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Research Paper

THE RELATIONSHIP OF LEVERAGE, ASSET MANAGEMENT, EARNING MANAGEMENT AND PROFITABILITY

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ABSTRACT

The Aneka Industry sector in 2019 recorded the worst performance. This research aimed to examine the effect of leverage on profitability and the roles of asset management and earnings management as a mediating effect at Aneka Industry Companies in Indonesia. The population of this research was 665 companies listed on the Indonesian Stock Exchange (IDX), and the sample used was 225 for the 2016-2020 period. Data were analyzed using Structural Equation Modelling (SEM)-PLS. The results showed that leverage had a significant negative effect on asset and earning management and a non-significant effect on Profitability. Both asset management and earnings management had a significant positive impact on Profitability. Meanwhile, asset and earnings management successfully mediated the effect of leverage on Profitability. Not many studies have examined the relationship between leverage, asset management, earnings management, and profitability. This research also tested a large sample size to represent conditions in Indonesia. This study recommends that the company maintain the condition of asset management and reduce earnings management.

Keywords: Asset Management, Earnings Management, Leverage, Profitability

JEL code: M40, M41

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INTRODUCTION

The belief that a corporation can achieve and maintain the best position in its industry is inseparable from the corporate reliable financial performance. The corporation's ability to obtain maximum Profitability indicates good corporate financial performance. The profitability ratio is the net result of some management policies, decisions, and the ability of corporations to generate profits. (Nishihara & Shibata, 2021) stated that Profitability shows the combined effect of liquidity, asset management, and the use of debt. The rate of Return on Equity (ROE) is one of the profitability ratios. ROE is the most often used ratio among stakeholders to assess a company's financial performance. ROE measures the rate of corporate return on capital (Novia Chris Monica, 2020; Suhadak et al., 2019).

The Aneka Industry sector is the primary driver of strengthening the Index Composite Stock Prices (IHSG). Market growth in various industrial sectors in Indonesia during the 2016-2020 period experienced increases and decreases. The Aneka Industry sector in 2019 recorded the worst performance (Yudhatama, 2023). (Dharmasaputra & Guna, 2021) said that the decline in various industrial sectors was related to election factors, so consumers and investors tended to wait and see. Also, purchasing power influences vehicle sales. Of 10 multiple issuers in the industry with the largest capacity, only textile companies successfully recorded positive returns since the beginning of the year. For this reason, it is interesting to examine the corporate financial performance in the aneka industry, especially regarding leverage and profitability, as well as analyzing the role of asset management and earnings management as mediating influences.

The corporate financial performance in the financial statement analysis needs specific measures like financial ratios. Financial ratios are only tools stated in arithmetical terms. Corporate financial performance is the result a company achieves by managing its existing resources effectively and efficiently to achieve the goals set by management (Firera et al., 2024). Corporate financial performance determines specific measures of a company's success in generating profits (Profitability). Linking the corporate organization with the responsibility center is necessary to measure corporate financial performance. According to the Indonesian Accounting Associate, corporate financial performance can be seen through several aspects, namely (a) its management, (b) changes in the potential of existing resources (the company's ability to generate cash and cash equivalents), (c) the effectiveness of human resources acting as processors of economic resources and (d) financial statements (income statements, balance sheets, cash flow statements, and capital change statements). The profitability ratio concerning the responsibility center for profits can measure the corporate financial performance assessment. Profitability ratios show the combined effect of liquidity, asset management, and using debt from operating results (Goel et al., 2015; Nishihara & Shibata, 2021).

During the COVID-19 pandemic, the aneka industry plays an important role in Indonesia's economic growth. It is necessary to have sufficient funds originating from external corporate funding. Short- and long-term debt runs corporate operations smoothly, and adequate liquidity is available to support corporate productivity and increase corporate profitability. Inventory turnover, fixed asset turnover, and other asset turnovers influence corporate profit growth or Profitability (An et al., 2016). The profitability ratio aims to determine the corporate ability to earn profit from sales-related income (proxied by Net Profit Margin, namely Net Income divided by Sales), the existence of assets or current assets to support corporate operations (proxied by inventory turnover, fixed asset turnover, and total asset turnover). Debt is highly required (Byun et al., 2021; Della Seta et al., 2020). According to (Manzaneque et al., 2016; Sánchez et al., 2020), Profitability is the net result of some policies and decisions to maintain corporate viability and the ability to gain profits. Therefore, earnings management must be practiced to show that the company is constantly profitable (Septiany et al., 2024). Earnings management proxied by discretionary accruals is management's engineering to

reduce, increase, or smooth profits in corporate financial presentations and reporting. A study on earnings management conducted by (Agustia et al., 2020) suggests that earnings management significantly affects Profitability.

Based on the regression test results, Profitability and short-term Debt simultaneously significantly affect the current asset investment, inventory turnover, and receivables turnover (Francis et al., 2013; Mun & Jang, 2015). Furthermore, (Abor, 2007) found a significant positive relationship between the ratio of short-term debt to total assets and ROE (Abor, 2005, 2007; Atidhira & Yustina, 2017; Baum et al., 2006; El-Sayed Ebaid, 2009; Erin et al., 2020; Jesri et al., 2013; Kurniawan, 2021; Lan et al., 2013; Munawar, 2019; Yahya & Hidayat, 2020). Partially, the t-test results show that receivables turnover (RTO) insignificantly did not affect Return on Assets. In contrast, Inventory Turnover (ITO) insignificantly affected Return on Assets (ROA) (Suraya, 2018). Firms with high earnings management activities, both natural and discretionary earnings management and discretionary accruals, were associated with less long-term Debt (Moghaddam & Abbaspour, 2017; Sisdianto et al., 2019). Inventory, total asset turnover, and net profit margin significantly affect earnings management (Zhang, 2011). Leverage mediated by earnings management significantly affects Profitability (Mulyana & Saputra, 2017). We aim to investigate the impact of leverage on profitability and the mediating roles of asset and earnings management at Aneka Industry Companies listed on the Indonesia Stock Exchange between 2016 and 2020, as past research has not yielded consistently positive results.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The agency theory from (Scott, 1997) states that the principal authorizes the agent or company manager to manage company funds by applying the principles of good corporate governance in improving the welfare of stakeholders (investors, creditors, customers, suppliers, and the community). Agency problems, namely the conflicts between owners, managers, government, and other stakeholders, particularly about earnings management, underlie the researchers to conduct this research. The agency theory is motivated by information asymmetry between the owner and the agent. Information asymmetry is integral to traditional capital structure theories (Dang et al., 2021).

Companies will be in debt up to a certain level. Those with high profitability will try to reduce their taxes by increasing their debt ratio. Leverage can be proxied by short-term Debt, Long-term Debt, and total debt ratios (Bunea et al., 2019). The leverage theory states that the higher the debt, the more sales and profit increase. However, the high leverage will likely cause the company to have many interest costs. If it is not balanced with increasing income, it will lead to corporate bankruptcy.

A ratio called profitability assesses a company's capacity for profit-making. This ratio also assesses how well a business manages its finances, as demonstrated by the earnings from sales and investment income, which are represented by ROA, ROE, and NPM (Xu & Zeng, 2016).

Corporate asset management must be accompanied by the availability of funds obtained from corporate external and internal funding. Companies can obtain external funding from both short-term and long-term debts. Based on research by (Amalendu Bhunia & Fakir, 2011), corporate asset management can be proxied by inventory, fixed, and total asset turnover.

According to (Scott, 1997), earnings management is a manager's action to report earnings that can maximize individual or company interests using accounting methods. Earnings management aims to minimize extreme earnings by decreasing or increasing earnings using the discretionary accrual component. According to (Mulyana & Saputra, 2017), the political cost hypothesis, the debt contract hypothesis, the bonus plan hypothesis, leadership changes, initial public offerings (IPOs), and information sharing with investors are reasons managers control

earnings. (Bunea et al., 2019) argued that high leverage increases the accrual rate. Since the previous studies have not shown consistent results, we intend to examine the effect of leverage on profitability and the mediating effects of asset management and earnings management at Aneka Industri Companies listed on the Indonesia Stock Exchange in 2016-2020.

(Yegon et al., 2014) concluded that Profitability and short-term Debt significantly affected inventory turnover, current asset investment, and receivables turnover. Also, Profitability, current asset investment, inventory turnover, and receivable turnover partially affected short-term debt financing. According to (Nawaz, 2017), concerning the effect of debt structure on corporate performance (Empirical Study on Manufacturing Companies in 2011-2013), last year's TDA, STD, and previous year's LTD had no significant effect on firm performance. According to (Dawar, 2014), concerning the impact of debt structure on corporate performance, last year's TDA, last year's STD, and previous year's LTD had no significant effect on the firm performance. This study also concerns the effect of debt structure on corporate performance (Empirical Study on Manufacturing Companies in 2011-2013). Last year, TDA, STD, and LTD had no significant effect on firm performance. From these previous supporting studies, we formulated the following hypothesis:
H_1: Leverage Influences significantly influence on Asset Management

(Baum et al., 2006) developed a structural model of the corporate value maximization problem. The model predicts changes in firm profitability as firms change their use of short-term and long-term debt. They found that companies relying heavily on short-term debt are likely more profitable. (Abor, 2005) revealed that the ratio of short-term debt to total assets is positively related to ROE. Nevertheless, the long-term debt ratio negatively affected total assets and ROE (Abor & Fiador, 2013). (Yegon et al., 2014) statistically discovered the effect of short-term debt and profitability and the negative relationship between long-term debts and Profitability.

(Abor, 2005) indicated that the total debt-to-earnings ratio also showed a significant positive relationship between the total debt-to-total assets ratio and return on equity (profitability). According to (Yahya & Hidayat, 2020; Zahid et al., 2020), the return on assets, short-term-debt-to-asset ratio, the long-term-debt-to-asset ratio is measured as profitability, while independent variables consist of total-debt-to-asset. Size, sales growth, and growth opportunities are used as control variables. Random effects regression analysis also determines the impact of debt on profitability. These previous studies show a significant negative relationship between short-term Debt, Long-term Debt, total Debt, and return on investment. From these previous supporting studies, we formulated the following hypothesis:
H_2: Leverage significantly influence on Profitability

(McShane, Eling, & Nguyen, 2021) explored the impact of short-term debt on revenue management. Their study showed that when short-term debt is low, short-term debt maturities are likely to have a desirable effect on lower yields. At the same time, it tends to increase profit manipulation and exhibits a U-shaped relationship at high levels. (Oh, Chang, & Kim, 2018) found that current liabilities have only a statistically significant impact on accrued revenue management. Short-term borrowing only has a statistically significant effect on controlling the natural yield. These results indicate that management applies accrued revenue management to liabilities included in current liabilities and natural revenue management to short-term borrowings from financial institutions. (Losada-Otalora, Valencia Garcés, Juliao-Rossi, Donado, & Ramírez F, 2020) found that firms with high return management activities using discretionary reserves and natural return management were associated with lower long-term debt. More importantly, we observed that the negative relationship between long-term debt and revenue administration exists only in countries with weaker creditor rights.

According to (Mulyana & Saputra, 2017), corporate debt is a crucial determinant of revenue management. After controlling the debt specification, the results are robust. Further testing revealed that the interplay between liquidity and corporate debt specifications shaped different revenue management patterns. A study by (E-Vahdati, Zulkifli, & Zakaria, 2018) on a sample of companies listed in Bursa Malaysia found a significant negative association between leverage and Real Revenue Management. From these previous supporting studies, we formulated the following hypothesis:
H_3: Leverage significantly influence on Earnings Management

(Ahmed Sheikh & Wang, 2013) came to the conclusion that while inventory turnover, total asset turnover, and average acquisition time have no bearing on profitability, fixed asset turnover and current ratio do. (Suraya, 2018) showed that accounts receivable turnover (RTO) does not significantly affect the return on assets, and inventory turnover (ITO) does not significantly affect the return on assets (ROA). As mentioned earlier, fixed asset turnover and current ratio affect profitability, but inventory turnover, total fixed asset turnover, and average acquisition period do not. In Addition, (Alhadab et al., 2020) found that the fixed asset turnover ratio did not significantly affect the ROE (profitability) in Jordan's service sector. Asset turnover and current ratio affect profitability, but inventory turnover, total asset turnover, and average acquisition time do not (Yahya and Hidayat, 2020). On the other hand, (Munawar, 2019) showed that liquidity, leverage, and total asset turnover simultaneously affect manufacturing profitability. From these previous supporting studies, we formulated the following hypothesis:
H_4: Asset Management significantly influence on Profitability

(Mulchandani, Mulchandani, & Wasan, 2020) suggest that yield management negatively affects firm profitability. This research is necessary for managers, investors, and analysts for decision-making and analysis purposes, as it helps them understand how the company's profits are manipulated. (Ma & Ma, 2017) show that if a company's current earnings are lower than last year's, it is more likely to use discretionary allowances to indicate a positive change in profitability. Poor and weak performance from the previous year can be two significant revenue management drivers. Also, (Mulyana & Saputra, 2017) revealed that liquidity, Profitability, and leverage simultaneously affect earnings management. (Sharad, 2014) found that leverage significantly affected the listed Jordanian Industrial companies' Profitability through Earnings Quality. According to (Dang et al., 2021), debt ratio and independent commissioners positively yet insignificantly influence earnings management. From these previous supporting studies, we formulated the following hypothesis:
H_5: Earnings Management significantly influence on Profitability

(Mulyana & Saputra, 2017) revealed that liquidity, Profitability, and leverage simultaneously affect earnings management. Leverage can affect profitability through asset management as a moderating variable because using loan funds can affect the company's overall performance, including asset management. High leverage can increase the company's financial risk because the company has to pay higher loan interest. It may limit the company's liquidity and ability to manage assets effectively. From these previous supporting studies, we formulated the following hypothesis:
H_6: Leverage significantly influence on Profitability through Asset Management

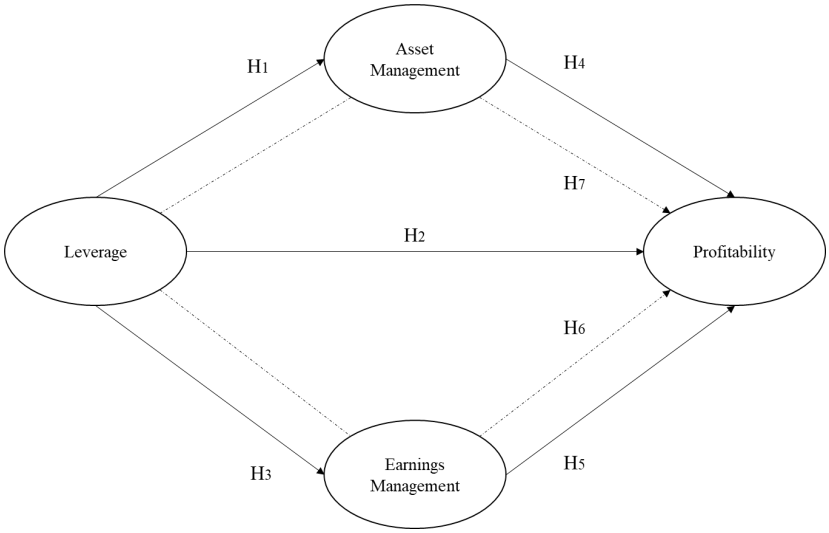
(Sharad, 2014) found that leverage significantly affected the listed Jordanian Industrial companies' Profitability through Earnings Quality. According to (Dang et al., 2021), debt ratio

and independent commissioners positively yet insignificantly influence earnings management. From these previous supporting studies, we formulated the following hypothesis:

H_7: Leverage significantly influence on Profitability through Earnings Management

Based on the previous theories and studies, the model of this research can be depicted in Figure 1.

Figure 1. Model of the Research



RESEARCH METHODOLOGY

This research employed secondary data derived from the Indonesia Capital Market Directory of 225 Aneka Industri Companies listed on the Indonesia Stock Exchange for four years (2016-2020). The aneka business was crucial to Indonesia's economic expansion during the COVID-19 epidemic, which is why different industries were chosen. A substantial amount of money from outside corporate backing is required. This research implements multivariate analysis using Structural Equation Modelling (SEM) - Partial Least Squares (PLS). This research used PLS 7.0 to answer the research hypotheses by conducting a validity test, reliability test, goodness of fit, hypothesis test, and mediation test. At this stage, the research model had been justified, tied into three groups of theoretical and empirical previous studies. The construct built in this study was classified into three groups of variables, covering an exogenous variable (leverage X1), two intervening variables (assets management Y1 and earnings management Y2), and an endogenous variable (profitability Y3). The return on equity, net profit margin, and return on equity were the study's profitability variables. Leverage factors were measured using short-, long-, and total debt, whereas earnings management variables were measured using random occurrence. Asset management was measured by inventory, fixed assets, and total asset turnover.

Table 1. Operational Definition

Variables	Indicator	Measurement
1. Profitability	Return on Asset	Net Income available to common stakeholders divided by total assets
	Return on Equity	Net Income available to common stakeholders divided by common equity
	Net Profit Margin	Net Income divided by sales
2. Leverage	Short-Term Debt	Short-term debt divided by total assets

	Long-Term Debt	Long-term debt divided by total asset
	Total Debt	Total Debt of the company
3. Asset Management	Inventory Turn Over	Sales divided by inventory
	Fixed Asset Turn Over	Sales divided by net fixed assets
	Total Asset Turn Over	Sales divided by total assets
4. Earning Management	Discretionary Accruals	Working capital accrual divided by period income

RESULTS AND DISCUSSION

The findings of stressor estimation can be used to evaluate the measurement model's suitability. Assume the standard factor loading is ≥ 0.50 and the loading factor's t-value is higher than the critical value (≥ 1.96). If so, the variable's validity for the possible constituents or variables is sufficient. Conversely, Average Variance Extraction (AVE) ≥ 0.50 and Constitutive dependability or Combined Reliability (CR≥ 0.70) can be used to assess the dependability of measurement models in PLS (Henseler, 2015). A summary of the validity and reliability evaluation results is shown in the following table.

Table 2. Summary of Construct Validity and Reliability (Outer Model)

Latent Variables	**Observed Variable**	**Partial Validity (Per Indicator)**		**Ranking**	**Overall Validity (Per Construct)**		**Composite Reliability (CR> 0.7)**	
		(LF > 0.5=Valid)			**(AVE > 0.5=Valid)**			
		Outer Loading	**Des.**		**AVE**	**Conclusion**	**CR**	**Des.**
Leverage (X1)	X1.1	0.940	Valid	2	0.863	Valid	0.950	Reliable
	X1.2	0.876	Valid	3				
	X1.3	**0.969**	**Valid**	**1**				
Asset Management (Y1)	Y1.1	0.675	Valid	3	0.617	Valid	0.825	Reliable
	Y1.2	**0.942**	**Valid**	**1**				
	Y1.3	0.712	Valid	2				
Earnings Management (Y2)	**Y2.1**	**1.000**	**Valid**	**1**	1.000	Valid	1.000	Reliable
Profitability (Y3)	Y3.1	0.951	Valid	2	0.694	Valid	0.865	Reliable
	Y3.2	0.513	Valid	3				
	Y3.3	**0.957**	**Valid**	**1**				

According to Table 2, all of the reflecting indicators' loading factor values reached ≥ 0.50 (valid), and the AVE values also reached ≥ 0.50 (valid). It suggests that every measurement indicator is reliable. In the meantime, a Composite Reliability (CR) value of ≥ 0.70 (reliable) was shown by the reliability test results. Therefore, it may be said that all latent variables have appropriate and outstanding indicators.

The criteria for GoF values are 0.10, 0.25, and 0.36, respectively, indicating small, medium, and large GoFs (Ghozali and Latan, 2015). The GoF values obtained in this research are presented in Table 2.

Table 3 illustrates that the Tenenhaus GoF (GoF) value is 0.728 > 0.36 (*Large GoF)*. The SEM ability is holistically stated to be high (very good) in explaining the research phenomenon constructed in the structural model.

Causality is declared insignificant when the critical ratio (CR) is between -1.96 and 1.96, and the significance level is 0.05. The estimated crucial ratio values for the structural model were obtained with the assistance of the PLS software application. To sum up, Table 4 displays the computed outcomes of these coefficients.

Table 3. Goodness of Fit

	Communality	**R-Square**
Leverage (X1)	0.863	
Asset management (Y1)	0.617	0.119
Earnings management (Y2)	1.000	0.086
Profitability (Y3)	0.694	0.375
Mean	**0.794**	**0.231**
Tenenhaus GoF (GoF)		**0.728**

Table 4. SEM-PLS Path Analysis Results

Effects between Latent Variable			**Path Coefficient**	**t-value**	**p-value**	**Conclusion**
Causative Variable	→	**Consequence Variable**				
Leverage (X1)	→	Asset management (Y1)	-0.344	3.258	0.001	Significant
Leverage (X1)	→	Profitability (Y3)	-0.007	0.097	0.923	Insignificant
Leverage (X1)	→	Earnings management (Y2)	-0.293	2.976	0.003	Significant
Asset management (Y1)	→	Profitability (Y3)	0.307	2.526	0.012	Significant
Earnings management (Y2)	→	Profitability (Y3)	0.424	4.026	0.000	Significant

Table 4 shows that the Leverage variable (X1) negatively influenced the Asset Management variable (Y1) with a path coefficient of -0.344 and t-value of 3.258. The higher Leverage variable (X1) would lower the Asset Management variable (Y1). Because the t-value was higher than the critical value (3.258 > 1.96), H_0 was statistically rejected. In other words, the Leverage variable (X1) significantly affected the Asset Management variable (Y1). Thus, H_1 is accepted.

Furthermore, the Leverage variable (X1) negatively influenced the Profitability variable (Y3) with a path coefficient of 0.007 and t-value of 0.097. The higher Leverage variable (X1) would lower the Profitability variable (Y3). Because the t-value was smaller than the critical value (0.097 < 1.96), H_0 was statistically accepted. In other words, the Leverage variable (X1) did not significantly affect the Profitability variable (Y3). Then, H_2 is rejected.

It can also be seen from the table above that the Leverage variable (X1) negatively influenced the Earnings Management variable (Y2) with a path coefficient of -0.293 and t-value of 2.976. The higher Leverage variable (X1) would lower the Earnings Management variable (Y2). Because the t-value was higher than the critical value (2.976 > 1.96), H_0 was statistically rejected. The Leverage variable (X1) significantly affected the Earnings Management variable (Y2). Thus, H_3 is accepted.

The effect of the Asset Management variable (Y1) on the Profitability variable (Y3) showed a positive path coefficient of 0.307 with a t-value of 2.526. This indicates that higher asset management (Y1) would increase the profitability variable (Y3). Because the t-value was more significant than the critical value (2.526 > 1.96), H_0 was statistically rejected. In other words, the Asset Management variable (Y1) significantly affected the Profitability variable (Y3). Then, H_4 is accepted.

Moreover, Table 4 indicates that the Earnings Management variable (Y2) positively influenced the Profitability variable (Y3) with a path coefficient of 0.424 and t-value of 4.026. The higher Earnings Management variable (Y2) would increase Profitability (Y3). Because the t-value was more significant than the critical value (4.026 > 1.96), H_0 was statistically rejected. In other words, the Earnings Management variable (Y2) significantly affected the Profitability variable (Y3). Then, H_5 is accepted.

The path coefficients of the structural model and the stress coefficient values of the manifest variables of the metrology model can be described in the path diagrams of the metrology and structural models, as shown in Figure 3.

Y3 = -0,007 X1 0.307 Y1+ 0.424 Y2
Y2 = -0.293 X1
Y1 = -0.344 X1

The path diagram above shows that the Profitability variable (Y3) was most dominantly influenced by the Earnings Management variable (Y2), with the highest path coefficient of 0.424. Conversely, the leverage variable (X1) of -0.293 influences the yield control variable (Y2), the most significant loading factor is 0.969, and the dominating indicator measuring the leverage construct (X1) is X1.3 (total debt).

Therefore, when management wants to increase the value of the revenue variable (Y3) from the leverage variable (X1) to the revenue management variable (Y2), the statistical recommendations serve as a resource for strategic policy evaluation. The critical metric needed to prioritize improvement is X1.3 (total debt).

Examination of Mediating Factors (Indirect Impacts)

Two methods for analyzing mediating variables are the coefficient multiplication and the coefficient difference. The coefficient difference methodology analyzes with and without mediating variables as part of an evaluation process. In the meantime, the Sobel method is used to apply the coefficient multiplication strategy. In this instance, the Sobel test and the coefficient multiplication method were used to detect anything. Table 4 presents the findings.

Figure 2. Path Diagram for Structural Model and Measurement Model

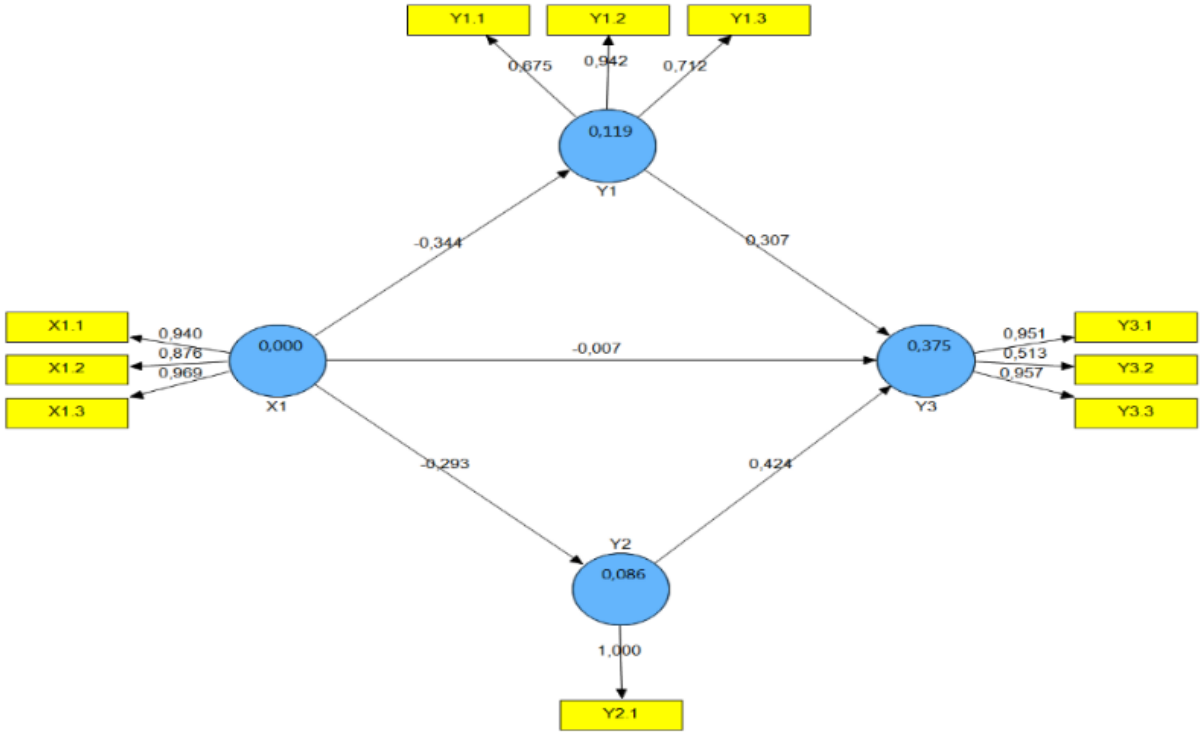


Table 5. Indirect Effects Between Latent Variables

Indirect Effects	Calculation	Results	t-count	p-value	Description
Leverage (X1) on Profitability (Y3) through Asset Management (Y1)	-0.344 x 0.307	-0.106	1.996	0.046	Significant
Leverage (X1) on Profitability (Y3) through Earnings Management (Y2)	-0.293 x 0.424	-0.124	2.393	0.017	Significant

Table 4 confirms the indirect effect of one variable on the other variable as follows:

1. The indirect effect of Leverage (X1) on Profitability (Y3) through Asset Management (Y1) was -0.106 with a t-value of 1.996 (>1.96), or significant.
2. The indirect effect of Leverage (X1) on Profitability (Y3) through Earnings Management (Y2) was -0.124 with a t-value of 2.393 (>1.96), or significant.

These results suggest that both variables, Asset Management (Y1) and Earnings Management (Y2), can mediate the effect of Leverage (X1) on Profitability (Y3). Then, both H_6 and H_7 are accepted.

This research reveals that leverage significantly negatively affects asset management and earnings management. The higher the leverage, the lower the asset and earnings management. Leverage has an insignificant negative effect on corporate profits or Profitability, indicating that the higher leverage will reduce corporate profits. The relationship between leverage and asset and earnings management is often studied in the context of financial accounting and corporate finance. In general, higher leverage refers to a situation where a company has a higher level of debt relative to its equity.

When a company has a high level of leverage, it is more financially vulnerable. Its creditors may require stricter financial reporting and monitoring to ensure the company meets its debt obligations. It can lead to increased scrutiny of the company's financial statements,

making engaging in asset and earnings management more challenging. Asset management refers to how a company manages its assets to maximize its financial performance. For example, a company may sell off underperforming assets or invest in new assets expected to generate higher returns. Earnings management is how a company manipulates its financial statements to meet or exceed earnings targets. When a company has a high level of leverage, it may be more challenging to engage in asset management because its creditors may require the company to maintain specific assets to ensure it can meet its debt obligations. Similarly, creditors may scrutinize the company's financial statements more closely to ensure that it is meeting its debt obligations and not engaging in earnings management practices that could put its debt repayment at risk.

Overall, while the relationship between leverage and asset and earnings management is complex and may depend on various factors, it is generally thought that higher leverage levels can limit a company's ability. The relationship between leverage and asset and earnings management can engage in asset and earnings management due to the increased scrutiny from creditors and the need to maintain sufficient assets to meet debt obligations.

Asset management and earnings management have a significant positive effect on Profitability. That is, higher asset management and earnings management will increase corporate profits. Asset management and earnings management can have a significant positive effect on profitability for a company because they can both impact the amount of revenue a company generates and the cost of producing that revenue. Asset management involves managing a company's assets to maximize their value and generate the most revenue for the company. For example, a company may sell underperforming assets and invest in new assets that are expected to generate higher returns. By optimizing the use of its assets, a company can create more revenue for each dollar invested in those assets, leading to higher profitability.

Earnings management involves manipulating a company's financial statements to meet or exceed earnings targets. While earnings management is sometimes associated with unethical or illegal practices, there are legitimate ways to manage earnings, such as deferring revenue or accelerating expenses. When implemented properly, earnings management can reduce earnings volatility and give investors the impression that a company's financial performance is more steady and predictable. It may result in decreased capital costs, an increase in stock price, and eventually greater profitability.

However, it is essential to note that asset management and earnings management can also negatively affect profitability if they are not done correctly or are used to hide underlying financial problems. For example, if a company engages in earnings management to meet short-term targets at the expense of long-term growth, it may harm the company's profitability in the long run. Similarly, suppose a company engages in asset management that is too aggressive and results in the sale of valuable assets or the acquisition of low-quality assets. In that case, it may also harm its profitability over time.

In summary, asset and earnings management can significantly affect profitability if correctly done and used to benefit the company's long-term financial health. However, it is crucial to carefully evaluate these practices' potential risks and benefits before implementing them. These research findings support the previous studies of (Abor, 2007; Baum et al., 2006; Gantyowati & Nugraheni, 2014; Mulyana & Saputra, 2017; & Munawar, 2019). Still, the study is inconsistent with studies by (Tariq Hasan et al., 2020).

CONCLUSION AND SUGGESTION

Findings conducted at Aneka Industry Companies in Indonesia confirm that the leverage variable has a significant negative effect on asset management and earnings management and a non-significant negative impact on profitability. Also, using Structural Equation Modelling (SEM)-PLS, this study concluded that asset management and earnings management

significantly positively affect profitability. In summary, asset and earnings management successfully mediate the effect of leverage on Profitability. This study recommends that the company maintain the condition of asset management and reduce earnings management. Further research can be conducted on other companies because each type of company has debt and asset management policies, which may differ from companies in various industrial sectors.

The implications of this research can be applied to companies. It is important for companies to maintain leverage because it can affect asset management and profitability. Apart from that, good asset management can affect a company's profitability. Unfortunately, this research limits research to various industrial sectors in Indonesia. In the future, further research can expand the company sectors studied, or add other variables to the research.

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