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The Effect COVID-19 On Earnings Quality and the Role of Corporate Governance as a Moderation

Febi Aji Riansyah[1], Pratana Puspa Midiastuty[2], Eddy Suranta[3]
[123]Bengkulu University, Indonesia
Correspondent: febiajiriansyah28@gmail.com[1]

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ABSTRACT: The aim of this research is to provide empirical evidence regarding the effect of Covid-19 on earnings quality with corporate governance as a moderator. Based on agency theory, corporate governance is a monitoring mechanism to improve quality. All manufacturing companies listed on the Indonesia Stock Exchange (BEI) with a research period of 2017-2022 were used as samples for this research. Using purposive sampling technique, the total of observations was 624 from 104 samples. Covid-19 is a dummy variable with the value (1) being in the Covid-19 period (2020-2022) and (0) other than the Covid-19 period (2017-2019). Corporate governance used in this research is the size of the board of directors and the proportion of independent commissioners. All hypothesis tested by using multiple linear regression techniques, IBM SPSS 25. Earnings quality is proxied by accrual earnings management and real earnings management. The research results prove that real earnings management occurs in the form of RM1, RM3 and RM TOTAL. Covid-19 does not cause the practice of accrual earnings management and real earnings management in the form of RM2. Furthermore, corporate governance is unable to moderate in explaining the relationship between Covid-19 and earnings quality.

Keywords: Covid-19, Earnings Quality, Corporate Governance, Agency Theory

INTRODUCTION

Financial reporting plays a crucial role in informing decisions for various stakeholders (Yeh et al., 2014). Within financial reporting, profit information holds significant importance as it serves as an indicator of a company's performance and the effectiveness of managerial financial management. A decline in reported profit figures is often perceived as a signal of diminished managerial performance in handling company finances. Consequently, when managers become aware of declining profits compared to the previous year, they may resort to opportunistic tactics, such as earnings management, to maintain profit figures. Earnings management involves manipulating earnings to present a more favorable picture than the actual financial reality (Litt et al., 2014). Numerous studies, including those by (Beyer et al., 2019), (Saleh et al., 2020), and (Robik et al., 2022), confirm the detrimental impact of earnings management on earnings quality. Hence, it can be inferred that increased earnings management results in lower reported earnings quality.

In parallel to these concerns, research by (Cimini, 2015) and (Eng et al., 2019) has explored the repercussions of the 2008 financial crisis. Similarly, the COVID-19 pandemic, though distinct from a financial crisis, has had a profound impact on companies. The World Health Organization (WHO) officially declared the COVID-19 pandemic on March 11, 2020 (Cucinotta & Vanelli, 2020). Despite its origins in the healthcare sector, the pandemic directly affected businesses, leading to a widespread decrease in revenue and profits (Chudik et al., 2020). This economic downturn triggered a reevaluation of profit quality both before and during the pandemic.

Numerous studies have delved into the quality of earnings before and during the COVID-19 pandemic. (Mandiri & Sebrina, 2023) demonstrated a decline in earnings quality during the pandemic, while (Hidayah et al., 2023)found no significant difference in profit quality before and during the crisis. However, limited research has explored corporate governance's role as a moderator in the relationship between COVID-19 and earnings quality.

Earnings management often results from opportunistic actions by company managers. As per agency theory, mitigating these issues requires incurring agency costs, one of which is corporate governance. Effective corporate governance, particularly during crises like COVID-19, is crucial (Erkens et al., 2012). Corporate governance, specifically factors like board size and independent commissioners, serves as monitoring costs imposed by company owners to oversee management and enhance the quality of reported profit information, especially during challenging times like the COVID-19 pandemic.

Prior research examining the influence of corporate governance on earnings quality has yielded inconsistent evidence. While (Suryati, 2020), (Maryasih et al., 2020), (Putri & Imron, 2022), and (Rupilu & Tanan, 2022) have demonstrated a positive relationship between corporate governance and earnings quality, studies like (Fitranita & Coryanata, 2019), (Dewi et al., 2020), and (Saraswati et al., 2020) have failed to establish this connection. (Jebran, Khalil; Chen, 2021) emphasize that corporate governance mechanisms can assist companies in addressing the challenges posed by events like the COVID-19 pandemic.

This research, building upon (Hsu & Yang, 2022), investigates the quality of financial reporting during the COVID-19 pandemic and its potential moderation by corporate governance factors, such as board size, independent commissioners, and CEO duality. Real earnings management (RM1), which combines real earnings management practices in two ways at once increasing sales by offering discounts (abnormal CFO) and lowering discretionary costs like selling costs, administrative & general costs, advertising costs, and research costs (abnormal DISEXP) is a proxy for the quality of financial reporting. Real earnings management (RM2) combines real profit management practices in two ways at once by reducing discretionary costs (abnormal DESEXP) and increasing production capacity so that the cost of production is lower (abnormal PROD). The results show that the quality of financial reporting is lower during the COVID-19 pandemic, both with the quality of financial reporting as proxied by RM1 and RM2 and proves that the size of the board of directors is able to limit the quality of financial reporting during COVID-19, both as proxied by RM1 and RM2. However, it failed to prove that independent commissioner & CEO duality was able to mitigate the quality of financial reporting during the COVID-19 pandemic, either by using RM1 or RM2 proxies.

The novelty in study employs acrual earnings management as a proxy for earnings quality, which involves changes in sales policies to increase credit sales over cash sales, leading to inflated reported profits. Real earnings management manifests through abnormal cash flow, production, and discretionary costs. In research (Hsu & Yang, 2022) states that real earnings management can be done in two ways at once RM1 and RM2 as explained above. So this research also introduces real earnings management practices (RM3) which combines real earnings management practices in two ways at once by increasing sales by providing discounts (abnormal CFO) while increasing production capacity so that the cost of production is lower (abnormal PROD). And as well as total real earnings management (RM TOTAL) by combining all real earnings management practices at once. The proportion of independent commissioners is considered a moderating variable, as they offer guidance and performance targets to the board of directors during crises like COVID-19. The board size, as per agency theory, seeks to optimize shareholder interests, including reported profit figures. This research seeks to elucidate the impact of the COVID-19 pandemic on earnings quality and assess the extent to which corporate governance can mitigate this influence, thereby ensuring the continued accuracy of earnings information presented by companies.

Agency Theory

Issues related to agency arise when there is a division of roles and obligations between managers and shareholders (Jensen & Meckling, 1976). Within this context, two primary challenges manifest between managers and shareholders: the unequal access to information between managers and principals (information asymmetry) and conflicts of interest stemming from divergent objectives between managers and corporate proprietors (Eisenhardt, 1989).

Information asymmetry is an imbalance in the acquisition of information between principal and managers (Fitranita & Coryanata, 2019). Earnings quality cannot be separated from agency problems, namely information asymmetry and information asymmetry cannot be separated from earnings management (Putra & Hatta, 2023). Moreover, during the crisis (COVID-19) where managers will try to maintain company performance which will tend to do a lot of earnings management to reduce further negative reactions from the principal (Persakis & Iatridis, 2015). Because direct monitoring cannot be carried out where the party manager knows the real company information better than the company owner, this will give rise to opportunistic behavior by management, namely in the form of earnings management practices. (Priantinah, 2017). Earnings management practices aim to maintain the profit figures that are to be reported, resulting in a decrease in earnings quality. Financial pressure issues such as the COVID-19 pandemic will also trigger management's moral hazard intentions in managing earnings which can reduce earnings quality (Persakis & Iatridis, 2015).

Hence, the necessity for corporate governance becomes evident. As outlined by the Indonesian Corporate Governance Forum (FCGI), corporate governance constitutes a framework of rules governing the interactions among shareholders, executives, employees, creditors, governmental entities, and various internal and external stakeholders in connection with their respective rights and duties. Essentially, corporate governance serves as a mechanism for overseeing a company's operations. Within agency theory, three categories of agency costs exist, encompassing monitoring costs, bonding costs, and residual costs. Monitoring costs represent expenditures aimed at constraining deviations by managers through vigilant supervision, while bonding costs denote opportunities for agents to deploy company resources under certain conditions without causing harm to the company owner. Residual costs, on the other hand, denote the financial value

equivalent to the owner's welfare resulting from agency relationships, known as residual loss (Jensen & Meckling, 1976).

Agency costs, in turn, give rise to conflicts of interest between the principal and the manager (agent) because the agent may not consistently act in alignment with the owner's intentions (Asri & Putri, 2012). Corporate governance, specifically through the oversight role of the board of directors' size and the presence of independent commissioners, serves as a mechanism to mitigate agency issues, functioning as monitoring costs. The primary role of corporate governance is to supervise and curtail management practices that could potentially harm the interests of company owners, including the mitigation of earnings management activities, thereby contributing to the company's financial recovery during periods of crisis (Iswara, 2014).

COVID-19 and Earnings Quality

Earnings quality is important information for stakeholders in making decisions. Profits are said to be of quality when able to reflect the continuation of profits in the future (Angraini et al., 2019). Earnings quality must reflect the company's true financial performance without any hidden information (Pertiwi et al., 2017). The quality of earnings is significantly impacted by the strategies employed by companies to manage their earnings. Thus, one way to gauge earnings quality is by examining the utilization of accrual earnings management and real earnings management, as indicated in recent research (Abdullah et al., 2022).

To this day, COVID-19 is acknowledged as the most severe health, social, and economic crisis of the 21st century. This global pandemic has brought about a noticeable downturn in company performance, compelling managers to engage in opportunistic actions, such as earnings management, to manipulate reported profit figures. This opportunistic behavior is primarily triggered by information imbalances, as elucidated in agency theory. The concept of earnings quality is intricately linked to agency issues, particularly information asymmetry, which, in turn, is closely intertwined with earnings management (Putra & Hatta, 2023). Corporate managers employ earnings management techniques with the aim of mitigating adverse stakeholder reactions to profit declines that may transpire during the COVID-19 crisis (Persakis & Iatridis, 2015). It is imperative to note that a heightened degree of earnings management results in diminished earnings quality, and conversely, a reduction in earnings management leads to enhanced earnings quality (Dechow et al., 2012).

(Xiao & Xi, 2021) scrutinized the effects of COVID-19 on accrual earnings management and real earnings management practices within Chinese companies. Their findings corroborated that, amidst the pandemic, there was an upsurge in accrual earnings management and a concomitant decline in real earnings management. Moreover, research by (Angelina & Lindrawati, 2022) substantiates that accrual earnings management has escalated during the COVID-19 crisis. Additionally, Hsu & Yang (2022) demonstrate that real earnings management levels are elevated during the pandemic, thereby compromising the quality of financial reporting. In light of the foregoing discussions, we posit the following hypothesis:

H1: Earnings quality is diminished during the COVID-19 pandemic.

Corporate governance is able to limit the influence of COVID-19 on earnings quality

The existence of corporate governance as cost monitoring is expected to encourage company transparency, especially in reporting quality profit information. Corporate governance plays a crucial role in times of crisis, such as the COVID-19 pandemic, when a company's performance faces challenges. In such circumstances, corporate management may be more inclined to make opportunistic decisions to safeguard the company's performance (Erkens et al., 2012).

Within the context of agency problems, corporate governance serves as a mechanism aimed at mitigating these issues. One dimension of corporate governance involves the composition of the board of directors and the presence of independent commissioners. These components are essential for monitoring management behavior, ensuring that decisions align not only with personal interests but also with the principal's interests. The board of directors is responsible for formulating the company's long-term and short-term policies and strategies (Sergakis, 2022).

Research conducted by (Saona et al., 2020) and (Pamuji & Naimah, 2022) demonstrates that a larger board of directors enhances the quality of earnings by reducing manipulative earnings management practices. This aligns with the findings of Hsu & Yang (2022), which reveal that a larger board of directors can moderate the relationship between COVID-19 and financial reporting quality, as measured by RM1 and RM2. Consequently, we propose the following hypothesis:

(H2a): Corporate governance (specifically the size of the board of directors) has the potential to mitigate the impact of COVID-19 on earnings quality.

Independent commissioners, members of the board of commissioners with no affiliations that could compromise their independence, play a significant role. The presence of a substantial number of independent commissioners on the board of commissioners is expected to enhance their supervisory role over managers, reducing the likelihood of opportunistic behavior in financial reporting (earnings quality) (Fitranita et al., 2021).

This aligns with agency theory, which posits that effective supervision can mitigate agency conflicts. Increased oversight from independent commissioners is a suitable approach to achieving this goal. Independent commissioners, being unaffiliated with other parties, make decisions solely in the best interests of the company.

(Nadirsyah & Muharram, 2015), (Utomo et al., 2020), and (Tita & Pohan, 2022) provide evidence of the positive influence of independent commissioners on earnings quality. Even though Hsu & Yang (2022) failed to prove the proportion of independent commissioners in moderating the relationship between COVID-19 and earnings quality, it is hoped that independent commissioners will be able to provide suggestions and input to management in managing the company and resolving the COVID-19 problem so that it is suspected that the proportion of independent commissioners will be able to limit the influence of COVID-19 on earnings quality Therefore, it is hypothesized that the proportion of independent commissioners can limit the impact of COVID-19 on earnings quality:

(H2b): Corporate governance (specifically the proportion of independent commissioners) has the potential to mitigate the influence of COVID-19 on earnings quality.

METHOD

Model and Research Design

This study is an explanatory research endeavor that seeks to elucidate the causal link between various research variables, serving the purpose of hypothesis testing. Employing a design centered on causality testing, the research strives to quantify the intensity of the associations between these variables. The study unveils the impact of COVID-19 on earnings quality, with the added dimension of corporate governance acting as a moderator, specifically within the domain of manufacturing companies listed on the Indonesia Stock Exchange (BEI) during the period spanning from 2017 to 2022.

Sample Selection Method

The scope of this study encompasses manufacturing companies that have been publicly listed on the Indonesia Stock Exchange (BEI) throughout the period spanning from 2017 to 2022. The process of selecting samples was carried out with a deliberate and purposeful approach. To meet the criteria set for the research, the chosen companies must have a practice of presenting their financial reports denominated in the Indonesian rupiah currency. Furthermore, they are required to furnish the complete set of data pertinent to this research.

Tabel I Sample selection

Sampel Selection	Total
Companies engaged in manufacturing activities that are publicly listed on the Indonesia Stock Exchange (BEI) within the time frame encompassing 2017 through 2022.	145
Less: Companies that present financial reports in currencies other than rupiah	29
Less: companies that do not present the data required in this research completely	12
Final sample	**104**

Data Collection Methods

This study primarily relies on secondary data sources from manufacturing firms. The dataset comprises financial statements and annual reports obtained from manufacturing companies, with the research period spanning from 2017 to 2022, using 2016 as the initial reference year. These financial and annual reports are sourced from the official websites of the respective companies, as well as the official website of the Indonesia Stock Exchange (www.idx.com).

Operational Definition and Variable Measurement

Table II Describe the processof operationalizing and measurement the research variable

Variables		Measurement	Source
Dependent Variable	**Earnings Quality**	1. Real Earnings Management $\frac{CFO_t}{TA_{t-1}} = \alpha1\left[\frac{1}{TA_{t-1}}\right] + \alpha2\left[\frac{\text{Sales}}{TA_{t-1}}\right] + \alpha3\left[\frac{\Delta\text{Sales}}{TA_{t-1}}\right]$ **ABN_CFO** = $CFO_t - \frac{CFO_t}{TA_{t-1}}$ $\frac{PROD_t}{TA_{t-1}} = \alpha1\left[\frac{1}{TA_{t-1}}\right] + \alpha2\left[\frac{\text{Sales}}{TA_{t-1}}\right] + \alpha3\left[\frac{\Delta\text{Sales}}{TA_{t-1}}\right] + \alpha4\left[\frac{\Delta Sales_{t-1}}{TA_{t-1}}\right]$ **ABN_PROD** = $PROD_t - \frac{PROD_t}{TA_{t-1}}$ $\frac{DISEXP_t}{\text{TAt}-1} = \alpha1\left[\frac{1}{\text{TAt}-1}\right] + \alpha2\left[\frac{\text{Sales}}{\text{TAt}-1}\right]$ **ABN_DISEXP** = $DISEXP_t - \frac{DISEXP_t}{TA_{t-1}}$	(Roychowdhury, 2006)
		In this research we created formulas to measure earnings quality: RM1 = ABN_CFO*(-1) + ABN_DISEXP*(-1) RM2 = ABN_PROD + ABN_DISEXP*(-1) RM3 = ABN_CFO*(-1) + ABN_PROD RM TOTAL = RM1 + RM2 + RM3	(Hsu & Yang, 2022)
		2. Acrual Earnings Management follow Modified Jones Model formula: a. $TAC_t = NI_t - CFO_t$ b. $\frac{\text{TAC}_t}{\text{TA}_{t-1}} = \beta1\left[\frac{1}{\text{TAt}-1}\right] + \beta1\left[\frac{\Delta\text{Sales}}{\text{TA}_{t-1}}\right] + \beta3\left[\frac{\text{PPE}}{\text{TA}_{t-1}}\right]$ c. $NDAC = \beta1\left[\frac{1}{\text{TA}_{t-1}}\right] + \beta2\left[\frac{\Delta\text{Sales}-\Delta\text{Rec}}{\text{TA}_{t-1}}\right] + \beta3\left[\frac{\text{PPE}}{\text{TA}_{t-1}}\right]$ d. $DAC = \frac{\text{TAC}}{\text{TA}_{t-1}} - \text{NDAC}$	(Suranta et al., 2014)
Independent Variable	**COVID-19 (POST)**	Dummy variable, (0) for other pandemic COVID-19 (2017-2019) and (1) for pandemic COVID-19 (2020-2022).	(Hsu & Yang, 2022)
Moderating Variable	**Corporate Governance**	1. Board Size (BDSIZE) BDSIZE = Ln (Total Board Size)	(Hsu & Yang, 2022)
		2. Independent Commissioner (INDB) INDB = $\frac{\text{Jumlah Dewan Komisaris Independen}}{\text{Jumlah Dewan Komisaris}}$	(Hsu & Yang, 2022)

Control Variable	**Firm Size (SIZE)**	SIZE = Ln(Total Assets)	(Hsu & Yang, 2022)
	Book to Market (BM)	$BM = \frac{\text{Book Value of Equity}}{\text{Equity Market Value}}$	(Hsu & Yang, 2022)
	Leverage (LEV)	$LEV = \frac{\text{Total Liabilities}}{\text{Total Assets}}$	(Alvin & Susanto, 2022)
	Return On Assets (ROA)	$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$	(Marietza et al., 2020)
	BIG 4	Dummy variable, if the company is audited by the Big 4 (PwC, Deloitte, EY and KPMG) then the value is (1) and (0) otherwise.	(Hsu & Yang, 2022)
	Loss	Dummy variable, (1) if companies reports a loss and (0) companies reports a profit.	(Hsu & Yang, 2022)
	Growth	$GROWTH = \frac{Sales_t - Sales_{t-1}}{Sales_{t-1}} \times 100\%$	(Hsu & Yang, 2022)

RESULT AND DISCUSSION

Adhering to the established purposive sampling criteria, a total of 624 observational data points were identified. These data observations were sourced from 104 distinct companies listed on the Indonesia Stock Exchange (BEI), all of which conformed to the specified research criteria during the study period spanning from 2017 to 2022.

Descriptive Statistic

Table III Descriptive Statistics Overall Descriptive Statistics of Research Variables

Variable	N	Minimun	Maximum	Mean	Std. Deviation
RM1	624	-0.92	0.94	0.030	0.187
RM2	624	-0.98	1.34	0.041	0.284
RM3	624	-0.80	1.17	0.031	0.252
RM_TOTAL	624	-2.16	2.96	0.103	0.689
DAC	624	-99.03	1.18	-3.831	11.828
POST	624	0	1	0.500	0.500
BDSIZE	624	0.00	2.64	1.490	0.445
INDB	624	0.00	1.00	0.394	0.141
BM	624	-11.66	18.13	1.135	1.668
ROA	624	-2.64	1.08	0.044	0.166
SIZE	624	25.22	33.66	28.547	1.560

LEV	624	0.03	3.39	0.462	0.324
BIG4	624	0	1	0.340	0.476
LOSS	624	0	1	0.220	0.416
GROWTH	624	-1.00	12.00	0.132	0.823

Sources : Secondary data that has been processed in 2023

This table provides an overview of the descriptive statistics for the independent, dependent, and control variables within the observed sample.

For the real earnings management model 1 (RM1), the table illustrates that RM1 values range from -0.92 to 0.94, with a mean value of 0.030. The standard deviation for RM1 is 0.187, which exceeds the mean value, indicating variability in the RM1 data. In the case of the real earnings management model 2 (RM2), the table reveals the lowest recorded value as -0.98, the highest as 1.34, and a mean value of 0.041. The standard deviation for RM2 stands at 0.284, indicating variability within the RM2 data.

The data further indicates that for the real earnings management model 3 (RM3), the lowest value is -0.80, the highest value is 1.17, and the mean value is 0.031. The standard deviation for RM3 is 0.252, indicating variability in the RM3 data. As for the real earnings management total (RM TOTAL), the table displays a range from -2.16 to 2.96, with a mean value of 0.103. The standard deviation for RM TOTAL is 0.689, signifying variability in the RM TOTAL data.

The table also depicts accrual earnings management (DAC) values, with a minimum of -99.03, a maximum of 1.18, and a mean value of -3.831. The standard deviation for DAC is 11.828, which surpasses the mean value, demonstrating considerable variability in DAC data. Regarding the independent variable, the table illustrates that COVID-19 (POST) spans from 0 to 1, with an average value of 0.5. The standard deviation for POST, also at 0.5, matches the mean value, indicating a balanced distribution of data.

Board of directors size (BDSIZE) as a proxy for corporate governance has a mean value of 1.490 and ranges from 0.00 to 2.64. The standard deviation for BDSIZE is 0.445, which is less than the mean value, suggesting limited variability in the BDSIZE data. Similarly, corporate governance, as measured by the proportion of independent commissioners (INDB), exhibits a minimum value of 0.00, a maximum value of 1.00, and a mean value of 0.394. The standard deviation for INDB is 0.141, indicating minimal variability in the INDB data.

Hypothesis Test

The outcomes of a basic linear regression analysis are displayed in the table below:

Table IV. Results of multiple linear regression of the effect of COVID-19 on earnings quality

Variabel	RM1 Koefisien t (Sig.)	RM2 Koefisien t (Sig.)	RM3 Koefisien t (Sig.)	RM TOTAL Koefisien t (Sig.)	DAC Koefisien t (Sig.)

Konstanta	**-0,223** **-2,282** **(0,023)**	**-0,020** **-6,198** **(0,000)**	-0,088 -0,450 (0,653)	-0,403 -0,745 (0,457)	2,356 1,152 (0,250)
POST	**0,024** **2,008** **(0,045)**	**-0,021** **-6,959** **(0,000)**	**0,040** **2,226** **(0,026)**	**0,100** **2,002** **(0,046)**	**-2,439** **-3,704** **(0,000)**
BM	**-0,015** **-3,713** **(0,000)**	**-0,021** **-20,511** **(0,000)**	**-0,023** **-3.900** **(0,000)**	**-0,059** **-3,629** **(0,000)**	-0,055 -0,280 (0,779)
ROA	**0,407** **8,156** **(0,000)**	**0,277** **21,152** **(0,000)**	**0,800** **8,613** **(0,000)**	**0,655** **3,661** **(0,000)**	-1,376 -0,739 (0,460)
SIZE	**0,010** **2,513** **(0,012)**	**0,017** **22,284** **(0,000)**	0,004 0,523 (0,601)	0,019 1,007 (0,314)	-0,179 -0,864 (0,388)
LEV	-0,030 -1,430 (0,153)	**-0,089** **-17,842** **(0,000)**	**-0,076** **-2,227** **(0,023)**	**-0,210** **-2,264** **(0,024)**	-1,616 -1,590 (0,112)
BIG4	-0,002 -0,126 (0,900)	-0,004 -1,086 (0,279)	0,040 1,750 (0,081)	0,110 1,731 (0,084)	-0,881 -1,193 (0,233)
LOSS	0,016 1,099 (0,272)	**0,026** **6,953** **(0,000)**	0,005 0,199 (0,843)	-0,106 -1,510 (0,132)	-0,670 -0,808 (0,420)
GROWTH	0,013 1,803 (0,072)	**0,029** **22,820** **(0,000)**	**0,034** **3,068** **(0,002)**	**0,072** **2,296** **(0,022)**	0,167 0,485 (0,628)
R Square	0,169	0,942	0,224	0,119	0,032
Adj. R Square	0,158	0,940	0,213	0,107	0,019
F	15,279	404,052	22,070	10,395	2,503
Sig.	0,000	0,000	0,000	0,000	0,011

Based on table 4, the F test results with a sig value <0.05 indicate that the model used is suitable for testing the hypothesis where the criteria for a sig. <0.05.

First Hypothesis Testing and Discussion

The primary objective of H1, which is the first hypothesis, is to assess whether the quality of earnings declined during the COVID-19 pandemic. To evaluate earnings quality, the study employs various indicators, such as real earnings management represented by RM1, RM2, RM3, RM TOTAL, and also accrual earnings management measured by DAC.

Upon examining the findings detailed in table 4, it becomes evident that the quality of profits, as indicated by RM1, RM3, and RM TOTAL, decreased during the COVID-19 pandemic. Proven by the positive regression coefficients (0.024, 0.040, and 0.100), all of which are statistically significant. These results suggest that companies tend to enhance their practices of real profit management, especially in the form of RM1, RM2, and RM TOTAL, when confronted with the challenges of

the COVID-19 pandemic. Consequently, this leads to diminished earnings quality, as a higher degree of earnings management is associated with lower quality. Therefore, the first hypothesis concerning earnings quality, as represented by RM1, RM2, and RM TOTAL, is affirmed.

These outcomes align with a study conducted by Hsu and Yang in 2022, demonstrating an increase in real earnings management in UK companies during the COVID-19 pandemic, consequently lowering the quality of financial reporting. Additionally, these findings are consistent with research conducted by (Abdul Wahhab Aljawaheri et al., 2021), illustrating that managers are inclined to aggressively manipulate reported earnings during the COVID-19 pandemic. However, these results do not corroborate the findings of Hidayah et al. in 2023, which indicated no significant disparity in earnings quality before and after the COVID-19 announcement.

Table 4 also indicates the absence of real earnings management practices in the form of RM2 and accrual earnings management (DAC), as evidenced by the negative coefficients of -0.021 and -2.439, respectively. The negative coefficient associated with RM2 is attributed to the impossibility of companies simultaneously increasing production capacity and reducing discretionary costs as part of real profit management. The negative coefficient for DAC implies that companies are not employing strategies to inflate profit figures through accrual earnings management. This is primarily due to the belief that the COVID-19 pandemic is a temporary and unforeseeable occurrence. Accrual earnings management practices typically involve the use of accounting methods with enduring consequences, making it infeasible for companies to implement such practices during the pandemic. Investors would likely notice changes in accounting methods during this period, resulting in a negative impact on the company's reputation. However, for both RM2 and DAC proxies, the first hypothesis is invalidated.

These results are consistent with the research conducted by Hidayah et al. in 2023, indicating no significant distinction in earnings quality before and during the COVID-19 pandemic. Nevertheless, these findings contradict the research conducted by Abdullah et al. in 2022, which established that COVID-19 significantly affected earnings management, both in terms of accruals and real earnings management, ultimately leading to diminished earnings quality. The test results suggest that, around the time of the COVID-19 pandemic, companies tend to resort to real earnings management practices, particularly RM1, RM3, and RM TOTAL, in an effort to preserve their reported profit figures.

Table V Results of multiple linear regression. The effect of COVID-19 on earnings quality and the role of board of directors size as moderation

Variabel	RM1 Koefisien T (Sig.)	RM2 Koefisien T (Sig.)	RM3 Koefisien T (Sig.)	RM TOTAL Koefisien T (Sig.)	DAC Koefisien T (Sig.)
Konstanta	**-0,030** **-8,305** **(0,000)**	**-0,015** **-5,340** **(0,000)**	-0,060 -0,283 (0,777)	**-0,059** **-6,420** **(0,000)**	**0,394** **2,144** **(0,033)**
POST	**0,008** **3,080** **(0,002)**	-0,005 -1,586 (0,114)		-0,003 -0,278 (0,781)	**-0,141** **-1,980** **(0,048)**

BDSIZE	**0,020** **9,179** **(0,000)**	**0,061** **26,155** **(0,000)**	-0,011 -0,395 (0,693)	**0,083** **10,272** **(0,000)**	0,097 1,210 (0,227)
POST × BDSIZE	**0,026** **21,022** **(0,000)**	**0,019** **14,267** **(0,000)**	**0,025** **2,166** **(0,031)**	**0,059** **13,094** **(0,000)**	**0,244** **2,464** **(0,014)**
BM	**-0,016** **-20,280** **(0,000)**	**-0,022** **-27,757** **(0,000)**	**-0,023** **-3.942** **(0,000)**	**-0,062** **-21,393** **(0,000)**	0,010 0,604 (0,546)
ROA	**0,270** **32,332** **(0,000)**	**0,261** **28,426** **(0,000)**	**0,798** **8,567** **(0,000)**	**0,871** **33,410** **(0,000)**	0,234 1,598 (0,111)
SIZE	**0,006** **10,302** **(0,000)**	**0,004** **5,727** **(0,000)**	0,003 0,405 (0,686)	**0,022** **9,794** **(0,000)**	**-0,047** **-2,262** **(0,024)**
LEV	**-0,040** **-12,420** **(0,000)**	**-0,074** **-19,351** **(0,000)**	**-0,077** **-2,284** **(0,023)**	**-0,203** **-18,942** **(0,000)**	-0,105 -1,257 (0,209)
BIG4	**-0,016** **-6,521** **(0,000)**	0,003 1,029 (0,305)	0,041 1,741 (0,082)	**-0,054** **-6,209** **(0,000)**	-0,008 –0,144 (0,886)
LOSS	-0,002 -0,979 (0,329)	**0,022** **8,336** **(0,000)**	0,006 0,220 (0,826)	**0,060** **6,915** **(0,000)**	0,018 0,277 (0,782)
GROWTH	**0,016** **12,961** **(0,000)**	**0,032** **34,043** **(0,000)**	**0,035** **3,108** **(0,002)**	**0,077** **23,962** **(0,000)**	**-0,072** **-2,580** **(0,010)**
R Square	0,958	0,973	0,223	0,223	0,343
Adj. R Square	0,956	0,972	0,212	0,212	0,313
F	449,810	703,395	19,553	19,553	11,448
Sig.	0,000	0,000	0,000	0,000	0,000

Referring to the data presented in Table 5, the outcome of the F Test, denoted by a Significance (Sig) value of 0.000, signifies the appropriateness of the model employed for hypothesis testing in accordance with the Sig value criteria, where values below 0.05 are considered suitable.

Table VI. Multiple linear regression results. The influence of COVID-19 on earnings quality and the independent commissionersas moderator

Variabel	RM1 Koefisien T (Sig.)	RM2 Koefisien T (Sig.)	RM3 Koefisien T (Sig.)	RM TOTAL Koefisien T (Sig.)	DAC Koefisien T (Sig.)
		-0,052 **-11,540** **(0,000)**			**-0,069** **-3,622** **(0,000)**
Konstanta	**-0,032** **-10,871** **(0,000)**		0,012 0,058 (0,954)	**-0,144** **-10,372** **(0,000)**	
POST	**0,011** **3,633** **(0,000)**	**0,018** **4,139** **(0,000)**		0,022 1,743 (0,083)	**0,015** **2,024** **(0,044)**
INDB	**-0,054** **-8,095** **(0,000)**	**-0,058** **-6,195** **(0,000)**	-0,090 -1,283 (0,200)	**-0,127** **-4,426** **(0,000)**	**0,116** **5,242** **(0,000)**
POST × INDB	**0,092** **18,155** **(0,000)**	**0,096** **12,539** **(0,000)**	**0,100** **2,238** **(0,026)**	**0,285** **11,028** **(0,000)**	**-0,071** **-2,038** **(0,042)**
BM	**-0,014** **-16,975** **(0,000)**	**-0,020** **-16,124** **(0,000)**	**-0,024** **-4,018** **(0,000)**	**-0,060** **-16,654** **(0,000)**	**0,009** **5,322** **(0,000)**
ROA	**0,269** **30,157** **(0,000)**	**0,275** **18,152** **(0,000)**	**0,356** **5,196** **(0,000)**	**0,883** **24,649** **(0,000)**	**0,194** **10,963** **(0,000)**
SIZE	**0,012** **22,915** **(0,000)**	**0,016** **17,413** **(0,000)**	0,002 0,315 (0,753)	**0,044** **17,216** **(0,000)**	0,003 1,780 (0,076)
LEV	**-0,042** **-11,550** **(0,000)**	**-0,088** **-14,341** **(0,000)**	-0,064 -1,841 (0,066)	**-0,197** **-13.720** **(0,000)**	-0,012 -1,280 (0,201)
BIG4	**-0,015** **-5,370** **(0,000)**	**-0,008** **-2,036** **(0,043)**	**0,061** **2,577** **(0,010)**	**-0,061** **-5,223** **(0,000)**	0,006 0,852 (0,395)

LOSS	0,005 1,786 (0,076)	**0,028** **6,723** **(0,000)**	**-0,055** **-2,098** **(0,036)**	**0,090** **7,696** **(0,000)**	**0,016** **2,087** **(0,037)**
GROWTH	**0,012** **8,681** **(0,000)**	**0,029** **19,476** **(0,000)**	**0,033** **2,878** **(0,004)**	**0,072** **13,607** **(0,000)**	**-0,014** **-3,693** **(0,000)**
R Square	0,946	0,928	0,167	0,925	0,823
Adj. R Square	0,943	0,924	0,155	0,922	0,814
F	344,379	252,584	13,660	243,305	90,944
Sig.	0,000	0,000	0,000	0,000	0,000

Based on Table 6, the results of the F Test with a Sig value. 0.000 which indicates that the model used is suitable for testing the hypothesis with the Sig value criteria. <0.05.

Second Hypothesis Testing and Discussion

The result was not supported the hypothesis H2a, board size that could potentially mitigate the impact of COVID-19 on earnings quality. The regression coefficients for the board size were positive, indicating that a larger board size actually strengthens the influence of COVID-19 on earnings quality, as measured by real earnings management (RM1, RM2, RM3, RM TOTAL) and accrual earnings management (DAC). This led to the rejection of hypothesis H2a.

These findings are consistent with prior research conducted by (Wulandari & Jaya, 2023), which found a positive correlation between board size and earnings management. Additionally, (Hadi & Handojo, 2018) study did not show any impact of board size on earnings quality. However, the results contrast with those of Hsu and Yang in 2022, who suggested that a larger board size could mitigate the relationship between COVID-19 and the quality of financial reporting.

Hypothesis H2b, which investigates the role of the proportion of independent commissioners in limiting the effects of COVID-19, also yielded unsupportive results. The regression coefficients for the proportion of independent commissioners were positive for real earnings management proxies (RM1, RM2, RM3, RM TOTAL), indicating that independent commissioners actually amplify the influence of COVID-19 on earnings quality. Although the coefficient for DAC was negative, this cannot be taken as evidence that independent commissioners mitigate the impact of COVID-19 on earnings quality, as other conditions were not met. Specifically, the POST variable's regression efficiency was -2.439, indicating that the company did not engage in accrual earnings management during the COVID-19 pandemic. Consequently, hypothesis H2b was also rejected.

These outcomes align with previous research by Saraswati et al. in 2020 and Dewi et al. in 2020, both of which found no significant effect of independent commissioners on earnings quality. Similarly, Hsu and Yang's 2022 study failed to provide evidence that independent commissioners have a limiting impact on the quality of financial reporting.

In conclusion, this research did not establish that corporate governance, as indicated by board size and the proportion of independent commissioners, plays a role in mitigating the influence of COVID-19 on earnings quality. This could be attributed to the relatively weak state of corporate governance in Indonesia.

CONCLUSION

The primary objective and problem statement of this study revolve around gauging the impact of COVID-19 on the quality of earnings, as well as assessing the extent to which corporate governance contributes to mitigating this impact. Upon scrutinizing the test outcomes, it can be deduced that the quality of earnings, as indicated by the measures RM1, RM3, and RM TOTAL, exhibited a decline. This decline is evidenced by the positive regression coefficients, signifying an escalation in the practice of real earnings management during the COVID-19 pandemic. In contrast, the quality of earnings, as represented by RM2 and DAC (accrual earnings management), showed an enhancement during the pandemic. This improvement is substantiated by the negative regression coefficients recorded. This is because it is impossible for companies to carry out real profit management practices in the form of RM2, namely carrying out real profit management practices by increasing production capacity while reducing discretionary costs. Likewise with accrual earnings management (DAC) because companies will assume that COVID-19 is incidental so it will not be possible for companies to practice accrual earnings management because it will be related to accounting methods and will have a long-term impact when the company does this. Investors at the same time will also know that there is a change in accounting methods so that in the end it will have a bad impact on the company. The findings also indicate that effective corporate governance, as exemplified by the dimensions of board size and the ratio of independent commissioners, does not succeed in upholding earnings quality amid the challenges posed by the COVID-19 pandemic. This inadequacy can be attributed to the relatively fragile state of corporate governance in the Indonesian context, particularly when confronted with the complex circumstances brought about by the pandemic. Consequently, the researcher recommends that future investigations consider incorporating additional corporate governance indicators, such as audit committees and institutional ownership, in order to obtain a more comprehensive perspective.

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