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The Impact of COVID-19 Pandemic and Earnings Management: Does the History of Managerial Ability Have a Role?

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ABSTRACT

This research aims to analyze the early impact of the COVID-19 pandemic on the tendency of earnings management in Indonesia, with a history of managerial ability as a moderating variable. The population in this research are manufacturing companies listed on the Indonesia Stock Exchange in 2018-2020. Using the purposive sampling technique, as many as 126 companies can meet the research sample criteria. The data analysis technique used is Moderated Regression Analysis (MRA). The results show that the impact of the COVID-19 pandemic has a positive effect on earnings management tendencies in Indonesia. It can be interpreted that the higher the impact of the COVID-19 pandemic received by the company, the higher the earnings management behavior. However, this can be weakened by the history of managerial ability. Companies with a history of managerial ability can cope with the impact of the COVID-19 pandemic and are more considering improving their performance quality rather than carrying out earnings management, which risks reducing the company's value.

INTRODUCTION

The COVID-19 pandemic impacts the business activities and business continuity (going concern) of various companies in Indonesia. The policy of restrictions on community activities and the implementation of work from home (WFH) during the COVID-19 pandemic result in most companies having to restrict or even stop their operational activities (Kementerian Keuangan RI, 2020c, 2020d). Kementerian Keuangan RI (2020a) explains that the decline in production levels and the closure of several business sectors such as tourism and transportation results in reduced earnings. Some companies have decreased their earnings by more than 75% and are affected by legal issues such as the cancellation of material contracts (Indonesia Stock Exchange, 2020). This has caused panic in the Indonesian financial market and made many foreign investors release their assets from the Indonesian financial market (CNN Indonesia, 2020b). In the end, the COVID-19 pandemic has led to financial distress due to a decline in financial conditions, and it became a challenge for company managers to overcome it.

The impact of the COVID-19 pandemic requires company managers to respond immediately and take action to maintain the company's going concern. Scott (2011) stated that earnings information is an essential indicator of stakeholders' economic decisions. Therefore, the managers try to hide losses and poor performance of the company to avoid negative perceptions from the stakeholders by

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increasing company earnings (Roychowdhury, 2006; Chen, Liu, & Li, 2010; Ahmad-Zaluki, Campbell & Goodacre, 2011). Furthermore, Companies strive to present financial statements that are more profitable than actually to maintaining trust and relationships with stakeholders. Managers do this to obtain external financing from investors and loan approval from creditors to maintain business continuity and avoid liquidity problems. Manager's awareness of the importance of earnings information encourages managers to conduct earnings management. The research conducted by Chia, Lapsley & Lee (2007) and Ayedh, Fatima & Mohammad (2019) stated that managers have more substantial incentives to conduct earnings management during financial distress. This is supported by several researches in several developed and developing countries, proving that earnings management increases during crisis conditions for a specific purpose (Ahmad-Zaluki et al., 2011; Mollik et al., 2013; Silva et al., 2014; Lisboa & Kacharava, 2018). Thus, it is essential to examine the impact of the COVID-19 pandemic on earnings management tendencies in Indonesia.

The managerial ability has relevance to earnings management amid current conditions. The company's goal to achieve the desired earning target is not only done through earnings management. However, it can also be influenced by the managerial ability factor. Demerjian, Lev & McVay (2013) explain that managerial ability is the ability of managers to implement appropriate economic decisions to achieve high-efficiency levels in managing resources. Efficiency is the minimal use of resources (input) to generate optimal revenue or earning (output). Research conducted by Francis et al. (2008) explains that a high-ability manager can handle complex business conditions in various situations and generate high-quality profits. Therefore, managerial ability implies the ability to overcome the impact of the COVID-19 pandemic by using suitable methods to minimize earnings management. Cohen & Zarowin (2010) and Huang & Sun (2017) state that capable managers know the risks of earnings management, so they are reluctant to do so. A capable manager will continuously improve the quality of performance, which will provide added value to the company, rather than carrying out earnings management, which risks reducing its value, which ultimately fails to maintain public and stakeholder trust.

This research is the modification of Lisboa & Kacharava's (2018) research, which analyzed the 2008 financial crisis's impact on earnings management in companies listed in Portugal and the United Kingdom. This research was conducted in Indonesia under a different condition, in the early period of the COVID-19 pandemic. In addition, the history of managerial ability is added, which allegedly could moderate (in this case, weaken) the impact of the COVID-19 on earnings management tendencies. Managerial ability is an ability built and embedded for a long time in a manager, so this research uses a historical approach. Also, the historical approach is expected to prove and reflect managerial abilities better and more accurately. Thus, it is interesting to prove whether the history of managerial ability can mitigate earnings management during the COVID-19 pandemic, which negatively impacts.

Based on the background above, the formulation of this research's problems include: Does the impact of the COVID-19 pandemic affect companies to conduct earnings management? Is the existence of a history of managerial ability able to moderate the impact of the COVID-19 pandemic on earnings management? This research aims to examine the early impact of the COVID-19 pandemic on Indonesia's earnings management tendencies and examine the effect of the history of managerial ability as a moderating variable. This research is expected to provide benefits for investors, creditors and other stakeholders to know companies' tendency to manage earnings in the COVID-19 pandemic period.

MATERIALS AND METHODS

Earnings Management

Earnings management is an act of selecting accounting policies to achieve certain earnings reporting objectives, such as increasing the company's value or the personal interests of company management (Scott, 2011). According to Lisboa & Kacharava (2018), there are two types of earnings management: discretionary accruals using accounting techniques and non-discretionary accruals using operational decisions. Discretionary accruals are objects that managers can easily control to conduct earnings management. According to Scott (2011), earnings management is generally carried out with four patterns, namely income minimization, income maximization, taking a bath and income smoothing. Earnings management is a concern for investors, creditors and other stakeholders because it presents figures in the financial statements that are not following the truth, particularly in the revenue (Ayedh et al., 2019). This can mislead the economic decisions of investors, creditors and other stakeholders.

Managers' motivation to conduct earnings management depends on the manager's orientation and the surrounding business environment's conditions. Scott (2011) found several motivations for earnings management: stock price effects, bonus contracts, tax factors, political factors, change of chief executive officer and an initial public offering. In general, managers are motivated to conduct earnings management due to market pressures and contractual agreements (Dechow, Sloan & Sweeney, 1995; Healy & Wahlen, 1999). Regarding market pressures, several empirical studies have shown that earnings management practices to avoid reporting losses and increasing stakeholders' confidence in order to obtain external funding (Al-Mughrabi, 2020; Chen et al., 2010; Roychowdhury, 2006). The company also conducts earnings management by increasing earnings before the IPO (Ahmad-Zaluki et al., 2011). At the same time, the contract agreement covers all conditions to achieve particular objectives. Managers perform earnings management to get bonuses based on company profitability and stock prices (Al-Mughrabi, 2020; Ayedh et al., 2019; Healy & Wahlen, 1999). In addition, managers will have more significant incentives to manage earnings if they have a debt agreement based on company profitability to avoid the risk of debt cancellation (Dechow et al., 1995; Healy & Wahlen, 1999) or renegotiation of debt conditions (DeAngelo et al., 1994). Earnings management is also carried out to obtain loan approval from banks or creditors and determine the company's interest expense (Lisboa & Kacharava, 2018).

The Impact of COVID-19 Pandemic

The COVID-19 pandemic is a disease outbreak caused by the SARS-CoV-2 virus spreading rapidly throughout the world that it causes a global health crisis (Gössling, Scott, & Hall, 2020). According to Haleem, Javaid & Vaishya (2020), the impact of the COVID-19 pandemic is the effect or implications of the COVID-19 pandemic on various aspects of community life, impacting health, social and economic slowdown. As of June 1st, 2020, the total COVID-19 cases in Indonesia reached 56,385 (Kementerian Kesehatan RI, 2020). This makes the government implement restrictions on community activities and work from home (WFH) to prevent the broader spread of COVID-19 (Kementerian Keuangan RI, 2020c).

The COVID-19 pandemic has a negative impact on various Indonesian companies' economic and business activities and results in a decline in corporate earnings (Indonesia Stock Exchange, 2020). The policy of restrictions on community activities and the implementation of work from home (WFH) during the COVID-19 pandemic result in most companies having to restrict or even stop their operational activities (Kementerian Keuangan RI, 2020c, 2020d). The process of production, distribution and sales are hampered, and the closure of several industrial sectors such as tourism and transportation results in reduced earnings earned by companies. In a condition of decreased income, the company may still have to bear fixed costs. This encourages companies to make efficient production costs by laying off employees and cutting employee salaries (Indonesia Stock Exchange, 2020). The Ministry of Manpower records that the number of workers being terminated and laid off due to the COVID-19 pandemic reached 3.06 million as of May 27th, 2020 (CNN Indonesia, 2020c). This condition caused panic in the Indonesian financial market, and the volatility index showed the level of anxiety in the stock market that has touched the highest level in history. Bank Indonesia has noted a very massive capital outflow during the COVID-19 pandemic (CNN Indonesia, 2020a). During the 2008 financial crisis, capital outflows reached IDR 69.9 trillion while the first Quarter of 2020 reached IDR 145.28 trillion, or more than double the global crisis shocks (Kementerian Keuangan RI, 2020b). Thus, the COVID-19 pandemic is leading to conditions of financial distress and environmental uncertainty because until now, no parties have been able to predict when the pandemic will end.

History of Managerial Ability

Managerial ability is managers' ability to take and implement appropriate economic decisions to achieve high-efficiency levels in managing resources (Demerjian et al., 2013). Efficiency is the minimal use of resources (input) to generate optimal earning (output). Therefore, efficiency implies the existence of a management decision to achieve company goals by using optimal methods. Wagner (2008) explained that managers have responsibilities and play an essential role in the company's success. A high-ability manager is not measured by only one period but is measured and proven by his success in the previous periods or has a history of managerial ability. This is because the manager's level of experience determines his managerial ability. In addition, managerial ability is a manager's ability that has been built and embedded for a long time. The history of managerial ability shows the excellent track record of a manager in previous periods with the strategy he has developed. A manager who has a history of managerial ability can estimate future conditions so that he is able to manage the company optimally under various conditions, including during times of financial distress.

The Impact of COVID-19 Pandemic on Earnings Management

The impact of the COVID-19 pandemic is a problem that can lead to bankruptcy or liquidation, so this can encourage company managers to conduct earnings management. During the Pandemic period, only 58.95% of companies operated normally, even as many as 82.45% of companies experienced a decline in revenue (Badan Pusat Statistika, 2020). This makes financial market conditions highly volatile and unstable. Panic occurred in the Indonesian financial market and made many foreign investors release their assets from the Indonesian financial market (CNN Indonesia, 2020b). Therefore, company managers try to present financial statements that are more profitable than they are or reduce volatility to maintain investors' confidence or other stakeholders (Ahmad-Zaluki et al., 2011; Chen et al., 2010). This is done to obtain external financing to maintain business continuity (going concern) and avoid liquidity problems. In addition, managers may avoid a decline in the company's stock prices, which can negatively impact the bonuses obtained (Charitou, Lambertides & Trigeorgis, 2007). Finally, earnings management becomes the choice for managers to avoid violating debt agreements (Filip & Raffournier, 2014). Thus, the COVID-19 pandemic period has raised doubts about the credibility of the company's financial statements.

Several researches have proven that the impact of the crisis will increase the tendency of earnings management, such as the research conducted by Ahmad-Zaluki et al. (2011) in Malaysia during the East Asian crisis; Mollik et al. (2013) in Australia during the global financial crisis; Silva et al. (2014) in Brazil during the financial crisis; and Lisboa & Kacharava (2018) in Portugal and UK during the global financial crisis. Thus, based on the arguments that have been explained, the impact of the COVID-19 pandemic triggers and enlarges earnings management's tendency to maintain the viability of company. Consistent with Lisboa & Kacharava (2018), the first hypothesis is formulated as follows:

H1: The impact of the COVID-19 pandemic has a positive effect on earnings management tendencies in Indonesia.

History of Managerial Ability as Moderation on The Impact of COVID-19 Pandemic on Earnings Management

Earnings management might increase during the COVID-19 pandemic period, but the history of managerial ability can minimize this behavior. According to Ghosh & Olsen (2009), managers' role is very influential in overcoming environmental uncertainty with developed strategies. Competent managers can cope complex business conditions well and report high-quality income (Demerjian et al., 2013; J. Francis et al., 2008; Wang & Williams, 1994). Besides, a high-ability manager is not measured by only one period but is measured and proven by his success in the previous periods or has a history of managerial ability. History of managerial ability is a condition where a manager has an excellent track record in managing the company in various conditions, including during this pandemic. This is because the manager's level of experience determines the managerial ability he has and managerial ability is an ability that has been built and embedded for a long time in a manager. Thus, the history of managerial ability implies overcoming the impact of the COVID-19 pandemic on the company going concerned to minimize earnings management behavior.

According to Francis, Sun & Wu (2013), capable managers are less involved in earnings management behavior. Huang & Sun (2017) stated that capable managers understand the negative impact of earnings management because it can reduce investors' confidence in the company's financial statements' credibility. Capable managers can anticipate crisis conditions and understand the negative impact of earnings management that has the potential to damage a company's reputation, so they are reluctant to do so (Cohen & Zarowin, 2010; Demerjian et al., 2013; Huang & Sun, 2017). Syarendra & Kristanto (2020) proved that managerial ability could weaken the influence of environmental uncertainty. Thus, the second hypothesis is formulated as follows:

H2: The history of managerial ability weakens the impact of the COVID-19 pandemic on earnings management tendencies.

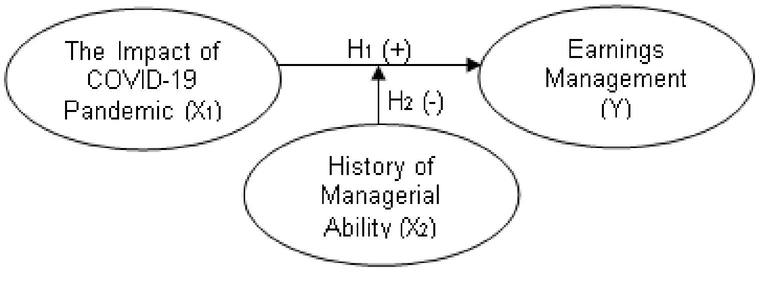

Figure 1. Research Model Framework

Research Type and Data Source

This research is quantitative. The data used are secondary data obtained from the Indonesia Stock Exchange (IDX) website. This research uses information in the form of a company's financial statements and report of the impact of the COVID-19 pandemic on the company.

Population and Sample

The population in this research uses companies in the manufacturing sector listed in IDX from 2018-2020. This sector is considered an excellent representative population because it has many companies and has various characteristics. The sample is selected using the purposive sampling method with the following criteria: 1) Manufacturing companies listed on IDX 2018-2020; (2) The company reports the second quarter of 2020 financial statements to calculate earnings management and annual financial statement for 2018-2019 to calculate the history of managerial ability; (3) The company reports COVID-19 pandemic impact data; (4) The company has completed the data for all research variables.

Variables and Measurements

The dependent variable in this research is earnings management which is proxied by the value of discretionary accruals. The measurement used for discretionary accruals is the modified Jones Model developed by Dechow et al. (1995). Using this measurement is because the model has the best power to detect earnings management. Besides that, it has the lowest error standard compared to other models. Because this research intends to see the early impact of the COVID-19 pandemic, the second quarter of 2020 financial statements are used to calculate earnings management. The steps to calculate for discretionary accruals are as follows:

1. Calculate the total accruals using the cash flow approach.
   $$TAC_{i,t} = NI_{i,t} - CFO_{i,t}$$
2. Determine the coefficient of accrual regression.
   $$\frac{TAC_{i,t}}{TA_{i,t-1}} = k_1 \left[\frac{1}{TA_{i,t-1}}\right] + k_2 \left[\frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{TA_{i,t-1}}\right] + k_3 \left[\frac{PPE_{i,t}}{TA_{i,t-1}}\right] + \varepsilon_{i,t}$$
3. Determine the non-discretionary accruals.
   $$NDAC_{i,t} = k_1 \left[\frac{1}{TA_{i,t-1}}\right] + k_2 \left[\frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{TA_{i,t-1}}\right] + k_3 \left[\frac{PPE_{i,t}}{TA_{i,t-1}}\right] + \varepsilon_{i,t}$$
4. Determine the discretionary accrual.
   $$DAC_{i,t} = \left[\frac{TAC_{i,t}}{TA_{i,t-1}}\right] - NDAC_{i,t}$$

Where:

TAC : Total accrual
NI : Net income from operating activities
CFO : Cash flow from operating activities
TA : Total assets
ΔREV : Changes in income
ΔREC : Change in net receivable
PPE : Property, plant and equipment
NDAC : Non-discretionary accrual
DAC : Discretionary accrual
i : firm
t : period
ε : Error term

The independent variable in this research is the impact of the COVID-19 pandemic. Measurement of the impact of the COVID-19 pandemic variable is calculated using a composite score. Data on the impact of the COVID-19 pandemic is taken from the information disclosure report on the Indonesia Stock Exchange (2020) website. In the report, there are 5 main indicators that will show the level of the impact of the COVID-19 pandemic on the company. The higher the score obtained, the greater the influence or the impact of the COVID-19 pandemic on the company's survival. The indicators and scores to measure the impact of the COVID-19 Pandemic can be seen in the figures and tables (Table 1).

This research uses the history of managerial ability as a moderating variable. Using a historical approach, it is hoped that it can better and more accurately prove and reflect managerial abilities. History of managerial ability is measured using audited financial statements for 2018-2019. History of managerial ability is measured using Data Envelopment Analysis (DEA) conducted by Demerjian et al. (2013). DEA is an optimization program used to evaluate a company's relative efficiency in making decisions (decision-making units) by comparing the output with input. The history of managerial ability in this research is defined as a historical level of a company's relative efficiency in managing inputs to increase output. This research's output is sales, while the inputs are total assets, labor, Days Sales Outstanding (DSO) and Days COGS in Inventory (DCI). Output and input are processed using the DEAP 2.1 program.

Data analysis technique

This research uses multiple regression analysis techniques to measure the strength of the relationship between the impact of the COVID-19 pandemic and earnings management. Meanwhile, to measure the strength of the relationship between the history of managerial ability (moderating variable) on the impact of the COVID-19 pandemic and earnings management was tested using MRA (Moderate Regression Analysis) analysis techniques. MRA explains moderating variables' influence in strengthening or weakening the relationship between the dependent and independent variables. The first step is to conduct descriptive statistics analysis to describe the data such as mean, standard deviation, minimum and maximum. The second step is to test the classic assumptions for normality test, heteroscedasticity test, multicollinearity test and autocorrelation test. The next step is to analyze the relationship between the impact of the COVID-19 pandemic and the history of managerial ability as moderation on earnings management. Thus, the formulation of this research is as follows:

H_1 : $DA = \propto + \beta_1 cp + \varepsilon$

H_2 : $DA = \propto + \beta_1 cp + \beta_2 ma + \beta_3 cp * ma + \varepsilon$

Where:
DA : Discretionary accruals
cp : The impact of the COVID-19 pandemic
ma : History of managerial ability
β : Regression coefficient
ε : Error term

Based on the test results above, H1 will be accepted if the significance level is less than 5% (0.05) with a positive regression coefficient (β1). Meanwhile, H2 will be accepted if the significance level is less than 5% (0.05) and the regression coefficient value of the interaction variable (β3) shows a lower value than the independent variable regression coefficient (β1). The regression coefficient (β) comparison method to interpret the moderating variable has also been used in several prior research, including (Sari & Astika, 2015; Suyoto & Dwimulyani, 2019).

RESULTS AND DISCUSSION

The population in this research used data from manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2020. Through a purposive sampling technique, 126 companies could meet the criteria as a research sample (Table 1).

Table 1
Population and Sample

Information	Total
The population of listed manufacturing sector companies in 2020	195
Companies that do not reveal the impact of the COVID-19 Pandemic	(8)
Companies that do not have complete financial statements	(61)
Total of sample	126

Source: Research data, 2020

Descriptive statistics analysis in this research consists of minimum, maximum, mean and standard deviation, which are described in the following table:

Table 2
Descriptive Statistics

Variable	Min.	Max.	Mean	Standard Deviation
Earnings Management	-0,17756	0,32354	0,00002	0,06667
Impact of COVID-19 Pandemic	0	22	8,06349	5,99099
Operational disruption	0	1	0,750	0,428
Operational restriction and/or termination	0	3	0,877	0,739
Period of operational restrictions	0	3	1,516	1,138
Lost revenue contribution	0	4	1,104	1,018
Laid off workers	0	1	0,135	0,337
Workers are laid off	0	2	0,155	0,422
Workers affected by other situations	0	2	0,234	0,543
Decreased in total income	0	4	1,137	0,909
Decreased in net profit	0	4	1,484	1,388
Fulfilment of short terms liabilities	0	1	0,230	0,418
Fulfilment of debt interest	0	1	0,123	0,327
Total short-term liabilities	0	2	0,310	0,606
Bankruptcy lawsuit	0	0	0	0
Material contract cancellation	0	1	0,008	0,089
Subpoena due to breach of contract	0	0	0	0
Other issues	0	0	0	0
History of Managerial ability	0,00350	1	0,17549	0,15902

Source: Research data, 2020

Table 2 shows that the mean (average) of earnings management, which is proxied by the value of discretionary accruals, produces a value of 0.00002. This indicates that, in general, the companies in the sample of this research tend to carry out income-increasing strategies; this can be seen from the positive discretionary accrual value. In addition, the mean is smaller than the standard deviation of 0.06667. This shows that the earnings management of manufacturing companies in the second quarter of 2020 has varied data. The impact of the COVID-19 pandemic shows a mean of 8.06349 out of the total composite score of 35. The mean value mainly occurs in the operational restrictions period, decreased net profit, decreased total income and the contribution of lost revenue due to the pandemic. Thus, it can be concluded that the COVID-19 pandemic generally has much impact on decreasing company profits. The Pharmaceuticals subsector is the industry least affected by the COVID-19 pandemic. The history of managerial ability as measured by the DEA score has a mean value of 0.17549 (17.549%), which means that every IDR 1 cost (input) incurred will result in a profit (output) of IDR 0.17549. Thus, the average manufacturing company in 2018-2019 was only able to perform an efficiency of 17.549%. The DEA score is in the range of 0 to 1. The closer to value 1, it indicates that the manager successfully makes cost efficiency in optimizing company profits. Charoen Pokphand Indonesia Tbk has the highest history of managerial ability value, which is 1. At the same time, Inti Keramik Alam Asri Industri Tbk has the lowest history of managerial ability value of 0.00350.

Before testing the hypothesis, the data that has been obtained will be tested using the classic assumption test. The classic assumption test aims to obtain valid analysis results. The classic assumption test applied in this research is the normality test, heteroscedasticity test, multicollinearity test and autocorrelation test. The results of the classic assumption test can be seen in table 3.

Table 3
Classic Assumption Test

Test	Model	Result		Explanation
Normality test	1	Sig.	0,051>0,05	Pass
	2	Sig.	0,134>0,05	Pass
Heteroscedasticity test	1	Sig.	0,465>0,05	Pass
	2	Sig.		Pass
		CP	0,430>0,05	
		MA	0,149>0,05	
		CP*MA	0,365>0,05	
Multicollinearity test	1	*Tolerance*	1,000>0,1	Pass
		VIF	1,000<10	
	2	*Tolerance*		Pass
		CP	0,880>0,1	
		MA	0,679>0,1	
		CP*MA	0,656>0,1	
		VIF		
		CP	1,137<10	
		MA	1,473<10	
		CP*MA	1,523<10	
Autocorrelation test	1	d = 2,135		Pass
		dU = 1.7252		
		4-dU = 2.2748		
		dU < d < 4-dU		
		1.7252 < 2,135 < 2.2748		
	2	d = 2,108		Pass
		dU = 1.7252		
		4-dU = 2.2748		
		dU < d < 4-dU		
		1.7252 < 2,108 < 2.2748		

Source: Research data, 2020

The normality test in this research used the Kolmogorov-Smirnov test. It produced an unstandardized residual significant in both research models are greater than 0.05, which means that the data is distributed normally. The heteroscedasticity test in this research used the Spearman Rho test and showed that both research models' significance value are more than 0.05. This shows that there are no symptoms of heteroscedasticity. The two research models' multicollinearity test results show a tolerance value of more than 0.1 and a Variance Inflation Factor (VIF) value of less than 10, which means no multicollinearity between variables. The autocorrelation test in this research used the Durbin Watson test. Durbin Watson's value of the two research models are greater than the dU value (1.7252) and less than the 4-dU value (2.2748). This shows that there is no autocorrelation between residuals. Thus, it can be concluded that this research regression model has passed the classic assumption test.

Table 4
Moderate Regression Analysis Test

Model	Variable	R Square (R^2)	Anova		Coefficient		
			F	Sig.	B	t	Sig.
1	CP (H_1)	0,044	5,669	0,019	0,106	2,381	0,019
2	CP				0,137	2,881	0,005
	MA	0,076	3,293	0,023	0,02	0,953	0,342
	CP*MA (H_2)				-0,022	-2,03	0,045

Source: Research data, 2020

Based on the output in table 4, the value of R2 in first model is 0.044. This shows that the variation in the impact of the COVID-19 pandemic can only explain 4.4% of the variation in earnings management. Simultaneously, the remaining 95.6% is influenced by variables outside of this research on earnings management. Meanwhile, the R2 results increased to 0.076 after adding the history of managerial ability as a moderating variable. Thus, it can be concluded that the variation in the impact of the COVID-19 Pandemic with the history of managerial ability can explain 7.6% of the variation in the earnings management. Simultaneously, the remaining 92.4% is influenced by other variables outside of this research that can affect earnings management.

Based on the regression testing results from table 4, the regression coefficient of first model (impact of COVID-19 Pandemic variable) has a value of 0.106 with a significant value of 0.019. This shows that the impact of the COVID-19 Pandemic has a significant positive effect on earnings management. So it can be concluded that H1 is accepted, namely the impact of the COVID-19 pandemic has a positive effect on earnings management tendencies in Indonesia. From these results, it can be interpreted that the higher the impact of the COVID-19 pandemic received by the company, the higher the earnings management behavior.

The regression testing results in second model show that the impact of the COVID-19 pandemic will have a positive effect on earnings management, marked by a regression coefficient value of 0.137 and a significance of 0.005. Meanwhile, the interaction test results between the impact of the COVID-19 pandemic and history of managerial ability (CP * MA) show the regression coefficient value of -0.022 with a significant value of 0.045. Thus, it can be concluded that this interaction has a significant effect and weakens the positive relationship between the impact of the COVID-19 pandemic on earnings management. This interaction can weaken the positive relationship because the regression coefficient value of the impact of the COVID-19 pandemic (model 1) before adding the moderating variable (history of managerial ability) has a value of 0.106. Then the regression coefficient value decreased to -0.022 after adding the moderating variable. So H2 in this research is accepted, namely that the history of managerial ability weakens the impact of COVID-19 pandemic on earnings management tendencies.

The Impact of COVID-19 Pandemic on Earnings Management

The first hypothesis in this research is accepted: the impact of the COVID-19 pandemic has a positive effect on earnings management tendencies in Indonesia. The impact of the COVID-19 pandemic has proven to affect earnings management, where the higher the impact of the COVID-19 pandemic received by the company, the higher the practice of earnings management. As a company manager, the earnings management behavior does not appear by itself, but some circumstances underlie the behavior. The government's policy of restricting community activities caused significant economic losses for various industries because companies could not operate optimally for an extended period. Companies' enormous losses due to the impact of the COVID-19 pandemic have caused many companies to experience a decrease in income, accompanied by demands to fulfill their obligations both for operational activities and creditors. The results of descriptive statistics (table 2) show that the impact of the COVID-19 pandemic produces a mean of 8.06349, where this value generally results in a decrease in company profits. If this condition continues, the company may experience bankruptcy or liquidation. Therefore, the impact of the COVID-19 Pandemic can encourage company managers to conduct earnings management.

The impact of the COVID-19 pandemic can trigger managers' incentives to engage in earnings management to maintain the business continuity (going concern) of the company. Earnings information is an essential indicator for the consideration of economic decisions for stakeholders. Therefore, managers carry out earnings management to hide the company's losses and poor performance to avoid stakeholders' negative perceptions by increasing company earnings (Roychowdhury, 2006; Chen, Liu, & Li, 2010; Ahmad-Zaluki, Campbell, & Goodacre, 2011). This research found that, in general, manufacturing companies tend to carry out income-increasing strategies. This is evidenced by the mean on the earnings management variable, which shows a positive value equal to 0.00002 (Table 2.

Descriptive statistics). Rosner (2003) proved that company managers who experience financial distress would respond with earnings management by increasing income. This research is in line with prior research that showed that earnings management behavior during the 2008 financial crisis in Malaysia increased (Ayedh et al., 2019). Several other research have shown that the impact of the crisis will increase the tendency of earnings management, such as the research conducted by Ahmad-Zaluki et al. (2011) in Malaysia at the time of the East Asian crisis; Mollik et al. (2013) in Australia during the global financial crisis; Silva et al. (2014) in Brazil during the financial crisis; and Lisboa & Kacharava (2018) in Portugal and United Kingdom during the global financial crisis.

History of Managerial Ability as Moderation on The Impact of COVID-19 Pandemic on Earnings Management

The second hypothesis in this research is accepted, namely that the history of managerial ability weakens the impact of the COVID-19 pandemic on earnings management tendencies. The history of managerial ability can moderate the impact of the COVID-19 pandemic on earnings management. In the result of this research, the high managerial ability can reduce the impact of the COVID-19 pandemic on the company and their interaction between the impact of the COVID-19 and history of managerial ability on earnings management. The company's goal to achieve the desired profit target is not only done through earnings management. However, it can also be influenced by the history of managerial ability. Demerjian et al. (2013) explain that managerial ability is the ability of managers to implement appropriate economic decisions to achieve high-efficiency levels in managing resources. This is supported by experience, a level of intelligence and a high level of education so that managers can achieve optimal profits. Even in the conditions of the COVID-19 Pandemic, capable managers will look for solutions and innovations to generate optimal profits even though the government implements the policy of restrictions on company operations.

Capable managers can anticipate crisis conditions and understand the negative impact of earnings management that can damage the company's reputation, so they are reluctant to do so (Cohen & Zarowin, 2010; Demerjian et al., 2013). So, the managerial ability can overcome the economic losses caused by the impact of the COVID-19 Pandemic by using the proper methods to minimize earnings management behavior. This research is consistent with Demerjian et al. (2012) and Tehupiring (2017), which state that managerial ability negatively relates to earnings management, meaning that the more proficient a manager is, the lower earnings management is. Huang & Sun (2017) also supports the second hypothesis in this research, managerial ability is an essential factor so that companies continue to grow and generate high-quality profits, so they do not need to do earnings management. Tehupiring (2017) states that capable managers will improve their performance by efficiently managing existing resources. Thus, the history of managerial ability will provide added value to the company rather than manager conduct earnings management, which risks losing public confidence and sacrificing long-term performance.

CONCLUSIONS AND SUGGESTION

This research proves that the impact of the COVID-19 pandemic has a positive effect on earnings management tendencies in Indonesia. The higher the impact of the COVID-19 pandemic received by the company, the higher the earnings management. However, this can be weakened by the history of managerial ability. Companies that have a history of managerial abilities can overcome the impact of the COVID-19 Pandemic. In addition, capable managers will continuously improve the quality of their performance, which will provide added value to the company, rather than carrying out earnings management, which risks reducing its value, which ultimately fails to maintain public and stakeholder trust.

The results of this research are consistent with prior research, which shows that the high impact of the crisis such as the COVID-19 pandemic, the tendency for earnings management will also be high (Ahmad-Zaluki et al., 2011; Mollik et al., 2013; Silva et al., 2014; Lisboa & Kacharava, 2018; Ayedh et al., 2019). Then, the results of this study are also in line with research conducted by Cohen & Zarowin (2010), Huang & Sun (2017) and Tehupiring (2017), which proves that managerial ability can weaken earnings management tendencies in crisis periods. Capable managers can anticipate crisis conditions and understand the negative impact of earnings management. Thus, the history of managerial ability can overcome the economic losses caused by the impact of the COVID-19 Pandemic by using suitable methods to minimize earnings management.

The results of this research have implications for various parties. Before investing, investors should consider the history of managerial ability because managers have an essential role in making decisions that will impact investors. For creditors, they need to be more careful in approving loans to companies, especially during the COVID-19 Pandemic period.

In this research, several limitations can be considered for further research: (1) Because this research intends to see the early impact of the COVID-19 pandemic, it still uses the second quarter of 2020 financial statements. This causes the possibility of a bias in the quality of financial statements because it has not been audited. Thus, future research needs to re-examine using audited financial statements. (2) A low Adjusted R-Square value indicates that there are other variables that more influence earnings management. Therefore, it is suggested that further research can add other variables that affect earnings management, such as leverage and company size (Lisboa & Kacharava, 2018). (3) This research has not considered the weighting (level of seriousness) of the impact of the COVID-19 Pandemic, which is different for each indicator item in explaining the impact of COVID-19 Pandemic on IDX information disclosure. In further research, it is suggested to consider the weighting of the impact of COVID-19 Pandemic, which is different for each indicator item.

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Figures and Tables

Table 1
Table for Measuring the Impact of The COVID-19 Pandemic

<table>
<tr><th rowspan="2">Indicators</th><th rowspan="2">Description</th><th rowspan="2">Score Category</th><th colspan="2">Score</th></tr>
<tr><th>Min</th><th>Max</th></tr>
<tr><td rowspan="3">Conditions of business continuity (going concern)</td><td>Operations are disrupted by a pandemic</td><td>0 = No
1 = Yes</td><td rowspan="3">0</td><td rowspan="3">11</td></tr>
<tr><td>Operational restrictions and / or termination</td><td>0 = Nothing
1 = Restriction
2 = Partial restrictions and terminations / partial termination
3 = Total termination</td></tr>
<tr><td>Lost revenue contribution</td><td>0 = Nothing
1 = <25%
2 = 25-50%
3 = 51%-75%
4 = >75%</td></tr>
<tr><td rowspan="3">Employee/ worker</td><td>Laid off workers</td><td>0 = Nothing
1 = <50%
2 = >50%</td><td rowspan="3">0</td><td rowspan="3">6</td></tr>
<tr><td>Workers are laid off</td><td>0 = Nothing
1 = <50%
2 = >50%</td></tr>
<tr><td>Workers affected by other situations</td><td>0 = Nothing
1 = <50%
2 = >50%</td></tr>
<tr><td rowspan="2">Company income</td><td>Decreased in total income</td><td>0 = Nothing/ increase
1 = Decrease <25%
2 = Decrease 25-50%
3 = Decrease 51%-75%
4 = Decrease >75%</td><td rowspan="2">0</td><td rowspan="2">8</td></tr>
<tr><td>Decrease in net profit</td><td>0 = Nothing/ increase
1 = Decrease <25%
2 = Decrease 25-50%
3 = Decrease 51%-75%
4 = Decrease >75%</td></tr>
<tr><td rowspan="3">Fulfil short-term liabilities</td><td>Fulfilment of short-term liabilities</td><td>0 = No
1 = Yes</td><td rowspan="3">0</td><td rowspan="3">6</td></tr>
<tr><td>Fulfilment of debt interest</td><td>0 = No
1 = Yes</td></tr>
<tr><td>Total short-term liabilities
* of total current liabilities</td><td>0 = Nothing
1 = <25%
2 = 25-50%
3 = 51%-75%
4 = >75%</td></tr>
<tr><td rowspan="4">Legal issues</td><td>Bankruptcy lawsuit</td><td>0 = No
1 = Yes</td><td rowspan="4">0</td><td rowspan="4">4</td></tr>
<tr><td>Material contract cancellation</td><td>0 = No
1 = Yes</td></tr>
<tr><td>Subpoena due to breach of contract</td><td>0 = No
1 = Yes</td></tr>
<tr><td>Other issues</td><td>0 = No
1 = Yes</td></tr>
<tr><td colspan="3">Total score</td><td>0</td><td>35</td></tr>
</table>