

# The Influence of Profit Management on The Financial Performance of Initial Public Offering Companies Listed on The Indonesian Stock Exchange, 2010-2018

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## Abstract

This research aims to determine the effect of earnings management on the financial performance of Initial Public Offering companies listed on the Indonesia Stock Exchange in 2010 - 2018. This research also uses two control variables: firm size and sales growth. The sample used is non-financial companies that report complete financial reports. The method used for this research is Ordinary Least Square regression with the Pooled Least Square data type. The results of this research indicate that earnings management has a significant negative effect on the company's financial performance. The regression results also explain that firm size has a significant positive result, which means that the impact of earnings management on the company's financial performance also depends on the size of the company. However, the control variable sales growth does not have significant results, so the impact of earnings management on the company's financial performance does not depend on the company's sales growth.

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## INTRODUCTION

Financing carried out by companies can come from several funding sources. According to Caglayan and Machokoto (2024), there are two types of funding: internal and external. Internal financing itself can come from the company's retained earnings (retained earnings) and sales of assets owned by the company. External funding can come from Debt and new equity issuance (Anggraini & Yuniningsih, 2024). Internal funding sources are often limited because retained earnings and assets owned by the company are limited, so they cannot support the company's operational activities much. According to the explanation from Singh et al. (2024), Debt to creditors is also limited and often makes it burdensome for debtors to pay fees or interest, resulting in the company not having enough to fulfill its operational activities and help the company expand its business. In overcoming company limitations in obtaining funds, the capital market provides solutions to companies that need additional capital/equity by conducting an Initial Public Offering (Badrua, 2021).

An initial public offering (IPO) is external funding where the company is required to set aside some of its shares to sell to the public. The proceeds from the sale of shares will help the company to increase the company's equity (Yarba & Yassa, 2022). Initial Public Offering, or what is usually called the primary market, is a place where company shares will be offered for the first time with conditions on the company's share price that underwriters trusted by the company have determined. In contrast, the secondary market is a facility where investors can freely carry out share purchase and sale transactions at prices that follow the market supply and demand system.

As time goes by, there has been an increase in the number of companies conducting IPOs. Companies are increasingly aware that the funds obtained by the company carries out an IPO positively impact growth in

terms of company performance and cash flow (McGuinness, 2019). These funds can be used to support the company's operational side, improve performance, and give the company the opportunity to expand its business. The growth in interest in conducting an IPO is also occurring in Indonesia. According to data attached to the Indonesian Stock Exchange, the total number of companies that conducted an IPO within a period of 9 years during 2010-2018 reached 247 companies, as shown in Figure 1.



**Figure 1.** Graph of IPO Companies on the Indonesian Stock Exchange

This phenomenon of increasing the number of IPO companies has also been accompanied by an increase in Indonesian stock market capitalization over the last 9 years. Based on data attached to the Indonesian Stock Exchange, there was a quite drastic increase, especially in 2016 due to an increase in stock market capitalization on the IDX by 1455% with a nominal value of IDR 75,753 trillion. Meanwhile, the record for the highest number of companies conducting an IPO occurred in 2018, when 55 companies were listed on the Indonesian Stock Exchange. Research from Vasic (2020) explained that an IPO is an important momentum for a company. Companies can get additional funds, but they must be more transparent than when the company was still closed. The demand for open information regarding the company's financial performance is an incentive for companies to continue to obtain and maintain good performance. This is what makes IPO companies able to deviate from the company's revenue account by increasing company profits. Deviations in the management of this report will have an impact on the concentration of income during the IPO period, which will provide wrong information/signals to the public, especially when the condition of a company is not fully reflected in the report. This can happen considering that management has flexibility in managing these reports based on accounting practices and techniques, usually called earnings management practices (Naz et al., 2024).

Earnings management is the action of company management who intervenes in the company's financial reports so that it has satisfactory performance in the eyes of the public and with the motive of wanting to gain sympathy and a good image from the public for the benefit of company funding and profit from the operational side of the company itself (Baskara et al., 2020). Management uses this practice to increase revenue, impacting the company's net profit. An increase in net profit will form a positive perception among investors. Whether or not there is an action on the part of company management to carry out earnings management practices can be seen by calculating discretionary accruals using the Modified Jones Model technique. (Bansal, 2024).

Discretionary accruals are the recognition of profits or expenses from a company where these profits and expenses arise because of management policy (Narsa et al., 2023). The profit recognition in question comes from company sales, which are made on an accrual basis. The accrual basis in question is an accounting recording where the recording is made when a transaction occurs, even though no payment has occurred. Sales on the accrual basis listed are credit sales/receivables, considering that these sales are still recorded because they are considered to have occurred transactions even though the company has received no payment. Kusumo (2022) explains that the determination of company credit sales is very likely to be manipulated because credit sales can be included in the sales account even though the company has not received payment from consumers. As a result, accruals will be subject to all types of manager policies and decisions, including when managers carry out income maximization (Narsa et al., 2023).

This earnings management practice is also often carried out in IPO companies. This practice is becoming more common because IPO companies must always give positive signals to reflect financial performance that meets or exceeds standards (Houston & Ferris, 2015). The success or failure of a company in conducting an IPO is based on the market's perception of the company's share price. Market perceptions regarding share prices are

based on the company's financial performance. The better the company's financial performance, the more investors will appreciate it (Salehi et al., 2022). These demands increasingly force management to take earnings management actions.

This earnings management practice is proven by research from Pastusia et al. (2016), who used 527 companies that conducted initial public offerings in the 1991-2012 period on the Warsaw Stock Exchange. This research indicates that the IPO company, which is the object of research, carries out earnings management in its financial reports after looking at the comparison between financial performance before the IPO and after the IPO. This was due to a drastic decline in the company's profitability after the IPO. The results of this research are supported by research from He et al. (2024) which explains that the results of earnings management cannot last long, so profits with good performance reported in the company's financial statements are artificial/temporary and cause a decrease in profits themselves in the future after the company makes an offer.

This research is expected to provide an overview of how earnings management actions influence the financial performance of IPO companies. In measuring financial performance, the ratio used is the profitability ratio. The profitability ratios used in this research are Return on Assets (ROA) and Return on Equity (ROE) because the main impact of an earnings management action is on the profitability ratio, which ROA and ROE represent. Information asymmetry between management and shareholders, as well as limited prospectuses for investors, have an impact on the IPO funds obtained by the company from the IPO process being greater than they should be. The trust gained from investors can impact on the company's profitability level, which improves because of the funds obtained by the company from these investors. Apart from being a benchmark for investors in assessing a company, company profitability is also the company's main objective in carrying out operational activities.

This research will be conducted on companies that conducted Initial Public Offerings in Indonesia in 2010-2018. This time will provide a more objective picture for this research because the impact of the 2008 crisis and rapid economic growth was felt during that year. In addition, this research does not use financial companies because of the strict supervision of the Indonesian Bank and the Financial Services Authority on financial companies, especially in processing company financial reports. This impacts the possibility that a financial company will make irregularities in each period's financial reports. This research also uses control variables such as Firm Size and Sales Growth. Firm Size is used as a control variable by considering its market capitalization because each company, especially during the IPO, has different company characteristics. Maheshwari and Agrawal (2015) stated that company size will influence the company's income level positively or negatively. Companies with larger sizes also have better abilities in managing profits and tend to avoid earnings management practices. The larger company indicates that it can generate net profits with its sales without using accounting methods to increase its net profits. Sales Growth is a variable that determines a company's financial performance (Anggraini & Yuniningsih, 2024). The level of sales growth is an important control because when the company's sales growth is high, it will cause a decrease in discretionary accruals because the company can already have good sales growth, so there is no need for practice to increase the company's net profit (Harinurdin, 2022). Based on the explanation above, research problem formulation has been determined: How much influence does earnings management have on the financial performance of companies conducting Initial Public Offerings for the 2010-2018 period?

## **LITERATURE REVIEW**

### **Initial Public Offering (IPO)**

An initial offering is a mechanism where a company issues new shares for sale to the public. This aims to enable the company to obtain additional new equity from external parties with minimal risk so that the company can use these funds to finance company operations and business expansion and even to improve the company's capital structure. According to Abbas et al. (2022), a company carries out an Initial Public Offering (IPO) because of problems in the company and terms of company equity.

Initial Public Offering (IPO) has many uses for companies and investors. According to (Yong, 2016), a new company conducting an Initial Public Offering (IPO) invites more investors to acquire its shares. This indicates that the company can also gain a lot from the funds obtained, and investors can also benefit from the projected profits they will get.

## Agency Theory

Agency theory explains that two parties are called "agent" and "principal". The principal who is the owner of the company is known as the party who gives authority to the agency, known as company management, where the management has the right to make decisions (Ali et al., 2015). In agency theory, it is explained that there is a high risk of information asymmetry between the agency and the principal. Asymmetry occurs because of the unevenness of information obtained by both parties. Often, agents know more real information because they have the authority to manage a company's operations. The excess authority possessed by agents is often also used to intervene in financial reports, which is called earnings management practices (Brennan, 2021).

In this position, other parties, namely investors, suffer losses. Investors only have access to an overview of the company through financial reports, but financial reports are very vulnerable to intervention/meddling from management (Preuss & Königsgruber, 2021). From the investor's perspective, investors certainly demand good financial performance, in contrast to agents as company management who prioritize their psychological interests. This indicates a conflict of interest from both parties. These demands from investors often make things difficult for companies, where sometimes the company's performance cannot be as good as investors expect. In this condition, management can carry out earnings management according to accounting standards, which can benefit itself and give the wrong signal to investors. It appears that the goals of investors and management are the same. However, the actions taken by management can be contradictory and tend to be detrimental to investors when the condition of a company is not as good as what investors see.

## Profit Management

Earnings management is an action by management to intervene in financial reporting and preparation of transactions to change a company's financial reports so that they are in line with the company's objectives in providing benefits to the company. The intervention referred to in the company's financial statements is by making the company's net profit look good. This is done by management so that investors can positively perceive the company and be interested in buying the company's products and shares. According to research from Thing et al. (2023), earnings management actions arise when management uses their estimates to inform financial information. This can mislead stakeholders into knowing the company's performance and the results of agreements, which can be influenced depending on accounting numbers. Profit management is carried out by taking accounting aspects into account, so this practice is very risky in the industrial world because the condition of the original company can be much worse than it seems, thus inviting misinterpretation by many people.

## Discretionary Accruals

Discretionary accruals are variable to detect whether a company is indicated by earnings management (Bansal, 2024). In measuring discretionary accruals, the modified Jones model method will be calculated. Modified Jones Model to reduce the likelihood of error when measuring discretionary accruals. To measure discretionary accruals in this method, it is necessary to find the difference between total accruals and non-discretionary accruals.

## Company Financial Performance

For companies, superior performance is the core goal of a company (Anggraini & Yuniningsih, 2024). Good financial performance is an achievement for the company because financial performance can reflect the company's financial health. Financial performance can be measured using the financial reports released by the company each period. The released financial report shows that financial performance can be seen from financial ratios. The financial ratios describe the condition of a company. Often, the condition of a company is also used as a guide by investors before investing in that company. In the context of IPO companies, there is one ratio indicator that investors look at to guide decision-making, namely the profitability ratio. According to research by Chakroun and Ben (2021), this profitability ratio already represents other financial ratios. This statement is also supported by the Dupont Analysis technique, which explains that the financial indicators that influence the level of company profitability come from operational efficiency, asset use, and level of profitability. leverage the company itself. In conclusion, all ratios owned by the company ultimately aim to increase the profitability of the company itself.

The profitability ratio is one of the leading indicators investors can use before investing. This ratio explains the company's ability to seek profits either through assets, equity, or company sales. This ratio also provides an overview of how a company effectively manages its assets to convert them into profits (Cashmere, 2016). Commonly used profitability ratios can be measured through 3 ratios, namely Return on Assets (ROA), Return on Equity (ROE), and Return on Investment (ROI). In this research, financial performance is measured using ROA, which is the basic ratio in measuring a company's wealth from the assets it owns, and ROE, which is a ratio using equity measurements where IPO companies get additional equity from external companies.

This ROA ratio can also see to what extent the investment in the company is able to provide profits, where the actual value of the investment is the same as the assets owned by the company. The greater the ratio, the greater the company's level of efficiency in managing its assets. The assets owned by the company can be managed well so that they can be converted into the company's profit level. Meanwhile, for ROE, this ratio can help to measure how much equity the company in this research has when the IPO is the main factor in the additional equity the company gets. The equity from this IPO can be measured by its impact on the company's post-IPO profits. The greater the company's ROE, the more it indicates that the company's ability to utilize its equity is better. From this explanation, ROA and ROE will be used for this research because these two ratios are not only indicators for the company's internal side, but are important indicators for the company's external side, especially from the company's stakeholders and shareholders.

Sales growth is an indicator that can have an impact on a company's financial performance. In a service or manufacturing company, it is impossible to separate it from sales. Increased sales will also have an impact on the company's profits. According to Cashmere (2016), sales growth describes a company's ability to maintain its performance position amidst continuing economic growth. Sales growth can be measured through company sales from year to year. A company that has high sales growth indicates that the company's operations are running well, but high sales growth also indicates that the company needs more investment in the various assets it owns. (Silva & Meti, 2020).

Firm size is a comparison of the size of a company. In measuring whether a company is large or not, there are 3 things that need to be considered: the assets owned by the company, the capitalization owned by the company, and the company's income. Company size is divided into three categories: large, medium, and small. The bigger the company, the better it is at managing its assets, income, and capital, so the company can be considered more mature. Not only is it mature, but the bigger the company, the more it is in the public's spotlight with demands to maintain its financial performance (Meng et al., 2023).

## **Relationship Between Concepts**

### ***Profit Management with Financial Performance of Initial Public Offering Companies***

In funding in the form of an IPO, the company must take the consequences, namely, disclose all information to the public as shareholders of the company. However, the disclosure of this information is often unbalanced because investors only receive the results in financial reports after management processes them. The authority possessed by management in managing financial reports is not commensurate with the information obtained by investors. Investors tend not to get complete information because financial reports have been intervened in using management accounting methods. This information asymmetry means that the information provided to investors often does not correspond to the company's situation. When the company's performance has a good perception from investors after seeing the reported financial performance, this will also have an impact on the company's performance after the company carries out its IPO. Financial performance can be affected because the company's financial reporting can form investor perceptions. Poor performance will have an impact on bad perceptions, conversely, if financial performance is good, it will have a positive impact on investor perceptions. This statement was explained by Dong & Hmoney (2022), stating that investor confidence would impact the initial price of the initial offering. The higher the price at the time of the IPO, the greater the funds received.

High investor standards are also one of the triggers for earnings management practices in financial reports published by companies. Research from Statue (2018) explained that when the company conducted an IPO, it found an increase in discretionary accruals. This shows that management has free control over the company's financial reports. Previous research conducted by Mangala and Dhanda (2019) explained that there was a drastic decline in the average return on assets and return on equity after the company conducted an IPO. This

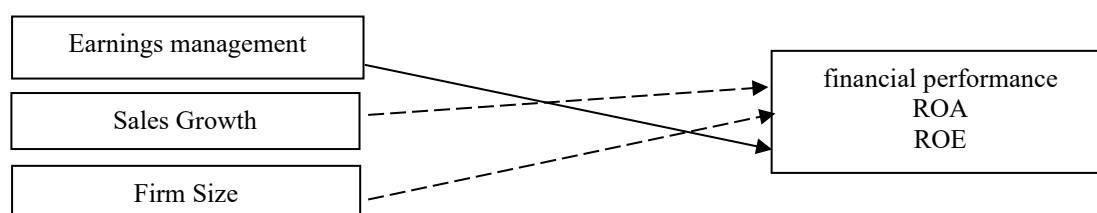
decrease was due to the average of the sample companies studied, which indicated that they were carrying out earnings management and had a sudden increase in profits when the company was about to conduct an IPO. The conclusion of this research shows that earnings management has a negative effect on the company's financial performance after conducting an IPO. An increase in discretionary accruals causes this. This indicates that the greater the level of deviations management makes in managing company profits during the IPO, the more significant the impact on decreasing financial performance after the IPO. The results of this research are supported by research from Gill et al. (2014) who explain that the higher discretionary accruals, which indicate greater earnings management practices, will have a negative effect on the return on assets and equity owned by the company in the following year. This can happen because when a company practices earnings management, income from the future is withdrawn in the desired period. When this income is withdrawn, and management cannot balance it in the following period, it will impact the company's financial performance.

### **Firm Size and Sales Growth as Control Variables for Profit Management on Financial Performance**

Firm size is a company size that is useful for classifying whether the company is large, medium, or small. In carrying out this classification, there are indicators that can be seen externally to the company which can help determine how big the company is, namely through the company's total assets, revenue size, and market capitalization. Meng et al. (2023) explain that the larger the company size, the greater the demand to provide good performance. These demands encourage companies to take action to carry out special treatment using accounting methods to increase company income, which is called earnings management practices. This earnings management action has an impact on increasing discretionary accruals so that it also impacts post-IPO financial performance. This explanation is supported by research from Reasonably et al. (2019) who explain that the larger the size of the company, the higher the information asymmetry and agency conflict. This action triggers the practice of earnings management because of the management's excessive authority and discretion. This has an impact on decreasing financial performance after management carries out earnings management in its financial reports (Gill et al., 2014).

Sales growth is sales growth that can be calculated after comparing it with the previous year. High growth in sales indicates an increase in profitability margins as well. This indicates that an increase in profits could occur due to increased sales. Research from Gone et al. (2016) explained that low sales growth triggers earnings management practices because management is responsible for having good financial performance followed by high growth. When management cannot fulfill these responsibilities, earnings management practices are used to achieve the company's and management's goals. It can be concluded that when company sales increase, the company's financial performance is also positively impacted. Good performance during the IPO will have an impact on small discretionary accruals because the company does not need to improve its performance by practicing earnings management in the form of increasing income.

### **Framework for Thinking and Research Hypotheses**



**Figure 1.** Research Conceptual Framework

Based on Figure 1, the research hypothesis can be determined, namely:

- H<sub>1</sub>: Earnings management has a significant effect on the financial performance of the company that carries out its Initial Public Offering.
- H<sub>2</sub>: Earnings management has a significant effect on Return on Assets the company that does Initial Public Offering.
- H<sub>3</sub>: Earnings management has a significant effect on Return on Equity, the company that does Initial Public Offering.

### **RESEARCH METHOD**

The research used is associative research. Association studies are studies that aim to determine the influence between variables. The research method used is quantitative because it uses numbers in the form of ratios for

research. Population is a generalized area where subjects and objects have characters and qualities (Sugiyono, 2015). The population is at a broader level before the researcher extracts samples from a large population. For this research, the population used is companies conducting an IPO in Indonesia. The sample used for this research includes several criteria, including reports on company financial performance, available on the Indonesia Stock Exchange website or each company's website. There are complete financial ratios (ROA and ROE). Figures in financial reports are presented in IDR and non-financial institution companies listed on the Indonesian Stock Exchange 2010-2018.

The data used is quantitative because the data used are company financial ratios which can describe the company's financial performance and measure discretionary accruals to prove earnings management practices used in accounts in financial reports such as net income, cash flow operations, total assets, income, and company receivables. Regression analysis is used to determine the influence of the independent variable on the dependent variable.

Model 1 to determine the effect of earnings management on Return on Asset company in the first year post-IPO using control variables:

$$ROA_{it1} = \beta_0 + \beta_1 AND_{it} + \beta_2 Fsize_{it} + \beta_3 Sgrowth_{it} + \varepsilon_{it} \quad (1)$$

Model 2 to determine the effect of earnings management on Return on Asset company in the second year post-IPO using control variables:

$$ROA_{it2} = \varphi_0 + \varphi_1 AND_{it} + \varphi_2 Fsize_{it} + \varphi_3 Sgrowth_{it} + \varepsilon_{it} \quad (2)$$

Model 3 to determine the effect of earnings management on Return on Equity company in the first year post-IPO using control variables:

$$ROE_{it1} = \partial_0 + \partial_1 AND_{it} + \partial_2 Fsize_{it} + \partial_3 Sgrowth_{it} + \varepsilon_{it} \quad (3)$$

Model 4 to determine the effect of earnings management on Return on Equity company in the second year post-IPO using control variables:

$$ROE_{it2} = \gamma_0 + \gamma_1 AND_{it} + \gamma_2 Fsize_{it} + \gamma_3 Sgrowth_{it} + \varepsilon_{it} \quad (4)$$

Information:

$ROA_{it1}$	: ROA for the company i in the first year after the IPO
$ROA_{it2}$	: ROA for the company i in the second year after the IPO
$ROE_{it1}$	: ROE for the company i in the first year after the IPO
$ROE_{it2}$	: ROE for company i in the second year after the IPO
AND	: Discretionary accruals
Fsize	: Firm size
Sgrowth	: Sales growth
$\beta_0, \varphi_0, \partial_0, \gamma_0$	: Constant
$\beta_1, \varphi_1, \partial_1, \gamma_1$	: Regression coefficient of independent variable
$\beta_{2-3}, \varphi_{2-3}, \partial_{2-3}, \gamma_{2-3}$	: Control variable regression coefficient
i	: Company
t	: IPO year
$\varepsilon$	: Error term

## ANALYSIS AND DISCUSSION

The population used is non-financial companies that conducted Initial Public Offerings on the IDX for 2010-2018. Samples were taken using a purposive sampling technique. There were 247 companies that conducted Initial Public Offerings for the 2010-2018 period. The financial reports were incomplete and presented in currencies other than IDR for 81 companies and 16 financial sector companies. These results showed that the 150 companies in the sample met the requirements. After carrying out the classical assumption test and detecting several models that did not pass the classical assumption test, the data was processed using outlier techniques by eliminating 55 companies so that 95 sample companies were studied. The following are the regression results after carrying out the classical assumption test.

In this research, four models show the effect of earnings management on financial performance. From the four models tested, the results were found that earnings management had a significant negative effect on the ROA

ratio in the second year after the IPO ( $ROA_{it2}$ ) found in model 2. In model 2, discretionary accruals, representing the earnings management variable, show numbers with a p-value below 5%. DA has a regression coefficient value of -0.009215. This shows that if the DA variable increases by 1, then the variable  $ROA_{it2}$  will decrease by 0.009215 assuming constant Sgrowth and Fsize variables. In model 2, some results show that firm size has a significant positive effect as a control variable on financial performance. Another model to measure the effect of earnings management on financial performance shows insignificant results. This result is also supported by the Prob F (Statistics) results from models 1, 3, and 4 which exceed 0.05, indicating that this model is not fit.

**Table 1.** Regression Test Results

	Model 1		Model 2		Model 3		Model 4	
	Coef.	Prob.	Coef.	Prob.	Coef.	Prob.	Coef.	Prob.
C	-0.133936	0.1980	-0.216751	0.0374	-0.300473	0.1031	-0.111790	0.5815
DA	-0.003246	0.4442	-0.009215	0.0307	0.002586	0.7298	-0.009617	0.2478
SGROWTH	0.020366	0.2247	0.007416	0.6552	0.056966	0.0561	-0.006549	0.8413
FSIZE	0.006473	0.0822	0.008706	0.0194	0.013768	0.0371	0.001170	0.8714
Adjusted R	0.026633		0.098343		0.051280		-0.014650	
Prob (F-statistic)	0.142423		0.006021		0.050692		0.651023	

In this research, four models show the effect of earnings management on financial performance. From the four models tested, the results were found that earnings management had a significant negative effect on the ROA ratio in the second year after the IPO ( $ROA_{it2}$ ) found in model 2. In model 2, discretionary accruals representing the earnings management variable show numbers with a p-value below 5%. DA has a regression coefficient value of -0.009215. This shows that if the DA variable increases by 1, then the variable  $ROA_{it2}$  will decrease by 0.009215 assuming constant Sgrowth and Fsize variables. In model 2, some results show that firm size has a significant positive effect as a control variable on financial performance. Another model to measure the effect of earnings management on financial performance shows insignificant results. This result is also supported by the Prob F (Statistics) results from models 1, 3, and 4 which exceed 0.05, indicating that this model is not fit.

The results of this research show that earnings management practices have a significant negative effect on the ROA ratio two years after the IPO. This means that the increasing discretionary accruals, which indicates that the deviation from increasing profits is getting bigger, will cause a significant decline in financial performance after two years of the IPO. Agency Theory explains that a conflict of interest causes one party, in this case, the company as an agent, to use its authority to benefit the company (Brennan, 2021). This is what causes companies that carry out an IPO as the authority holder to carry out income increases by applying special treatment to the company's financial reports through accounting methods to give the impression that the company's net profit is greater than it is. Greater profits will benefit the company by forming a good perception among investors regarding the company's financial performance.

When company management can make financial reports look good and get large funds from investors, one problem is the basis for the decline in the company's financial performance, namely maintaining the performance of earnings management results. Financial reports from earnings management results do not show figures describing the company's financial condition. This is a tough task for management to maintain what the company does not actually own. This phenomenon is explained again by He et al. (2024), who, on average, companies that carry out earnings management experience a decline in financial performance due to the management's inability to maintain financial performance, which suddenly increases drastically when the company carries out additional equity actions. This also supports research by Ben Amar and Chakroun (2019), who studied the impact of earnings management on financial performance. The results show that earnings management significantly negatively affects the company's ROA.

In looking at the influence of earnings management on financial performance, it is also equipped with the control variables of firm size and sales growth. Firm size has a significant influence on earnings management and financial performance. These results explain that the impact of earnings management on financial performance at each company size has different results over time. This explanation is also supported by Meng et al. (2023) which states that the bigger the company, the greater the pressure placed on the company, so the company must take certain steps such as intervening in the company's financial reports. These results are also supported by the explanation of agency theory explained by Reasonably et al. (2019) that company size has an

impact on agency conflicts and results in information asymmetries that arise. Larger companies have a greater risk of agency conflict, whereas this agency conflict guides management in carrying out earnings management practices on the company's financial reports.

Meanwhile, the control variable sales growth has insignificant results. This explains that high or low sales growth in the company does not have an impact on management's decisions in carrying out earnings management. High sales growth does not guarantee that management does not need to practice earnings management because an increase in income does not necessarily have an impact on the company's net profit, which can satisfy investors. These results are supported by research from Mangala & Dhanda (2019) which explains that earnings management has no impact on financial performance in companies with different sales growth.

## CONCLUSION

Based on the analysis and discussion, this research concludes that earnings management significantly affects the financial performance of companies conducting Initial Public Offerings on the Indonesia Stock Exchange in 2010-2018 using the control variables of firm size and sales growth. The two control variables have different results; firm size has a significant influence, while sales growth does not significantly influence the company's financial performance. In this research, when looking at the impact of earnings management practices on company financial performance, it is recommended that earnings management be developed by looking at the effect of earnings management on stock performance and company operational performance after the company carries out an initial public offering. Practical contributions for investors can be considered before investing in an initial public offering company, and companies can assess risks and consequences when carrying out earnings management. The theoretical contribution enriches the theory of earnings management on financial performance with company objects when conducting a rights issue.

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