



## The Leverage, Company Size, and Capital Structure on Financial Performance through Earning Management in Property and Real Estate Companies Listed on the Indonesia Stock Exchange 2016-2020

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<http://dx.doi.org/10.47814/ijssrr.v5i12.683>

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### **Abstract**

The research objective was to analyze the impact of firm size, leverage, and capital structure on financial performance through earnings management in real estate and property companies listed on the Indonesia Stock Exchange in 2016–2020. This kind of study is quantitative and uses the documentation approach. There were 62 companies in the study's population, and the purposive selection approach was used to pick a sample of 17 of those companies. Path analysis and multiple linear regression are the data analysis techniques used in this study. The findings demonstrated that capital structure, business size, leverage, and earnings management significantly and favourably impacted financial performance. Capital structure and firm size partially had a positive and significant effect on earnings management. Capital structure and firm size positively and significantly affect financial performance through earnings management. Still, leverage has a positive and negligible impact on financial performance through earnings management. In contrast, leverage had a positive and insignificant effect on earnings management.

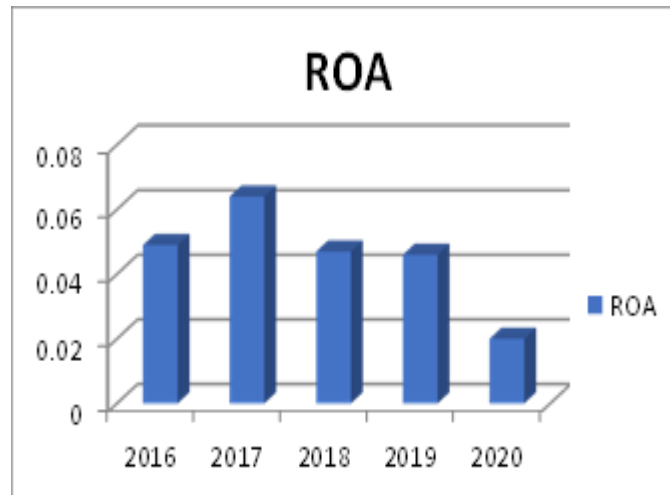
**Keywords:** *Capital Structure; Firm Size; Leverage; Financial Performance; And Earnings Management*

### **Introduction**

To remain competitive in the market, businesses in the Property & Real Estate subsector must enhance managerial performance. Financial statements include details on the situation and implementation of an enterprise's finances during a specific period. The effectiveness of capital utilization, efficiency, and rentability of the company's performance activities are related to its financial performance, which serves as a standard for management decision-making. A business's performance can be used to gauge its success. A company's financial success during a specific period indicates its overall health. (MADE, 2017).

This relationship between economic performance and company health is pretty close. As a result, if a firm's financial success is substantial, its fitness level will likewise be strong. The company's

performance measures its state based on the established common objectives and criteria. (Lutfi & Sunardi, 2019). One indicator of financial performance is the return on assets (ROA), a profitability ratio used to assess a company's ability to generate profits from general funds associated with operations. (ROA). The following table uses Return On Assets to approximate the financial performance data for some property and real estate companies listed on the IDX from 2016 to 2020.

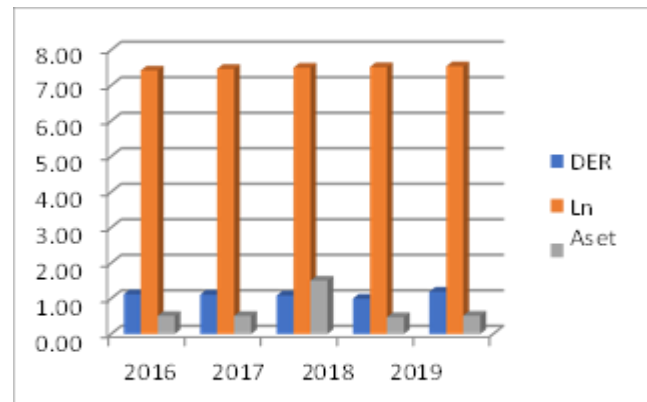


"Financial Performance of Property and Real Estate Companies in 2016-2020"

The graph above shows that between 2016 and 2020, the financial performance of the property and real estate firms listed on the IDX varied annually. The Covid epidemic's impact on 2019's economy resulted in a significant drop. The government has also undertaken some economic recovery initiatives, particularly in the real estate and property industries. The government works to attract consumers by, among other things, offering very cheap down payments, lowering loan rates, offering incentives for paying VAT, simplifying licensing and administration, and implementing different programs. That intends to draw in as many customers as possible, make money from the capital required for operational activities, and revive the real estate industry, which recently suffered greatly from the epidemic. The demand for real estate is anticipated to change, and real estate sales are expected to rise.

One of the most critical financial metrics investors use to evaluate a company's performance is profit. Most people who use financial statements tend only to pay attention to data on corporate profits and ignore how those gains are produced. Earnings management is the practice of encouraging firm management to execute many advantageous activities. Earning management is a purposeful process, according to (Wirakusuma, 2016), with restrictions on financial accounting rules to direct profit reporting at a given level (Wowor et al., 2021). Because management is driven to provide the most value or profit for the company in this situation, management tends to select and use accounting procedures that can produce more excellent profit information. (Mahawyahrti & Budiasih, 2017)

Capital structure, as measured by the Debt to Equity Ratio (DER), affects financial performance in this study. Firm size, as determined by the Ln (Total Assets), and leverage, as determined by the Debt Assets Ratio (DAR). The variables that will affect the financial performance of various property and real estate companies listed on the IDX between 2016 and 2020 are identified in the following data.



"Capital Structure, Company Size, and Leverage Property and Real estate Companies in 2016-2020"

According to the figure above, the organization's capital structure significantly determines its financial success and risks. A capital structure with a higher percentage of debt lowers the effective cost of debt, enhancing the company's performance. However, the risks the company faces and the rising cost of capital increase the more debt it uses to fund its operations. The size of the business is the second aspect that has an impact on financial performance. The company's size is the total assets, sales, profit, and costs. Large corporate sizes affect firm profitability. The leverage ratio is the third element. The leverage ratio calculates how much debt is used to fund an organization's assets. It is compared to the company's obligation to use capital to finance its commercial activities (Salma & Riska, 2020). The higher the Leverage ratio, the higher the risk of default on debt obligations the company faces. However, the high leverage ratio can positively impact the continuity of the company's business operations if supported by increased profitability.

The hypotheses of this study are:

1. H1: Capital structure affects financial performance
2. H2: Firm size affects financial performance
3. H3: Leverage affects financial performance
4. H4: Earnings management affects financial performance
5. H5: Capital structure affects earnings management
6. H6: Firm size has an effects on earnings management
7. H7: Leverage involves earnings management
8. H8: Financial performance is impacted by capital structure through earnings management.
9. H9: Accounting for earnings management impacts firm size and financial performance.
10. H10: Through the management of earnings, leverage influences economic performance.

## Method

Through [www.idx.co.id](http://www.idx.co.id), data on the financial statements of property and real estate companies listed on the Indonesia Stock Exchange for 2016 through 2020 were collected for the study on the Indonesia Stock Exchange. In order to evaluate the financial statements of property and real estate firms that fit the sample's characteristics, 62 companies from the population of all property and real estate companies listed on the Indonesia Stock Exchange in 2016–2020 were chosen as samples.

Purposive sampling was the method utilized to choose the study's sample. Purposive sampling is a sample selection method that considers certain factors following the required criteria to select the number of pieces to be examined. The following sample criteria were used in this study:

| No | Information  | Amount      |
|----|--|-------------|
|    | Property and real estate businesses that are listed on the Indonesia Stock Exchange.             | <b>62</b>   |
| 1. | From 2016 to 2020, real estate and property companies will list on the Indonesia Stock Exchange. | <b>(14)</b> |
| 2. | Publish financial statements from 2016-2020 is completed   | <b>(2)</b>  |
| 3. | Companies that earned positive profits from 2016-2020  | <b>(29)</b> |
|    | Number of company survey samples   | <b>17</b>   |
|    | Observational data from the survey (17 x 5)  | <b>85</b>   |

Data processing strategies are a method or endeavour to transform data into new knowledge. This procedure makes the data's features, particularly those related to research problems, easier to comprehend and apply as a solution. SPSS was used to analyze the study's data. These are the data analysis techniques that were involved in this study:

#### 1. Test of Classical Assumptions

Regression analysis' fundamental presumption to quantify the relationship or attachment between free variables is known as the classical assumption test. The normality, multicholineritas, autocorrelation, and heteroskedasticity tests are the conventional assumptions that are put to the test.

#### 2. Research Hypothesis Test

The coefficient Dof termination (R2), significant partial Uji (Test t), analysis test-path (Path Analysis), and Sobel test are used in a hypothesis test to determine whether the capital structure, company size, and leverage have a direct and indirect impact on financial performance through profit management in real estate and property companies listed on the IDX (Sobel Test).

## Results and Discussion

### Data Analysis Results

#### A. Normality Test

Kolmogorov-Smirnov is used in this work as the normality test against residuals. The significance threshold is set at = 0.05. The probability number is the foundation for decision-making under the following circumstances: The normality assumption is met if the value of  $p \geq 0.05$ . If the value of  $p \leq 0.05$ , then the normality assumption is not met.

One-Sample Kolmogorov-Smirnov Test

|                                 |                | Unstandardized Residual |
|---------------------------------|----------------|-------------------------|
| N                               |                | 85                      |
| Normal Parameters, <sup>b</sup> | Mean           | .000000                 |
|                                 | Std. Deviation | .02706176               |
| Most Extreme Differences        | Absolute       | .068                    |
|                                 | Positive       | .068                    |
|                                 | Negative       | -.052                   |
| Statistical Test                |                | .068                    |
| Asymp. Sig. (2-tailed)          |                | .200c,d                 |

One-Sample Kolmogorov-Smirnov Test

|                                 |                | Unstandardized Residual |
|---------------------------------|----------------|-------------------------|
| N                               |                | 84                      |
| Normal Parameters, <sup>b</sup> | Mean           | .0000000                |
|                                 | Std. Deviation | .86202041               |
| Most Extreme Differences        | Absolute       | .075                    |
|                                 | Positive       | .063                    |
|                                 | Negative       | -.075                   |
| Statistical Test                |                | .075                    |
| Asymp. Sig. (2-tailed)          |                | .200 <sup>c,d</sup>     |

Source: processing data, 2022

B. Multicollinearity Test

In this study, the second conventional assumption test was a multicollinearity test. If the regression model found a correlation between independent variables, it is determined by the multicollinearity test (X). If there is multicollinearity between independent variables, it can be detected using the Variance Inflation Factors (VIF) value and the Tolerance value. When the VIF or tolerance value exceeds 0.10, multicollinearity occurs. If the VIF value is less than 10 or the tolerance value is more significant than 0.10, multicollinearity is rejected. The tables display the results of the multicollinearity testing conducted for this project.

| Type            | Collinearity Statistics |       |
|-----------------|-------------------------|-------|
|                 | Tolerance               | VIF   |
| 1 (Constant)    |                         |       |
| DER             | .567                    | 1.764 |
| Ln.Total Assets | .690                    | 1.450 |
| DAR             | .547                    | 1.828 |
| DACt            | .690                    | 1.449 |

Variable: ROA

| Model         | Collinearity Statistics |       |
|---------------|-------------------------|-------|
|               | Tolerance               | VIF   |
| 1 (Constant)  |                         |       |
| DER           | .602                    | 1.661 |
| Ln.Total Aset | .764                    | 1.309 |
| DAR           | .552                    | 1.812 |

Dependent Variable: DACt

Source: processing data, 2022

### C. Autocorrelation Test

This study's autocorrelation analysis used the Durbin-Watson test. An autocorrelation-free regression model is a good one. Using the following evaluation criteria, determine whether autocorrelation is present or absent:

1. The D-W number must be greater than -2 to indicate a positive connection.
2. If the D-W value falls between the range of -2 to 2, there is no autocorrelation.
3. If the D-W value is more than 2, a negative autocorrelation exists. In this inquiry, the following are the results of the Durbin-Watson test:

| Type | Adjusted R Square | Std. Error of the Estimate | Durbin- Watson |
|------|-------------------|----------------------------|----------------|
| 1    | .704              | .02773                     | 1.345          |

- a. Predictors: (Constant), DACT, DAR, Ln.Total Assets, DER
- b. Dependent Variable: ROA

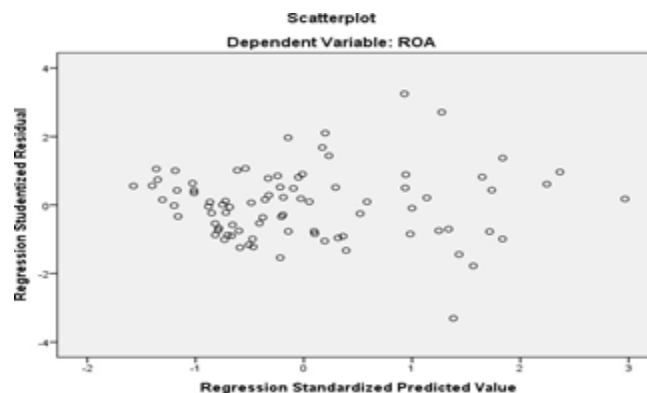
| Type | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|------|-------------------|----------------------------|---------------|
| 1    | .284              | .02631                     | .855          |

- a. Predictors: (Constant), DAR, Ln.Total Assets, DER
- b. Dependent Variable: DACT

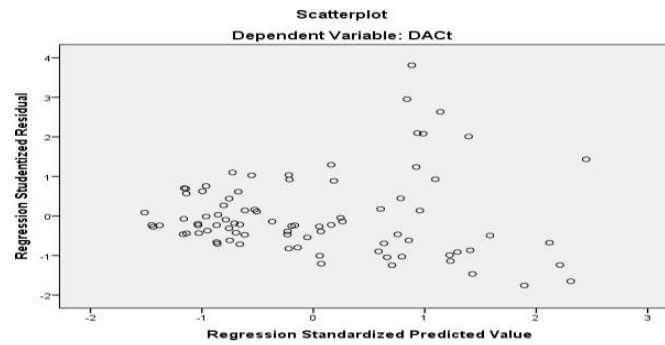
Source: processing data, 2022

### D. Heteroskedasticity Test

The heteroskedasticity test aims to determine whether variance inequality exists between one observation's residual and another's (Sugiyono, 2016). By examining the existence or absence of a particular pattern on the scatter plot chart between the SRESID on the Y axis and the ZPRED on the X axis, it is possible to determine whether heteroskedasticity is present (Ghozali,2013). The heteroskedasticity test aims to determine whether variance inequality exists between one observation's residual and another's (Sugiyono, 2016). By examining the existence or absence of a particular pattern on the scatter plot chart between the SRESID on the Y axis and the ZPRED on the X axis, it is possible to determine whether heteroskedasticity is present (Ghozali,2013).



"Heteroskedasticity Test with Scatter Plot Substructure 1"



"Heterochedasticity Test with Scatter Plot Substructure 2"

E. Coefficient of Determination Test ( $R^2$ )

A regression equation examines the relationship between independent and dependent variables to determine the coefficient of determination. It is employed to evaluate the suitability or accuracy of the variable selection in research (Suharyadi & Purwanto, 2016).

| R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------------------|----------|-------------------|----------------------------|
| .848 <sup>a</sup> | .718     | .704              | .02773                     |

- a. Predictors: (Constant), DACT, DAR, Ln.Total Aset, DER
  - b. Dependent Variable: ROA
- Source: processing data, 2022

Based on the table, the value of the Coefficient of Determination Adjusted R- Square of 0.704. The value is the value of independent variables, namely capital structure (DER), company size (Ln.Total Assets), leverage (DAR), and earning management (DACT), which simultaneously affect financial performance (ROA) by 70.4%. Other factors influence the remaining 29.6%.

| R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------------------|----------|-------------------|----------------------------|
| .557 <sup>a</sup> | .310     | .284              | .02631                     |

- a. Predictors: (Constant), DAR, Ln.Total Aset, DER
  - b. Dependent Variable: DACT
- Source: processing data, 2022

The adjusted R-Square coefficient of determination, which is 0.284, is displayed in the table. The value is the sum of independent factors such as capital structure (DER), company size (Ln.total assets), and leverage (DAR), which together only have a 28.4% impact on earning management (DACT). Comparatively, the remaining 71.6 percent is influenced by various factors.

F. Partial Test (t test)

The impact of each independent variable on the dependent variable was calculated using a partial test, also known as a t-test. When the significance level is greater than 0.05, the independent variable does not affect the dependent variable. In contrast, the dependent variable is impacted if the significance value is less than 0.05.

| Type            | Standardized Coefficients |  | T      | Sig. |
|-----------------|---------------------------|--|--------|------|
|                 | Beta                      |  |        |      |
| 1 (Constant)    |                           |  | -3.257 | .002 |
| DER             | .235                      |  | 2.978  | .004 |
| Ln.Total Assets | .215                      |  | 3.005  | .004 |
| DAR             | .349                      |  | 4.346  | .000 |
| DACT            | .287                      |  | 4.022  | .000 |

a. Dependent Variable: ROA

| Type            | Standardized Coefficients |  | T      | Sig. |
|-----------------|---------------------------|--|--------|------|
|                 | Beta                      |  |        |      |
| 1 (Constant)    |                           |  | -2.857 | .005 |
| DER             | .267                      |  | 2.245  | .027 |
| Ln.Total Assets | .312                      |  | 2.954  | .004 |
| DAR             | .105                      |  | .842   | .402 |

a. Dependent Variabel: DACT

### G. Path Analysis Test

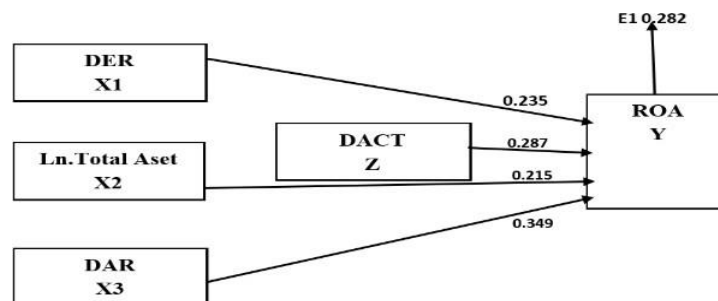
The path analysis test was used to examine the effects of leverage, firm size, and capital structure on financial performance through profit management in real estate and property companies listed on the IDX. In this study, we will use two model equations using path analysis, namely as follows:

$$\text{Model 1: } Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4Z + e_1$$

Based on the table then, the regression model of the first equation is as follows:

$$Y = -0.250 + 0.235X_1 + 0.215X_2 + 0.349 + 0.287Z + e$$

From the results of the equation above, a path analysis diagram can be made for the components of the capital structure, company size, leverage, and profit management to financial performance, which can be seen in the following figure:



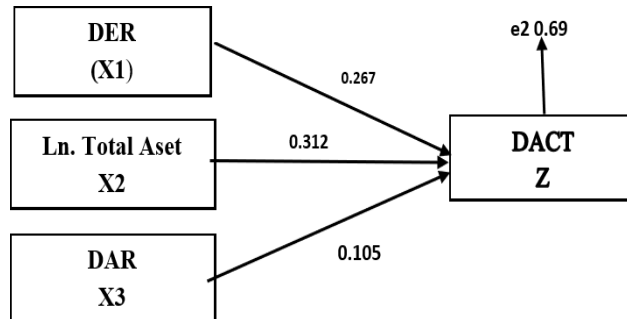
$$\text{Model 2: } Z = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + e_1$$

Testing equation 2 to test the components of the capital structure, company size, and leverage against profit management. Based on table 4.10 then, the regression model of the second equation is as follows:

$$Y = -0.199 + 0.267X_1 + 0.312X_2 + 0.105X_3 + e$$



From the result equation Above so, get Was Diagram analysis Line (path analysis) to component structure capital, size company, and leverage towards Management profit that get views at the picture next:



#### H. Test Sobel Test

A technique called the Sobel test, invented by Sobel (1982) and used by Ghozali (2018) can be used to assess the hypothesis of mediation (Sobel Test). The intensity of the indirect influence of the independent variable (X) on the dependent variable brought on by the presence of the mediation variable was examined using the Sobel test (Z). The researcher employed the Sobel calculator to view the outcomes of the Sobel test in this study (Adnan et al., 2017).

A t value of the coefficient of ab was examined using a Sobel test to determine whether variable X substantially impacted variables Y through Z.

1. I used profit management to compare the capital structure's t value to financial performance. The capital structure of a property and real estate business listed on the IDX considerably influences financial performance through profit management, according to the calculation of t with a Sobel test of  $2.41645268 > 1.99$  and a mediation coefficient of 0.077.
2. Determine the t-value between the enterprise's size and ability to generate profits. The size of the company has a considerable impact on financial performance through profit management in property and real estate companies listed on the IDX, according to the findings of calculating the value of t with a Sobel test of  $2.45268825 > 1.99$  and a mediation coefficient of 0.090.
3. Through profit management, it determines the t value of leverage to financial performance. It concluded that leverage does not significantly affect financial performance through profit management in property and real estate companies listed on the IDX after calculating the value of t with a Sobel test of  $1.89899265 < 1.99$  and a mediation coefficient of 0.030.

### Discussion of Research Results

#### 1. The Effect of Capital Structure on Financial Performance

The findings of this study demonstrate that capital structure significantly and favourably affects financial performance. Based on partial testing, it reflects the impact of capital structure, as measured by the debt to equity ratio (DER), on the financial performance of the company (ROA), with a t count of  $2,928 > t$  table of 1,99 and a significance of  $0.004 < 0.05$ . High DER (debt to equity ratio) companies typically have tremendous and robust financial performance and vice versa. The corporation will be able to settle its obligations to third parties thanks to the increase in earnings. The tradeoff theory, which argues that if the capital structure is below the optimal point, any new debt will increase the company's financial performance and reverse, is consistent with this research. According to Lusiana Juwita Sihombing (2021), the capital structure has a favourable and significant impact on the financial performance of food and beverage companies listed on the IDX. This research supports that claim. The study contradicts Nur

Fasirah Irwan's (2017) assertion that capital structure significantly impacts financial performance. Contrarily, businesses that rely on debt financing will incur significant capital costs, affecting their financial performance.

## 2. Effect of Company Size on Financial Performance

The findings of this study demonstrate that a company's size significantly and favourably affects its financial performance. Based on preliminary testing, it showed the impact of the company's size as proxied by Ln. calculated total assets on the company's financial performance (ROA) with a t count of 3,005 > t table of 1,99 and a significance level of 0.004 < 0.05. The company's financial performance can estimate from its size based on total assets. Large businesses are typically better able to appropriately and effectively manage their assets to maximize earnings. This backs up the hypothesis (Risma & Regi 2017) that a company's total assets can be a good indicator of its size and are crucial to a profit. Compared to small businesses, large organizations that are thought to have achieved maturity show that they are more stable and capable of making a profit. The findings of this study are consistent with Diana Roikha's (2018) research, which found that a company's size, as measured by total assets, has a favourable and significant impact on financial performance. It runs counter to a study by Nur Amalia Alda, published in 2021, which claims that the size of the company has a negligible effect on the financial performance of automobile companies listed on the IDX.

## 3. The Effect of Leverage on Financial Performance

The findings of this study demonstrate that leverage significantly and favourably affects financial performance. Based on partial testing, it illustrates how the debt-to-asset ratio (DAR), a proxy for a company's leverage, affects its financial performance (ROA), as indicated by the t count of 4,346 > t table of 1,99 and significance of 0.000 < 0.05. Companies with high DAR values can be used as a benchmark to assess how well and profitably a firm performs financially and vice versa. According to the argument put forth by Agustia & Suryani (2018), a high leverage ratio can benefit a company's ability to continue its business operations if accompanied by high profitability. The increased debt-to-assets ratio, however, may also result in more interest costs that the business must pay, contributing to a decline in profits. The rise in expenses brought on by interest charges will lower earnings and impact ROA value. This study supports Jessica Tambunan's (2018) finding that leverage significantly impacts financial performance. In contrast to Saputra and Lisdawati's (2019) study, which claims that leverage has little impact on financial success.

## 4. The Effect of Earning Management on Financial Performance

Based on partial testing results with t count 4,022 > t table 1,99 and significance 0.000 < 0.05 demonstrate the impact of earning management (DACT) on the company's financial performance (ROA). This study indicates that making management has a favourable and considerable effect on the organization's economic success. Following the agency's theory, which states that high financial performance (ROA) indicates that management is carrying out earning management actions, this demonstrates that companies with high or low performance continue to make management actions by increasing or lowering profits. One of the driving forces behind managing earnings is bonus motivation. The findings of this study are consistent with Suroño's (2016) research, which demonstrates that management has a considerable and favourable impact on financial success as measured by ROA. Earning management has less of an effect on financial performance than was shown in a study by Mayliza et al. (2019).

## 5. The Effect of Capital Structure on Earning Management

The findings of this study demonstrate that capital structure significantly and favourably affects earning management. According to partial testing, the relationship between capital structure (DER) and

achieving control was shown by the  $t$  count of  $2,245 > t$  table of  $1,99$  and significance of  $0.027 < 0.05$ . The firm is more likely to support making management actions carried out by the company and vice versa the more significant the value of the capital structure controlled by the company. It adheres to the signal hypothesis, which contends that investors and creditors would use the capital structure level as a signal when deciding whether to provide money to a company. In compliance with loan agreements, the company's capital structure demonstrates its capacity to repay long-term and short-term debts. This study's findings are consistent with Chamberlain et al. (2014) and Kadek Marlina et al. (2019), which explained that businesses frequently implement earning management when their circumstances are on the verge of violating loan agreements. Nevertheless, it differs from Dewi and Wirawati's (2019) research, which contends that capital structure is detrimental to earning management.

## 6. The Effect of Company Size on Earning Management

This study's findings demonstrate that the organization's size significantly and favourably affects earning management. Based on partial testing, it is shown that the effect of the company's size, as measured by Ln. total assets, on making management was produced with a  $t$  count of  $2,954 > t$  table of  $1,99$  and significance of  $0.004 < 0.05$ . Following the implications of the signal theory, which states that companies as owners of financial information will be encouraged to publish financial information as attractively as possible to attract potential investors, the total amount of assets owned by the company is a consideration for the company to carry out profit management actions. Finding information about a firm's data will be more superficial the more significant the company is. The findings of this study are consistent with those of Ali et al. (2015)'s study, which found that company size positively impacts earning management. The larger the company, the more likely direction is to implement making management because large businesses are under a lot of pressure to meet the expectations of interested parties for financial analysis, in contrast to Prasetya's (2015) study, which found that a company's size has a negative and significant impact on earning management.

## 7. The Effect of Leverage on Earning Management

The partial testing results produced  $t$  count  $0.802 < t$  table  $1.99$  and significance  $0.402 > 0.05$  demonstrate the impact of leverage on earning management as measured by the debt to asset ratio (DAR). The findings of this study indicate that leverage has a beneficial but minor impact on management. Achieving management is unaffected by the company's high and low leverage. Due to their high debt-to-asset ratios, companies with a high level of leverage risk being unable to meet their obligations. Earnings management practices cannot substitute as a way to eliminate these risks. It does not adhere to the agency theory, which contends that an agreement between a principal and an agent assures the agent necessary to manage the assets and business activities. Made a deal with the intent that each party would benefit from their money. Therefore, the management's responsibility is to maximize shareholder earnings and bonus compensation for associated parties. The findings of this study are consistent with those of Ardiansyah's (2014) study, which emphasized that DAR does not significantly affect earning management. However, the results of Susanto and Agustia's (2013) analysis show that DAR has a favourable and significant impact on earning management.

## 8. The Effect of Capital Structure on Financial Performance Through Earning Management

The Sobel test's findings demonstrate that earning management can moderate the relationship between the capital structure and financial success. The study regression coefficient measured the direct effect of capital structure on earning management at  $0.267$ , the indirect effect at  $0.077$ , and the value of the Sobel test at  $2.41645268 > 1.99$   $t$  value table. The findings of this study demonstrate that capital structure, acting as an intervening variable, significantly affects financial performance. According to Dian Primanita (2020), the company's financial performance might enhance by obtaining the optimal capital allowance through debt or own capital. And regardless of how well or poorly a firm does financially, it is still

possible that lucrative management activities won't be taken, depending on the manager's motivations and objectives.

### **9. The Effect of Company Size on Financial Performance Through Earning Management**

The Sobel test's findings demonstrate that earning management can moderate the relationship between a company's size and financial performance. The estimated t value of the Sobel test was  $2.45268825 > 1.99$  t value of the table. The study regression coefficient of the direct influence of the company size on attaining management was 0.312, while the indirect impact was 0.090. The findings of this study demonstrate that, through earning management as an intervening variable, the organization's size has a positive and significant impact on financial performance. According to Dian Primanita (2020), more prominent organizations consistently outperform smaller ones regarding their financial health and ability to turn a profit. Managers of larger organizations have a greater chance than managers of smaller companies to control profitability. Additionally, it will be simpler to connect to a company's information the larger it is. Large companies are more likely to implement earning management to meet the high expectations of users of firm financial statement information and interested parties.

### **10. The Effect of Leverage on Financial Performance Through Earning Management**

The Sobel test's findings demonstrate that earnings management can moderate the impact of debt on financial performance. The study regression coefficient measured the effect of leverage on accomplishing management at 0.105 and estimated the indirect impact at 0.030. The determined t value for the Sobel test was  $1.89899265 > 1.99$  t value of the table. This study's findings demonstrate that leverage has a favourable and negligible impact on financial performance through earning management as an intervening variable. To keep the confidence of outside parties and uphold the reputation of the company's performance, companies with a high level of leverage due to the ratio of total debt to total assets risk being unable to meet their obligations. High debt usage will affect the company's viability and may burden its operational activities, according to Dian Primanita (2020). The company's high and low leverage does not support efforts to manage earnings.

### **Conclusion**

The following conclusions can be taken from the research and debate presented in the preceding chapter:

1. Financial performance is positively and significantly impacted by capital structure. A correctly and effectively managed capital structure will result in improved financial performance.
2. The size of the business significantly and favourably affects financial success. This implies that as the company grows, its financial performance will improve.
3. Financial performance is significantly and favourably impacted by leverage. In other words, if leverage is significant and used to its fullest extent, profitability will be high.
4. Profit management significantly and favourably impacts the financial performance of the organization. This signifies that the company's efforts in the for-profit direction can demonstrate the company's substantial financial success.
5. Earning management is positively and significantly impacted by capital structure. This implies that the likelihood of encouraging the company to implement earning management actions increases with the value of the capital structure controlled by the company.
6. The organization's size has a favourable and significant impact on earning management. This implies that leadership is more likely to make management decisions more critical to the company's asset base.
7. Earning management is positively and negligibly impacted by leverage. This means that the company's high or low leverage has no bearing on its ability to exercise managerial control.
8. Through the management of earnings, capital structure substantially impacts financial success. It

follows that the company's financial performance will increase if the capital it owns is managed optimally. Additionally, businesses with strong financial results frequently implement earning management practices.

9. Through effective earning management, the company's size has a favourable and significant impact on its financial performance. This implies that the more the profit produced, the larger the company size. And it has a growing propensity to implement managerial decisions.
10. By managing earnings, leverage has a small but positive impact on financial success. This indicates that the company's high and low leverage cannot demonstrate solid economic performance through activities taken by the management to control profits.

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