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Earnings Management and Profitability Analysis of Public Company Listed at Indonesia Stock Exchange: Before and After Acquisition

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Abstract: This study aims to analyze the effect of earnings management and profitability on companies conducting acquisitions on the Indonesia Stock Exchange in the period 2017-2023. The focus of this study is to compare the conditions of earnings management and several profitability ratios of companies, namely return on asset, return on equity, and net profit margin, before and after the company conducted an acquisition. The sample in this study was 31 companies obtained through purposive sampling and the method used a parametric inferential statistical approach using SPSS 26 software. The results of the analysis showed that there were no significant differences in earnings management, return on asset, return on equity, and net profit margin before and after the acquisition. This study provides insight into the absence of significant changes in the company's financial performance post-acquisition, although this study is limited to short-term impact analysis.

Keyword: Acquisition, Earnings Management, Return On Asset, Return On Equity, Net Profit Margin.

INTRODUCTION

In an era of increasingly competitive business competition, various expansion strategies are used by companies to survive and grow. One of the commonly applied strategies is business mergers, especially in the form of acquisitions. Acquisition is an act of taking over ownership of a company by another company without eliminating the legal existence of the acquired company. Daryanto (2017:30) states that in an acquisition, the acquiring company buys most of the shares of the target company to control management, but the two companies remain legally separate entities.

Capital Structure Theory explains the company's decision in determining the optimal composition between debt and equity to fund its business activities. According to Brigham and

Houston (2019: 495), the goal of an optimal capital structure is to minimize the cost of capital and maximize the value of the company.

In the context of acquisitions, capital structure plays an important role because the acquisition process often involves external financing and changes in ownership. Before the acquisition, the company already has a certain capital structure that affects earnings policy and profitability levels. After the acquisition, this structure can change drastically, which has an impact on incentives and financial pressures for management. By understanding Capital Structure Theory, researchers can analyze how changes in post-acquisition capital structure can affect earnings management practices and corporate profitability, both positively and negatively.

The main purpose of the acquisition is to form stronger synergies, improve managerial efficiency, reduce business risks, and expand market share. With the acquisition, the company is expected to increase value, both in terms of managerial and financial, which is reflected in the financial statements. One important component in the financial statements is profit, which is not only the basis for tax calculations and performance evaluations, but can also be influenced by management actions through earnings management practices.

Earnings management refers to efforts made by company management to manipulate financial information, especially earnings, in order to achieve certain goals such as improving the company's image, meeting contract targets, or attracting investors. This practice may involve engineering revenues, expenses, or other accounting policies. Therefore, earnings management practices need to be closely monitored to ensure they remain in accordance with the principles of transparency and applicable accounting regulations. Wibowo (2015) stated that because managers have more information than owners, information asymmetry often occurs, which is fertile ground for earnings management practices. Although earnings management is not always illegal, this practice raises ethical issues and can mislead users of financial statements (Lubis & Dewi, 2020:220; Arens et al., 2017:338).

According to Sulistyanto (2018:54), earnings management is carried out by utilizing discretionary accrual components. The non-discretionary accrual component of discretionary accruals is assumed by the discretionary accrual measurement model to be derived from total accruals. Organizations are shown to be actively managing earnings if they distort financial statements, which indicate good earnings quality. In this study, earnings management measurements will be carried out using the modified Jones model. The modified Jones model is a model that has been proven effective in analyzing earnings management practices in various business contexts (Sulistyanto, 2018:89). Modifications made to the Jones model can increase the accuracy and relevance of the analysis of earnings management practices

On the other hand, profitability is a key indicator to measure a company's ability to generate profits from operational activities. According to Kasmir (2019:114), the profitability ratio is a ratio to assess a company's ability to seek profit or gain in a certain period. The ability of a business to generate profit on sales, total assets, and equity is known as profitability. The profitability ratio is a ratio to measure a company's ability to generate profit from its normal business activities (Hery, 2016:192).

Hanafi and Halim (2016:81) list the following metrics as profitability indicators. They are Return on Assets (ROA), Net Profit Margin (NPM) and Return on Equity (ROE). ROA is a ratio that shows the return on a number of assets used in a business. The higher the ROA ratio, the better because it shows increased profitability and improved performance, both of which have an impact on the company's ability to generate strong returns for bondholders and stockholders as well as owners and investors on all invested assets. Next, the ratio called profit margin determines how much net profit a business can earn at a given level of sales. A high ratio indicates that at a given level of sales, the company can earn a profit. Conversely, a low ratio indicates ineffective management because a low profit margin indicates too few sales for a given level of costs, too many costs for a given level of sales, or a combination of both factors.

Last, the ratio known as ROE, measures a business's capacity to generate profits with a given amount of capital. The ratio, which measures the amount of profit from investments made by the capital owners themselves as shareholders of the company, shows how well a business manages its own capital. Profitability ratios are widely used to evaluate a company's efficiency and competitiveness. High profitability indicates that the company has good financial prospects and is worthy of being an investment target.

Financial statements, as a reflection of financial performance, reflect the close relationship between earnings management and profitability. Many previous studies have examined the impact of acquisitions on financial performance, but the results still show inconsistencies. According to Deindrik's research (2017), there are differences in ROA, ROE and NPM before and after the acquisition. However, Panduwinata and Thamrin (2022) stated that there was a difference in ROE before and after the acquisition, while there was no difference in ROA and NPM before and after the acquisition.

Research conducted by Yusnita (2023) shows that there is a significant difference in earnings management before and after an acquisition. Another study by Rahayu, Mardani & Wahono (2019) also obtained the same results, namely that the acquiring company was proven to have carried out earnings management practices with a pattern of decreasing profits (income descending). There is a significant difference related to discretionary accrual. In contrast, Meiden & Felicia (2016) found that there is insufficient evidence that earnings management after mergers and acquisitions becomes higher.

Acquisitions have a significant impact on a company's strategic and financial direction. Therefore, analysis of earnings management and profitability before and after acquisition is important to understand whether there are significant changes due to the event. This study aims to analyze whether there are significant differences between conditions before and after acquisition in four main aspects, namely earnings management practices and three profitability ratios: ROA, ROE, and NPM. By focusing on companies going public on the Indonesia Stock Exchange during the period 2017–2023, this study seeks to provide a relevant empirical picture of the earnings management and profitability phenomena that accompany the acquisition process of public companies.

Referring to the theoretical research and the results from previous studies that have been described previously, so that several hypothesis formulations are proposed.

H1 : There is a difference in the earnings management of the acquiring company before and after the acquisition

H2 : There is a difference in the ROA of the acquiring company before and after the acquisition

H3 : There is a difference in the ROE of the acquiring company before and after the acquisition

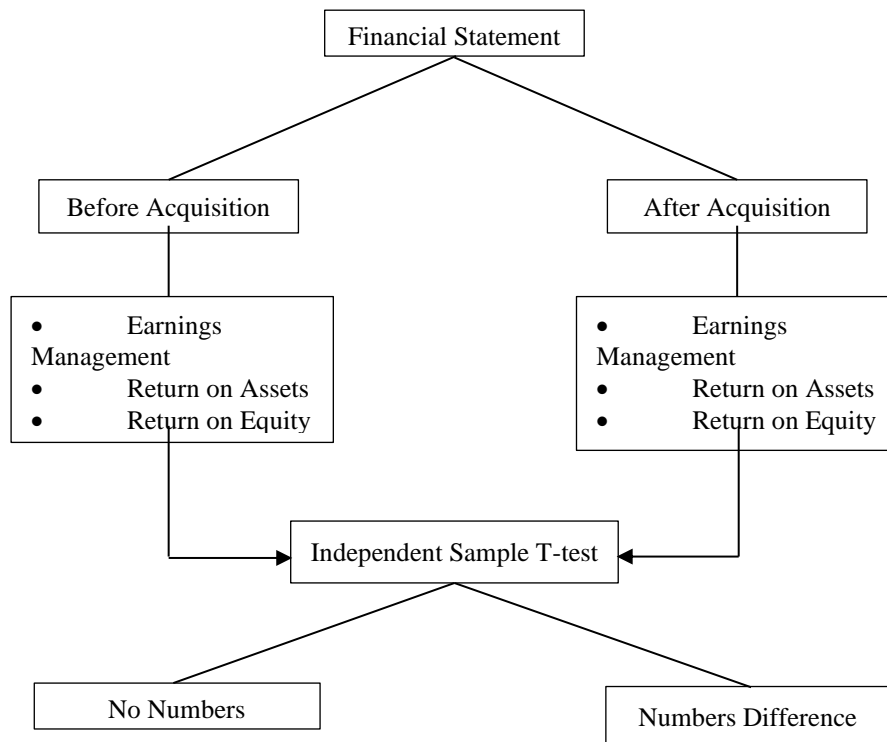
H4 : There is a difference in the NPM of the acquiring company before and after the acquisition.

METHOD

This research was conducted using a quantitative data analysis method with a parametric inferential statistical approach. This study uses four variables whose ratios will be compared in the period before and after the acquisition. The research variables to be used are Earnings Management, ROA, ROE and NPM.

This study uses time series data. The data used is secondary data taken from the annual financial reports of public companies that made acquisitions in 2017-2023 obtained through the official website of the Indonesia Stock Exchange (IDX), namely www.idx.co.id. The data processing used in this study uses the SPSS software version 26.

The following is the framework for this research.



Source: Resercher (2024)

Figure 1. Conceptual Framework

The operationalization variable of this research will be explained in Table 1.

Table 1. Operationalization Variables

Variable	Variable Definition	Size	Scale
Earnings Management	actions or efforts of managers to lower level and raise the company's profit report according to what is desired by management	$TAC_{it} - \frac{NDA_{it}}{A_{it-1}}$	Ratio
ROA	net income to total assets ratio measures the return on total assets (ROA) after interest and taxes	$\frac{\text{Net income}}{\text{Total Asset}}$	Ratio
ROE	the efficiency of the company in generating profits for shareholders by utilizing the capital they have	$\frac{\text{Net income}}{\text{Total Equity}}$	Ratio
NPM	a picture of a company in getting profit or gain from each sale	$\frac{\text{Net income}}{\text{Sales}}$	Ratio

Source: Researcher (2024)

The sampling technique is carried out using the purposive sampling method, which is deliberately sampling on a consideration that is in accordance with the criteria. The criteria used are:

1. Public company listed on the Indonesia Stock Exchange that made acquisitions in 2017-2023.
2. Companies that publish fully audited financial statements for two consecutive years prior to the acquisition and two years following the acquisition with the period ending on December 31.
3. The Company is not a financial institution.

While the sample selection process is as follows:

Table 2. Sample Selection Process

Criteria	Amount
Public company listed on the Indonesia Stock Exchange that made acquisitions in 2017-2023	59
Companies that do not publish complete audited financial statements for four consecutive years prior to the acquisition and one year after the acquisition with a period ending on December 31	-16
Companies that are financial institutions	-12
Total Sample	31

Source: Data Processing Results (2024)

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 3 shows a comparison of descriptive statistics of research variables, namely earnings management and financial ratios of companies before and after mergers and acquisitions.

The sample used consists of 62 data from 31 companies, with a period of 2 years before and 2 years after the merger or acquisition.

Table 3. Descriptive Statistics of Research Data

	N	Min.	Max.	Mean	Std. Deviation
Profit Management_Before	62	-0.265	0.567	-0.041	0.109
Profit Management_After	62	-0.069	0.625	0.067	0.103
ROA_Before	62	-0.684	0.734	0.096	0.176
ROA_After	62	-0.324	0.940	0.116	0.212
ROE_Before	62	-0.224	0.130	-0.046	0.068
ROE_After	62	-0.127	0.330	0.046	0.075
NPM_Before	62	-3,951	0.554	0.018	0.525
NPM_After	62	-0.287	1,157	0.131	0.261
Valid N (listwise)	62				

Source: Data Processing Results (2024)

Normality Test

The normality test used in this study is the Shapiro-Wilk test. Table 4 shows that most of the variables before and after the merger and acquisition are not normally distributed.

The Earnings Management variable is not normal before the acquisition (sig. 0.000) and approaches normal after (sig. 0.069), but is not yet significant at the 0.05 level. ROA, ROE and NPM have significance values < 0.05 in both conditions, indicating a non-normal distribution. Because the majority of the data is not normal, hypothesis testing is continued with the non-parametric Wilcoxon Signed-Rank Test method.

Table 4. Normality Test Results

Variables	Class	Komogorov-Smirnov			Shapiro Wilk		
		Statistics	df	Sig.	Statistics	df	Sig.
Profit Management	Before	0.179	62	0,000	0.763	62	0,000
	After	0.120	62	0.026	0.964	62	0.069
ROA	Before	0.199	62	0,000	0.747	62	0,000
	After	0.127	62	0.014	0.933	62	0.002
ROE	Before	0.200	62	0,000	0.836	62	0,000
	After	0.377	62	0,000	0.275	62	0,000
NPM	Before	0.211	62	0,000	0.789	62	0,000
	After	0.215	62	0,000	0.733	62	0,000

Source: Data Processing Results (2024)

Hypothesis Testing

Hypothesis testing in this study was conducted using the Wilcoxon Signed-Rank Test as a statistical analysis method. The Wilcoxon Signed-Rank Test was chosen because the data on the tested variables were not normally distributed, as shown by the results of the normality test. This test aims to determine whether there is a significant difference between the conditions before and after treatment on the research variables. The following are the results of the Wilcoxon Signed-Rank Test conducted in this study:

Table 5. Results of the Wilcoxon Signed-Rank Test

	ManLaba	ROA	ROE	NPM
Z	-0.508 ^b	-1,476 ^c	-1,693 ^c	-0.298 ^c
Asymp. Sig. (2-tailed)	0.611	0.140	0.090	0.766

Source: Data Processing Results (2024)

Differences in Earnings Management of Acquiring Companies Before and After Acquisition

The Wilcoxon test results show that there is no significant difference in earnings management practices before and after the acquisition. This finding is consistent with Maknuun's (2016) research which shows that there is no indication of earnings management practices before the acquisition. This indicates that the acquiring company does not tend to manipulate financial statements to artificially increase profits, either before or after the acquisition. In the context of agency theory, the results obtained indicate that there is no increase in the conflict of interest between management and shareholders after the acquisition, because there is no pressure from the owners to improve earnings performance through earnings management. This study is in line with the findings of Meiden & Felicia (2016), who found that there was insufficient evidence of increased earnings management practices after a merger or acquisition.

In contrast, research by Yusnita (2023) and Rahayu, Mardani & Wahono (2019) found significant differences in earnings management before and after the acquisition, indicating the practice of income descending after the acquisition. The difference in the results of this study with previous studies may be caused by differences in the context of the companies studied or different economic conditions. Factors such as industry type, firm size, and managerial strategy may affect the results of the study. This study shows that in some companies, earnings management does not always occur or can be detected through significant changes in financial reporting patterns after an acquisition.

Difference in ROA (Return on Assets) of Acquiring Company Before and After Acquisition

The Wilcoxon test results for ROA show that there is no significant difference in return on assets before and after the acquisition. This finding is inconsistent with Deindrik's (2017) research, which found that ROA experienced a significant change after the acquisition. This difference in results may be due to differences in the industrial sector or operational strategy of the companies studied. Before the acquisition, the company may have had an optimal capital and operational structure, so that the acquisition did not provide a significant increase in the use of assets to generate profits.

In capital structure theory, decisions about the optimal capital structure, between the use of debt and equity, can affect ROA. If the company does not change its capital structure drastically after the acquisition, then the results will not show a significant change in asset profitability. This finding is in line with Maknuun's (2016) research, which found no difference in financial performance, including ROA, after the acquisition. Companies that remain stable in managing assets and capital will not show a significant increase in ROA.

Difference in ROE (Return on Equity) of the Acquiring Company Before and After Acquisition

The test conducted in this study through the Wilcoxon test showed that the ROE value did not experience a significant difference in the return on equity before and after the acquisition. The conclusion of the study is different from the results of the study by Panduwinata & Thamrin (2022), which found that ROE experienced a significant difference after the acquisition. In some cases, companies may face pressure to increase equity efficiency after an acquisition, especially if there is a major change in capital structure or business strategy. However, in this study, the results approaching significance can be interpreted as indicating a change, although not yet strong enough to be recognized statistically.

ROE is one of the important indicators in agency theory, because it measures the ability of management to maximize returns for shareholders. If there is no major change in management policy or ownership after the acquisition, then the impact on ROE may not be too significant. The results of this study are supported by the findings of Maknuun (2016), which stated that there was no significant difference in the company's financial performance after the acquisition, which includes ROE.

Difference in NPM (Net Profit Margin) of Acquiring Company Before and After Acquisition

The Wilcoxon test results show that there is no significant difference in NPM before and after the acquisition. The findings obtained in this study are in line with the research of Panduwinata & Thamrin (2022) and Maknuun (2016), which also found that NPM did not change significantly after the acquisition. This shows that the acquisition does not immediately have a significant impact on the company's efficiency in generating net profit from sales.

This study is also supported by the results of research by Rahayu, Mardani & Wahono (2019), which shows that financial performance, including NPM, does not change significantly after the acquisition. One reason why the acquisition does not affect NPM may be because the company maintains the same pricing and cost efficiency strategies after the acquisition. In some cases, the purpose of the acquisition may not be to increase profitability in the short term, but rather to expand market share or create long-term synergies, which may not be visible in the financial statements immediately after the acquisition.

Different from the research by Kusumawati and Kamal (2021) which found that there was a significant difference in the Net Profit Margin (NPM) of companies after mergers and acquisitions. This shows that acquisitions can increase a company's profitability in generating net profit from sales. This difference in findings may be due to differences in post-

acquisition integration strategies, operational efficiency, or synergies achieved by the companies studied. Therefore, the impact of acquisitions on NPM can vary depending on how companies manage the integration process and take advantage of existing synergy opportunities.

CONCLUSION

This study aims to analyze earnings management and company profitability before and after acquisition, using 31 sample companies that made acquisitions in the period 2017–2023. Based on the results of data processing and discussion, it was concluded that there was no significant difference in earnings management, ROA (Return on Assets), ROE (Return on Equity), or NPM (Net Profit Margin) between before and after acquisition. This shows that the acquisition process has not had a significant impact on the company's main financial indicators in the short term.

However, this study has several limitations that need to be considered. First, the focus of the study is still limited to the short-term impact of acquisitions, so that the potential for changes in profitability and earnings management in the long term has not been fully described. Second, strategic aspects such as synergy and operational efficiency which should be the main objectives of acquisitions have not been explored further. Third, the use of relatively simple statistical methods in the analysis makes the understanding of the relationship between acquisitions and company performance less in-depth.

Based on these limitations, there are several recommendations that can be submitted. Companies are advised to monitor the long-term impact of acquisitions, because significant changes in profitability and earnings management may only be seen after several years. In addition, efforts to optimize operational efficiency and utilize synergies from acquisitions need to be further improved in order to create added value. For further research, it is recommended to use more complex analysis methods, such as multivariate regression or Structural Equation Modeling (SEM), and consider additional variables such as operational efficiency and synergy so that the results obtained are more comprehensive in understanding the impact of acquisitions on company performance.

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