Management Analysis Journal 12 (3) (2023)

http://maj.unnes.ac.id

FUNDING BURDEN IN DETECTING FINANCIAL FRAUD

Sasongko Tri Utomo[1,3]✉, **Wisnu Mawardi**[2]

[1]Doctoral of Department Management, Faculty of Economics and Business, University of Diponegoro, Semarang, Indonesia
[2]Department of Management, Faculty of Economics and Business, University of Diponegoro Semarang
[3]Department of Management, Faculty of Economics and Business, University of Muhammadiyah Surakarta, Indonesia

Article Information

History of article:
Accepted September 2023
Approved September 2023
Published September 2023

Keywords:
Financial Leverage; Financial Performance; Fraud financial Statement

Abstract

The purpose of this research is to analyze the relationship between Leverage, financial performance and earnings manipulation. The Leverage in this study uses a debt to total asset (DART) proxy, while for financial performance it uses a return on asset (ROA) proxy. Manipulation decisions with the beneficial M score model where the results will be seen by companies in the manipulator or non-manipulator category. This study used a sample of manufacturing companies listed on the Indonesia Stock Exchange for the 2016 – 2020 period. The sample was taken using a purposive sampling technique and the number of samples used was 29 companies so the data analyzed was 145 data. The analytical method used is path analysis with SPSS software. These findings indicate that Leverage has a significant negative effect on financial performance. Financial performance has a positive effect on earnings manipulation and financial performance mediates a significant positive relationship between leverage and earnings manipulation. The results of these findings can be used as that for regulators, management, policy makers, government agencies (Financial Services Authority and the Indonesian Stock Exchange) in making procedures or developing a policy that is able to control or closely supervise companies in transparency of the company's financial condition so as to minimize companies committing fraud. financial Manipulation. In addition, this research is still rarely researched because many previous studies have focused on reporting quality, earnings management, financial fraud with proxies other than M Score so that to the author's knowledge no one has researched with a focus on earnings manipulation.

✉correspondence Address:
Jl. Prof. Moeljono Trastotenojo, Tembalang Semarang, Indonesia
E-mail: su186@ums.ac.id

e-ISSN 2502-1451

INTRODUCTION

Financial reports will provide detailed information about the financial condition of the company to stakeholders or stakeholders. Regardless of the supervisory role that a company or the state has oversight of the company, many companies report their finances or precisely their profits by experiencing losses, bankruptcy, or even to make investors more confident about their companies which are considered bona fide, often companies report them too by beautifying their finances to make it visible have prospects. This phenomenon interests standard setters, regulators, practitioners, and other users of information on how to reduce the problem. The various reasons that underlie the practice of this Manipulation were successfully carried out with the various freedoms given by a manager in choosing an accounting method, having weaknesses in internal control, and weak corporate governance mechanisms.

A manager is free to determine financial methods and establish company policies. In the freedom rights of a manager in a company, sometimes personal interest motives will influence the choice of a method. It is widely recognized that the view of a manager personally will increase the bonus compensation received for his profits, give a positive impression to investors, will increase the influence of market prices, profits will stabilize in fluctuating conditions, reduce taxes, and as a reason in political costs (Umobong & Ibanichuka, 2016). This view will provide an agency conflict where the shareholders do not have the same opinion as the actions of the company's management. Company managers use many methods in improving the company, as can be done with first opinion through acknowledging sales, increasing interest receivable, and treating the loan as a sale. Second, through falsified fee reductions, tax deductions, and redundant write-offs. Third, with improved assets such as increasing inventory, cost capitalization, extending the life of lines, too much debt, increasing brands and intangible assets, and revaluing assets (Umobong & Ibanichuka, 2016).

According to Rosner (2003), the term earnings management includes earnings manipulation and accounting fraud. Financial Manipulation, namely a change made with deliberate intent and to carry out falsification of financial information to satisfy the desires of those who make it intended to deceive information users, either creating a plausible impression of the company to outsiders or providing satisfactory expectations to owners or agents. Financial Manipulation is classified into white, black, and gray. Manipulation, classified as white, describes the financial information presented, which increases transparency; the gray manipulation category describes the use of finance, which is considered creative in providing information with opportunistic purposes and increasing efficient financial information. Meanwhile, the black manipulation classification means that the company's financial information is wrong in assessing the facts in the company (Roy & Debnath, 2015).

A company's management will always pay attention to financial performance, which is considered very important and absolute in presenting financial reports that aim to measure the efficiency and effectiveness of management in generating company finances. This serves as a predictor of future profits and various future events and as a firm guide for various economic decisions. Thus an essential role in the function and planning decisions, investment, and control from within and outside the company. The behavior of the company's financial management practices related to calculations in the financial statements depends on several parties, which may have a positive or negative effect on the profits generated, and some will likely consider a kind of Manipulation of the company's finances. At the same time, others may also consider it legitimate.

The company's Leverage will also influence the factor of financial performance. A manager will adjust his Leverage in such a way as to optimize the cost of capital issued and the resulting company value. This decision becomes significant for a company because the manager will combine debt with equity which is considered the most appropriate in the various levels of Leverage needed by the company. A manager must be careful and clever in identifying the proper use of debt and equity to produce optimal performance (Gleason et al., 2000). Usually, the Leverage that occurs will positively increase the company's value because Leverage with a certain level is more able to increase the efficiency and performance of the company (Ghosh, 2007). Companies with higher Leverage tend to have higher agency costs due to interest differences between shareholders and debt holders. This illustrates that Leverage may negatively affect the resulting performance (Jensen, & Meckling, 1976).

Because the company's financial statements are the primary source in reflecting the quality of the company's earnings, the problems that arise from financial Manipulation are numerous. It often occurs due to abuse of the policies of the directors who are authorized flexibly. As a result, some distortions reflect the actual financial statements. According to Talab, Mohammed, & Flayyih (2018), the importance of financial reports is the primary source of information. However, the person who prepares a financial report has the authority to freely use applicable accounting rules and estimates so that a financial report becomes informative. This will create financial information that will have an impact on the financial quality itself as well as on the decision-making of a shareholder or outside investor. This will create an incorrect credit decision, a bad stock price, to the payment of compensation that is not following what was done.

Several opinions in previous research have been discussed (Khan et al., 2021), saying that long-term Leverage has no significant effect on company performance, but short-term Leverage has a significant negative effect on company performance. The use of Leverage has an impact on earnings management (Juita, 2021). Popoola & Suleiman (2020) shows that bank ROA is significantly influenced by long-term debt (negative) and short-term debt (positive). According to Kalantonis et al. (2021) show that the pecking order pattern for internal financing needs for external debt, contrary to short-term beliefs in economic agents, appears to play a negative role in Leverage. According to Fernando et al. (2021) show that there is a positive relationship between Leverage and financial performance which supports agency theory in the overall business context), However, a negative relationship exists between Leverage and financial performance in the central business context. According to Dey et al (2018), it shows that financial Leverage has a positive effect on financial performance. Tabassum et al. (2015) proved that a company involved in actual earnings management practices through sales manipulation in reporting higher earnings would result in poor performance in the future. This illustrates that poor performance at that time will make profit manipulation practices at that time so that it will produce good financial performance and information to investors has a good signal. This disclosed earnings manipulation would create an ideal situation but lead to new problems.

This study contributes to the development of theory and literature in a different way. Some aspects may have been discussed in detail in previous studies, such as the relationship between Leverage and performance. However, explaining the relationship between performance and financial Manipulation and the relationship mediating Leverage between financial performance and financial Manipulation has not been widely discussed. No measurement model in financial Manipulation discusses the beinesh M-score model. So this model will identify the relationship between Leverage, financial performance, and financial manipulation decisions as well as the existence of Leverage and financial relationships that have not been clear in completion in previous studies so that researchers are interested in researching with that title. These findings also recommend that structured financial reports be given professional autonomy to provide a clear, correct, and fair view of the company's financial position.

Literature Review

This research is built based on agency theory, which was first put forward by Jansen and Meckling in 1970 and said that the principal party cooperates with agents to conduct business transactions on their business's behalf. In theory, it explains that the agent will have more information than the principal, and the principal party always gets a loss for the agent concerning the information provided. The relationship that is built by agency theory is that both the agent and the principle make cooperation toward the same goal, but the agent, who is the manager of the company, is tasked with pursuing the goals to be achieved individually even though it will harm the principle (Nwofia, 2018). A manager has gotten a lot of the picture that in the management process, he will pursue personal gain even though it is contrary to what is desired in principle; if strict supervision or control is not carried out it will have a negative influence in maximizing shareholder wealth (Huang et al., 2016). Agency theory explains that there is also asymmetric information to shareholders from management which causes losses by stakeholders for opportunistic purposes. This explanation may not be entirely correct, and there is a possibility that the manager does not disclose detailed information due to technical problems encountered, sensitivity issues handled, and limited value disclosure to stakeholders. Agency theory makes the management or management of the company a control center that has authority in making decisions regarding the behavior of other stakeholders, earnings management, and managers will be directed in preparing financial reports about what needs to be done, what reports need to be included in order to provide results profitable for the company. Therefore agency theory is very important in making the flow of thought in this research.

Several earnings management or Manipulation studies have been carried out in the economic and national sectors. Beneish (1999) explains the effects of Manipulation or prerequisites that encourage companies to engage in these activities. The result is a systematic relationship between the possibility of Manipulation and reports with consistent evidence on accounting data that is useful for detecting Manipulation and assessing the reliability of accounting earnings. Furthermore, it is also estimated that with the beneficial model, it is estimated that half of the companies studied manipulated before there were findings in public. The existence of the company's findings in manipulating earnings will show that the value of its shares will drop drastically, so this model will be a valuable tool for investment professionals. Shirabe & Nakano (2022) show that companies with integrated reporting tend not to be involved in actual manipulation activities. In the view of practitioners, integrated reporting is a follow-up process that has experienced improvements in internal decision-making. In particular, integrated reporting can prevent short-term oriented corporate behavior and promote long-term value creation that is attractive to stakeholders. According to Valaskova & Fedorko (2021), detecting specific income manipulations in the economic sector must have global financial reporting principles and disclose a certain level of Manipulation in companies in selected countries in the Visegrad grouping. Detecting profits using the M-score measurement will help protect business partners in detecting fraudulent behavior, especially globally

Theory Packing Order

This theory assumes that an optimal capital structure is not one of them making healthy financing decisions. Decisions in investing and financing companies start from how the company's internal financial conditions exist before focusing on externals. In a company's internal financial situation that turns out to be unhealthy, the company's decision will seek external finance. External sources will be generated by considering the cost of information and benefits generated from these sources of financing (Akerlof, 1970). In generating external sources, the company must have carried out various methods to measure the optimal financing options in the market. Overall, companies tend to make several payment methods that make companies have investment opportunities that arise. If the company has investment opportunities, then the company will retain more income which can build leeway to avoid increasing external sources in the future (Myers & Majluf, 1984). In short, this theory assumes that companies prefer internal financial sources over external financing due to adverse selection and existing facts.

Theory Signaling

Signaling theory is related to reducing information asymmetry between two parties (Spence, 2002). Signaling theory is the behavior of company management in directing investors related to management strategy and prospects (Brigham and Houston, 2011). Disclosure of signaling theory in the form of information (signals) about the success or failure of a particular company. Signaling theory also argues that high-quality companies consciously signal to the market that the market must distinguish between high-quality and low-quality companies. A good signal must be caught and recognized by a good market and not easily copied by a bad company. A good signal that the market can catch and not easily imitate by inferior companies is the application of signaling theory behind performance smoothing, a form of performance management. This theory relates to asymmetric information that can occur when one party has a more complete information signal than another. Accounting numbers reported by management can be used as a signal when these numbers may reflect information about uncontrollable company decisions. In addition to financial reporting data that sometimes shows the results of profit manipulation, investors consider accountability reports reliable information signals (Kim et al., 2011). Disclosure of these signals indicates that there are efforts to minimize the quality of asymmetric information between management and stakeholders in the form of sustainability financial reporting

Beneish Model

In almost all cases, profit is considered a high-performance level for stakeholders. This illustrates how company managers can be involved in their activities to generate more added value. This makes a signal to the stakeholders in the allocation of resources directly in the capital market. Theoretically, the value of the shares produced now will be able to reflect future profits. The increase in company profits will generate high-added value and vice versa (Majerčák et al., 2013; Makka, Kampova, Boros, 2019). This makes the management will have an interest in generating company profits. Therefore executives are essential in understanding an excellent financial pattern and making the best decisions in their company (McKee, 2005). The company's management will act to provide financial reports that are as needed and the best for the company and help build the trust of investors and companies that are its business partners. This illustrates that a practice of earnings management is a manager who will disclose the company's financial condition, allowing for financial reporting intervention for management's personal gain (Schipper, 1989).

This study is interesting to study because earnings management practices use the Beneish M-score where this model is for several views (Ayu et al., 2020; Siekelova et al., 2020; Svabova et al., 2020) in detecting Manipulation of financial statements will provide benefits for the parties who are in positions of authority which provide increased return expectations as well as prevention of damage to the company's reputation for analysts. According to Valaskova & Fedorko (2021), the use of the beneficial M-score model revealed that 71% in cases of financial reporting was the most significant. Franceschetti & Koschtial's (2013) study adopting the Beneish M-score is considered an appropriate model system for detecting Manipulation in corporate earnings management.

The Beneish model helps explain the extent to which earnings management is generated, but this model cannot be used to predict corporate bankruptcy (Mahama, 2015). This view confirms that the Beneish model is weak in that it can only be used to predict earnings management and not specific analyses. Although this model only predicts earnings management, stakeholders using this model have not been able to predict whether the company is in bad condition. The beneish model is better combined with other analytical tools to determine whether a company is detected as having financial Manipulation, resulting in the company's dire condition. The resulting combination of models will provide hope for shareholders in providing details about the financial health produced by the company. According to Roy & Debnath (2015), the earnings management used can be classified into 3, namely stated in white means that the company is deemed to have to increase the transparency of financial reports, stated in gray means that in carrying out financial reporting processes creative accounting principles are used for opportunistic purposes, and stated in black means it is considered a misrepresentation of facts, the Beneish model has not been able to categorize financial Manipulation as illegal or legal reporting. Therefore there must be many analytical tools in the Action mechanism that can state whether or not the Action is legal.

Leverage

Leverage in this study uses the debt to total asset ratio (DART). This measurement is part of using threads to increase a company's return on capital. This illustrates that the size of this ratio indicates that the funds provided to pay creditors will be greater than that of shareholders. Leverage will result in a tremendous change in net profit compared to the operator's profit because the funds obtained will receive a more significant injection of funds, generating an even greater net profit. Leverage can be described clearly as a company borrowing money from investors to increase the financing of business projects. If Leverage is too high, it is often considered that the company will go bankrupt. This is because the company cannot pay its debts, and the resulting impact will experience difficulties in obtaining new investors. Well-managed financial Leverage remains one of the effective ways used by various business organizations to increase the return on investment of shareholders (Kate Jelinek, 2007)

Financial Performance

Financial performance is the ability of a company to produce new resources based on the activities carried out during a specific period (Aktan & Bulut, 2008). The resulting performance will involve increasing the wealth and profits obtained by the company and becoming a goal that all companies want to achieve. Various measurements are given by many experts, namely return on equity (ROE), return on assets (ROA), value-added, and others, to measure whether a company achieves its goals. The resulting increase for shareholders increases the investment issued in the company. Financial performance generally measures whether a company is in a healthy financial condition in a certain period to compare one company to another.

Hypotheses Development

Relationship between Leverage, financial performance, and earning manipulation

Several empirical studies on the relationship of Leverage to financial performance show that companies with significant financial difficulties will worsen the resulting financial performance impact (Kalash, 2023). For emerging markets, Leverage has a significant impact on companies, so management must be able to improve financial performance in higher debt financing. According to Ghardallou (2023); Das et al. (2022), the GMM system carried out is Leverage will worsen the company's performance. In this case, it significantly affects high-performing companies because it will reduce the company's profits for stakeholders. The research results by Danso et al. (2020), focusing on agency theory with actual performance using Tobin Q proxies, show that the resulting impact of Leverage on the company will make the company get a significant loss. This is because the cost of debt that must be paid will be even greater. A different study states that Leverage is considered to improve company performance because of its function as a restriction for managers in carrying out business activity practices (Ayaz et al., 2021). This benefit is more proportional to companies in Malaysia than just paying the cost of debt owed. Menurut Ali et al. (2022); Audi et al. (2022) Statistically, Leverage has a negative impact on the company's financial performance. So the researcher proposed the following hypothesis:

H1 = Leverage has a significant negative effect on financial performance.

However, concerning the relationship between financial performance and earning Manipulation, not much has been discussed in empirical studies' results. However, several empirical studies correlate with the relationship between earning Manipulation: Alhaddad et al. (2022) show that real activity activities are predictable by abnormally low discretionary costs and abnormally high production costs. The company will manipulate when it has tremendous pressure on the Leverage owned by the company itself (Narsa et al., 2023). In addition, industries that collect less information will be more likely to decrease fraud and may result in increased fraud incentives. This illustrates that the fraud that occurs will be able to strengthen the sickle of the real economy (Wang & Winton, 2021). Thus, the proposed hypothesis is as follows:

H2: Financial performance has a significant effect on earnings manipulation

H3: Leverage Significantly mediates between financial performance and earnings manipulation

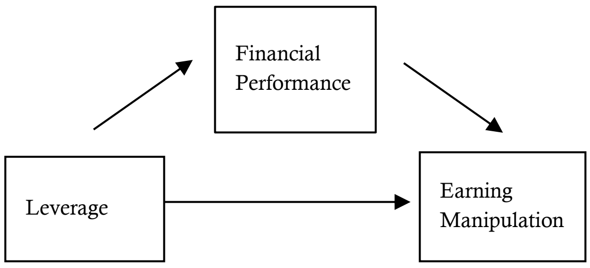

Figure 1. Research Model

METHOD

This study uses quantitative research where the analysis results are in the form of numbers because the data generated is secondary data, namely financial report data generated by the company. They collected data using a purposive sampling technique, with manufacturing companies for 2016 – 2020 listed on the Indonesia Stock Exchange. From the period studied, the samples used were 29 companies, so the observation data generated was 145 observation data. Data were analyzed using SPSS software by going through several classical assumption stages, and then path analysis was carried out with a regression model.

Variable Earning Manipulation

The beneish model is a model that applies ratios in testing earnings management. Beneish (1999) has developed a concept that identifies companies based on earnings manipulation on data generated by financial reports. This model becomes a recommendation for predicting companies that produce manipulative or not financial reports (Mavengere, 2015). The resulting model has two versions of the Beneish model: the version with an 8-variable model or a 5-variable model. This study uses an 8-variable model designed by Beneish to reveal the effects of Manipulation or assumptions that can force companies to engage in financial reporting activities. The Beneish model then became very popular worldwide so that the M-score can be used to detect whether or not earnings management is a manipulative company. The use of Beneish M-score used eight variables or indicators which are categorized into two different categories which are aggressive financial practices and fraud techniques (Khuong, Liem, Minh, 2020; Svabova, Kramarova, Chutka, Strakova, 2020; Tuffnell, Kral, Durana, Krulicky, 2019) (Khuong et al. 2020; Svabova et al, 2020; Tuffnell et al., 2019). Calculation of M Score (Beneish, 1999)

M Score = -4,84 + 0,92 DSRI + 0,528 GMI + 0,404 AQI + 0,892 SGI + 0,115 DEPI - 0,172 SGAI – 0,327 LEV + 4,697 TATA

Table 1. Indicators Formula

Indicators	Symbol	Formula
Days Sales In Receivables Index	DSRI	$\frac{\frac{Receivable_t}{Sales_t}}{\frac{Receivable_{t-1}}{Receivable_{t-1}}}$
Gross Margin Index	GMI	$\frac{\frac{Sales_t - Cost\ Sales_t}{Sales_t}}{\frac{Sales_{t-1} - Cost\ of\ Sales_{t-1}}{Sales_{t-1}}}$
Asset Quality Index	AQI	$\frac{\frac{1-(Current\ Asset_t + PPE_t)}{Total\ Asset_t}}{\frac{1-(Current\ Asset_{t-1} + PPE_{t-1})}{Total\ Asset_{t-1}}}$
Sales Growth Index	SGI	$\frac{Sales_t}{Sales_{t-1}}$
Sales General and Administrative Expenses Index	SGAI	$\frac{\frac{SGA_t}{Sales_t}}{\frac{SGA_{t-1}}{Sales_{t-1}}}$
Leverage Index	LEV	$\frac{Laverage_t}{Laverage_{t-1}}$
Total Accruals to Toal Assets	TATA	$\frac{Net\ Income - Cash\ From\ Operation}{Total\ Asse}$

The Beneish model is generated with the concept of 8 variables using indicators; if it is less than -2.22, it can be said that the company is considered not a manipulator in financial statements, while more than -2.22, it can be said that the company is considered a manipulator in financial statements.

Table 2. Variable Description

Variable	Measurement	Definition
Variable independent		
Leverage	Debt to Total Asset (DART)	The proportion of total debt to total assets
Variable Intervening		
Financial Performance	Return On Assets (ROA)	The proportion of net profit to total assets owned

RESULT AND DISCUSSION

This section will discuss statistical analysis of Leverage, financial performance, and profit manipulation. Leverage measurement uses the debt-to-total asset ratio and financial performance with return on assets, while profit manipulation uses the beneficial M score. The companies used as samples are manufacturing companies with the 2016-2020 period. Furthermore, the source of data collection is IDX Indonesia, and on each website the company provides. In this data generated with 145 observation data, it can be seen that 135 observation data, or 93.1%, analyzed using the Beneish M score, can be categorized as manipulator data in several periods between 2016-2020, while 10 observation data or 6.9% can be categorized as non-manipulator data. These results can be seen in Figure 2 below:

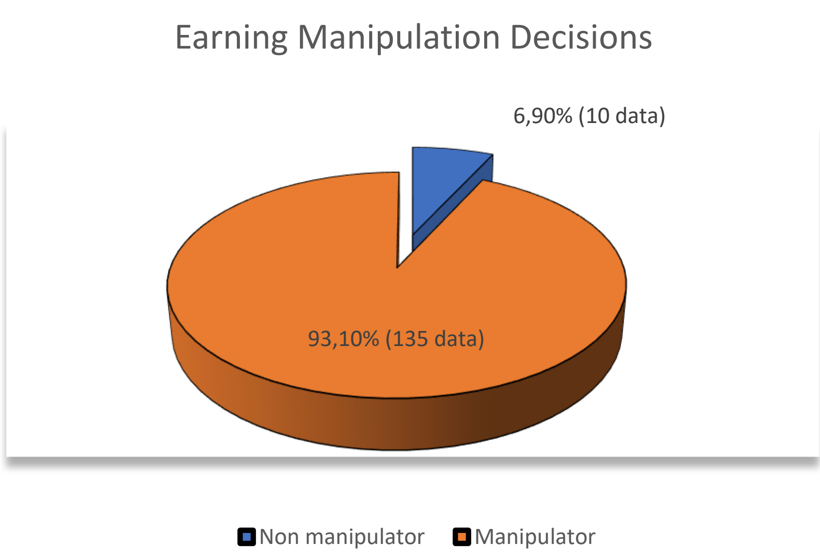

Figure 2 Data Description Earning Manipulation

Table 3 below explains the category descriptions and manipulation decisions, with category 1 being a manipulator and a value of 0 being a non-manipulator. It can be seen that the analysis shown concerning the beneficial M-score uses 145 observational data with a minimum value of 0, a maximum of 1, an average of 0.93, and a standard deviation of 0.254.

Table 3. Statistical Analysis of the Beneish M-Score Category

	Observasi	Minimum	Maximum	Mean	Std. deviate
Earning Manipulation	145	0	1	0.93	0.254

Table 4 is a statistical analysis of the overall data description used in this study. It can be seen from the leverage data generated with a total of 145 observational data, a minimum value of 0.12, a Maximum of 0.84; the average is 0.457, and the standard deviation is 0.173. In financial performance, a minimum value of -7.0 is produced, and; Maximum is 13.4; the average is 3.248, and the standard deviation is 4.267.

Table 4. Statistical Analysis Description

	Observasi	**Minimum**	**Maximum**	**Mean**	**Std. Deviasi**
Leverage	145	0.12	0.84	0.457	0.173
Financial Performance	145	-7.0	13.4	3.248	4.267
Beneish M score	145	-2.952	1.654	-1.222	0.813

Analysis of the descriptive value produced by the beneficial M-score with 145 observational data resulted in a minimum value of -2.952; a Maximum of 1.654; The mean value is -1.222, and the standard deviation is 0.1813. In explaining the relationship that occurs between Leverage, financial performance, and earnings Manipulation, the results of this analysis are presented in Table 5 below, namely:

Table 5. Statistical Relationship between Leverage, Financial Performance, and Earning Manipulation

Model	**Regression 1 (Y = Financial Performance)**		**Regression 2 (Y = Earning Manipulation)**	
	β	T statistic	β	T statistic
Constant	8.368		-1.812	
Leverage	-11.216	-6.094 (0.000)***	0.885	2.075 (0.040)**
Financial Performance			0.057	3.326 (0.001)***
Leverage → Financial Performance → Earning Manipulation		2.9195 (0.0035)**		
F	37.139 (0.000)***		5.731 (0.004)***	
R	0.454		0.273	
R Square	0.206		0.075	

Note: * Level of Sig. 10%; ** Level of Sig. 5%; Level of Sig. 1%

Table 5 shows the relationship between Leverage and financial performance. The results are constant; every time the Leverage is generated constantly or in a state of 0, the resulting financial performance increases by 8,368. Meanwhile, the results show that Leverage significantly negatively affects the resulting financial performance. This indicates that the higher the resulting Leverage, the resulting performance will decrease. According to Zayed, Islam, Rabbani, Rahman, et al. (2021), financial Leverage affects the company's financial performance. According to Rahman, Saima, & Jahan, (2020), a significant negative relationship exists between Leverage and company profitability.

The second point is the relationship between Leverage, financial performance, and profit manipulation. The results obtained constantly are both Leverage and financial performance, which are generated constantly or in a state of 0; the resulting earnings manipulation decreases by 1.812. The resulting Leverage indicates a significant positive influence on earnings manipulation. This illustrates that every increase in Leverage will be followed by earnings manipulation, which will increase.

The relationship that occurs between financial performance and earnings manipulation shows that there is a significant positive influence on earnings manipulation, so it can be described that the higher the financial performance produced, the stronger the earnings manipulation will be because of the emergence of agency theory between principals and agents will have their respective interests. The agent may maximize profits for personal gain so that the information provided by the principal is asymmetrical in making a report; such information will be covered up.

Mediation relationship Financial performance between leverage and earnings manipulation is seen as mediation of financial performance and a significant positive effect between Leverage on earnings manipulation. This reflects that high Leverage will result in low financial performance, so the impact on profit manipulation within the company will be more substantial.

CONCLUSSION

This research aims to identify the relationship between Leverage, financial performance, and earnings manipulation. The results of this study Indicate that Leverage has a significant negative effect on financial performance and financial performance has a significant positive effect on profit manipulation with variations in leverage data which is relatively high, meaning that the data fluctuates for the 2016 – 2020 period in this study. Financial performance has a relatively high average variation as well. Meanwhile, financial performance mediates positively between leverage and earnings manipulation. As well as the data generated on the Manipulation of company profits generated with the beneficial model M score of 93.1%, the data used is company data that is considered a manipulator so that companies with high Leverage will make things worse and give a high financial performance burden. Options that allow management to earnings manipulation.

Further research is possible using a larger Indonesian IDX manufacturing sector sample. There needs to be more attention related to the Leverage generated by the company because investors with too much Leverage will make investors not interested in the company because the profits generated may be less. The principal party needs to be careful in supervising and controlling the company's management because there may be personal interests in company agents, which makes information on the company's financial condition not transparent in reporting to the principal party, so policies are needed in the company supervision and control.

REFERENCES

Akerlof, G. A. (1970). The market for “lemons”: Quality uncertainty and the market mechanism. Quarterly Journal of Economics, 84(3), 488–500.

Aktan, B., & Bulut, C. (2008). Financial performance impacts of Corporate Entrepreneurship in Emerging markets: A case of Turkey. European Journal of Economics, Finance and Administrative Sciences, 12(12), 69–79.

Alhaddad, L. M., Whittington, M., & Gerged, A. M. (2022). Abnormal real activities, meeting earnings targets and firms’ future operating performance: evidence from an emerging economy. Journal of Accounting in Emerging Economies, 12(2), 213–237.

Ali, J., Tahira, Y., Amir, M., Ullah, F., Tahir, M., Shah, W., Khan, I., & Tariq, S. (2022). Leverage, Ownership Structure and Firm Performance. Journal of Financial Risk Management, 11(01), 41–65.

Audi, M., Ali, A., & Al-Masri, R. (2022). The Impact of Leverage on the Firm Performance: A Case of Fertilizers Sector of Pakistan. Scientific Annals of Economics and Business, 69(2).

Ayaz, M., Mohamed Zabri, S., & Ahmad, K. (2021). An empirical investigation on the impact of capital structure on firm performance: evidence from Malaysia. Managerial Finance, 47(8), 1107–1127.

Ayu, M., Lindrianasari, Gamayuni, R. R., & Urbański, M. (2020). The impact of environmental and social costs disclosure on financial performance mediating by earning management. Polish Journal of Management Studies, 21(1), 74–86.

Beneish, M. D. (1999). Incentives and penalties related to earnings overstatements that violate GAAP. Accounting Review, 74(4), 425–457.

Danso, A., Lartey, T. A., Gyimah, D., & Adu-Ameyaw, E. (2020). Leverage and performance: do size and crisis matter? Managerial Finance, 47(5), 635–655.

Das, N. C., Chowdhury, M. A. F., & Islam, M. N. (2022). The heterogeneous impact of leverage on firm performance: empirical evidence from Bangladesh. South Asian Journal of Business Studies, 11(2), 235–252.

Dey, R. K., Hossain, S. Z., & Rahman, R. A. (2018). Effect of Corporate Financial Leverage on Financial Performance: A Study on Publicly Traded Manufacturing Companies in Bangladesh. Asian Social Science, 14(12), 124.

Fernando, A. A. J., Mallawarachchi, R., & Kaluarachchi, D. G. P. (2021). The Relationship between Financial Leverage and the Performance of Sri Lankan Listed Manufacturing Companies. Journal of Accounting Finance and Auditing Studies (JAFAS), 7(4), 99–118.

Franceschetti, B. M., & Koschtial, C. (2013). Do bankrupt companies manipulate earnings more than the non-bankrupt ones? Journal of Finance & Accountancy, 12, 4–24.

Ghardallou, W. (2023). The heterogeneous effect of leverage on firm performance: a quantile regression analysis. International Journal of Islamic and Middle Eastern Finance and Management, 16(1), 210–225.

Ghosh, S. (2007). Leverage, managerial monitoring and firm valuation: A simultaneous equation approach. Research in Economics, 61(2), 84–98.

Gleason, K. C., Mathur, L. K., & Mathur, I. (2000). The interrelationship between culture, capital structure, and performance: Evidence from European retailers. Journal of Business Research, 50(2), 185–191.

Huang, W., Boateng, A., & Newman, A. (2016). Capital structure of Chinese listed SMEs: an agency theory perspective. Small Business Economics, 47(2), 535–550.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305–360.

Juita, M. V. (2021). Influence of Corporate Governance , Leverage and Financial Performance on Earning Management on Manufacturing. Journal of Management, 12(1), 907–916.

Kalantonis, P., Kallandranis, C., & Sotiropoulos, M. (2021). Leverage and firm performance: new evidence on the role of economic sentiment using accounting information. Journal of Capital Markets Studies, 5(1), 96–107.

Kalash, I. (2023). The financial leverage–financial performance relationship in the emerging market of Turkey: the role of financial distress risk and currency crisis. EuroMed Journal of Business, 18(1), 1–20.

Kate Jelinek. (2007). The Effect of Leverage Increase on Earnings Management. In Journal of Business & Economic Studies (Vol. 13, pp. 24–46).

Khan, N., Ullah, H., & Afeef, M. (2021). The Effect of Leverage and Debt Maturity on the Corporate Financial Performance: Evidence from Non Financial Firms Listed at Pakistan Stock Exchange. Sustainable Business and Society in Emerging Economies, 3(1), 35–47.

Khuong, N.V., Liem, N.T., Minh, M. T. H. (2020). Earnings management and cash holdings: Evidence from energy firms in Vietnam. Journal of International Studies, 13(1), 247–261.

Kim, J. B., Li, Y., & Zhang, L. (2011). Corporate tax avoidance and stock price crash risk: Firm-level analysis. Journal of Financial Economics, 100(3), 639–662.

Mahama, M. (2015). Detecting Corporate Fraud and Financial Distress Using the Altman and Beneish Models. International Journal of Economics, Commerce and Management, III(1), 1–18.

Majerčák, P., KliEštik, T., Masárová, G., Buc, D., & Majerčáková, E. (2013). System approach of logistic costs optimization solution in supply chain . Nase More, 60(5–6), 95–98.

Makka, K., Kampova, K., Boros, M. (2019). Workplace training in the fuels distribution company. 13th International Technology, Education and Development Conference (INTED2019), 3990–3995.

Mavengere, K. (2015). Predicting corporate bankruptcy and earnings manipulation using the Altman Z-score and Beneish M score. The case ofZ manufacturing firm in Zimbabwe. International Journal of Management Sciences and Business Research, 4(10), 8–14.

McKee, T. E. (2005). Earnings management: An Executive Perspective. Cengage Learning.

Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. Journal of Financial Economics, 13(2), 187–221.

Nwofia, J. E. (2018). Contracting Out Services in the Nigerian Local Government: Implications for Internal Revenue Generation. International Journal of Social Science Studies, 6(7), 71.

Popoola, A. P., & Suleiman, U. (2020). Leverage and Financial Performance of Listed Deposit Money Banks in Nigeria. Gusau International Journal of Management and Social Sciences, 3(1), 68–81.

Rosner, R. L. (2003). Earnings Manipulation in Failing Firms. Contemporary Accounting Research, 20(2), 361–408.

Roy, C., & Debnath, P. (2015). Earnings Management Practices in Financial Reporting of Public Enterprises in India: An Empirical Test with M-Score. SSRN Electronic Journal, 1.

Schipper, K. (1989). Commentary on Earnings Management. Accounting Horizons, 3, 91–102.

Shirabe, Y., & Nakano, M. (2022). Does Integrated Reporting Affect Real Activities

Manipulation? Sustainability (Switzerland), 14(17), 1–27.

Siekelova, A., Androniceanu, A., Durana, P., & Michalikova, K. F. (2020). Earnings management (Em), initiatives and company size: An empirical study. Acta Polytechnica Hungarica, 17(9), 41–56.

Svabova, L., Kramarova, K., Chutka, J., Strakova, L. (2020). Detecting earnings manipulation and fraudulent financial reporting in Slovakia. Oeconomia Copernicana, 11(3), 485–508.

Tabassum, N., Kaleem, A., & Nazir, M. S. (2015). Real Earnings Management and Future Performance. Global Business Review, 16(1), 21–34.

Talab, H. R., Mohammed, Y. N., & Flayyih, H. H. (2018). Book of proceedings International Institute for Private-Commercial-and Competition Law (Austria) in Partnership with Third International Conference on: "Social And Natural Sciences. International Institute for Private- Commercial- and Competition Law (Austria)"Social and Natural Sciences – Global Challenge 2018, August, 278–286.

Tuffnell, C., Kral, P., Durana, P., Krulicky, T. (2019).). Industry 4.0-based Manufacturing Systems: Smart Production, Sustainable Supply Chain Networks, and Real-Time Process Monitoring. . . Journal of Self-Governance and Management Economics, 7(12), 7–12.

Umobong, A., & Ibanichuka, E. (2016). Accounting Manipulations and Firms Financial Performance: Evidence from Nigeria. European Journal of Accounting, Auditing and Finance Research, 4(10), 30–47.

Valaskova, K., & Fedorko, R. (2021). Beneish M-score: A measure of fraudulent financial transactions in global environment? SHS Web of Conferences, 92, 1–10.