DO PROFITABILITY, SOLVENCY, LIQUIDITY, AND FIRM SIZE INFLUENCE ON MANAGER'S DYSFUNCTIONAL BEHAVIOR IN FINANCIAL REPORTING OF INDONESIA TRANSPORTATION COMPANIES?

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Abstract

Financial statements are information on how a company is performing. In order for the company's performance to look good and attract investors, managers may perform dysfunctional behavior on financial statements. Factors that can trigger dysfunctional behavior are conditions of profitability, solvency, liquidity and firm size. Therefore, this study aims to determine whether the condition of the company can affect the manager's dysfunctional behavior. The population in this study are transportation companies that "go public". The sample was determined based on a purposive technique consisting of 10 Indonesian transportation companies listed on the Indonesia Stock Exchange in the 2016-2020 period. Data testing is done by using logistic regression. The results showed that partially Profitability, Solvency, Liquidity, and Firm Size had no significant effect on managers' dysfunctional behavior.

Managers of companies that have high or low profitability, solvency and liquidity perform (not perform) dysfunctional behavior. Likewise, managers of large and small companies both may engage in (not engage in) dysfunctional behavior. Therefore, investors need to be careful in investing

Keywords: Profitability, Solvency, Liquidity, Firm Size, Dysfunctional Behavior

Introduction

In investing, investors have a tendency to invest in companies that have good performance. To achieve good company performance, managers often perform dysfunctional behavior in preparing their financial statements. Increased company performance will coincide with increasing company profits. Managers will carry out earnings management so that the company's performance can look good to investors. Earnings management is a concept that is carried out by company managers in managing financial statements so that the financial statements appear to have quality [1]. [2]stated that inappropriate behavior (*dysfunctional behavior*) carried out by the company or manager is based on the concept of agency theory. Agency theory explains the existence of an asymmetric agency relationship between principals (investors) and agent (company managers). Agency theory also explains about two conflicting economic actors, namely the principal and the agent. Agency conflicts will arise if each party, both principal and agent, has different interests and wants to fight for their respective desires [3]. However, earnings management practices cannot be said to be fraudulent or engineered because these practices follow applicable methods and standards.

GIAA or Garuda Indonesia (Persero) Tbk, an Indonesian airline, is suspected of practicing earnings management in the 2018 financial year. Garuda Indonesia (Persero) Tbk managed to record a net profit of US$809 thousand in 2018 (Rp11.56 billion), referring to the exchange rate of Rp14.300 per United States (US) dollar. This condition is inversely proportional to the company's 2017 performance which lost US$216.58 million equivalent to Rp3.09 trillion. Even though in the third quarter of 2018, the state-owned airline still lost US$114.08 million or Rp1.63 trillion [4, 5]The Garuda commissioner refused to sign the 2018 financial statements. They refused to sign because they felt there was something wrong. Anomalies occur because the cooperation transaction has been recognized as revenue, although no payment has been received by the company. Transactions worth US$239.94 million are considered to have a significant amount and affect the company's profit. The Board of Commissioners believes that recording the transaction as income will create confusion because if the transaction is not recognized as revenue, then GIAA will still experience a loss

Manager's dysfunctional behavior in the form of earnings management is influenced by various conditions in the company such as profitability, solvency, liquidity and firm size. Therefore, the purpose of this study is to determine the factors that cause dysfunctional behavior of managers in the form of earnings management by managers. Profitability is a ratio that becomes a measuring tool for whether or not a company is able to earn a profit in a certain period. According to [6] "profitability is the company's ability to seek profit", this ratio also provides a measure of the level of achievement of a company's management goals. If the level of profitability experienced by a company is high, then the company's ability and performance in generating profits is also high. Profitability has an influence on managers to perform earnings management. If the profitability obtained by a company at a certain time is low, then the company tends to carry out earnings management by increasing the income obtained. In this case, the impact on investors to maintain their investment in the company. Based on research conducted by [7] that profitability has an effect on earnings management.

Solvency is the company's ability to manage short-term and long-term debt [8]. The company's ability to pay its debts is an indication that the company is able to pay its debts and it can be said that the company will be able to present its financial statements on time [9]. Based on [10, 11], it can be stated that solvency has an effect on managers' dysfunctional behavior on financial reports.

The next variable to be investigated in this research is Liquidity. Liquidity measures a company's ability to pay its short-term obligations. This ratio shows the comparison between the amount of short-term liabilities with current assets. Current assets are resources that will be used to meet the company's short-term obligations [9]. A low liquidity ratio means the company is unable to pay its short-term obligations, which results in a loss of investor confidence in the company. According to research from [12]liquidity has an effect on earnings management actions.

The last variable to be examined in this study is firm size. Firm size is a variable that gives an indication that a company is classified as a large or small company [13]. Firm size can be used to represent the company's financial characteristics. When compared to small companies, companies that are classified as large companies and are already known by the public will find it easier to obtain capital in the capital market. In the research conducted by [14], as well as research by [15] stated that firm size affects earnings management practices. This statement is different from the results of [10, 16]which states that firm size has no significant effect on earnings management practices.

This study aims to determine whether the factors of profitability, solvency, liquidity, and firm size influence on the dysfunctional behavior of managers. The results of this study will be able to provide benefits for the company to understand the dysfunctional behavior of managers through earnings management and avoid and minimize the occurrence of earnings management, and provide benefits for investors to consider in making investment decisions in the future.

Literature Review

Manager's Dysfunctional Behavior through Earnings Management.

The company's goal is to maximize the welfare of its shareholders. To achieve this goal, managers may engage in dysfunctional behavior through earnings management. Managers can choose accounting policies to maximize the company's performance so that it can prosper the shareholders [17]. Earnings management is also a way for managers to deceive stakeholders about the condition of the company by intervening in financial statement information [18, 19].

Earnings management is carried out mainly through discretionary accruals. Accrual is an accounting method that recognizes receipts and disbursements at the time the transaction occurs, not when cash is received or issued for the transaction. So, the accrual is accounting for income minus the component of operating cash flows. Accruals consist of components of discretionary accruals and non-discretionary accruals. Non-discreationary accruals are accruals that cannot be controlled by management. On the other hand, discretionary accruals are accruals that are recorded in an account using the accounting method adopted by the manager. Management can control it, can delay or eliminate it or speed up recording and identifying an account.

Profitability

According to [20] Profitability shows whether or not a company is able to make a profit. This profitability also shows the level of management effectiveness of a company in terms of profit from sales and investment. According to [21], generally the value of profitability is an indicator of the success of a company. The higher the profitability of a company, the company's ability to generate profits also increases. If the profitability obtained by the company is low in a certain period of time, it will

trigger the company to carry out earnings management by increasing the profits and income earned so that it will increase the value of shares and retain existing investors.

Solvency.

solvency ratio or *leverage ratio* according [21] is a measure to find out how many assets are financed from debt. A low solvency value indicates that the company is unable to pay its debts, so that it will reduce creditors' trust in the company. As a result, to maintain this trust, managers may engage in earnings management.

Liquidity.

[22]defines liquidity as showing whether or not a company is able to pay smoothly and on time its short-term obligations or also called 'short term liquidity'. According to [21]liquidity is a ratio that can measure whether the company can pay off its short-term obligations at maturity. The company's inability to pay on time is indicated by a low ratio. This can lead to a loss of investor confidence in the company. In order for the company to still be able to convince investors, managers will carry out earnings management. According to research from [12] liquidity has an effect on earnings management actions.

Firm Size.

According to [23]firm size is a scale where companies can be classified based on the size of the company in various ways, including: total assets, log size, sales, and market capitalization. A larger company whose shares are very widely spread will be more daring to issue new shares to meet its needs to finance sales growth than a smaller company. Research by [24, 25] shows that there is a positive relationship between firm size and earnings management. Managers of large companies will carry out earnings management to meet the expectations of investors.

Hypothesis

Based on a review of the literature review, the research hypotheses are as follows:

- H1: There is a significant effect of profitability on the dysfunctional behavior of managers
- H2: There is a significant effect of solvency on the dysfunctional behavior of managers
- H3 : There is a significant effect of liquidity on the dysfunctional behavior of managers
- H4: There is a significant effect of firm size on managers' dysfunctional behavior

This hypothesis is described in a conceptual framework presented in Figure

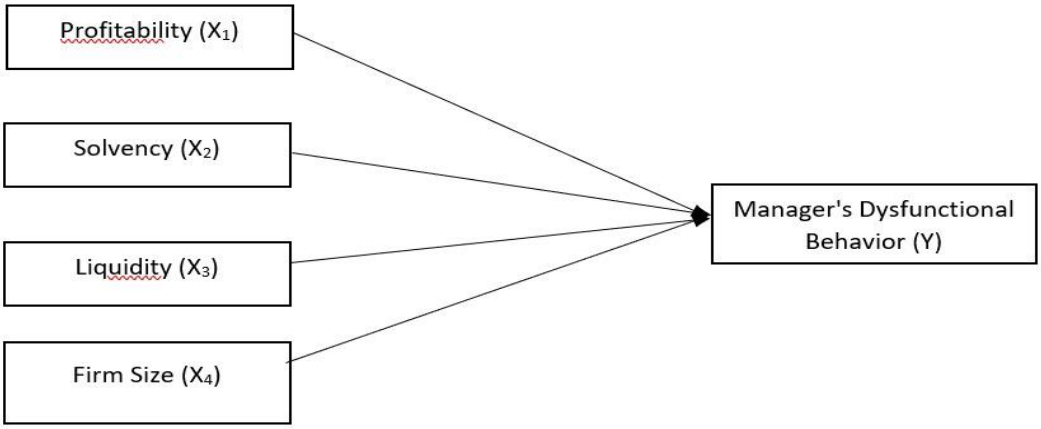

Figure 1. Conceptual framework

Method

Research purposes

This study was to determine the effect of profitability, solvency, liquidity and firm size on the dysfunctional behavior of managers. The type of research is quantitative with a verification approach.

Population and Sample

Indonesian transportation companies that 'go public' in the 2016-2020 period were the population in this study. Sampling was carried out purposively with the following criteria:

- Transportation companies that go public in the 2016-2020 period;
- Transportation companies that consistently publish complete financial statements in the 2016-2020 period;

The data used in this study is secondary data obtained from the IDX official website (idx.co.id) and the official website of each company. Observation data that meet the criteria are 10 companies, so the total sample is 50 data to be observed. Testing the data using logistic regression analysis.

Manager's Dysfunctional Behavior Measurement

Manager's dysfunctional behavior towards financial statements is measured by earnings management. Measurements were carried out using the Jones modified model. Empirically, the value of discretionary accruals can be negative, zero, or positive. A negative value indicates that earnings management has an income decreasing pattern. A value of zero indicates that earnings management has an income smoothing pattern, while a positive value can indicate that earnings management has an income increasing pattern[26]. Approach to detect earnings management according to [27]in [28]using the following steps:

TAC (Total Accrual) calculation uses the following formula:

$$TAC_{it} = NI_{it} - CFO_{it} \quad (1)$$

TACt = Total accruals of company i in period t
NIit = net profit of company i in period t
CFOit = operating cash flow of company i in period t

a. Calculation of total accruals using the OLS (Ordinary Least Square) Regression Model uses the following formula:

$$\frac{TAC_{it}}{TA_{it-1}} = \beta_1(1/TA_{it-1}) + \beta_2(\Delta REV_{it}/TA_{it-1}) + \beta_3(PPE_{it}/TA_{it-1}) \quad (2)$$

TAC_{it} = Total Accrual of company i in period t
TA_{it-1} = Total Assets of company i in period t-1
REV_{it} = Change in company i's income between periods t and period t-1
PPE_{it} = Fixed assets of company i in period t
β_1 = Regression coefficient of $1/TA_{it-1}$
β_2 = Regression coefficient of REV_{it}/TA_{it-1}
β_3 = Regression coefficient of PPEit/ TA_{it-1}

b. Calculation of NDTAC (Non-Discretionary Accruals) using the formula:

$$NDTAC_{it} = \beta_1(1/TA_{it-1}) + \beta_2(\Delta REV_{it} - \Delta REC_{it}/TA_{it-1}) + \beta_3\left(\frac{PPE_{it}}{TA_{it-1}}\right) + \epsilon \quad (3)$$

TAC_{it} = Total company accruals i in period t
TA_{it-1} = Total Assets of company i in period t-1
REV_{it} = Change in company income i between period t and period t-1
PPE_{it} = Fixed assets of company i in period t
REC_{it} = Change in net receivables of company i between period t and period t-1
$\beta_{1\,2\,3}$ = Regression coefficient of Total Accruals
Є = error

c. Calculation of DTAC (Discretionary Accruals) using the formula:

$$DTAC_{it} = \left(\frac{TAC_{it}}{TA_{it-1}}\right) - NDTAC_{it} \quad (4)$$

$DTAC_{it}$ = Discretionary Accrual of company i in period t
TAC_{it} = Total Accrual of company i in period t
TA_{it-1} = Total Assets of company i in period t-1
$NDTAC_{it}$ = Non-Discretionary Accrual of the company in period t

Companies that perform earnings management can be identified by calculating in advance the average value of discretionary accruals from all companies in a given year. A company is said to be doing earnings management if the company has an absolute value of discretionary accruals equal to or greater than the average value of discretionary accruals.

Profitability Measurement

In this study, Return on Assets is used as a calculation of profitability ratios. The ROA value shows how much assets can contribute to profit. The higher the ROA, the higher the amount of net profit generated (Harry, 2017:193). ROA is calculated using the formula:

$$Return\ on\ Assets = \frac{Earnings\ After\ Income\ Tax}{Total\ Assets}\ x\ 100\% \quad (5)$$

Solvency Measurement

Solvency is the ratio used to measure the comparison between total debt and total assets owned by the company.The formula to measure the solvency ratio in this study is:

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Debt}{Total\ Equity}\ x\ 100\ \% \quad (6)$$

Liquidity

According to [29] Liquidity is one of the financial ratio variables that is widely used in assessing company performance. The liquidity ratio is a comparison between the value of current assets and current liabilities. The formula for calculating liquidity is as follows:

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}\ x\ 100\% \quad (7)$$

Firm size

[30]argues that companies can be classified as large and small by taking into account average sales, average assets, total sales and total assets. The size of the company can describe the company's ability to develop business expansion through capital received through banking or the capital market. The formula used to determine firm size is as follows:

$$Firm\ Size = Ln\ Total\ Assets \quad (8)$$

Results and Discussion

Model Fit Test
This study uses logistic regression with the following equation:

$$g(Y) = ln\ \frac{\pi(Y)}{(1-\pi(Y)} = (\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4) \quad (9)$$

Y = Manager's dysfunctional behavior
X1 = Profitability
X2 = Solvency
X3 = Liquidity
X4 = Firm size
$B_{1,2,3,4}$ = regression coefficient

The compatibility test using Hosmer and Lemeshow Test with the following hypothesis:

Ho: Decent Model
H1: Inappropriate Model
The null hypothesis is accepted if the sig value > 0.05

Table 1

Hosmer and Lemeshow . test results

Step	Chi-squ are	df	Sig.
1	13,196	8	,105

The results of the Hosmer and Lemeshow test with SPSS in table 1 show a sig value of 0.105. This value is greater than the alph a of the study (0.105> 0.05), then the model is in accordance with the observation data, so this logistic regression model is feasible to be used in a further stage.

Nagelkerke R Square

Score Nagelkerke R Square is obtained based on the SPSS output shown in tables 2 and 3

Table 2

Iteration History

Iteration		-2Log s likel ihood	Coefficients Constant
Step 0	1	55,226	1.040
	2	55,108	1,150
	3	55,108	1,153
	4	55,108	1,153
a. Constant is included in the model.			
b. Initial -2 Log Likelihood: 55,108			

Table 3

Model Summary

Step	-2Logs likeli hood	Cox & Snell R Square	Nagelkerke R Square
1	51,223a	0.075	,112
a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.			

From the Iteration History table (Table 2), it can be seen that the value of -2 Log likelihood decreased from step 0 (55,108) to step 1 (51.223). This means that the formed logistic regression model is better. Based on the Model Summary table (Table 3), the Nagelkerke R Square value shows a value of 0.112, which means that the magnitude of the effect of the Dependent variable (X1, X2, X3, and X4) on the Independent variable (Y) is 11.2%.

Logistics Regression Model

SPSS output results related to the logistic regression model are shown in table 4.
Table 4.

Table 4

Logistics Regression Model

		B	SE	Wald	df	Sig.	Exp(B)	95% CIfor EXP(B)	
								Lower	Upper
Step 1a	Profitability	-2,379	3,267	,530	1	,466	,093	,000	55,919
	Solvency	,006	0.029	0.047	1	,828	1.006	,951	1.065
	Liquidity	,447	,645	,481	1	,488	1.564	,442	5,540
	Firm Size	-,291	,180	2,614	1	,106	,748	,526	1.064
	Constant	9,254	5,399	2,938	1	,087	10445,483		

a. Variable(s) entered on step 1: Profitability, Solvency, Liquidity, Firm Size.

From the table above, the regression equation can be formed as follows:
Y= 9,254 + (-2,379) X1 + 0.006X2 + 0.447X3 + (-0.291) X4 (10)

Y = Manager's dysfunctional behavior
X1 = Profitability
X2 = Solvency
X3 = Liquidity
X4 = Firm size

To interpret logistic regression, a probability approach is used (Santoso, 2015:43), as follows:

- Negative value, considered probability 0
- Positive value more than 1, considered probability 1
- A positive value between 0 to 1 probability is adjusted to the acquisition number

The analysis of the regression equation above shows that:

- Constant of 9.254; shows that if there are no Profitability, Solvency, Liquidity, and Firm Size values, there will be a dysfunctional behavior of managers towards the financial statements of Indonesian transportation companies.
- Profitability variable regression coefficient value is -2.379 (negative value) which means that there will be no dysfunctional behavior of managers towards financial statements in Indonesian transportation companies which are influenced by profitability values.
- Solvency variable regression coefficient value was obtained at 0.006 (positive value between 0 to 1), which means that it is possible for managers to have dysfunctional behavior towards financial statements in Indonesian transportation companies influenced by solvency values.
- The value of the regression coefficient for the Liquidity variable is 0.447 (positive value between 0 to 1), which means that it is possible for managers to have dysfunctional behavior towards the financial statements of Indonesian transportation companies influenced by the value of liquidity.
- The regression coefficient value for the Firm Size variable is -0.291 (negative value) which means that there will be no dysfunctional behavior of managers towards financial statements in Indonesian transportation companies which is influenced by the value of firm size.

Hypothesis testing

The t-test is used to partially test the hypothesis to show whether there is an effect of the independent variable on the dependent variable.

H1: There is a significant effect of profitability on the dysfunctional behavior of managers

H2: There is a significant effect of solvency on the dysfunctional behavior of managers

H3 : There is a significant effect of liquidity on the dysfunctional behavior of managers

H4: There is a significant effect of firm size on managers' dysfunctional behavior

The hypothesis will be accepted if the value of Sig <0.05. On the other hand, if the Sig value is > 0.05, the hypothesis is not accepted. The results of hypothesis testing are shown in table 4.

Hypothesis Test 1

The significant value for the Profitability variable (X1) is 0.466 d. This figure is greater than the research alpha (0.466 > 0.05). This means that partially profitability does not significantly affect the dysfunctional behavior of managers in Indonesian transportation companies

Hypothesis Test 2

The significant value for the solvency variable (X2) is 0.828. This figure is greater than the research alpha (0.828 > 0.05). This means that partially solvency has no significant effect on the dysfunctional behavior of managers in Indonesian transportation companies

Hypothesis Test 3

The significant value for the Liquidity variable (X3) is 0.488. This figure is greater than the research alpha (0.488 > 0.05). This means that partially Liquidity has no significant effect on the dysfunctional behavior of managers in Indonesian transportation companies

Hypothesis Test 4

The significant value for the Firm Size variable (X4) is 0.106. This figure is greater than the research alpha (0.106 > 0.05). This means that partially the size of the company does not significantly influence the dysfunctional behavior of managers in Indonesian transportation companies

Conclusion

Based on logisitic regression analysis , it can be concluded as follows:

- Profitability has no significant effect on manager’s dysfunctional behavior
- Solvency has no significant effect on managers' dysfunctional behavior
- Liquidity has no significant effect on managers' dysfunctional behavior
- Firm size has no significant effect on managers' dysfunctional behavior

All independent variables studied in this study did not show an effect on the dependent variable. This means that there is a possibility for manager companies in the Indonesian transportation sector to carry out or not to perform dysfunctional behavior, without being influenced by factors such as profitability, solvency and liquidity conditions and firm size. Companies that have high or low profitability, solvency and liquidity values, both may or may not do dysfunctional behavior. Likewise, for large or small companies, both may or may not do dysfunctional behavior. Companies that do not practice earnings management strive to maintain their integrity. Meanwhile, companies that carry out earnings management have a motive to gain the trust of users such as investors and creditors.

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