Proceeding International Conference on Economic Business Management, and Accounting (ICOEMA) 2025
Program Studi Doktor Ilmu Ekonomi
Universitas 17 Agustus 1945 Surabaya

THE EFFECT OF LEVERAGE AND PROFITABILITY ON FIRM VALUE WITH EARNINGS MANAGEMENT AS AN INTERVENING VARIABLE

(A Study of Retail Companies Listed on the Indonesia Stock Exchange for the 2021-2023 Period)

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Received: April, 2025; Accepted: April, 2025; Published: August, 2025
Permalink/DOI:

Abstract

This research is quantitative research. The population in the study amounted to 23 retail companies listed on the IDX for the 2021-2023 period. The sampling method used purposive sampling and got 11 samples of retail companies listed on the IDX for the 2021-2023 period. Data analysis using Structural Equation Modeling (SEM) with the help of Partial Least Square tools with Smart PLS software.

The results showed that leverage has no significant effect on firm value. Profitability has a significant effect on firm value. Earnings management has no significant effect on firm value. Leverage has no significant effect on earnings management. Profitability has no significant effect on earnings management. Leverage has no significant effect on firm value through earnings management as an intervening variable. Profitability has no significant effect on firm value through earnings management as an intervening variable.

Keywords: *Leverage, Profitability, Firm Value, Earnings Management*

INTRODUCTION

The development of the business world in today's modern era is increasingly rapid with the support of technological advances. As time goes by, new companies continue to emerge, both newly established and those that have been operating for a long time. Observing current business developments, especially in the retail business. Retail entrepreneurs are starting to invest by building new businesses and looking for ways to expand their business.

Retail companies are one of the important sectors in supporting economic growth. The current economic growth is so rapid that it has led to increasingly fierce business competition. Every business in Indonesia is required to create innovative ideas and increase competitiveness with their advantages, the goal is to increase company profits so that shareholders are interested in investing capital by maximizing company value.

Retail companies in Indonesia in 2021 faced great pressure due to the Covid-19 pandemic, which caused many companies to close their businesses and adapt to changes in consumer behavior towards digitalization. Nonetheless, the retail sector's predicted growth of 4.2% in 2023 provides an opportunity for recovery. This condition is important to analyze the extent to which the company's assets are financed by debt, as high leverage can increase financial risk. Effective management through the optimal use of debt can support profitability and company value amid increasingly fierce market competition (Aprindo, 2023).

Firm value is very helpful for investors to make investment decisions. For investors, firm value is an important concept because it shows how the market values the company as a whole. Company owners, especially investors, want a high company value because it indicates high shareholder wealth. Book value per share, or PBV, is the ratio between stock price and book value per share. A high PBV will make the market believe in the company's future prospects.

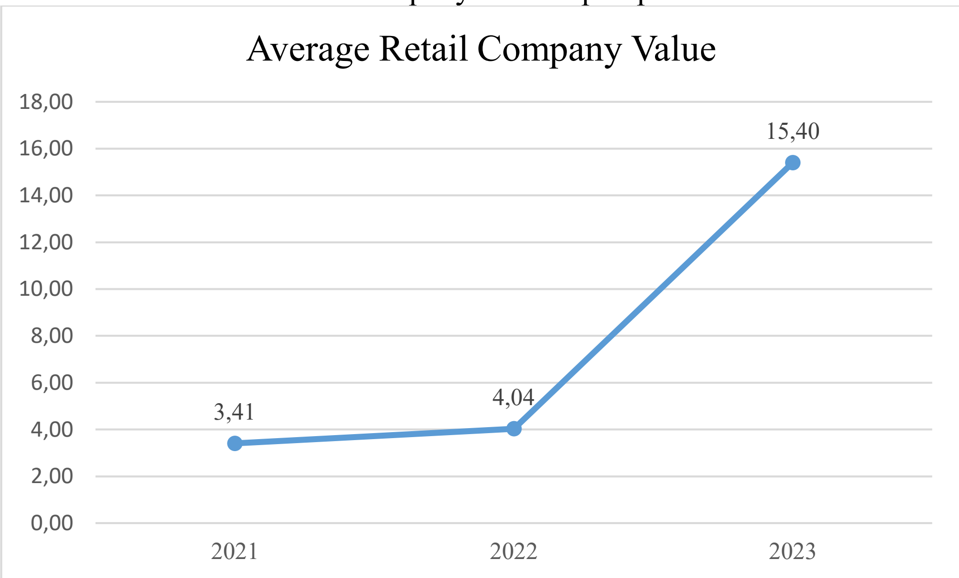

Figure 1. Graph of Company Value
Source: Indonesia Stock Exchange, 2024

The figure above explains that the company value calculated using the Price to Book Value (PBV) formula in retail companies listed on the Indonesia Stock Exchange from 2021-2023 has increased from 3.41 in 2021 to 4.04 in 2022, and experienced a significant increase in 2023 reaching 15.40 which indicates a significant change in market valuation of the company's book value during that period and is the highest increase in company value over the past three years.

Investors and potential investors must look at the company's financial statements to see its performance and consider various factors that can affect the rise and fall of the company's value. Factors that affect firm value are leverage, profitability, and earnings management.

Research conducted by Cindy Arianti (2021) that leverage illustrates that if a company has a high level of leverage, it can increase the level of risk that will be faced by the company itself. Poor economic conditions will cause a company with a high level of leverage to experience greater losses. Meanwhile, if economic conditions are normal, a company with a high leverage ratio has a high rate of return as well.

The next factor that can affect firm value is profitability. Research conducted by Jasmine and Astri (2023) states that the level of profitability of a company will be highly considered by shareholders. This profitability can also affect the value of the company because if the level of profitability of a company increases, the value of the company in the market will also increase. The increase in company value is influenced by shareholder decisions that tend to consider the level of profitability that will be enjoyed in the future.

The last factor that can affect firm value is earnings management. Research conducted by Jasmine and Astri (2023) states that companies can increase their value in the market by using earnings management. To increase company value, the financial statements presented must be as good as possible. So that investors give a positive signal to the company's financial statements so that it can increase the company's value. Although in fact investors do not know whether or not there are earnings management practices carried out by the company to increase company value.

Several previous studies have tested factors that can affect firm value and show differences in the results of previous studies, such as research conducted by Jasmine and Astri (2023) with the title "The Effect of Profitability, Liquidity, on Firm Value with Earnings Management as an Intervening Variable" which states that profitability has no effect on earnings management, profitability has a positive effect on firm value, earnings management has a positive effect on firm value and earnings management cannot mediate profitability on firm value. Selfiyan (2021) with the title "The Effect of Profitability, Leverage, and Company Size on Firm Value with Earnings Management as an Intervening Variable" which concludes that profitability has a significant effect on earnings management, leverage has no effect on firm value, profitability has no effect on firm value, earnings management cannot mediate profitability on firm value and earnings management cannot mediate leverage on firm value. Abu Bakar and Verry Febriansyah (2024) with the title "The Role of Earnings Management as an Intervening Variable on Profitability, Liquidity, and Firm Value" state that earnings management is influenced by profitability, firm value is influenced by profitability and earnings management as an intervening variable can be influenced by profitability.

Financial management can be defined as all activities related to planning, seeking, and allocating funds to maximize the efficiency of a company's operations (Rebin Sumardi and Suharyono, 2020). The purpose of financial management is to maximize the value of the company, especially in making the right decisions in the field of corporate financial management (Hamidah, 2019). Leverage is a ratio used to measure the extent to which a company is financed by debt. It can be said that the leverage ratio is a ratio used to measure how much debt the company must bear (Hery, 2017). The profitability ratio is a ratio to assess a company's ability to seek profit. This ratio also provides a measure of the level of effectiveness of a company's management. This is indicated by the profit generated from sales and investment income (Kasmir, 2015). Company value is the value of all assets, both tangible assets that are operational and non-operational. When associated with the company's capital structure, company value also means the value of the company's entire capital structure, namely fair market value (Agus Prawoto, 2016). Earnings management or profit management is managing profits according to what is desired by certain parties or especially by company management (Irham Fahmi, 2015).

Based on the description of the background, the researchers chose the title "The Effect of Leverage and Profitability on Firm Value with Earnings Management as an Intervening Variable in Retail Companies Listed on the Indonesia Stock Exchange".

METHOD

This research is quantitative research. This study uses two independent variables, namely leverage (X1) and profitability (X2), one dependent variable, namely firm value (Y), and one mediating variable, namely earnings management (Z). The population in the study amounted to 23 retail companies listed on the IDX for the period 2021-2023. The sampling method used purposive sampling and got 11 samples of retail companies listed on the IDX for the 2021-2023 period.

RESULTS AND DISCUSSION

Convergent validity, discriminant validity, and reliability criteria have met the test requirements or criteria, which means that the measuring instrument shows consistent results, can distinguish between different constructs, and indicators that measure the same thing have a strong relationship.

R^2 is used to determine the percentage change in the independent or exogenous variable (Y) on the dependent or endogenous variable (X). For multiple regression, you should use the adjusted R-Square. The R^2 value is between 0 and 1 ($0 < R2 < 1$). This means that the greater the R^2 value, the better the regression model will be with the existing data, this means that all independent variables together are able to explain the dependent variable.

Table 1. R-Square Value

Variabel	R-*Square*	*Adjusted* R-*Square*
Earnings Management	0,076	0,014
Firm Value	0,988	0,987

Source: processed by PLS, 2024

Table 2 Hypothesis Testing Results

Variabel	Sampel asli (O)	P-*values*
LEVERAGE -> NILAI PERUSAHAAN	0,042	0,656
PROFITABILITAS -> NILAI PERUSAHAAN	0,951	0,002
MANAJEMEN LABA -> NILAI PERUSAHAAN	-0,020	0,777
LEVERAGE -> MANAJEMEN LABA	0,757	0,099
PROFITABILITAS -> MANAJEMEN LABA	-0,843	0,096
LEVERAGE -> MANAJEMEN LABA -> NILAI PERUSAHAAN	-0,015	0,608
PROFITABILITAS -> MANAJEMEN LABA -> NILAI PERUSAHAAN	0,017	0,517

Source: processed by PLS, 2024

1. Leverage is measured using the Debt to Equity Ratio (DAR) and Debt to Equity Ratio (DER), it is known that the path coefficient is 0.042 and the p-value that forms the effect of leverage on firm value is 0.656 coupled with a t-statistic value of 0.445, because the p-value <0.05 and t-statistic> 1.96 it is concluded that leverage has no significant effect on firm value. Leverage with the Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER) proxies has no significant effect on firm value with the Price to Book Value (PBV) proxy. This means that even though debt adds to the fixed costs that must be paid, the proper use of debt will not significantly affect the value of the company.
2. Profitability is measured using Return On Equity (ROE), it is known that the path coefficient is 0.951 and the p-value that forms the effect of profitability on firm value is 0.002 coupled with a t-statistic value of 3,052, because the p-value <0.05 and t-statistic> 1.96 it is concluded that profitability has a significant effect on firm value. Profitability with the Return On Equity (ROE) proxy has a significant effect on firm value with the Price to Book Value (PBV) proxy. This means that companies can generate profits from the equity they have. The higher the level of profitability, the greater the profit that investors can get. This happens because the company can manage its equity well. An increase in profitability is a positive sign for investors, because it shows that the company has good performance and bright prospects.
3. Earnings management measured using Earnings Change is known to have a path coefficient of -0.020 and a p-value that forms the effect of earnings management on firm value of 0.777 coupled with a t-statistic value of 0.284, because the p-value <0.05 and t-statistic> 1.96 it is concluded that earnings management has no significant effect on firm value. Earnings management has no significant effect on firm value with the Price to Book Value (PBV) proxy. This means that earnings management does not affect the value of the company, either to increase or decrease the value. The existence of earnings management practices does not determine whether the company's value will be high or low.
4. Leverage is measured using Debt to Equity Ratio (DAR) and Debt to Equity Ratio (DER), it is known that the path coefficient is 0.757 and the p-value that forms the effect of leverage on earnings management is 0.099 coupled with a t-statistic value of 1.650, because the p-value <0.05 and t-statistic> 1.96 it is concluded that leverage has no significant effect on earnings management. Leverage with the proxy Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER) has no significant effect on earnings management. This means that the high and low level of leverage owned by the company does not always affect the manager's decision to practice earnings management, because even though companies have a large amount of debt, they still have to be prepared to bear all the risks arising from these debt payment obligations.
5. Profitability is measured using Return On Equity (ROE), it is known that the path coefficient is -0.843 and the p-value that forms the effect of profitability on earnings management is 0.099 coupled with a t-statistic value of 1.664, because the p-value <0.05 and t-statistic> 1.96 it is concluded that profitability has no significant effect on earnings management. Profitability with the Return On Equity (ROE) proxy has no significant effect on earnings management. This means that earnings management is not always influenced by the level of profitability owned by the company. Although profitability is often considered a factor that can motivate managers to carry out earnings management, both in high and low profit conditions, in reality the level of profitability does not always have a direct effect on the company's decision to engage in this practice.

6. Leverage through earnings management has a path coefficient of -0.015 and a p-value of 0.608 with a t-statistic value of 0.513, because the p-value <0.05 and t-statistic> 1.96 it is concluded that leverage has no significant effect on firm value through earnings management as an intervening variable. Leverage has no significant effect on firm value through earnings management as an intervening variable. This means that companies with high debt tend to focus more on financial stability and fulfilling debt obligations, rather than manipulating profits. Unfavorable or manipulative earnings management practices can damage reputation and reduce investor confidence which will reduce firm value.
7. Profitability through earnings management has a path coefficient of 0.017 and a p-value of 0.517 with a t-statistic value of 0.648, because the p-value <0.05 and t-statistic> 1.96 it is concluded that profitability has no significant effect on firm value through earnings management as an intervening variable. Profitability has no significant effect on firm value through earnings management as an intervening variable. This means that even though initially the reported profitability looks good, the manipulation can ultimately damage the credibility of the financial statements. Investors who depend on clear and accurate financial information may begin to doubt the integrity of the reports presented by the company.

CONCLUSION

Leverage with the Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER) proxies has no significant effect on firm value with the Price to Book Value (PBV) proxy. Profitability with the Return On Equity (ROE) proxy has a significant effect on firm value with the Price to Book Value (PBV) proxy. Earnings management has no significant effect on firm value with the Price to Book Value (PBV) proxy. Leverage with the Debt to Asset Ratio (DAR) and Debt to Equity Ratio (DER) proxies has no significant effect on earnings management. Profitability with the Return on Equity (ROE) proxy has no significant effect on earnings management. Leverage has no significant effect on firm value through earnings management as an intervening variable. Profitability has no significant effect on firm value through earnings management as an intervening variable.

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