

## Profit Management and Financial Performance: Analysis of the Influence on Company Value

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**Abstract.** This study aims to determine the effect of earnings management and financial performance in firm value. The companies used in this study are food and beverage subsector companies listed on the Indonesia Stock Exchange for the period 2020-2022. The method in this study uses a quantitative approach with secondary data in the form of company financial reports. The population in this study were 51 companies, using purposive sampling method and obtained a sample of 11 companies. The data analysis technique uses the classical assumption test, panel data multiple linier regression test, f test and t test, and the coefficient of determination test. The results of this study indicate that earnings management has a significant negative effect on firm value, profitability has a significant positive effect on firm value, earnings management and profitability affect firm value.

**Keywords :** Company Value, Financial Performance, Profit Management, Profitability

### 1. INTRODUCTION

Every company has the goal of maximizing profits, prospering the company's owners and shareholders, and maximizing the company's value. However, companies often face various obstacles that can lead to decreased performance and even financial difficulties, leading to bankruptcy (Janah et al., 2022). Since the announcement of the Covid-19 case, the incident has had a significant impact on the investment world and has even resulted in many companies experiencing negative performance throughout 2020. In 2020, the growth of the food and beverage industry increased positively by 1.58% and experienced a negative performance of 6.89% for the food and beverage industry. Then in 2021, the growth of the food and beverage industry increased by 2.54% and in 2022 increased by 4.9%. However, for investors, the food and beverage industry is attractive because it provides consumer needs, so it has the risk of fierce competition. Various strategies are carried out to increase the company's value,

Such as maintaining the company's performance so that it always looks good in the eyes of its stakeholders and the company will try to cover up the unhealthy condition of the company from its stakeholders. There are many factors that affect the value of a company, but in this study there are two factors, namely profit management and financial performance. Profit management is an effort made by the company's management to increase and decrease the company's financial performance (Anggraini & Lestari, 2023).

This can involve temporary adjustments to revenue, expenses, or assets to achieve a specific goal, such as increasing net income or covering poor performance. If this is done in an unethical and unlawful way, it can reduce investor confidence, increase investment risk, and harm the company's value in the long run. The company's financial performance is one of the factors seen by potential investors to determine stock investment. Good financial performance will increase the value of the company. The increase in financial performance so that the company's shares continue to exist and remain in demand by investors, thus affecting the selling value of the shares. The financial statements published by the company are a reflection of the company's financial performance. The financial information has a function as information or a tool for management accountability to the owner of the company, as a consideration in decision-making, and describes the success and quality of the company. In this study, financial performance is assessed through profitability. The ability of a company to generate profits in relation to its total asset and capital sales itself is known as the profitability ratio (Bitu et al., 2021). This study aims to determine the influence of profit management and financial performance on company value.

## **2. LITERATURE REVIEW**

### **Agency Theory**

According to Jensen and Meckling (1976), agency theory explains the relationship between one or more people (principal) and other people (agent) in providing a service and then delegating decision-making authority to the agent, namely between two or more people, a group or organization. Profit management is closely related to agency theory because it involves the principal and the agent, where the principal here is the shareholder and the agent is the management party.

### **Signalling Theory**

Signalling Theory, which was put forward by Ros in 1997, explains the reasons and ways for companies to submit financial statement information to outside parties, such as investors in the capital market. And how companies should provide signals to users of these financial statements (Lesmana et al., 2020).

### **Company Values**

Company value is the state that has been achieved by the company as an illustration of public trust in the company through the process of activities in the period. Certainly, starting from the establishment of the company until now (Muid Abdul, 2012 in Lesmana et al., 2020). The value of the company is the perception of investors in assessing the success of the manager

in managing a company entrusted to him which is often associated with the value of his shares (Anggarini & Lestari, 2023).

### **Profit Management**

Sulistyanto (2018:6) In general, profit management can be understood as a deliberate attempt by a company manager to intervene or influence financial information in order to achieve personal benefits or corporate interests, thereby providing an inaccurate picture of the company's performance and financial condition to stakeholders.

### **Profitability**

The profitability ratio is a measure of a company's ability to generate profits compared to its total sales, assets, or capital (Bita et al., 2021). Companies with high profitability levels generally prefer to fund their operations using internal own capital such as retained earnings and shares (Azizah & Widyawati, 2021).

## **3. METHODS**

The method used in this study is using a quantitative approach. Research data in the form of numbers and analysis using statistics, as well as using secondary data in the form of company financial statements. The data analysis technique used classical assumption test, multiple linear regression test of panel data, f test, t test, and determination coefficient test using Eviews 13 software to process the data in this study. The population in this study is 51 manufacturing companies in the food and beverage subsector listed on the IDX with a sample of 11 companies. Sampling in this study uses a purposive sampling technique with the following criteria :

1. Food and beverage companies listed on the IDX during the observation period in 2020-2022.
2. Food and beverage companies that present financial statements consecutively during the observation period in 2020-2022.
3. Food and beverage companies that have consecutive profits during the observation period in 2020-2022.
4. Companies that present financial statements in rupiah.

#### 4. RESULTS

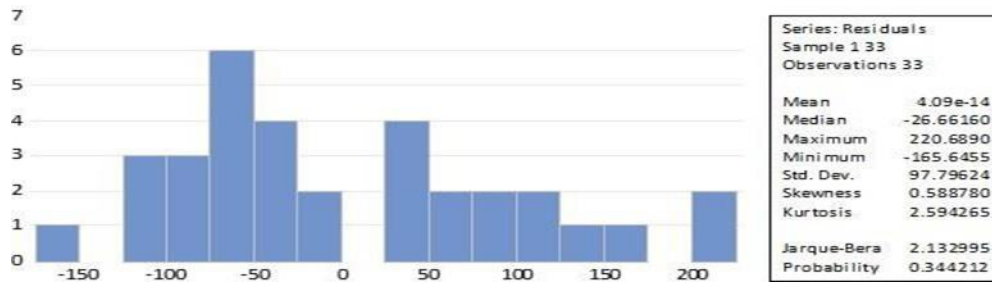


Figure 1. Normality Test Results

The results of the residual normality test can be found to have a jarque-bera value of 2.1329 with a probability value of 0.3442 where  $> 10\%$ , then  $H_1$  is rejected and  $H_0$  is accepted, so it can be concluded that the residual is normally distributed.

**Table 1.** Multicollinearity Test Results

F-statistic	1.367932	Prob. F(2,28)	0.2711
Obs*R-squared	2.937400	Prob. Chi-Square(2)	0.2302

The results of the autocorrelation test showed a p-value of Obs\*R-squared of 0.2302  $> \alpha$  (10%). So  $H_1$  is rejected and  $H_0$  is accepted, so it can be concluded that the regression model in this study is not autocorrelated.

**Table 3.** Heteroscedasticity Test Results

F-statistic	1.091835	Prob. F(5,27)	0.3875
Obs*R-squared	5.550134	Prob. Chi-Square(5)	0.3525
Scaled explained SS	3.656358	Prob. Chi-Square(5)	0.5999

The results of the heteroscedasticity test showed a p-value of Obs\*R-squared of 0.3525  $> 10\%$ . So  $H_1$  is rejected and  $H_0$  is accepted, so it can be concluded that there are no symptoms of heteroscedasticity or pass the heteroscedasticity test.

**Table 4.** Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	9.337363	(10,20)	0.0000
Cross-section Chi-square	57.253567	10	0.0000

From the results of the Chow Test showing a Probability value of 0.0000  $< 0.05$ ,  $H_0$  is rejected and  $H_1$  is accepted, so it can be concluded that the selected model is the Fixed Effect Model (FEM), then the Hausman Test can be performed. If the Probability value  $> 0.05$ , then the Lagrange Multiplier Test (LM Test) can be performed. From the results of the test, it can be concluded that the FEM model is more appropriate compared to the CEM model.

**Table 5.** Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.368785	2	0.0152

From the results of the Hausman Test showing a Probability value of 0.0152  $< 0.05$ , then  $H_0$  was rejected and  $H_1$  was accepted, so it can be concluded that the selected model is the Fixed Effect Model (FEM), so there is no need to proceed to the Lagrange Multiplier Test (LM Test), because it can be ascertained that the selected model is the Fixed Effect Model

(FEM). From the test results, it can be concluded that the FEM model is more accurate compared to the REM model.

The regression equation of this study is as follows:

$$PBV = 5.29324684716 - 1.50660699563*ML + 0.148900499842*ROE$$

1. The Constant Value obtained at 5.29324684716 shows that, if the independent variables, namely Profit Management (X1) and Profitability (X2), increase by one unit on average, then the dependent variable, namely Company Value (Y), will also increase by 5.29324684716.
2. The value of the Profit Management Regression Coefficient with a negative value (-) of 1.50660699563 indicates that if Profit Management increases by one unit, then the Company Value will decrease by 1.50660699563, and vice versa.
3. The value of the Profitability Regression Coefficient has a positive value (+) of 0.148900499842 indicating that if Profitability increases by one unit, then the Company's Value also increases by 0.148900499842, and vice versa.

**Table 6.** Test Results t

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.269932	0.592218	25.25458	0.0000
ML	-1.506886	0.684726	-2.201503	0.0333
ROE	0.387149	0.153601	1.774811	0.0442

The results of the t-test showed that the profit management variable was obtained with a t-value calculated of  $-2.201503 > t$  table which was 1.69552 and a sig.  $0.0333 < 0.05$ , then  $H_0$  is rejected and  $H_1$  is accepted, so it can be concluded that the profit management variable has a significant negative effect on the company's value partially. The value of the coefficient is -1.507 which means that if there is an increase of 1 unit in profit management, there will be an increase of -1.507 in the company's value. Meanwhile, the t-value of the profitability variable is known to be  $1.774811 > t$  table namely 1.69552 and the value of sig.  $0.0442 < 0.05$ , then  $H_0$  is rejected and  $H_1$  is accepted, so it can be concluded that the profitability variable has a positive and significant effect on the company's value partially. The value of the coefficient is 0.387 which means that if there is an increase of 1 unit in profitability, there will be an increase of 0.387 in the value of the company.

**Table 7. Test Results F**

F-statistic	12.27537
Prob(F-statistic)	0.000001

Based on the results of the F test, it is known that the F value is calculated as 12.27537 > the F table is 3.304817 and the sig. 0.000001 < 0.05, then H0 is rejected and H1 is accepted, so it can be concluded that the variables of profit management and profitability together affect the value of the company.

**Table 8. Determination Coefficient Test Results (R<sup>2</sup>)**

R-squared	0.880989
Adjusted R-squared	0.808785

Based on the results of the determination coefficient (R<sup>2</sup>) test, it is known that the adjusted R Square value is 0.808785 or 81%. The value of the determination coefficient indicates that independent variables consisting of profit management and profitability are able to influence.

## **DISCUSSION**

### **The effect of profit management on company value**

From the results of the tests that have been carried out, it is shown that profit management has a significant negative effect on the company's value, which means that profit management can negatively affect the company's value to be high or low. The existence of this practice aims to show investors that the company's performance that continues to improve will have an impact on the stock price and the company's value. However, as the results of this study show, profit management actions carried out by managers have an impact on decreasing the value of the company in the long term because management chooses subjective accounting policies to increase or decrease profits. Companies cannot avoid conflicts of interest if managers and capital owners have different goals. Management will harm capital owners by behaving unethically and committing accounting fraud.

### **The effect of profitability on company value**

The results of the partial test show that profitability has a significant positive influence on the company's value. Profitability is a ratio used to see the company's ability to generate profit or loss in relation to the sale of total assets and its own capital contained in the company. The success of businesses in achieving their true goals is the success of the business, because profit is part of the main purpose of a business is considered successful. The goal of investors in investing capital in a company is to get a return, the more profit or profit generated by the company, the more return the investor will receive, which will ultimately increase the value of the company and benefit its owners or shareholders. The value of a company can be achieved by improving financial performance.

## **The effect of profit management and profitability on company value**

Based on the results of simultaneous tests, it shows that together profit management and profitability have an influence and significant effect on the company's value. Profitability is a ratio used to see the company generate profit or loss in the company's operations. Then profit management is carried out by the management to increase or decrease the profit figure which can result in the information listed in the report displaying circumstances that are not in accordance with the facts. The goal is to increase the value of the company which will reflect the company's good prospects and can attract investors to invest in the company. The practice of profit management in the short term can increase profitability, but in the long term it can damage the company's value and reduce its actual profitability because it can reduce investor confidence, increase investment risk, and violate the law. Companies that have high profitability may be more likely to perform profit management to meet shareholder expectations or market analysis. Profit management practices can also affect business decisions such as dividend distribution, investments, growth strategies, and those related to the company's profitability. The value of a company is influenced by a complex combination of internal and external factors. Leverage, effective management, innovation, operational efficiency, favorable economic conditions, and positive sentiment from investors play an important role in determining the value of a company. It is important for companies to proactively manage these factors to maximize the company's value.

## **5. CONCLUSION**

Based on the results of the research and discussion that has been presented previously, it can be concluded that this study is Profit management partially has a significant negative effect on the company's value in food and beverage subsector companies listed on the Indonesia Stock Exchange, Partial profitability has a significant positive influence on the value of companies in the food and beverage sub-sector companies listed on the Indonesia Stock Exchange, Profit and profitability management together have a significant influence on the value of companies in the food and beverage sub-sector companies listed on the Indonesia Stock Exchange.

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