Edisi Pertama Cetakan Keduabelas*. Jakarta: PT Raja Grafindo Persada.
- Krisnan. (2021). *Berikut Ini 4 Pengertian Metode Kuantitatif Menurut Para Ahli*. Retrieved from Meenta: <https://meenta.net/metode-kuantitatif/>
- Larastomo, J., Perdana, H., Triatmoko, H., & Sudaryono, E. (2016). Pengaruh Tata Kelola Perusahaan Dan Penghindaran Pajak Terhadap Manajemen Laba Pada Perusahaan Manufaktur Di Indonesia. *Jurnal Bisnis dan Manajemen*, 6(1), 63-74. doi:10.15408/ess.v6i1.3121
- Maysani, N., & Suaryana, I. (2019). Pengaruh Tax Avoidance Dan Mekanisme Corporate Governance Pada Manajemen Laba. *E-Jurnal Akuntansi*, 28(3), 1886-1903. doi:<https://doi.org/10.24843/EJA.2019.v28.i03.p16>
- Momoh, O. (2021). *Understanding Population Statistics*. Retrieved from Investopedia: <https://www.investopedia.com/terms/p/population.asp#:~:text=A%20population%20is%20a%20distinct,is%20drawn%20for%20a%20study.>
- Murphy, C. (2021, July 27). *How To Interpret Financial Statements*. Retrieved from Investopedia: <https://www.investopedia.com/terms/f/financial-statements.asp>
- Pornawan, O. S. (2021). *Manajemen Laba*. Retrieved from Kledo.com: <https://kledo.com/blog/manajemen-laba/>



# IConEnt

The 4<sup>th</sup> International Conference on Entrepreneurship

- Purnama, D. (2017). Pengaruh Profitabilitas, Leverage, Ukuran Perusahaan, Kepemilikan Institusional Dan Kepemilikan Manajerial Terhadap Manajemen Laba. *Jurnal Riset Keuangan dan Akuntansi*.
- Robby, K. (2012). *Konsep Dan Macam-Macam Metode Penelitian*. Retrieved from Ka Robby: <https://karobby.wordpress.com/2012/05/12/konsep-dan-macam-macam-metode-penelitian/Salmaa>. (2021). *Purposive Sampling: Pengertian, Jenis-Jenis, dan Contoh yang Baik dan Benar*. Retrieved from Penerbit Deepublish: <https://penerbitdeepublish.com/purposive-sampling/>
- Scott, W. R. (2008). *Financial Accounting Theory Fifth Edition*. Canada: Pearson Prentice Hall.
- Sumber Pengertian. (2020). *Pengertian Populasi dan Sampel Menurut Para Ahli*. Retrieved from Sumber Pengertian.ID: <https://www.sumberpengertian.id/pengertian-populasi-dan-sampel>
- Supriyono, R. (2018). *Akuntansi Keperilakuan*. D.I. Yogyakarta: Gadjah Mafa University Press.
- Tamubolon, R. A. (2019). Analisis Penghindaran Pajak, Beban Pajak Tangguhan, dan Koneksi Politik terhadap Manajemen Laba. *Jurnal Akuntansi, Keuangan, dan Manajemen*.
- Temukan Pengertian. (2019). *Pengertian Variabel Independen dan Contohnya*. Retrieved from Temukan Pengertian: <https://www.temukanpengertian.com/2013/06/pengertian-variabel-independen.html>
- Temukan Pengertian. (2021). *Pengertian Variabel Dependen dan Contohnya*. Retrieved from Temukan Pengertian: <https://www.temukanpengertian.com/2013/06/pengertian-variabel-dependen.html>
- Tokopedia. (2022). *Profitabilitas - Pengertian, Jenis, dan Contohnya: Tokopedia Kamus*. Retrieved from Tokopedia: <https://kamus.tokopedia.com/p/profitabilitas/>
- Tuovila, A. (2022). *Investopedia*. Retrieved from <https://www.investopedia.com/terms/e/earningsmanagement.asp#:~:text=Earnings%20management%20is%20the%20use,judgments%20in%20following%20these%20principles>.