Macro fundamental analysis on profit management as an intervening variable on financial performance

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ABSTRACT

The study aims to determine the impact of macro fundamental on financial performance with profit management as the intervening variable on the plastic and packing sub companies registered in Indonesia Stock Exchange. The population in this study is the plastic and packing sub-sector companies listed in the Indonesian Stock Exchange in 2016-2020. The source of financial report data from the Indonesia Stock Exchange through the www.idx.co.id website and financial statements from the official website of each company in the plastic and packaging sub-sector has been published. The population of this study is 15 companies and purposive sampling is carried out for sampling so that 10 company samples are obtained. Research methods aided by Partial Least Square programs used with SmartPLS 3.0 software. The result of the study, shows that the macro fundamental against financial performance show have positive impact no significant, macro fundamentals against profit management has positive impact significant and profit management against financial performance have negative impact no significant.

1. INTRODUCTION

Economic growth continues to occur in the era of globalization as it is now. The number of companies that have begun to emerge with similar fields or sectors can be one example that can cause fierce competition among them. It is natural for a company to feel threatened and try to develop and try to survive in the competition. This incident triggered the company to carry out various ways and strategies to improve performance in the company so as not to lose out on the competition.

The impact that occurs in competition makes companies strive to improve their company performance. These activities can be carried out by reviewing all aspects of the company, one of which is financial performance (Oktavio et al., 2024). Financial performance can be a measure of a company's success which is seen through its financial side (Noviawan et al., 2013). This activity can also be said to be an activity carried out to find out the extent of the company's development that has been achieved in each certain period, which is seen through its finances.

Financial performance can be done by conducting an analysis. What is needed in analyzing financial performance is the financial statements of the company. Financial statements are reports aimed at showing the financial condition of a company at this time or in a certain period (Kasmir, 2018). Financial statements can be one of the sources to find out the company's financial performance in a certain period.

The analysis carried out on the financial statements will show the company's financial performance in a healthy or unhealthy condition whose results can be used to design future business plans and to evaluate the company's management performance in the present and future. Based on this statement, the following is the average financial performance of companies in the plastic and packaging sub-sector listed on the IDX for the 2016-2020 period.

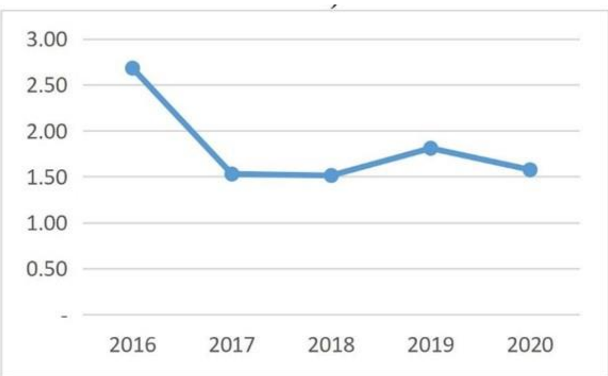

Figure 1. Financial Performance of Companies in the Plastic and Packaging Sector at IDX (2016-2020)

The results of data processing carried out on financial performance, especially Return On Asset (ROA) in companies in the plastic and packaging sub-sector listed on the IDX for the 2016-2020 period, it is clear that there is a decline in the company's financial performance from year to year. This decline shows that the company is less efficient in using its assets to earn income. Some previous studies believe that financial performance in companies decreases or increases due to several factors that affect it. Therefore, in this study, we want to find out how macro fundamentals affect financial performance with profit management as an intervening variable.

2. LITERATURE REVIEW

Management Accounting

Management accounting can be defined as the application of techniques and concepts for processing data and financial information used by management in the preparation of plans, evaluation activities, control and decision-making to achieve the expected goals (Kamaruddin, 2007, Kholmi, 2019). The information produced by accounting management is flexible and not bound by generally accepted accounting rules, so it can be adjusted to the specific needs of an organization. Thus, accounting management is a very useful tool for management in achieving organizational goals (Siregar et al., 2013; Platt, 2015).

Financial Report

According to Kasmir (2018), financial statements are a presentation in the form of a report containing structured financial information which shows the current financial condition of a company or a certain period. Financial statements are a form of formal communication that presents quantitative information about an entity's financial position, financial performance, and cash flow (Subramanyam., 2012). This information is presented in the form of structured reports, such as balance sheets, income statements, capital change statements, and cash flow statements (Hanafi, M., 2017).

The main purpose of financial statements is to provide relevant and reliable information to various users, such as investors, creditors, management, and other interested parties in economic decision-making. The quality of financial reports is very important for users in making economic decisions. Quality financial statements must be relevant, reliable, comparable, and understandable (Warren, et al., 2013).

Financial Performance

Financial performance is an overview that shows the ability of a company to see and know the extent of the company's achievements in managing and controlling various activities and resources owned (IAI, 2007). Various studies have been conducted to understand financial performance, using a variety of indicators and analysis models. Commonly used indicators include profitability ratio (ROA, ROE), liquidity ratio and solvency ratio (Kurniasari, 2014). In addition, analysing financial performance trends is also important to identify patterns and trends that occur. Good financial performance is not only important for investors, but also for other stakeholders such as creditors, employees, and the government (Rudianto, 2016).

Macro Fundamentals

Macroeconomic fundamentals are macroeconomic conditions seen based on Bank Indonesia's interest rate, inflation, gross domestic income, and the exchange rate of the US dollar against Indonesia that occurred during that period (Hwihanus et al., 2019). Fundamental macro analysis is an in-depth approach in understanding the overall economic performance

(Tandelilin, 2010). This theory argues that the price of assets, including stocks, bonds, and currencies, will ultimately reflect the underlying economic conditions.

This analysis aims to identify long-term trends in the economy and measure their impact on various sectors. Macroeconomic variables that are often analysed include Gross Domestic Product (GDP), unemployment rate, balance of payments, and inflation expectations (Kasmir, 2018). Investors and market participants use fundamental macro analysis to make more informative investment decisions, manage risk, and identify attractive investment opportunities (Tjiptono et al., 2006; Oktavio et al., 2024).

Profit Management

Profit management is an act or manipulation activity in financial statements (Yanto et al., 2020). Profit management actions can be in the form of raising, decreasing or equalizing profits in financial statements. This activity is an act of intervention by the management. Healy and Wahlen (in Sri Sulistyanto, 2008) define profit management as the use of certain decisions in financial statements and transactions to change financial statements as the basis for assessing a company's performance aimed at misleading owners or shareholders.

Conceptual Framework and Hypothesis

Figure 1. Research Framework

H1: There is a macro fundamental influence on financial performance of companies in the plastics and packaging sub-sector listed on the Indonesia Stock Exchange

H2: There is a fundamental macro influence on profit management in companies in the plastics and packaging sub-sector listed on the Indonesia Stock Exchange

H3: There is an effect of profit management on financial performance in companies in the plastics and packaging sub-sector listed on the Indonesia Stock Exchange.

3. METHODOLOGY

The type of data used in this study is using quantitative data. The quantitative research method is a research approach that focuses on the collection and analysis of numerical data (Sugiyono, 2015). This method is often used to test hypotheses, identify relationships between variables, and make population generalizations (Creswell, 2014). The data needed is the annual financial report of each company in the plastic and packaging sub-sector for the 2016-2020 period. The source of financial report data from the Indonesia Stock Exchange through the www.idx.co.id website and financial statements from the official website of each company in the plastic and packaging sub-sector has been published. The population of this study is 15 companies and Purposive Sampling is carried out for sampling so that 10 company samples are obtained.

Variable and Indicator

This study uses independent variables, dependent variables, and intervening variables. The independent variables of this study are macro fundamentals with indicators of inflation, interest rates, and exchange rates. The dependent variables of this study are financial performance with indicators of Return on Asset (ROA), Return on Investment (ROI), receivables turnover, profit margin, inventory turnover, and current ratio. The intervening variable of this study is profit management with discretionary accruals indicators.

Data Analysis Methods

The data analysis methods used are the Outer Model test and the Inner Model test. The hypothesis testing technique uses a T-statistical test. This research uses the SmartPLS program.

4. RESULTS AND DISCUSSION

Outer Model

In the study using the Outer model, validation and reliability tests will be tested. The validation test will see if the indicators are declared valid if several treatments are carried out using SmartPLS.

Table 1. Cronbach's Alpha

	Macro Fundamentals	Financial Performance	Profit Management
X1.1	-0.261		
X1.2	-0.877		
X1.3	0.975		
Y1.1		-0.097	
Y1.2		0.930	
Y1.3		-0.003	
Y1.4		0.808	
Y1.5		-0.201	
Y1.6		0.834	
Z			1.000

Source: Research Data (2024)

The indicator is declared valid if it has a Loading Factor of more than 0.70 for the intended construction (Ghozali, 2014). Based on Table 1, it can be seen that some of the Loading values are red and below 0.70. To get good Outer Loading results, a retest is carried out by dropping on the indicators excluded above, then the following are the results:

Table 2. Result for Outer Loading Dropping Finish

	Macro Fundamentals	Financial Performance	Profit Management
X1.3	1.000		
Y1.2		0.933	
Y1.4		0.800	
Y1.6		0.843	
Z			1.000

Source: Research Data (2024)

Based on Table 2 above, it shows that the loading factor has a value above 0.70. The above results are valid and have met convergent validity. After this step, the next step is to carry out check activities using Average Variance Extracted (AVE).

Table 3. Average Variance Extracted (AVE)

	Average Variance Extraced
Macro Fundamentals	1.000
Financial Performance	0.741
Profit Management	1.000

Source: Research Data (2024)

Average Variance Extracted (AVE) is a value owned by all variables. It is recommended that the AVE value is more than 0.50 (Ghozali, 2014). If it is found that the AVE value is less than 0.50, the indicator has not been said to be valid so it must be checked again. Based on Table 3, it can be seen that the AVE value is already more than 0.50 so that all variables are said to be valid.

After the validation test is carried out, a reliability test is carried out to see if the variable is declared reliable. The reliability test can be measured by the Composite Reliability value by looking at the reliability of the construct or latent variables. A variable is declared reliable if the Composite Reliability has a value of more than 0.60 (Ghozali, 2014). The output results of SmartPLS on Composite Reliability are as follows:

Table 4. Composite Reliability

	Composite Reliability
Macro Fundamentals	1.000
Financial Performance	0.895
Profit Management	1.000

Source: Research Data (2024)

Based on Table 4, it can be concluded that the Composite Reliability value on all variables has a value of more than 0.60. From these results, all variables have good reliability in accordance with the minimum value limit that has been hinted. The reliability test can also be corroborated through Cronbach's Alpha which is recommended to have a value of more than 0.70. Here are the results of Cronbach's Alpha:

Table 5. Cronbach's Alpha

	Cronbach's Alpha
Macro Fundamentals	1.000
Financial Performance	0.827
Profit Management	1.000

Source: Research Data (2024)

Table 5 can conclude that the value has met the recommended conditions and the value of all construction variables is more than 0.70.

Inner Model

The next stage after the Outer Model test is the Inner Model (structural model) test. Testing the Inner Model is carried out by looking at the R-square, if the R-square value is higher than the better. Here is the R-square value in the construct:

Table 6. R-Square

	R-Square
Financial Performance	0.215
Profit Management	0.048

Source: Research Data (2024)

The R-Square value is on a scale of 0-1, if the value obtained is closer to 1 then the value is better. Based on Table 6, it can be concluded as follows:

a. The R-Square value of 0.215 on the financial performance variable which means that macro fundamentals, and profit management can be explained by financial performance of 21.5% and the remaining 78.5% is not explained in this study. The conclusion is that financial performance is influenced by macro fundamentals, and profit management by 21.5%. The remaining 78.5% are likely to be influenced by variables that are not explained in this study.
b. The R-square value of 0.048 in the profit management variable means that macro fundamentals, and financial performance can be explained by profit management by 4.8% and the remaining 95.2% is not explained in this study. The conclusion is that profit management is influenced by macro fundamentals, and financial performance by 4.8%.

The remaining 95.2% is likely to be influenced by variables that are not explained in this study.

Table 7. Path Coefficients

	Original Sample (O)	Sample Mean (M)	STDEV	T Statistics (|O/STD EV|)	P Value	Remarks
Macro Fundamentals → Financial Performance	0.019	0.018	0.133	0.144	0,88	Not Supported
Macro Fundamentals → Profit Management	0.187	0.209	0.090	2.079	0.038	Supported
Profit Management → Financial Performance	-0.341		0.305	1.116	0.265	Not Supported

Source: Research Data (2024)

Based on Table 7, path coefficient shows significant and insignificant levels of relationships between research variables. This can also be seen through the T-statistic value which has a condition that the value is more than 1.96 then the hypothesis is accepted. Thus the conclusion of path coefficient is as follows:

a. **H1:** The test on the influence of macro fundamentals on financial performance showed a parameter coefficient of 0.019 with a T-statistic value of 0.144 < 1.96 and a P-value of 0.885. Because the T-statistic value < 1.96 and the P-value > 0.05, there is an insignificant positive influence between macro fundamentals and financial performance.
b. **H2:** The test on macro fundamentals on profit management showed a large parameter coefficient of 0.187 with a T-statistic value of 2.075 > 1.96 and a P-value of 0.038. Because the T-statistic value > 1.96 and the P-value < 0.05, there is a significant positive influence between macro fundamentals and profit management.
c. **H3:** The test on profit management on financial performance showed a parameter coefficient of -0.341 with a T-statistic value of 1.116 < 1.96 and a P-value of 0.265. Because the T-statistic value < 1.96 and the P-value > 0.05, there is an insignificant negative influence between profit management and financial performance.

Macro fundamental variables on financial performance have an insignificant positive relationship. The results of this study support the research conducted by Opod (2015) that macro fundamentals do not have a significant effect on financial performance. Meanwhile, the macro fundamental research on financial performance conducted by Hwihanus et al. (2019) was rejected in this study.

Macro fundamental variables on profit management have a significant positive relationship. The results of this research illustrate that in making decisions to invest seen through the exchange rate against the US dollar has an influence on activities to increase, decrease and evenly distribute profits. This is because the company has an incentive to carry out profit management activities because it has an influence on the exchange rate movements that occur in that period.

The profit management variable has an insignificant negative relationship with financial performance. The results of this study support the research conducted by Wulandari (2010) which in his research revealed that profit management activities that are proxied with discretionary accruals on financial performance do not have a significant effect.

5. CONCLUSION

The purpose of this study is to find out how big macro fundamentals are, on financial performance with profit management as an intervening variable in plastic and packaging sub-sector companies listed on the Indonesia Stock Exchange. Based on the research that has been conducted, it shows that macro fundamentals on financial performance show a positive influence and macro fundamentals on profit management show a significant positive influence, and profit management on financial performance shows a non-significant negative influence.

Implications

The movement of the exchange rate against the US dollar does not necessarily affect the ability of the company's management to generate profits based on investment. This shows that a company that efficiently manages its financial performance will not be affected by the exchange rate movements that are occurring. Financial strategies do need to be considered by companies to be evaluated, changed and updated in order to maintain the company's financial condition stable.

The comparison as well as the separation between public ownership and institutional ownership has not been able to improve the financial performance of the company. Companies need to provide information in any form, including deeper and more open finance, so that investors can be interested and trust the company.

Improper capital management in companies will lead companies in poor financial management as well. The use of debt that is too high will pose a risk to the company. This is because if the debt used is too large, it will result in a fixed interest expense.

The company has an incentive to carry out profit management activities because the exchange rate movements that occur can affect the results of financial statements. Profit management activities sometimes need to be carried out by companies to make calculations easier as well as to make it easier to predict the income of financial statements in that period. However, the company needs to have a strategy or other treatment to be able to provide and show the results of financial statements without profit management, so that investor confidence can increase in the absence of profit management.

The company does not have the incentive or desire to carry out profit management activities in the financial statements for the ownership of shares owned by the public or institutions. The absence of encouragement for these activities is because investors are generally more critical to monitor all management activities and information available in the company. The positive side of this is that investors will be more confident in the disclosure of financial information provided by the company. That way, there is an opportunity for a large investor increase as well.

Companies that have high leverage have an obligation to provide adequate information to owners, investors, and creditors. If profit management is carried out then financial information is no longer relevant as it is. Profit management activities can be positive or negative for the company, so from here the company needs to evaluate the financial statements to see and find out the reasons for profit management.

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