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The Effect of Financial Distress, Profitability, and Leverage on Profit Management with Institutional Ownership as a Moderation in Telecommunications Sector Companies Listed on the IDX

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Abstract

The purpose of this study is to evaluate the influence of financial distress, profitability, and leverage on profit management, as well as to examine the role of institutional ownership as a moderating variable in the relationship between financial distress, profitability, and leverage on profit management. This study uses a quantitative research method. Quantitative research emphasizes more on testing theories through the measurement of research variables with numbers and conducting data analysis with statistical procedures. This study uses a causal design, which is a study that explains the causal relationship of independent variables to dependent variables. The results showed that financial distress, profitability, and leverage had no effect on profit management in telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2022 period. However, institutional ownership can weaken the influence of financial distress and profitability on profit management, while institutional ownership does not affect the influence of leverage on profit management.

INTRODUCTION

In the financial statements of a company, profit is one of the data that has important potential for all parties, profit information contained in financial statements is the main information for external parties such as investors to decide to invest in the company and for internal parties it is used for planning and decision-making to achieve the desired targets in the future (Solikhah & Amelia, 2022). A good company's financial performance makes an assessment of the ability of managers to manage the company's source of funds to get a profit. However, profit information is not always accurate because sometimes profit information is often used as

the target of opportunistic behavior by management to satisfy its satisfaction by changing financial statement information to attract potential investors and deceive other stakeholders.

This selfish behavior is made by sorting out certain accounting policies so that profits can be adjusted, leveled or increased or reduced as they wish (Amelia, 2023). Profit management is a condition in which management intervenes in the process of stabilizing, increasing, and decreasing profits in the preparation of financial statements. Profit management can be considered an accounting scheme, especially if it is an effort to change information by adjusting the numbers in the components of the financial statements when compiling the company's financial information Agustia & Suryani (2018).

Telecommunication Company is a company engaged in telecommunications. Its main activity is to sell telecommunication services at home and abroad. Telecommunication companies on the Indonesia Stock Exchange are inseparable from the existence of profit management where the company will manage its profits in accordance with the goals and intentions of the company in carrying out its operational activities.

Telecommunications companies that conduct positive profit management mean that the company accelerates the recognition of its revenue in the period. Meanwhile, Telecommunications companies that carry out negative profit management mean that the company postpones its revenue in that period and shifts it in the future period. The phenomenon of the potential for profit management practices in telecommunication companies can be seen from the high level of profit fluctuations, which based on the annual financial statements of companies listed on the IDX telecommunications subsector for the period 2018-2022, several companies have experienced a significant increase in profits.

Several companies that experienced fluctuations in profits are evidence of the phenomenon in this study. The decline in profit experienced by PT Link Net Tbk and PT Gihon Telekomunikasi Indonesia may reflect the existence of financial distress in these companies. An inability to meet financial obligations can result in a decline in profits, or even aggressive profit management practices to hide financial problems. The company's techniques for conducting profit management practices can be done in several ways, including by accelerating or delaying the recognition of income or expense recognition. Profit management is carried out by the company so that it can be seen that the company's condition is good even though the reality is not necessarily (Chairunnisa et al, 2021).

Companies conduct profit management with the aim of influencing or manipulating the financial figures in the financial statements to look better or worse than the actual performance. An example of the case of PT Waskita Karya (Persero) Tbk's financial statements for the financial year 2004-2007 recorded an excess net profit of around Rp 400 billion which should have been recognized as profit in the next year, the finding occurred during the re-examination for the initial share issuance Sari dan Hermi (2023).

Further Scott (2011) explained that there are several ways/patterns in profit management, including taking a bath, income minimization, income maximization dan income smoothing. Taking a bath used during periods of organizational stress or reorganization. If the manager feels compelled to report losses, then he will report a large amount. With this action the manager hopes to increase the future profit and the blame for the company's losses can be placed on the old manager, in the event of a change of manager. Income minimization is chosen during periods with high profitability, so that if the future period is expected to drop dramatically, it can be overcome by taking the previous profit allotment (Asikin, Amelia, & Hidayat, 2024).

Research conducted by Damayanti dan Kawedar (2018); Handayani & Hariyani (2019) which examines the influence of Financial Distress on Earnings Management (Study on Manufacturing Companies Listed on the IDX in 2014-2017). This research was conducted on the IDX by accessing www.idx.co.id. The population in this study is 15 171 manufacturing companies. Using the purposive sampling method, a sample of 39 manufacturing companies that experienced financial distress within 4 years was obtained.

Based on the results of the analysis, it was found that financial distress had a positive and significant effect on earnings management. This is different from the research conducted by Sucipto dan Zulfa (2021) which researches the influence of good corporate governance, financial distress and company size on profit management. The population in this study is all pharmaceutical companies listed on the Indonesia Stock Exchange (IDX) totaling 10 companies. The results of the study show that financial distress has no effect on profit management.

In the research Lestari & Murtanto (2017); Febria (2020); Kurniawan dan Fuad (2022); Paramitha dan Idayati (2020) which shows that profitability has a significant positive effect on profit management. While Wiyadi et al., (2015); Qallap et al., (2014); Umah dan Sunarto (2022) Obtaining profitability does not have a significant influence on profit management. The difference in research results also occurs in the leverage variable, in the study Lestari & Murtanto, (2017); Sari dan Khafid (2020); Primalestari & Jin (2022) Finding leverage has a significant negative effect on profit management. However, Hasty & Herawaty (2017); Qallap et al., (2014); Christian et al., (2022); obtained positive and significant results. But (Wiyadi et al., 2015) and (Wirawati et al., 2018) Finding leverage is not significant to profit management.

In the above factors that can cause profit management in this case can be strengthened and weakened by institutional ownership. Institutional ownership has the ability to supervise the performance of managers in managing a company so that with ownership from other parties, profit management measures can be prevented. The greater the institutional ownership in the company, the greater the number of shares owned by the institution which can be useful in reducing opportunistic management actions Utami et al., 2021); Janrosl & Lim (2019); Yovianti dan Dermawan (2020) stated that Institutional Ownership has a negative effect on profit management.

The existence of institutional ownership in the company can encourage increased more optimal supervision of management performance. From the point of view of agency issues, managers tend to manage the company for their own benefit without paying attention to the welfare of shareholders. Mayesti (2017) showed that institutional ownership can moderate the influence of leverage on profit management. In contrast to Hartati (2018); Savitri dan Priantinah (2019); Putri dan Setiawati (2021) shows that institutional ownership cannot moderate the effect of leverage on profit management.

In the research conducted by Winarsih et al (2023); Anis (2020) found that institutional ownership is able to moderate the influence of profitability on profit management. In the research conducted by Sari dan Hermi (2023) found that institutional ownership can weaken the influence of financial distress and leverage on profit management. From the explanation above, it was found that in previous studies showing inconsistent results, these inconsistent results made researchers interested in reviewing the variables of financial distress, profitability and leverage on profit management.

The inconsistency of previous research indicates the need for variables that are able to provide a moderating influence (strengthen or weaken) so that they can provide a reference for why the inconsistency occurs. Therefore, the researcher presents institutional ownership as a moderation variable that is suspected to be able to moderate the influence of financial distress,

profitability and leverage on profit management. Thus, the purpose of this study is to analyze the influence of financial distress, profitability and leverage on profit management by moderating institutional ownership. In addition, these three variables can also interact with each other in influencing profit management practices. For example, companies with high levels of leverage and low profitability may have a greater risk of financial distress, so they may be more likely to perform profit management to manage those risks.

Referring to the above background, the formulation of the problem in this study is that the researcher sees that there is still a research gap from independent variables that affect profit management. This study fills the research gap in the corporate financial literature by validating the existing influence between profit management, profitability, leverage and financial distress with institutional ownership as a moderation variable. The questions of this study include: whether financial distress, profitability, and leverage affect profit management; and whether institutional ownership can moderate the effects of financial distress, profitability, and leverage on profit management.

The purpose of this study is to evaluate the influence of financial distress, profitability, and leverage on profit management, as well as to examine the role of institutional ownership as a moderating variable in the relationship between financial distress, profitability, and leverage on profit management. This research is expected to contribute theory by supporting agency theory through empirical evidence on the influence of inconsistent incentives between principals and agents on profit management practices, as well as enriching understanding of managerial decisions in various financial conditions.

In addition, this study is expected to expand the theory of the influence of financial distress, profitability, and leverage on profit management by considering the role of institutional ownership. Practically, these findings can help investors make more informed investment decisions and understand the risks associated with profit management, as well as provide additional insights to the public about portfolio management and potential uncertainties in financial statements, which can improve investment decisions and the allocation of financial resources.

METHOD

This study uses a quantitative research method. Quantitative research emphasizes more on testing theories through the measurement of research variables with numbers and conducting data analysis with statistical procedures. This study uses a causal design, which is a study that explains the causal relationship of independent variables to dependent variables. In this study, a causal design was used to determine the influence of financial distress, profitability and leverage on profit management by moderating institutional ownership. This study uses secondary data in the form of corporate financial statements in the telecommunications sector that are published and listed on the Indonesia Stock Exchange.

The population selected in this study is all companies in the telecommunications sector listed on the IDX as many as 14 companies. In determining the sample used in this study, the author determined a technique based on the purposive sampling technique. Data were collected by documentation methods and literature studies on matters and documents related to the research variables. In this section, the researcher will analyze the dependent variables and independent variables used in the research to find out the general overview of the variables used.

This study uses a moderation regression analysis approach through a regression analysis method that is carried out in stages (moderated regression analysis), this is because this study uses

moderating variables. After the data treated in this study has been collected, then data analysis consisting of descriptive statistical analysis methods, classical assumption tests, model feasibility tests and hypothesis tests is carried out. Analysis or interpretation of the results of the research data is carried out using the Eviews 10.0 Program by entering all independent variables into the model simultaneously in order to see how each independent variable contributes in explaining the bound variable

RESULTS AND DISCUSSION

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Partial Test (T-Test)

The statistical t test was conducted to test the influence and significance of independent variables on dependent variables. To find out the truth of the hypothesis, criteria are used. If the significance value ≤0.05 means that the independent variable affects the dependent variable. If the significance value ≥0.05 means that independent variables do not affect dependent variables. The results of the hypothesis test in this study can be seen in the following table.

Table 1. Statistical Test Results t

Variable Relationship			B	Sig	Conclusion
Financial Distresss	→	Profit Management	-0.013385	0.8027	No Effect, H1 rejected
Profitability	→	Profit Management	-0.117572	0.6258	No Effect, H2 rejected
Leverage	→	Profit Management	0.000375	0.1457	No Effect, H3 rejected
*Financial Distresss**Institutional Ownership	→	Profit Management	-0.431943	0.0000	Influential, H4 accepted
*Profitability**Institutional Ownership	→	Profit Management	-0.801996	0.0029	Influenced, H5 accepted
*Leverage**Institutional Ownership	→	Profit Management	-0.000408	0.0970	No Effect, H6 rejected

Source: Data Processing Results with Eviews 8.0 (2024)

Hypothesis 1 (H1)

The first hypothesis (H1) tests whether *financial distress* affects profit management in telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2022 period. The sounds of null hypothesis (Ho) and alternative hypothesis (Ha) are as follows:

Ho1: *Financial distress* has no effect on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022.

Ha1: *Financial distress* has a positive effect on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022.

Based on the results of the t-test on the regression model, a *coefficient* value (β) with a negative direction of -0.013385 and a significance value of 0.8027 > 0.05

(significance level of 5%) was obtained. Thus, it can be concluded that the first hypothesis is rejected. This means *that financial distress* has no effect on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2022 period.

hypothesis 2 (H2)

The second hypothesis (H2) tests whether *profitability* affects profit management in telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2022 period. The sounds of null hypothesis (Ho) and alternative hypothesis (Ha) are as follows:

Ho2: *profitability* has no effect on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022.

Ha2: *Profitability* has a positive effect on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018 – 2022 period.

Based on the results of the t-test on the regression model, the value of *coefficient* (β) with a negative direction of -0.117572 and a Significance value of 0.6258 > 0,05 (Party signifikansi 5%). Thus, it can be concluded that the second hypothesis is rejected. This means *that profitability* has no effect on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2022 period.

Hypothesis 3 (H3)

The third hypothesis (H3) tests whether *leverage* affects profit management in telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018 - 2022 period. The sounds of null hypothesis (Ho) and alternative hypothesis (Ha) are as follows:

Ho3: *Leverage* has no effect on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022.

Ha3: *Leverage* has a positive effect on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022.

Based on the results of the t-test on the regression model, a *coefficient* value (β) with a positive direction of 0.000375 and a Significance value of 0.1457 > 0.05 (significance level 5%). Thus, it can be concluded that the third hypothesis is rejected. This means *that leverage* has no effect on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018 - 2022 period.

Hypothesis 4 (H4)

The fourth hypothesis (H4) tests whether *financial distress* affects profit management by being moderated by institutional ownership in telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2022 period. The sounds of null hypothesis (Ho) and alternative hypothesis (Ha) are as follows:

Ho4: Institutional ownership cannot weaken the influence of *financial distress* on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022.

Ha4: Institutional ownership can weaken the influence of *financial distress* on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022.

Based on the results of the t-test in the regression model, a *coefficient* value (β) with a negative direction of -0.431943 and a Significance value of 0.0000 < 0,05 (Party signifikansi 5%). Thus, it can be concluded that the fourth hypothesis is accepted. This means that institutional ownership can weaken the influence of *financial distress* on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018 – 2022 period.

Hypothesis 5 (H5)

The fifth hypothesis (H5) tests whether *profitability* affects profit management by being moderated by institutional ownership in telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2022 period. The sounds of null hypothesis (Ho) and alternative hypothesis (Ha) are as follows:

Ho5: Institutional ownership cannot weaken the influence of *profitability* on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022.

Ha5: Institutional ownership can weaken the influence of *profitability* on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022.

Based on the results of the t-test on the regression model, a *coefficient* value (β) with a negative direction of -0.801996 and a significance value of 0.0029 < 0.05 (significance level of 5%) was obtained. Thus, it can be concluded that the fifth hypothesis is accepted. This means that institutional ownership can weaken the influence *of profitability* on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022.

Hypothesis 6 (H6)

The sixth hypothesis (H6) tests whether *leverage* has an effect on profit management by being moderated by institutional ownership in telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2022 period. The null hypothesis (Ho) and alternative hypothesis (Ha) sound as follows:

Ho6: Institutional ownership cannot weaken the influence of *leverage* on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022.

Ha6: Institutional ownership can weaken the influence of *leverage* on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022.

Based on the results of the t-test in the regression model, a *coefficient* value (β) with a negative direction of -0.000408 and a significance value of 0.0970 > 0.05

(significance level of 5%) was obtained. Thus, it can be concluded that the sixth hypothesis is rejected. This means that institutional ownership cannot weaken the influence *of leverage* on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2022 period.

Coefficient of Determination Test (R^2)

Coefficient of Determination (Test R^2) In essence, it measures how far the model is able to explain the variation of dependent variables. The value of the determination coefficient is between 0 and 1 or ($0 < x < 1$). A small R2 value means that the ability of independent variables to explain dependent variables is very limited. For each additional independent variable, R2 must increase, regardless of whether the variable has a significant effect on the dependent variable.

Therefore, many researchers recommend using adjusted R2 when evaluating which regression model is best. In fact, the adjusted value of R2 can be negative even if the desired value is positive. If in the empirical test there is a negative adjusted R2 value, then the adjusted R2 value is considered to be zero (Ghozali, 2021). The results of the determination coefficient test in this study are as follows:

Table 2.Results of Determination Analysis (R^2)

	Adjusted R-squared
Financial distress, profitability, leverage, institutional ownership, *financial distress**institutional ownership, *profitability**institutional ownership, and *leverage**institutional ownership to profit management	0.755977

Source: Data Processing Results with Eviews 10

Based on the results of data processing, the value of *the Adjusted R-squared* model using moderation is 0.755977. This can be interpreted that the independent variables in this study are financial distress, profitability, leverage, institutional ownership, financial distress*Institutional ownership, profitability, and leverage, institutional ownership together can explain the bound variable, namely profit management of 75.5%. The remaining 24.5% was explained by other variables outside the research model.

Simultaneous Test (Test F)

This test was carried out to prove whether independent variables simultaneously (simultaneous) have an influence on dependent variables (Ghozali, 2018). With the confidence level (5%), the decision taken is that if the significance level $F < 0.05$, it can be concluded that all independent variables simultaneously or simultaneously affect the independent variables. Then if the significance level $F > 0.05$, it can be concluded that all independent variables simultaneously or simultaneously have no effect on the dependent variables.

Table 3. Statistical Test Results F

	Prob(F-statistic)
Financial distress, profitability, leverage, institutional ownership, *financial distress**institutional ownership, *profitability**institutional ownership, and *leverage**institutional ownership to profit management	0.000000

Source: Data Processing Results with Eviews 10

Based on the Prob value (F-statistic) shows a probability value of 0.00000. The value of the statistical probability F is less than the significant value α = 5%, so it can be concluded that the independent variables in this study are Financial distress, profitability, leverage, institutional ownership, financial distress, institutional ownership, profitability, and leverage*Institutional ownership together has a significant effect on the bound variables of profit management.

Discussion

The effect of financial distress on profit management Financial distress is a serious issue for companies, and if not handled properly, can potentially cause significant losses (Tsaqif dan Agustiningsih, 2021). According to Chairunesia et al., (2018) The relationship between financial distress and profit management is that if the company is in financial difficulties, then the company's management will try to do profit management by beautifying the company's financial statements so that it looks more attentive to new investors, besides that management does profit management to make financial difficulties in a company invisible. So that the higher the financial distress, the higher the company's profit management actions.

The results of the study show that financial distress has no effect on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 - 2022. This result is in accordance with data that explains that whether or not financial distress occurs in a company often carries out profit management to meet the profit target of 105 companies if the current period is not as desired so that it can attract investors' interest.

According to agency theory, managers have an incentive to manipulate financial statements to meet profit targets and attract investors, especially when the company faces financial difficulties. This action is usually carried out to provide a better picture of the company's performance and increase the company's attractiveness in the eyes of investors and creditors (Moratis, 2018:3). However, the results of the study show that financial distress does not have a significant effect on profit management.

In this context, companies that experience financial distress will not always carry out profit management in attracting or retaining investors. This is because the challenging financial situation may make companies more cautious in managing their finances and accounting, as manipulative actions can increase the risk to credibility and trust from stakeholders such as investors, creditors, and regulators. These results are in line with

research Irawan & Apriwenni, (2021) stated that financial distress had no effect on profit management. The same results are shown by Khaerunnisa et al. (2020) It was found that financial distress had no effect on profit management.

The Effect of Profitability on Profit Management

Profitability provides an overview of a company's ability to generate profits for a given period using all the capabilities and resources it has, whether from sales activities, asset use, or capital use (Hery, 2017). Increasing profitability indicates that the company is in good shape so it will reduce the desire for managers to perform profit management.

The results of the study show that profitability has no effect on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 - 2022. This result shows that 107 high and low profitability does not have an impact on profit management because a high profitability is high, so the profit generated is also high, as well as the company's performance will look good in the eyes of investors in generating profits so that actually the manager has no encouragement in trying to do profit management where the manager has also benefited from the high profitability.

When profitability is low, managers are also not interested in doing profit management because profitability is the main concern of investors so it is more difficult for managers to do profit management and managers are afraid of raising suspicion by investors if the manager makes changes that have an impact on reducing investor confidence in the company.

Profit management is often more related to specific incentives, such as management's desire to achieve revenue targets, meet market expectations, or comply with debt agreements. Profitability may not directly affect this decision. Managers should be aware that profit management may be affected by a variety of factors other than profitability, so policies aimed at reducing profit management should take those factors into account. The results of this study are in line with the research conducted by Istanita & Ulfah (2023) shows that profitability has no effect on profit management. The same result is done by Agustia & Suryani (2018) which shows that profitability has a positive effect on profit management.

The Effect of Leverage on Profit Management

Leverage has a relationship with the income of the report management practice, when the company has a high leverage ratio, the company tends to perform the practice of profit management report because the company is threatened with not being able to meet its obligations by paying its debts on time (Christian et al., 2022). The results of the study show that leverage has no effect on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018 - 2022 period. These results show that the size of a company's debt ratio is not one of the reasons or incentives for management to practice profit management. In theory, it is explained that the use of debt that is too high can result in the company being threatened with default.

The level of debt owned by the company does not make the company in carrying out profit management actions. However, the risk arises because companies that are at high debt levels have the threat of being unable to pay their obligations. The amount of leverage in the company will reduce the space for management to move in carrying out profit management actions, this is due to supervision from creditors. Companies that have a fairly high level of leverage will face a high risk of default, namely the company is threatened with being unable to meet its obligations (Kurniawati 2018).

The high debt ratio of the company is not a benchmark in carrying out profit management actions. The results of this study are in line with the research conducted by Astriah et al. (2021) found that leverage had no effect on profit management. The same results were shown by Wijaya dan Hendriyeni 110 (2021) stated that leverage has no effect on profit management in transportation sector service companies listed on the IDX in 2018-2020.

Institutional ownership moderates the influence of financial distress on profit management

Florentina dan Hastuti (2022) Institutional ownership is when a company has a proportion of shares held by other organizations. Banks, countries, financial organizations, and international corporations are examples of institutions. According to the theory of supervision, institutional investors have greater capacity and incentives to monitor and control the actions of a company's management compared to individual investors. They typically have a team of analysts and portfolio managers who exercise strict oversight of the companies they invest in, as well as have the power to influence management decisions through their voting rights in shareholders' meetings.

The results of this study show that institutional ownership can weaken the influence of financial distress on profit management in telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022. Empirically, the processed data supports the theory of supervision, where companies with higher levels of institutional ownership show a lower tendency to perform profit management despite being in financial distress conditions.

These results support the research Yovianti dan Dermawan (2020) which states that the higher the level of institutional ownership, the less likely the company is to perform profit management, especially when facing financial pressure. Tight scrutiny by institutional investors can hamper management's efforts to manipulate financial statements to show better financial conditions than they actually are. The same results were shown by Immanuel and Hasnawati (2022) found that institutional ownership has a negative effect on profit management.

Institutional ownership moderates the influence of Profitability on profit management

The effectiveness of management management in generating company profits can be proven in the profitability ratio meter (Setyawan, 2019). The results of this study show that institutional ownership can weaken the influence of profitability on profit

management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022.

The results show that institutional ownership has a significant role in reducing or mitigating the impact of profitability levels on profit management practices. In other words, even though the company has a high level of profitability, the existence of institutional ownership can effectively prevent management from practicing profit management. These findings support the agency theory that 113 oversight conducted by institutional owners can reduce the potential for managers to take actions that are not in the interests of shareholders. Thus, institutional ownership not only weakens the relationship between profitability and profit management, but also strengthens corporate governance mechanisms.

Institutional ownership moderates the influence of Leverage on profit management

Institutional ownership can reduce the negative impact caused by high levels of debt on profit management practices. Angelina and Atiningsih (2020) added that the implementation of effective corporate governance is considered a proactive effort that can eliminate all attempts to manipulate profits that may be carried out by the company.

The results of this study show that institutional ownership cannot weaken the influence of leverage on profit management in Telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 – 2022. These results show that institutional ownership does not have a significant role in suppressing the influence of leverage on profit management practices. These results show that institutional ownership does not have a significant role in reducing the influence of leverage on profit management practices. Leverage, which measures the extent to which a company uses debt in its financial structure, is often considered a factor that can encourage management to manipulate profits in order to meet financial obligations or to create a more stable and profitable financial image (Putri dan Setiawati, 2021).

The results of this study are in line with the research conducted by Putri dan Setiawati (2021) which found that Institutional Ownership was not able to moderate the Leverage relationship on Profit Management of manufacturing companies listed on the IDX for the 2017-2019 period. The same results are shown by Putri et al. (2022) Finding that institutional ownership cannot moderate the effect of leverage on profit management.

CONCLUSION

The conclusion of this study shows that financial distress, profitability, and leverage have no effect on profit management in telecommunications sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2022 period. However, institutional ownership can weaken the influence of financial distress and profitability on profit management, while institutional ownership does not affect the influence of leverage on profit management.

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