EARNINGS MANAGEMENT AND FINANCIAL PERFORMANCE BEFORE AND DURING THE CORONA VIRUS DISEASE-19 PANDEMIC

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Abstract
This research set out to ascertain the impact of profitability as measured by the ratio of return on assets (ROA), return on equity (ROE), and net profit margin (NPM) on earnings management in the tourism, restaurant, and hotel sector firm listed on Indonesian Stock Exchange for the study period of 2017–2020. The research sample was selected by using purposive sampling. Data analysis technique using multiple linear regression analysis and carried out by SPSS version 22 software. According to the findings, net profit margin had an impact on earnings management, while return on equity and return on assets did not affect earnings management.

Keywords: Earnings Management, Return on Assets, Return on Equity, Net Profit Margin.

1. INTRODUCTION
At the beginning of 2020, the world was shocked by the emerging an outbreak of Corona Virus Disease-19 which originated in Wuhan City, China. The virus quickly spread throughout the world, including Indonesia. On March 2, 2020, the first case of Corona Virus Disease-19 occurred in Indonesia (Portal Informasi Indonesia, 2020). The impact of Corona Virus Disease-19 on human health is causing damage to the lungs which can lead to death for people, who contaminated Corona Virus Disease-19. Toward prevent a wider health crisis from occurring, the Indonesian government immediately made a policy for reducing the spread of Corona Virus Disease-19 by prohibiting activities that create crowds. That policy contains PSBB program, implementing Work From Home (WFH) and health protocols to reducing human mobility, goods and services, it means the social and economic activities getting decline drastically.

According to the Tourism Trends Book by Kementerian Pariwisata dan Ekonomi Kreatif (2021), Indonesia had fewer international visitors in 2020 than 2019, only around 25%. The policy of restrictions for human mobilization to prevent Corona Virus Disease-19 greatly impacted the tourism sector, with the state income declining to 20.7 billion rupiah. The degenerate of the foreign tourists’ number also had a direct impact on the occupancies of Indonesian hotels, data shows the occupancy trend in January-April at 49.17% and getting down drastically into 12.67%. As a consequences, a significant reduction of the workforce in the tourism sector, around 409 thousand people lost their jobs in the tourism sector (BPS, 2020).

During the epidemic period, there was a prediction that the firm’s financial performance would change. The firm financial performance is a description about the financial statement which is analyzed using financial analysis tools, thus detecting the deficiencies and performance that the firm has achieved in a certain period (Esomar & Christianty, 2021). The changes of firm financial performance will be shown in the financial statement. Performance report must provide useful information to the investor, potential investor, creditor and stakeholder for making credit decisions, rational investments and other rational decisions. The financial report has to be understandable to stakeholders and can be used as a reference in making a decision. Therefore in preparing financial reports, it has to be complete and established, to minimize the misleading information (Ikatan Akuntan Indonesia, 2009).

One of the numerous pieces of information found in the financial statements is a report from the company financial position. Firm profit informs about a firm's performance in specific time that can be used to evaluate a firm's performance. Stakeholders
concerning the firm’s profits information as an assessment of firm performance and as a responsibility of managing the firm’s resources. There is an accounting policy that claims the earnings of a firm can incline or decline according to the needs and consideration of management, it is called earnings management (Lestari & Wulandari, 2019).

Earnings management is the act of managers to modify profits (Christiani & Nugrahanti, 2014). Sulistyanto (2018) explains that earnings management is an action of a manager to proceed profit to a good status to outwit stakeholder’s purpose. Earnings management issue is avoided because it involves individual benefits and corporate profits (Paramitha & Idayati, 2020). The investor is interested in the company which has a profit rising consistently. An asymmetry information motivates managers to improve profit levels so that they are always at a profitable level (Arifin & Dectriana, 2016).

There is an aspect that has an impact on earnings management in this study is profitability. Profitability is the ratio in the financial statements that reflects the company's ability to operate firm. A good level of company performance can be observed from the company's ability to earn profit, which is indicated by the level of profitability (Putra & Badjra, 2015). Profitability in this study is measured by Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). Return on Assets (ROA) is a profitability ratio that shows net profit after tax on total assets used in the company. Return on Equity (ROE) is a profitability ratio to measure net profit after tax with own capital, and NPM is a profitability ratio to measure net profit after tax with sales. According to Guna & Herawaty (2010) the results show that profitability affects earnings management. Furthermore, Sullivan & Widoatmodjo (2021) find out there was a deviation in bank's financial performance before and during Corona Virus Disease-19 periode. Azizah (2021) explains that there is an influence from the Corona Virus Disease-19 pandemic with earnings management in several Indonesian firms. After reviewing some studies, writer consider to verify the influence of financial performance on earnings management before and during the Corona Virus Disease-19 Pandemic.

2. LITERATURE REVIEW AND HYPOTHESIS

Financial Statements

Financial statements is a progress documentation of a financial report which consists of a result data combination of recorded facts, principles and habits in accounting (accounting conversions and postulates), personal judgment (Ramadan & Syafran, 2016). Meanwhile according to Sihombing & Belmart (2020), financial reports are reports that contain recorded information and data prepared by a firm to show the condition and performance of the firm to those who need them to make financial reports based on accounting principles. The main purpose for compiling financial reports is to support information about the company's financial situation completely.

In general, the firm prepared five types of financial statements, the first is a balance sheet that shows the firm's financial position. Second, a detailed income statement about the firm's profits or losses the firm experiences over a specific time period. Third, the cash flow statement contains information on cash flows in and out of the firm. Fourth, the report on changes in capital which contains information regarding the increase or decrease in the number of assets. Furthermore, the fifth is the notes to the financial statements which contain additional information and notes at the end of a financial report. (Sihombing & Belmart, 2020)

Firm Financial Performance

The weakness and strength of firms over specific times are identified using a performance financial statement, it is a description about a firm’s financial status which examines using financial analysis methodologies. Financial performance is visible in the firm's financial statements, and the information in financial statements is very important to be able to know the company’s financial position. (Esomar & Christianity, 2021).

Management uses financial ratios as a tool to evaluate a company's performance over a specified period and determine whether it is effective or not. The management of the company will assess the performance of the company based on the results of the financial ratios. Four categories of financial ratios are liquidity ratios, activity ratios, solvability ratios, and profitability ratios (Sihombing & Belmart, 2020).
Based on Faisal et al. (2017), the importance of evaluating firm financial performance, namely: 1) understand of the firm's liquidity or its capacity to meet short-term financial obligations; 2) understand of the firm's degree of solvability or its capacity to meet short- and long-term financial obligations; 3) understand of the firm's profitability or capacity for profit throughout a specific timeframe; 4) understand of the firm's level of financial stability, which is measured by considering firm’s capability to repay the debts conclude interest punctually and the stakeholder receive the dividend regularly.

Agency Theory

The Agency theory explains how earnings management methods rise. In Sari (2015), agency theory is the existence of an agency relationship between the principal and the agent. In agency theory, management as an agent is required to be able to fulfill the interests of principal, such as maintaining the condition of the firm but also achieving profit targets during the pandemic period (Firmansyah & Ardiansyah, 2021). According to Sihombing & Belmart (2020), agents will be employed by the firm management to run the firm activities that comply with the prominence of the firm. During firm activities, managers and stakeholders will try to pursue the firm’s setting goals.

Management is a group of people appointed by the shareholders to commit in the best interests for shareholders. As a result, management must be responsible for reporting all of the activities to shareholders. The agent's job as a manager is to report the progress of the firm through financial reports that will be used by the principal to make decisions. The formation of assumptions in agency theory is that the goals of the principal and the goals of the different agents will lead to conflict. This conflict arises when the manager, as an agent, acts contrary to the interests of the principal. This conflict generates problems within the agency.

Earnings Management

One definition of earnings management is the attempt by firm managers to interfere or influence information in financial reports in order to deceive stakeholders who are interested about the performance and state of the firm (Sulistyanto, 2008). However, Kartikawati et al. (2021) provides an explanation regarding earnings management as the choice of accounting policies that can maximize the firm's market value.

Guna & Herawaty (2010) describe earnings management as a difficult case to avoid because the firm manager uses accrual basis to prepare the financial report. Earnings management arises as an effect from using accounting as an instrument for communicating to stakeholder and inherent weaknesses in accounting that cause judgment (Setiawati, 2002). Earnings management is a frequent agency problem that is triggered from the roles separation or the conflict of interest between shareholders and firm management (Sari, 2015).

There is an impact from earnings management on the credibility of financial statements because earnings management is a non-organic financial report to fulfill the communication needs between managers and external parties of the firm. In addition, earnings management can lead to bias in financial reports because of the relationship between conflicting interests of stakeholders and managers (Sari, 2015).

Profitability Ratio

The profitability ratio is a measurement used by investors to assess whether a firm is healthy or not and can also influence future investment decision making (Sari, 2015). This is in line with Lestari & Wulandari (2019), probability level can influence the smoothing actions by firms, where income smoothing actions are one of the methods used by firms in earnings management. Sihombing (2020) explains that there are various ratios used to measure a firm's ability to generate profits, such as Gross Profit Margin (GPM), Net Profit Margin (NPM), Return on assets (ROA), Return on Equity (ROE), Return on Sales (ROS), Return on Investment, Return on Employee Capital (ROCE) and Earnings per Share (EPS).

For the details, the function of GPM used to assess the level of gross profit compared to the results of income derived from sales activities in a percentage. Whereas NPM is used to assess the percentage level of net profit excluding tax on income derived from sales. ROA has a function to measure the percentage level of profits by the firm or the comparison of profit and the firm’s total assets. Furthermore, ROE is used for observing the level of a firm's ability to generate
profits from the firm’s capital. Return on sales (ROS), this ratio used to provide information in evaluating firm efficiency, this ratio also provides knowledge about the level of firm profits generated from sales. Employee return on capital (ROCE) is a financial ratio to assessing profitability which comes from the efficiency of the capital used. In other words, ROCE assesses a firm’s ability to generate profits from its capital which is commonly used in analyzing capital investment. The next ratio is earnings per share (EPS) which provides information about the level of a firm’s ability to generate profit per share it owns.

**Return on Assets (ROA) and Earnings Management**

According to Zutter & Scott (2019: 154) return on assets is a profitability ratio that is used to measure the level of effectiveness of a firm in generating profits as a whole by using the assets owned by the firm. The higher the value of the ROA ratio indicates that the firm has effectively used its assets to maximize its profits (Yuliana & Trisnawati, 2015). When the return on assets is high, the earnings management becomes high, this indicates that the higher the value of return on assets in a firm allows managers to try to do earnings management because managers directly know the firm’s ability to generate profits. Because they believe these firms can produce big returns, investors will be more interested in investing their capital in firms with high ROA values.

**H1:** Return on assets (ROA) affects earnings management.

**Return on Equity (ROE) and Earnings Management**

Return on equity is one of the profitability ratios used to measure a firm's performance in managing its own capital effectively in generating firm profits (Kasmir, 2012). ROE size can attract the investors to place some shares in the firm. The better ROE ratio, its means that the stronger the position of the firm’s capital owner. Management will manage their earnings when the firm’s ROE is high by adjusting to the firm’s level of ability. Tahat & Alhadab (2017) stated that ROE has a negative effect on earnings management. But this research is in contrast to Noe (2017) which states that ROE has a positive sign on earnings management, because managers will manipulate financial reports to display high profitability.

**H2:** Return on equity (ROE) affects earnings management.

**Net Profit Margin (NPM) and Earnings Management**

One of the ratios to measure firm profitability is the net profit margin (NPM). According to Kameswara (2018) NPM is used to determine the amount of net profit in a firm obtained from net sales activity. A high NPM value is considered by the firm to have good performance, it will have an impact on investors' interest to invest their capital. Therefore, if the NPM inclines, the manager tries to perform earnings management, and NPM seems in great condition. Josep et al. (2016: 101) stated that NPM has a significant effect on earnings management. This research supports that NPM is considered to have an effect on earnings management because NPM is in direct contact with earnings management.

**H3:** Net profit margin (NPM) affects earnings management.

3. **RESEARCH METHODS**

This research is a type of quantitative with research samples presented in the form of numbers. Using statistical techniques to investigate the relationships between variables, quantitative research is a method for testing objective theory. The focus of this research is to test the hypothesis by measuring quantitative variables. The data used is a time series because this research sample was taken based on the sample time, starting from 2017 to 2020, and can be said to cover more than one period.

The goal of this study is to examine how ROA, ROE, and NPM affect the management of earnings. This study model was created utilizing quantitative techniques to assess each variable in earlier research that had been studied. The method of data analysis employed in this study employed a number of tests, including a simultaneous significance test, a coefficient of determination test, a statistical t test, and a descriptive statistical analysis.
Data Types and Sources
Secondary data sources were used in this investigation. Secondary data, as defined by Sugiyono (2013), is information that researchers have gathered or gained from a variety of already-existing sources, such as documents. The figures from the financial reports of firms in the tourism, restaurant, and hotel sectors listed on the Indonesia Stock Exchange that were collected from each of these firms' official websites were used as secondary data sources in this study. This study's time frame is from 2017 to 2020.

Population and Research Sample
All tourism-related businesses, eateries, and hotels that were listed on the Indonesia Stock Exchange between 2017 and 2020 comprise the population of this study. The purposive sampling approach was used to choose the samples that will be used in this investigation, with the following selection criteria:

3. The financial statements have been audited for 2017-2020.
4. The data in the firm’s financial statements are complete regarding the variables used in this study.

The number of samples obtained after conducting purposive sampling was 104 tourism, restaurant and hotel sector firms registered on the IDX from 2017-2020.

Variables Measurement

Earnings Management
This research uses discretionary accrual to assess earnings management. It means that, discretionary accrual is an accrual component that concludes in the management policy. The calculation of earnings management in this study uses the Modified Jones Model (Dechow et al., 1995) with the following formula and flow:

1. Measuring Total Accrual (TAC) which is calculated by the formula:

\[ \text{TAC}_{it} = \text{N}_{it} \cdot \text{CFO}_{it} \]

2. Calculating accruals values using Ordinary Least Square (OLS) regression:

\[ \frac{TAC_{it}}{A_{it-1}} = \beta_1 \left( \frac{1}{A_{it}} \right) + \beta_2 \left( \frac{REV_{it-1} - REV_{it}}{A_{it}} \right) + \beta_3 \frac{PPE_{it}}{A_{it-1}} \]

3. Calculate non-discretionary accrual with the following formula:

\[ \text{NDA}_{it} = \beta_1 \left( \frac{1}{A_{it}} \right) + \beta_2 \left[ \frac{(REV_{it-1} - REV_{it})}{A_{it}} \right] \cdot \frac{REC_{it-1}}{A_{it-1}} + \beta_3 \frac{PPE_{it}}{A_{it-1}} \]

4. Calculating the value of Discretionary Accrual with the formula:

\[ \text{DA}_{it} = \left( \frac{TAC_{it}}{A_{it}} \right) - \text{NDA}_{it} \]

Return on Assets (ROA)
Return on assets is a ratio that informs how much profit is obtained from the use of resources or assets
ROA can be measured using the following formula:

\[ \text{ROA} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}} \]

Return on Equity (ROE)

Return on equity is the ratio used to see how much a firm earns by utilizing its own capital. The formula for measuring ROE according to Gunawan et al. (2015), namely:

\[ \text{ROE} = \frac{\text{Net Profit After Tax}}{\text{Total Equity}} \]

Net Profit Margin (NPM)

Net profit margin is one of the profitability ratios used to assess firm performance by comparing the amount of net profit with the firm's total revenue. According to Kasmir (2012:96) the formula for calculating NPM is as follows:

\[ \text{NPM} = \frac{\text{Net Profit After Tax}}{\text{Total Income}} \]

4. RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Through descriptive analysis we can see the number of research observations (n), the smallest value (minimum), the largest value (maximum), the average value (mean) and the standard deviation value for each variable used.

Table 1. Descriptive Analysis

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>DACs</td>
<td>104</td>
<td>-0.013</td>
<td>0.012</td>
<td>-0.001</td>
<td>0.002</td>
</tr>
<tr>
<td>ROA</td>
<td>104</td>
<td>-0.616</td>
<td>0.260</td>
<td>-0.002</td>
<td>0.088</td>
</tr>
<tr>
<td>ROE</td>
<td>104</td>
<td>-1.335</td>
<td>1.255</td>
<td>0.007</td>
<td>0.231</td>
</tr>
<tr>
<td>NPM</td>
<td>104</td>
<td>-9.914</td>
<td>2.312</td>
<td>-0.244</td>
<td>1.315</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>104</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on the results of descriptive statistics, DAC is the dependent variable that has the smallest number, namely -0.013 which is owned by PT. Bayu Buana in 2020 and the biggest number on earnings management is 0.012 which is owned by PT. Graha Andrasentra Propertindo in 2019. The average earnings management during 2017-2020 was -0.001 with a standard deviation value of 0.002. The earnings management variable has a standard deviation value that is greater than the average value. This indicates that the earnings management variable has a wide distribution.

The independent variable ROA has the largest yield of 0.260 which is owned by PT. Indonesia Paradise Property in 2019 and the smallest return on ROA belongs to PT. Sanurhasta Mitra in 2020 with a value of -0.616. The ROA variable has an average value for 4 years of -0.002 with a standard deviation value of 0.0878. The ROA variable has a standard deviation value that is greater than this average value indicating that the ROA variable has a wide distribution.

Furthermore, the independent variable ROE has the biggest number of 1.255 which is owned by PT. Bayu Buana in 2019 while the smallest ROE belongs to PT. Dafam Property Indonesia with a value of -1.335 in 2017. The average value for the independent variable ROE is 0.007 with a standard deviation value of 0.231. The ROE variable has a standard deviation value that is greater than this mean value, indicating that the ROE variable has a wide distribution.

For the greatest result of the last variable descriptive statistics, namely NPM owned by PT. Indonesia Paradise Property with a value of 2.312 in 2019, while the smallest yield of NPM -9.914 is owned by PT. Ayana Land International in 2020. The average NPM result is -0.244 with a standard deviation value of 1.315. The NPM variable has a standard deviation value that is greater than this mean value, indicating that the NPM variable has a wide distribution.
Classic Assumption Test

Normality Test

Based on the results of the normality test using the Kolmogorov-Smirnov test, indicate a Kolmogorov-Smirnov value of 1.118 with a significant probability level of 0.124 that is higher than 0.05, it can be concluded that the regression model used meets the normality assumption.

Multicollinearity Test

The results of the multicollinearity test show that the tolerance values for the ROA, ROE, and NPM variables are 0.654, 0.758, and 0.828, which indicates that the tolerance value is not below 0.10, and for the VIF values of each variable, they are 1.532, 1.319, and 1.208 where the results of all variables have a VIF value below 10. It is concluded that the independent variables in this regression do not occur multicollinearity.

Heteroscedasticity Test

For the heteroscedasticity test using the scatter plot graph test, the dots are spread around no on the Y axis which do not form a specific pattern, it can be concluded that the regression model does not contain heteroscedasticity.

Autocorrelation Test

Based on the Durbin-Watson test, The DW value is 1.905, the dL value is 1.621, the dU value is 1.740, and the 4-dU value is 2.259. These findings demonstrate that the DW value is between dU and 4-dU, leading to the conclusion that the regression model used in this study is autocorrelation-free.

Hypothesis Testing

Simultaneous Significance Test (F Statistical Test)

The simultaneous significance test has the objective of analyzing all independent variables whether or not they jointly influence the dependent variable. The F statistic test is the initial stage in identifying a regression model that is estimated to be feasible or not.

Table 2. Statistical Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Q</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Betas</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-8.75</td>
<td>0.86</td>
<td>-10.21</td>
<td>0.000</td>
</tr>
<tr>
<td>ROA</td>
<td>1.12</td>
<td>0.74</td>
<td>0.86</td>
<td>1.52</td>
</tr>
<tr>
<td>ROE</td>
<td>-0.85</td>
<td>0.61</td>
<td>-0.66</td>
<td>-1.32</td>
</tr>
<tr>
<td>NPM</td>
<td>-0.83</td>
<td>0.27</td>
<td>-0.70</td>
<td>-3.12</td>
</tr>
<tr>
<td>F Test</td>
<td>= 3.661</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.</td>
<td>= 0.022</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R</td>
<td>= 0.505</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R-Square</td>
<td>= 0.187</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since the significance value of the linear regression model, which is 0.022, is lower than that of the statistical test f, which has a significance value of 0.05, it can be concluded that the independent variables in this study, namely ROA, ROE, and NPM, have an impact on the dependent variable, earnings management, simultaneously.

Coefficient of Determination Test (R-Square)

The degree of association between the independent variables and the dependent variable is assessed using the coefficient of determination test. If the R-square value is close to 1, it means that the study's dependent variable almost has all the data necessary to predict the dependent variable.

In Table 2, it can be seen that the value of the coefficient of R or the coefficient of determination is 0.505 or 50.5%, which means that ROA, ROE, and NPM have a fairly strong correlation with earnings management (R > 0.5 - 0.75). Adjusted R-square value in the multiple linear regression research model shows the number 0.187, which means that 18.7% of the
factors that affect earnings management can be explained by the variables ROA, ROE, and NPM, while the remaining 81.3% can be explained by other factors outside of this study.

Individual Parameter Significance Test (Statistical Test t)

The t statistical test is used to determine the effect of one independent variable individually in explaining the variance of the dependent variable.

Return on Assets (ROA) and Earnings Management

The results of the t statistical test show that the independent variable, earnings management is unaffected by the dependent variable return on assets (ROA). It is proved by ROA's significance value, which is greater than 0.05 at 0.139. Thus, the initial hypothesis that return on assets (ROA) has an impact on earnings management is refuted. This demonstrates that management of earnings is unaffected by the firm's performance, regardless of whether it is positive or negative. The management would not be motivated to engage in earnings management because the higher the ROA value, the better the company performs and the higher the shareholder profit will be. ROA is also a major concern for stakeholders so that managers have little opportunity to manage earnings.

The results of the study are not in accordance with research conducted by Astriah et al. (2021) and Chandra (2021) which states that return on assets (ROA) affects earnings management. However, this research is in line with the research by Agustina & Sumantri (2018) and Wowor et al. (2021) which state that return on assets has no effect on earnings management. Based on agency theory, ROA is not one of the causes for managers to carry out earnings management, because ROA is the main concern of shareholders so that there is little possibility/gap for managers to carry out earnings management. Thus, high or low ROA does not affect earnings management (Damayanti & Kawedar, 2019).

Return on Equity (ROE) and Earnings Management

According to the findings of the t statistical test, return on equity has a significance value of 0.196, which is more than 0.05, indicating that it has no impact on managing earnings. The hypothesis that return on equity (ROE) having an impact on earnings management is rejected. This demonstrates that the more capital a company has and uses to make money, the better the return on equity. When a company makes a lot of money in one big time, there is a chance that the following period will be less profitable.

This result is in line with the research of Wowor et al. (2021), which states that return on equity (ROE) has no effect on earnings management. However, this study is not in line with Qi et al. (2013) and Nuraya (2013), in which the results of the study state that return on equity (ROE) has an effect on earnings management. This indicates that the firm's earnings management is not based on increasing the firm's equity.

Net Profit Margin (NPM) and Earnings Management

The net profit margin (NPM) has an impact on profits management, according to the findings of the t statistical test, as shown by the net profit margin (NPM) significant value of 0.005, which is less than 0.05. It is in order to confirm the original theory that the net profit margin (NPM) affects earnings management. Investors frequently consider the company's net profit margin while making investment decisions. Investors will favor stable profits since they believe the company is performing well, which may prompt management to pursue earnings management measures.

The findings of this research are supported by Prasadhita & Intani (2017) which states that net profit margin (NPM) has an effect on earnings management. However, this research is not in line with the research of Susmitha & Zulaikha (2022) and Nuraya (2013), which stated net profit margin (NPM) has no effect on earnings management.

5. CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS

The following findings may be taken from the testing and analysis of the effect of profitability on profits management carried out in the tourism, restaurant, and hotel sector firms listed on the Indonesia Stock Exchange in 2017-2020:

1. This study's findings show that earnings management is unaffected by profitability
determined by return on assets (ROA). These findings show that managers do not take advantage of opportunities to increase or decrease the firm's profit on assets based on how good or bad the firm performs.

2. This study’s findings show that earnings management is unaffected by profitability as determined by return on equity (ROE). These findings demonstrate that managers are not compelled to implement earnings management strategies based on raising the firm's equity regardless of whether firm's performance is good or bad.

3. This study’s findings show that the earnings management is impacted by the profitability measured using the net profit margin. If a firm's net profit is prone to being low or high, management will typically implement earnings management. This seeks to stabilize corporate profits in the anticipation that investors will be intrigued by the firm's performance and wish to invest their money.

Based on the conclusions above, the suggestions from this study for future researchers are to use other variable measurements such as using solvency ratios, activity ratios, and liquidity ratios in measuring earnings management, and also to use different time periods and samples. The advice for investors is to be more careful in investing their funds, because the research results show that managers tend to do earnings management to stabilize firm profits. In this study, there are limitations that must be considered by further research as follows; the study used a sample of firm listed on the Indonesia Stock Exchange (IDX), so the sample was limited, the study only covered a 5 year period, the next research can extend the research period so that the results would be different. Suggestions for further research are that future research is expected to be able to dig up other information related to variables related to earnings management and it is suggested to increase the research time period. The managerial implication obtained in this study is that managers are expected to be more responsible if there is an increase or decrease in any profit that has been generated. This is because the results that have been reported by the manager will affect the profit or loss that affects the compensation contract, money contract and political costs (opportunistic earnings management).

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