ICHSS
THE 3rd INTERNATIONAL CONFERENCE OF HUMANITIES AND SOCIAL SCIENCE
Examining Socio-Cultural Problems, Language, Literature, and Art to Uplift The Nation's Civilization

PROFIT MANAGEMENT: A CASE STUDY OF COMPANIES IN INDONESIA

1st Adera Feby Mutiautra[1], 2nd Maya Macia Sari[2], 3th Asminar Br Siagian[3], 4th Maininda Prasasti[4], 5th David Rahmat Zulius Hutabarat[5]
{aderafebymutia74227@gmail.com[1], mayamacia@dosen.pancabudi.ac.id[2], asminarsiagian2@gmail.com[3], mainindaprasasti05@gmail.com[4], davidhutabarat494@gmail.com[5]}

Management Study Program, Faculty of Social Sciences Pancabudi Development University, Indonesia[12345]

Abstract. Profit management is a practice carried out by companies to manipulate their financial statements to look better or as expected, without reflecting actual performance. Fraund is a dishonest act that is carried out deliberately, harms others, and often violates the law or business ethics, including in financial contexts such as financial data management or theft. While cash fraud refers to all forms of manipulation or unauthorized misuse of cash, such as cash theft, falsification of transactions, or manipulation of financial records related to cash transactions. This study aims to analyze profit management practices in companies in Indonesia with a focus on the use of qualitative and descriptive methods. Through this approach, the research identifies profit management, fraud, and cash fraud practices that may occur in the Indonesian business environment. In this study, qualitative data was collected from various sources and case studies of companies involved in profit management practices. The results of this study are expected to provide a better understanding of the phenomenon of profit management in Indonesia and its implications for business management and supervisory policies.

Keywords: Profit Management, Fraud, Cash Flow Fraud.

INTRODUCTION

In managing a company, the management directly can certainly get very high profits, this certainly has a direct effect on the bonuses that can be obtained from the management for the performance that has been done. Companies are now facing various kinds of fierce competition to survive in the global market, of course, the manufacturing industry in Indonesia is not spared from the harsh flow of competition. Companies are required to have a competitive advantage in order to be able and able to compete with other companies, not only in quantity and quality, but also includes various financial management well. In a sense, the implementation of good financial management will support business continuity, and will be shown by the achievement of company profits. This condition is able to encourage managers to carry out earnings management in terms of presenting and reporting profit information (Aditama and Purwaningsih, 2014).

Profit management is an action that is implemented from the choice of several accounting policies that exist in the company to achieve certain goals. Profit management can occur because financial statements are prepared on an accrual basis. Profit management can occur when managers use judgment in financial reporting, thus misleading the assessment for stakeholders about the performance of a company (Healy and Wahlen et al., 1999). The implementation of profit management in the financial statements by playing with the accrual component, is said to be accrual because it is in accordance with the expectations of people who make transactions in preparing financial statements (Sulistyanto, 2008). The company conducts profit management so that a financial report within the company looks better. Because investors who have a tendency to see a financial statement in assessing or measuring a company.

Explain that financial statements are a structure that presents the financial position in a company. Financial statement integrity provides accurate information and is independent of deliberate actions by management to manipulate financial statements. The integrity of financial statements is important because they reflect the company's values. Financial statements with integrity mean that financial statements are true, accurate and avoid manipulation of financial data during the preparation process. The occurrence of financial statement scandals caused a decline in public confidence, especially the financial community, one of which was marked by a drastic drop in stock prices of the companies affected by the case.

The cash flow statement is very important in providing information about the company's ability to generate profits, evaluating operational activities that have taken place, and planning future investment and financing activities. The importance of a company's cash flow information for investors opens the door to fraud loopholes. Cash flow from operational activities is considered a critical measure for the long-term survival of the company (Wehantouw &; Tinangon, 2015). Many investors are more interested in seeing profits from operational activities than other activities.

RESEARCH METHOD

The method used to examine profit management, fraud and cash flow fraud is a qualitative method (qualitative research) in the form of descriptive data in explaining the results of observations about an object.this qualitative method is used by paying attention to materials that mostly come from literature study research. Literature study research begins by looking for literature data both primary and secondary that have something to do with the focus of the discussion. After that, data processing is carried out to obtain research results to then be written as research findings and interpreted until obtaining the final conclusion of the study.

RESULT AND ANALYSIS

1.1 Earnings Management and Fraud

Both profit management and fraud are carried out consciously by managers. Profit management can be done because the choice of accounting policy depends on the manager, whereas fraud is done deliberately to benefit the manager himself. The background of profit management in agency relations is contained in contracts that provide incentives to managers who achieve targets from owners, while the background of fraud consists of financial benefits that managers are expected to obtain.

Prolonged profit management efforts can result in actions ranging from misstatements or omissions to material changes or omissions of explanations from the financial statements. Such actions are intended to deceive users of financial statements.

Previous research using financial ratios to detect financial reporting fraud found that of 21 financial ratios, 16 were significant indicating fraud. Other studies explain that, in terms of company size, total assets of more or less than 30% of total assets in the previous year indicate fraud. Other studies use logistical models to show that some proxy variables in financial statements, such as inventory growth rates, and return on assets (ROA), in contrast to companies that commit fraud and those that do not, indicate that profitability has an influence on the tendency of financial reporting fraud. Furthermore, it was found that management factors (related-party transactions, history of previous violations, and founder management (related-party transactions, history of previous violations, and founders on the board of directors), motivation (financial difficulties, family ownership, and foreign ownership), opportunities (board members and audit costs), and profit management had a significant effect on financial reporting fraud in companies. Other studies have found empirical evidence that CEO education, acquisition strategies, financial leverage and the type of public accounting firm (KAP) have no effect on the tendency of accounting fraud, while the variables of CEO age, asset composition, company size, capital turnover, and audit opinion, significantly affect the tendency of accounting fraud.

Companies that cheat first have managed profits in previous years, and in previous years are associated with a higher likelihood that companies meet or beat analyst estimates, or that inflate earnings, commit fraud. Companies that cheat are more likely to meet or beat analysts' estimates and inflate earnings than companies that don't cheat, even when there is no evidence of prior period profit management. In this study shows a higher tendency to commit fraud if the company has done profit management in previous years.

The drive to have good financial performance puts great pressure on the company's management to act fraudulently. So it is possible that fraud in the presentation of financial statements has great potential. Fraud is a danger that threatens the world due to providing false financial information, thus endangering information users. Practices that are often carried out include manipulating the recording of financial statements, eliminating documents, and profit markups, which can harm company finances or the country's economy. The results of research by the Association of Certified Fraud Examiners (ACFE) Global show that every year an average of 5% of an organization's revenue becomes a victim of fraud. Research by ACFE as outlined in the Report To The Nation (RTTN) report shows that in 2016 total losses due to fraud reached USD 6.3 billion with an average loss per case reaching USD 2.7 million. Furthermore, the ACFE states that fraud that occurs a lot is misuse of assets, then followed by fraud due to corruption and minimal fraud of financial statements.

Fraud diamond theory is a new view of the phenomenon of fraud. The elements of fraud diamond theory are pressure, opportunity, rationalization and capability.

1.1.1 Pressure According to Rahmanti, pressure is the urge of people to commit fraud. A common pressure for companies to manipulate their financial statements is a deterioration in the company's financial prospects. In SAS No. 99, there are four common types of pressure conditions that can lead to fraud. These conditions are financial stability, external pressures, individual financial needs, and financial targets.

1.1.2 Opportunity According to Elder et al, Opportunity is a condition that provides an opportunity for management or employees to misrepresent financial statements. Opportunities may occur due to weak internal controls, poor management oversight or through the use of positions. SAS No. 99 states that opportunities for financial statement fraud can occur in three categories. These conditions are industrial conditions, ineffective supervision, and organizational structure.

1.1.3 Rationalization Skousen et al stated that rationalization is the part of the fraud triangle that is most difficult to measure. Attitude or character is what causes one or more individuals to rationally commit fraud. In SAS No. 99 states that rationalization in companies can be measured by changes in auditors and audit opinions.

1.1.4 Capability Wolfe and Hermanson mentioned that a person's position in the organization can provide the ability to take advantage of opportunities to commit fraud. The traits described by Wolfe and Hermanson related to the element of capability in the actions of fraudsters are: Position / function, brains, confidence / ego, coercion skills, effective lying, immunity to stress.

1.2 Cash Flow Exclusion

In general, cash flow fraud occurs because of pressure or incentives to commit fraud where there is an opportunity to commit such fraud, and from deviations in individual behavior. If the company commits fraud and this fraud is discovered by the public, regulators, investors, media, and the public in general, then the company and related parties will suffer considerable losses. The parties harmed by fraud are the company itself, shareholders, and auditors. For shareholders, this form of loss is usually a drastic drop in stock price. It can be seen that the market capitalization of the shares of companies that commit fraud is relatively declining after the company is identified as committing fraud or when regulators issue reprimands for violations committed by the company. In the common perception that profit management is opportunistic, where managers do it to maximize their utility in agency relationships to maximize their compensation. Previous research has found that there is a relationship between financial misconduct and a decline in the operating performance of companies that commit fraud. The decrease in operating performance caused by Cash Flow Fraud is caused by reputation sanctions given by customers to companies that commit Cash Flow Fraud.

In other words, the decline in the company's operating performance due to fraud is an indicator that the company is experiencing a decline in financial/revenue. The fraud referred to in this study is Financial Cash Flow reporting fraud such as misstatement or omission of material misstatement or omission of material facts in the presentation and disclosure of financial statements. The company's financial condition is reflected in its financial statements, where managers will try to make the financial statements look as good as possible, this can cause fraud in the financial statements so that the company's condition looks good. Incorrect or unusual information can be considered invalid and cannot be used for decision making. Financial statement fraud committed by company management can be in various ways, can be by increasing assets / income or even making assets / income lower than the actual situation. Opportunities arise due to weak internal control of an organization, lack of oversight, and abuse of authority. The existence of a position or strategic position owned by someone provides an opportunity for that person to commit fraud, especially if the internal supervision and control of a company is weak, this condition will make it easier for perpetrators to act fraudulently. One factor that is expected to affect profit management is free cash flow. Free cash flow is cash flow that is actually available to be paid to all investors after the company pays all obligations and invests (Habib, 2008). Free cash flow is often a trigger for differences in interests between shareholders (principals) and managers (agents). The manager prefers the funds to be reinvested in profit-making projects, as this alternative will increase the incentives he receives. On the other hand, shareholders expect the remaining funds to be distributed so that it will add to their welfare. This opposite situation is what triggers agency conflicts between shareholders and managers. (Cardoso et al, 2014). Managers who have a self-interest nature will try to use this free cash flow to improve their welfare by ignoring the welfare of shareholders. To hide behavior that does not maximize shareholder welfare (non-wealth maximizing), encourage managers to carry out profit management with strategies to increase reported profits (Chung et al, 2005). This is in line with the results of research by Jones and Sharma (2001), Dechow et al (2006), Arfan (2006), Tresnaningsi (2008), Cardoso et al (2014), Barkhordar and Tehrani (2015), Bukit and Nasution (2015), Chintya and Indriani (2015), and Nekhili et al (2016) which show that free cash flow has a positive effect on discretionary accruals that increase profits. This means that the greater the amount of free cash flow a company has, the higher the level of profit management (which increases profits) carried out by managers, because the company is indicated to face greater agency problems, and vice versa.

Another factor that is expected to affect profit management is operating cash flow, operating cash flow is an indicator of profit management practices that can be detected where operating cash flow can provide a more complete picture of the company's ability to generate operating cash flow sufficient to service debt, equity and asset acquisition obligations. This operating cash flow provides relevant information about cash receipts and expenditures in a company during a period. Based on the Statement of Financial Accounting Standards No. 2 (IAI 2016: 2: 3) "The amount of cash flow derived from operating activities is a reference to determine whether the company's operating activities can generate sufficient cash flow to pay off obligations, maintain the company's operating ability, pay dividends and make investments without relying on outside funding sources". Information about cash flow from operating activities can be a signal for investors to know the condition of the company (Zeller and Stanko, 2000).

1.3. Example Case

Data from the ACFE Indonesia survey (2019) shows that manipulation of financial statements is fraud with a lower frequency of occurrence compared to corruption and misuse of state assets, which is 6.7%. However, losses resulting from manipulation of financial statements can reach more than Rp 10 billion per case. Based on sources from CNBC Indonesia (2021), several public companies in Indonesia are involved in financial statement manipulation scandals. The scandal involved issuers and state-owned enterprises such as PT KAI, PT Kimia Farma Tbk, PT Garuda Indonesia, PT Asuransi Jiwasraya, PT Indofarma, PT Hanson International, and PT Envy Technologies Indonesia Tbk.

The case of alleged manipulation of financial statements that needs further review is the case of PT Envy Technologies Indonesia Tbk. The issuer is suspected of fraud after 2 years of being listed as a public company on the IDX since July 9, 2019. The information disclosure letter submitted by the Company's management on July 21, 2021 shows IDX's request to explain the financial figures in the consolidated financial statements with its subsidiary, PT Ritel Global Solusi. PT Envy Technologies Indonesia Tbk's revenue and net profit experienced a significant and unusual increase from the previous year. In connection with the investigation of alleged manipulation of financial statements in 2019, trading of PT Envy Technologies Indonesia Tbk shares with the stock code ENVY has been suspended in the capital market for a period of two years starting December 1, 2020.PT Envy Technologies has the potential to face delisting if the company is proven to have manipulated financial statements (CNBC Indonesia, 2021a).

CONCLUSION

Based on the results of research and discussions that have been described, conclusions can be drawn that profit management can be done because the choice of accounting policy depends on the manager. While cheating is done deliberately to benefit the manager himself. The background of profit management in the relationship of longing is contained in a contract that provides incentives to managers who achieve targets from the owner, while the background of fraud consists of financial benefits that managers are expected to obtain. Prolonged profit management efforts can result in actions, ranging from misstatements or omissions to material changes or omissions of explanations from financial statements.Previous research using financial ratios to detect fraud Financial pioneers found that of the 21 financial ratios,16 that indicated fraud, companies that committed fraud were more likely to meet or beat analysis estimates and Inflated opinions than companies that did not cheat, even when there was no evidence of profit management of previous periods. In this study shows a higher tendency to commit fraud if the Company has done profit management in previous years. Fraund diamond theory is a new view of the fraund phenomenon. The elements of fraund diamond theory are pressure, opportunity, rationalization and capability. A common pressure for companies to manipulate their financial statements is a deterioration in the company's financial prospects.

According to Elder et al, Opportunity is a condition that provides an opportunity for management or employees to misrepresent financial statements. In SAS No. Attitude or character is what causes one or more individuals to rationally commit fraud. In SAS No. Capability, Wolfe and Hermanson state that a person's position in an organization can provide the ability to take advantage of opportunities to commit fraud. The traits described by Wolfe and Hermanson related to the element of capability in the actions of fraudsters are: Position / function, brains, confidence / ego, coercion skills, effective lying, immunity to stress. The parties harmed by fraud are the company itself, shareholders, and auditors. Previous research has found that there is a relationship between financial misconduct and a decline in the operating performance of companies that commit fraud. In other words, the decline in the company's operating performance due to fraud is an indicator that the company is experiencing a decline in financial/revenue. Data from the ACFE Indonesia survey (2019) shows that manipulation of financial statements is fraud with a lower frequency of occurrence compared to corruption and misuse of state assets, which is 6.7%. However, losses resulting from manipulation of financial statements can reach more than Rp 10 billion per case. The case of alleged manipulation of financial statements that needs further review is the case of PT Envy Technologies Indonesia Tbk.

References

Ayem, S., & Yuliana, D. (2019). Pengaruh Independensi Auditor, Kualitas Audit, Manajemen Laba, Dan Komisaris Independen Terhadap Integritas Laporan Keuangan (Studi Kasus Pada Perusahaan Perbankan Yang Terdaftar Di BEI Periode 2014-2017). Akmenika: Jurnal Akuntansi Dan Manajemen, 16(1). https://doi.org/10.31316/akmenika.v16i1.168

Christian, N., Febriana, H., Chairika, S., Barahama, S. M. T., & Vivin. (2023). Analisis Indikasi Manipulasi Laporan Keuangan Menggunakan Cash Flow Shenanigans Pada PT Perusahaan Gas Negara Tbk. Jurnal Ilmiah Akuntansi Dan Humanika, 13(2), 219–228. https://doi.org/10.23887/jiah.v13i2.63432

Christian, N., Resnika, R., Yukie, H., Sitorus, R., Angelina, V., Sherly, S., & Febrika, F. (2022). Pendeteksian Fraudulent Financial Reporting Dengan Earnings Manipulation Financial Shenanigans: Studi Kasus Pt Envy Technologies Indonesia Tbk. Jurnal Ilmiah Akuntansi Dan Bisnis, 7(1), 14–50. https://doi.org/10.38043/jiab.v7i1.3543

Diamond, F., Mendeteksi, D., & Laporan, K. (2017). 276492-Fraund-Diamond-Dalam-Mendeteksi-Kecurang-94E46C94. 3(2), 161–172.

FIRMAN, C. S. (2019). Pengaruh Arus Kas Bebas, Arus Kas Operasi, Kepemilikan Manajerial, Leverage Keuangan Dan Ukuran Perusahaan Terhadap Manajemen Laba Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia. Akbis: Media Riset Akuntansi Dan Bisnis, 11–26. https://doi.org/10.35308/akbis.v0i0.1017

Jao, R., Mardiana, A., Holly, A., & Chandra, E. (2020). Pengaruh Financial Target dan Financial Stability terhadap Financial Statement Fraud. Journal of Management, 4(1), 27–42. https://doi.org/10.37531/yum.v11.76

Kurniawan, A., & Hermawan, A. A. (2018). The Effect of Earnings Management on the Probability of Fraud and Financial Distress. 55(Iac 2017), 1–6. https://doi.org/10.2991/iac-17.2018.1

Martyanta, & Daljono. (2013). Pendeteksian Kecurangan Laporan Keuangan Melalui Faktor Risiko Tekanan dan Peluang (Studi Kasus pada Perusahaan yang Mendapat Sanksi dari Bapepam Periode 2002-2006). Diponegoro Journal of Accounting, 2(2), 1–12.

Parlindungan, P. (2022). Pengaruh Perencanaan Pajak Terhadap Manajemen Laba Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia. Balance : Jurnal Akuntansi Dan Manajemen, 1(1), 85–93. https://doi.org/10.59086/jam.v1i1.13

Permatasari, D., Tiana, R., & Wulandari, A. (2021). JURNAL AKUNTANSI INDONESIA 1 Manajemen Laba dan Faktor yang Mempengaruhinya Manajemen Laba dan Faktor yang Mempengaruhinya. In Jurnal Akuntansi Indonesia (Vol. 10, Issue 1).

Pradnyawati, S. O., Kepramareni, P., & Masyi, K. (2021). Manajemen Laba Dan Analisis Faktor Yang Mempengaruhinya. Jurnal Ilmiah Akuntansi Dan Bisnis, 6(1), 10–23. https://doi.org/10.38043/jiab.v6i1.3029

Safuan, S., Habibullah, M. S., & Sugandi, E. A. (2022). Eradicating tax evasion in Indonesia through financial sector development. Cogent Economics and Finance, 10(1), 33–50. https://doi.org/10.1080/23322039.2022.2114167

Trianawati, T. (2019). Pendeteksian Penipuan Laporan Keuangan Dengan Kinerja Keuangan Sebagai Variable Moderating Dengan Menggunakan Fraud Triangle Pada Perusahaan Manufaktur Di Bursa Efek Indonesia 2016 - 2018. Prosiding Seminar Nasional Cendekiawan, 1–7. https://doi.org/10.25105/semnas.v0i0.5820.