

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

The infrastructure sector plays a crucial role in driving economic growth and improving the quality of life of the people. Infrastructure is the physical development of public facilities, such as roads, ports, schools, hospitals, waste treatment, clean water, and airports. Improving the availability and quality of infrastructure can increase people's productivity, thereby encouraging economic growth. Infrastructure development not only impacts the transportation sector, but also other sectors such as energy, telecommunications, and water. Strategic project initiatives such as the construction of dams and large-scale power plants have increased energy availability, supported industrial sustainability, and improved Indonesia's competitiveness at the global level (Awainah et al., 2024).

The positive trend in the infrastructure sector has had a major impact on the nation's economy. This was also due to the strengthening of government capital expenditure in the infrastructure sector, which increased due to the construction of the *Ibu Kota Nusantara (IKN)* and *Jalan Tol Trans Sumatera (JTTS)*.

Profitability has a causal relationship with earning management, which shows that The higher the profitability a company, the company's ability to generate profits will increase. The relationship between profitability and earnings management is that when the profitability generated is small in a certain period of time, it will trigger the company to carry out earnings management. Profitability is

important to choose because it shows the company's good performance and prospects, attracts investors to invest in the company, measures how efficiently the business generates profits and expenses (Anisya et al., 2023).

Based on research conducted by (Anisya et al., 2023). that profitability has a positive impact on earning management. However, different results were found by (Hardiyanti et al., 2022), profitability has a negative impact on earning management. Another result was found by (Yasa et al., 2020), profitability does not impact toward earning management.

Here are some of the Infrastructure Companies Listed in the IDX for the period 2019-2023 with the value of profitability and earning management that can be seen in Table 1.1.

**Table 1.1 Phenomenon Data of Profitability and Earning Management Infrastructure Companies Listed in the IDX for the period 2019-2023**

Company	Year	Profitability	Earning Management
PPRE PT. PP Presisi, Tbk	2019	4,2685	0,0314
	2020	0,8655	-0,0184
	2021	1,0944	-0,0236
	2022	1,3277	-0,0276
	2023	1,1195	0,0061
KEEN PT. Kencana Energi Lestari, Tbk	2019	0,8876	-0,0690
	2020	2,3379	-0,0786
	2021	2,2192	-0,0556
	2022	3,9722	-0,0609
	2023	3,6597	-0,0645
SUPR PT. Solusi Tunas Pratama, Tbk	2019	2,0455	-0,1484
	2020	1,6999	-0,1076
	2021	-0,5926	-0,1404
	2022	9,7520	-0,0746
	2023	11,4140	-0,0497

Sources: Prepared by the writer (2024)

Table 1.1, shown that PT. PP Presisi, Tbk has the profitability rate decreased from 1,3277 in 2022 to 1,1195 in 2023. However, the earning management for PT. PP Presisi, Tbk has increased from -0,0276 in 2022 to 0,0061 in 2023. Low profitability will trigger managers to carry out earnings management. Managers will

improve quality of financial statements to make it look good, so that managers will be able to fulfill their personal interests to get bonuses. interests to get a bonus (Caithlin & Mulyani, 2024)

PT. Kencana Energi Lestari, Tbk has the profitability rate decreased from 3,9722 in 2022 to 3,6597 in 2023. However, the earning management for PT. Kencana Energi Lestari, Tbk is negative. PT PT. Solusi Tunas Pratama, Tbk has the profitability rate increased from 9,7520 in 2022 to 11,4140 in 2023. However, the earning management for PT. Kencana Energi Lestari, Tbk is negative. Both of these companies score negatively for earnings management. Negative earnings management can reduce the value of the company. Excessive earnings management can cause companies to misrepresent facts in their financial statements.

As stated from the explanation above, in order to analyze the impact of profitability on earning management, the writer decides to conduct research entitled **“The Impact of Profitability towards Earning Management in Infrastructure Companies Listed in the IDX for the Period 2019-2023.”**

## **1.2 Problem Formulation**

Based on the background of research, the authors formulate a question, namely does profitability has an impact towards earning management in infrastructure companies listed in the IDX for the period 2019-2023?

## **1.3 Objectives of the Research**

Based on the problem formulation, the objectives of this research is to analyze whether profitability has an impact towards earning management in

infrastructure companies listed in the IDX for the period 2019-2023.

#### **1.4 Benefits of the Research**

The writer expects that this research can give benefits both theoretically and practically as follows:

##### **1.4.1 Theoretical Benefit**

The research results can be used to expand, improve and develop the relevant theories especially in the impact of profitability towards earning management in infrastructure companies and hopefully the information provided may be useful for the readers and future researchers.

##### **1.4.2 Practical Benefit**

###### **1. For the Writer**

The writer as a basis for increasing knowledge and give insight for researchers in the field of accounting, especially those related to the impact of profitability toward earning management in infrastructure companies.

###### **2. For the Investors**

The results of this study are expected to provide information for the potential investors to assess a company so that it can be used as a reference and help investors in considering decision making to invest in a company through factors that impact earning management.

###### **3. For the Other Researcher**

This research can be an additional reference material for further researchers as well as information for interested parties in assessing the similar topic in the future.

### **1.5 Problem Limitation**

Based on the background study above, the problem limitations found in this research are:

1. The object research in this paper is the infrastructure sector listed on the Indonesia Stock Exchange.
2. The data for observation is from the year 2019 to 2023.
3. The dependent variable that became the test material in this study is earning management. The research Model is limited to examining only the independent variables in the form of profitability. In addition, there are control variables namely leverage, liquidity, company size, and sales growth.