The Mediating Role of Profit Management Between Capital Structure and Financial Performance in Manufacturing Companies Registered on BEI for the 2019-2023 Period

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Abstract. By manufacturers listed in the Indonesian Stock Exchange (IDX) from 2019 to 2023, this consider examines how capital structure influences money related execution. The purposive inspecting strategy was utilized to choose the investigate test, which included 505 money related explanation information and 101 companies. The examination comes approximately show up that benefit organization as measured by optional collections (DA) isn't through and through impacted by capital structure as measured by debt-to-equity extent (DER). This shows that the level of obligation does not influence This demonstrates that management's decision to actualize profit administration hones isn't impacted by the level of obligation; on the inverse, the capital structure turns out to have a positive and critical influence on budgetary execution measured utilizing Return on Assets (ROA), illustrating that companies can utilize commitment to amplify In expansion, advantage organization as well turns out to have a positive impact on monetary execution, laying out that.

Keywords: *Financial Performance, Earnings Management, Capital Structure*.

INTRODUCTION

Financial performance in an economic entity has a very important role. Every business actor needs to make every effort to achieve optimal financial performance [1]. In addition, financial performance reflects the financial health of a company during a certain period [2]. This performance also measures the extent to which the company complies with regulations relating to financial implementation[3]. Furthermore, the financial results obtained by the company could potentially give rise to fraud in financial reports, especially if they show unsatisfactory results[4].

According to a report published by *Association of Certified Fraud Examiners* (ACFE) with the title "*Asia Pacific Occupational Fraud 2022: A Report to the Nations*", In 2022, Indonesia ranks 4th on the list of countries with the highest number of cases of financial statement fraud, with a total of 23 cases. Various types of fraud that often occur in Indonesia include corruption, misuse of financial statements, and misuse of assets belonging to the state or company, plus various other forms of misuse. Fraud in financial reports occurs when incorrect information is entered or conveyed accidentally, thus giving readers a wrong picture of the company's financial condition[5]. Engineering financial reports is an urgency for researchers for manufacturing companies.

In the context of agency theory, there are two parties that are connected, namely the agent (management) and the owner (shareholders) [6]. According to Jensen and Meckling (1976), contractual relationships between the party who has authority and another party who acts as an agent is known as an agency. In the context of this

relationship, leadership is expected from the leadership, but also gives authority to make decisions in that name[7]. This study reveals that high debt can reduce a company's financial performance and profitability. Therefore, in order to meet shareholder expectations regarding high dividends, managers need to implement earnings management when preparing financial reports, so that there are no actions that are detrimental to themselves.

There are many ways for companies to achieve financial performance. Capital structure is the strategy[8]. One of the main financial problems of a company is its capital structure. To measure capital structure, the debt-to-equity ratio, is also an important policy for companies[9], Md-Rus, Taufil-Mohd, Mohd Taib, & Shahar, 2020) (Amah, Taufiq, & Diyanto, 2023). How a company chooses its capital structure and how these decisions affect its financial performance has long been discussed in the financial literature [10]. One of the most crucial financial decisions is determining the company's capital structure. This decision has a significant impact on financial management achievements and goals [11].

Accrual earnings management (AEM) and *real earnings management* (REM) can be used by business managers to beautify or manage company finances personally if they are intimidated to cheat or convey company financial reports to others[12]. Managers can engage in manipulative practices by carrying out earnings management actions, which are briefly defined as manipulating a company's reported earnings in a way that does not optimize business practices[13]. In addition, they can engage in manipulative practices by making accounting choices, known as accrual earnings management[14]va. The focus of this research is accrual earnings management, which tends to be easier for managers to do at certain times, usually at the end of the financial period. This is due to the fact that accrual earnings management is often applied at the end of the period.

Dnature of this research. Panel data regression analysis was carried out using the Stata program version 15. The sample in this study used the method *purposive sampling,* we succeeded in collecting data from 101 companies listed on the Indonesia Stock Exchange (BEI) during the period 2019 to 2023. From this sample, a total of 505 financial report data were obtained. The Osiris and Bloomberg databases are the data sources used in this study. This research has 3 variables namely;

a. Financial performance is the main variable in this research, which is measured using Return on Assets (ROA). ROA can be calculated using the following formula:

$$LENGTH = \frac{Profit\ After\ Tax}{Total\ Asset}$$

b. Capital structure, the independent variable in this study, is calculated by the debt ratio (ini). The following equation is used to calculate it:

$$THE = \frac{Total\ Debt}{Total\ Equity}$$

c. The media variable is earnings management, measured by *Discretionary Accruals* (DA), DA is calculated using the formula:

$$DAit = it\ /\ Ait - 1 - NDAit$$

This study uses descriptive statistical analysis and also carries out test hypothesis classics like hetero extremity, normality, and multicollinearity. Apart from that, this research also carried out hypothesis testing which included the coefficient of determination (r^2), F test, t test, and Sobel test. The structural regression equation can be divided into two substructures. That is:

$$M_{i,t} = a_{\ i,t} + \beta_1\ X_{1\ i,t} + and_{i,t}$$

Model (1)

$AND_{i,t} = \alpha_{i,t} + \beta_1 X_{1\,i,t} + \beta_2 M_{2\,i,t} + and_{i,t}$ Model (2)

Information:
Y = ROA (Financial Performance)
X = DER (structure modal)
M = DA (Profit Management)
α = Costing
β = Regression Coefficient
e = error
i = Number of Manufacturing Companies
t = Year

RESULTS AND DISCUSSION

Results

Descriptive Statistical Analysis

Table 1. Descriptive Statistics Test Results

Variable	Obs	Mean	Std.Dev.	Min	Max
LONG	505	23.14952	8.45917	11.05	45.37
THE	505	9.683522	16.22198	.8213782	83.47825
AND	505	1.098031	11.24697	-22.8027	44.35308

Source: Data analysis used STATA version 15, 2025.

a. Mark *Return on Assets* (ROA) shows a quite significant range, with a minimum value of 11.05 and a maximum value of 45.37, which reflects financial performance. On the other hand, for capital structure,
b. *Nilai Debt to Equity Ratio* (DER) shows a significant range, with a minimum value reaching 0.8213782 and a maximum value of 83.47825. The average DER was recorded at 9.683522, while the standard deviation was 16.22198.
c. *Discretionary Accruals* (DA) has a minimum value of -22.8027 and a maximum of 44.35302, and the average DER is at the level of 1.098031 and a standard deviation of 11.24697.

Classical Assumption Test

Normality Test

Table 2. Normality Test Results

Skewness / Kurtosis tests for Normality					
Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	Adjchi2 (2)	joint Prob>chi2
residual	505	0.9295	0.0162	5.53	0.0630

Source: Data analysis used STATA version 15, 2025

The results of the normality test with skewness and kurtosis show that the probability is greater than chi2 with a probability of 0.0630. This value is above 0.05, indicating that this study is normally distributed.

Multicollinearity Test

Table 3. Test Results Multicollinearity

Variable	VIF	1/VIF
AND	1.00	0.996340
THE	1.00	0.996340
Mean VIF	1.00	

Source: Data analysis used STATA version 15, 2025

The VIF test results listed in Table 3 show that each independent variable has a value below 10. Thus, the multicollinearity test carried out using the Variable Inflation Factor (VIF) in the STATA version 15 output does not indicate a multicollinearity problem.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test Results

* *OLS Glejser Lagrange Multiplier Heteroscedasticity Test*	
Ho: No *Heteroscedasticity* - Ha: *Heteroscedasticity*	
Glejser LM Test	= 1.05172
Degrees of Freedom	= 2.0
P-Value>Chi2(3)	= 0.59105

Source: Data analysis used STATA version 15, 2025.

Output results from the Glejser heteroscedasticity test show that the P value is greater than 0.05 for Chi2(3) of 0.59105. Therefore, we can conclude that this regression model does not suffer from heteroscedasticity problems.

Hypothesis Testing

Coefficient Test R^2

Table 6. Coefficient Test Results R^2

R-squared	=	0.4559
Adj R-squared	=	0.4280

Source: Data analysis used STATA version 15, 2025.

The R-squared value is 0.4559. The independent variable shows that the debt ratio (DER) is also a moderating variable *Accruals* Discretionary, which can explain around 45.59% of the variation in Return on Assets in this model. However, keep in mind that there are additional components not included in the model that also contribute. In addition, the adjusted R-squared value of 0.4280 confirms that these two variables are able to explain the influence on *Return on Assets* quite well.

F Test (Partial)

Table 7. F Test Results (partial)

F (2, 39)	=	16.34
Prob>F	=	0.0000

Source: Data analysis used STATA version 15, 2025

The F test shows that the Prob value obtained is 0.0000, which indicates that this value is greater than F and smaller than 0.05. This indicates that the independent variables and their interactions in the model have a significant influence on *Return on Assets*.

Uji T

Table 8. Model T Test Results (1)

AND	Coef	Std Err	T	P > t	[95% Conf.	Interval]
THE	-.0419422	.1094222	-0.38	0.704	-.2630928	.1792084
_cons	1.504179	2.049025	0.73	0.467	-2.637055	5.645414

Source: Data analysis used STATA version 15, 2025

Table 9. Model T Test Results (2)

LONG	Coef.	Std. Err.	t	P>t	[95%Conf.	Interval]
THE	.3345343	.0617037	5.42	0.000	.2097268	.4593417
AND	.190303	.0889978	2.14	0.039	.010288	.3703181
_cons	19.7011	1.161081	16.97	0.000	17.35259	22.0496

Source: Data analysis used STATA version 15, 2025

Using data from Table 8 and Table 9, we can create a regression equation model as follows:

M = 1.504179 – 0. 0419422 + e Model(1)
Y = 19.7011 + 0.3345343 + 0.190303 + e Model(2)

Based on the t-test in Tables 8 and 9, the information is about the probability value for each independent variable in model (1) and model (2). Table 8 presents the results of the t-statistical test which describes the influence of the DER variable on the DA variable. In the table, the probability value obtained is 0.704, exceeding 0.05. This shows that the hypothesis H1 is rejected, which means that the Debt-to-Equity Ratio (DER) has no effect on earnings management. The regression coefficient in model (1) for the DER variable shows a negative value of -0.0419422, which indicates a negative relationship between capital structure and earnings management. However, this relationship was not statistically significant and it cannot be concluded that increases in yield management practices will decrease. Therefore, this study shows that capital structure (DER) does not have a significant impact on earnings management (DA).

Meanwhile, Table 9 also presents the results of the t-statistical test which illustrates the influence of the DER variable, which reflects capital structure, and the DA variable, which represents earnings management, on ROA as an indicator of financial performance. From this table, it can be seen that the probability value for DER is 0.000, while for DA it is 0.039. Both of these values are smaller than 0.05, which indicates a significant relationship.

The regression results show that the relationship between financial performance and capital structure is not affected by earnings management. This can be seen from the insignificant influence of DER on DA, where the probability value of 0.704 is greater than 0.05. Nevertheless, DA shows a significant influence on *Return on Assets* (ROA). The insignificance of the relationship between DER and DA indicates that this mediator variable does not function as a link in this relationship. Thus, hypothesis H4 is rejected, which indicates that earnings management does not function as a mediator between financial performance and capital structure. Apart from that, to find out if there is mediation, there is a significant relationship between DER and DA, which is not fulfilled. As a result, Sobel testing cannot be performed. Without a significant relationship between the independent variable (DER) and the mediator (DA), there is no effect that needs to be tested further, so the Sobel test is not relevant in this study.

Discussion

Capital Structure Has a Positive Influence on Earnings Management

With a probability value of 0.704, which is greater than 0.05, it can be concluded that capital structure (DER) has no significant effect on earnings management (DA). The findings of this research are in line with the results of previous research conducted by[15] and [16]. This study reveals that there is no significant relationship between earnings management and capital structure. These findings indicate that the company's debt level does not appear to have an influence on managers' decisions in carrying out earnings management practices.

Capital Structure Has a Positive Influence on Financial Performance

The capital structure expressed by the debt and equity ratio (DER) influences the company's financial performance as calculated by ROA. This is from a very small probability value, 0.000, indicating that the value is well below 0.05 and the coefficient is 0.3345343. This finding confirms that the higher the DER ratio, the higher the company's ROA. This phenomenon can occur because companies with high debt levels utilize borrowed funds for increase profitability. The results of this research strengthen the research conducted by [17][18].

Earnings Management Has a Positive Influence on Financial Performance

The probability value of 0.039 is less than 0.05, the coefficient is 0.190303, and earnings management (DA) has a great impact on financial performance (ROA). This research supports research conducted by [19] and[20] which states that there is a significant positive impact between Earnings Management (DA) and Financial Performance (ROA), indicating that the higher the implementation of earnings management practices, the better the performance. finance company. Earnings management practices can provide short-term benefits by creating the perception that the company has stable and healthy performance in the eyes of investors and other stakeholders.

Earnings Management Mediates the Relationship Between Capital Structure and Financial Performance

This research shows that capital structure and financial performance are not mediated by earnings management

practices. In addition, no significant relationship was found between DER and DA, where the probability value reached 0.704, which exceeds 0.05. Thus, it can be concluded that capital structure does not directly influence earnings management practices. As a result, the path mediation no longer needs to be tested further using the Sobel test. The research results show that companies with leverage high tend to focus on other financial strategies to improve their performance, rather than relying solely on earnings management as a solution to achieve these goals. The findings in this research, the results obtained are in line with the findings expressed in previous research by (S. R.[19] and [21] which stated that the relationship between capital structure and financial performance is not mediated by earnings management.

CONCLUSION

This study shows that earnings management is not influenced by capital structure. In other words, the company's debt level has no effect on the decisions made by managers regarding earnings management practices. This finding is in line with the results of similar research that has been conducted previously.

Capital structure has a positive impact on financial performance. Increasing the debt-to-equity ratio (DER) can contribute to increasing company profitability (ROA), because the use of borrowed funds can help increase productivity and operational efficiency.

Apart from that, the company's financial performance is also influenced by earnings management practices. There are indications that a high level of earnings management can contribute to improving a company's financial performance. These numbers can provide a more detailed picture of how an organization is performing over a short period of time.

Finally, earnings management does not convey the relationship between capital structure and financial performance, companies that have high debt tend to focus more on other financial strategies to improve their financial performance, without relying on earnings management practices.

The limitation of this research is that it only tests manufacturing companies. Apart from that, the independent variables used do not have a large contribution in explaining financial performance. Therefore, in order to achieve more optimal results, future researchers should consider the use of financial performance variables and proxies, such as GCG, company value, company size, etc. Using research objects in other companies and adding years to the research period to produce more results.

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