The Influence of Credit Risk on Company Earnings Management (Empirical Study of Banking Companies Listed on the IDX)

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ABSTRACT
This research aims to determine the effect of credit risk on earnings management in banking companies listed on the Indonesia Stock Exchange in 2019-2022. This research uses descriptive statistical analysis and multiple regression analysis using SPSS. The research data comes from annual financial reports obtained from the BEI website and the company's official website. Sample selection used purposive sampling technique so that 42 companies were obtained for a period of 4 years, but there were outlier data so that the total sample was 80 data. This research shows that credit risk as proxied by Gross NPL and Net NPL simultaneously influences earnings management in banking companies listed on the Indonesia Stock Exchange in 2019-2022.

INTRODUCTION
The main objective of financial accounting is to provide financial statements that give information about a company's financial position to external parties such as investors and creditors (Putri and Naibaho 2022). Financial reports are a forum for communicating financial information to external parties. (FASB, 1978) (Mahawyahrti, Ayu, and Budiasih 2016). The report prepared must provide relevant financial positions regarding the financial position and all transactions carried out by a particular entity (Tresnawati and Rahyu 2023). In financial reports, profit information is one of the information most considered when making economic or investment decisions (Eni 2021). Profit information is often the target of management's opportunistic engineering actions to maximize its decisions. This opportunistic action is carried out by choosing certain accounting policies, so that company profits can be regulated, increased or decreased according to their wishes. Management's actions to regulate profits according to its wishes are known as earnings management (Hasibuan and Dwiarti 2019)
Earnings management is not a negative action because earnings management is not always oriented towards opportunistic profit manipulation. Earnings management can be considered as a misleading and deceptive action from shareholders (Healy & Wahlen, 1999), or as an action that should be carried out by management (Beneish in Fatjriyati, 2020). Earnings management is a manager's option on accounting policies or measures that may affect profits reporting targets by a certain amount (Paramaratri, Setyorini, and Suparlinah 2023). However, earnings management practices including the selection of accounting methods and estimates in accordance with generally accepted accounting principles (GAAP) (Pratomo and Sudibyo 2023).

The main activity of banks is lending to generate income in the form of interest (Ayu 2019). The greater the amount of credit provided, the greater the credit risk that a bank will experience. One of them is a decrease in profits which may occur due to people's inability to pay credit bills according to the time decided by the bank (Kumaralita and Purwanto 2019). Banks face business risks, namely the risk of bad credit. If the credit loan goes bad, the bank's interest income will also decrease. The NPL ratio is used to assess bad credit owned by a bank and will also influence the assessment of bank performance, in this case whether a bank is healthy or not. If this happens, bank management uses intervention in its reported profits, so that the bank’s performance remains considered good (Sari, Astuti, and Persero 2015).

In 2016, Bank Bukopin revised its net profit to IDR 183.56 billion from the previous IDR 1.08 trillion. The biggest decline was in the fees and commission income section which is income from credit cards. This income fell from IDR 1.06 trillion to IDR 317.88 billion. Apart from the credit card issue, revisions also occurred in the financing of Bank Syariah Bukopin's (BSB) subsidiary regarding the addition of the balance of reserves for impairment losses for certain debtors. As a result, the burden of provisions for impairment losses on financial assets was revised upwards from IDR 649.05 billion to IDR 797.65 billion. This caused the company's expenses to increase by IDR 148.6 billion. Before the Authority clarified, Bukopin had actually been 'punished' for this incident. Bukopin has revised down its equity holdings of IDR 2.62 trillion to IDR 6.91 trillion. The decrease was due to a downward revision of retained earnings from IDR 2.62 trillion to IDR 5.52 trillion because previously reported profits were incorrect. CAR worsened at the end of 2017 when it was recorded at 10.52%, although it increased again in the first quarter of 2018 to 11.09%. Another thing that influenced the decline in CAR was the increase in Bukopin's non-performing loan (NPL) ratio. (Source: Detikcom)

Based on the above phenomenon, management must be able to implement an effective risk management system (Pirzada 2020). Therefore, the aim of this research is to analyze the influence of credit risk on the earnings management of banking companies on the BEI. Credit risk in this research is proxied by Non-Performing Loans (NPL). Meanwhile, earnings management can be measured using Discretionary Accrual (DA), namely the accrual component which is within the manager’s policy, meaning that the manager intervenes in the accounting reporting process (Firdaus 2013 in Sari, N. K., & Astuti, D. D. 2015).

LITERATURE REVIEW

Agency Theory

Agency theory, which in this theory explains that the agency relationship between agents (management) and principals (shareholders) creates gaps or is often called information asymmetry (Husaini, Nurazi, and Saiful 2023). Assuming the existence of information asymmetry, a party is needed who is able to act as a mediator in the relationship between owners and management who is able to harmonize two different interests so that earnings management practices are carried out by management. (Ayuputri et al., 2023). Agency problems arise with conflicts of interest between shareholders and managers (FIRNANTI 2018).
Earnings Management

In this research, the dependent variable is earnings management. Earnings management is considered management intervention in financial statements, in the form of accounting policy choices, which are permitted in the external financial reporting process to achieve personal goals, thereby reducing the financial credibility of statements (Schipper, 1989 in Fatjriyati, 2020). The existence of earnings management carried out by companies will cause the information obtained by stakeholders to be biased, so that decisions made by stakeholders will be incorrect. Earnings persistence is determined by accrual and cash flow components (Ustadza and Firmansyah 2023).

To measure Earnings Management (Y) using the discretionary accrual (DA) proxy (Ayuputri et al., 2023).

\[ TA_{it} = Nit - CFO_{it} \]  \hspace{1cm} (1)

The total accrual (TA) value is estimated with the OLS regression equation:

\[ TA_{it}/Ait-1 = \beta_1 (1/Ait-1) + \beta_2 (\Delta Rev_{it}/Ait-1) + \beta_3 (PPE_{it}/Ait-1) + e \]  \hspace{1cm} (2)

So the value of non-discretionary accruals (NDA) can be calculated using the formula:

\[ NDA_{it} = \beta_1 (1/Ait-1) + \beta_2 (\Delta Rev_{it}/Ait-1 - \Delta Rec_{it}/Ait-1) + \beta_3 (PPE_{it}/Ait-1) \]  \hspace{1cm} (3)

Then Discretionary Accrual (DA) can be calculated by:

\[ DA_{it} = TA_{it}/Ait-1 - NDA_{it} \]  \hspace{1cm} (4)

Information:

- \( Dait \): Discretionary accruals of company \( i \) in period \( t \)
- \( NDA_{it} \): Non-discretionary accruals of company \( i \) in period \( t \)
- \( Tait \): Total accruals of company \( i \) in period \( t \)
- \( Nit \): Net profit of company \( i \) in period \( t \)
- \( CFO_{it} \): Cash flow from operating activities of company \( i \) in period \( t \)
- \( Ait-1 \): Total assets of company \( i \) in period \( t-1 \)
- \( \Delta Rev_{it} \): Change in company \( i \)'s income in period \( t \)
- \( PPE_{it} \): The company's fixed assets in period \( t \)
- \( \Delta Rec_{it} \): Change in company \( i \)'s receivables in period \( t \)
- \( E \): error

Credit Risk

Every grant of credit of course contains risks, the risk in this case is problematic credit (Jamaluddin 2018). One of the earnings management tactics according to Scoot (2000) is to shift the cost or income period. Shifting the income recognition period from credit loans will reduce the value of credit risk faced by banks. Dang, Shen & Fang (2008) explained in their research that companies with high NPLs will carry out earnings management by reducing loan provision costs. With this action, bank profits do not decrease because the loan provision burden is greater than the interest income which decreases due to bad bank loans (Sari et al., 2015).

Non Performing Loan (NPL)

If a bank has a high NPL, it will increase costs, both costs for providing reserves for productive assets and other costs, in other words, the higher a bank's NPL, the more it will disrupt the bank's performance (Ali in Pinasti, 2018). Bank Indonesia (BI) through Bank Indonesia Regulations (PBI) stipulates that the ratio of non-performing loans (NPL) is 5%. (Source: BI Circular No. 13/1/PBI/2011). The following is the NPL ratio formula:

\[ \text{NPL Ratio} = \left( \frac{\text{NPL TOTAL}}{\text{CREDIT TOTAL}} \right) \times 100\% \]
METHODS

This Research is quantitative research using secondary data. The data collection technique is observation or observation. The population is all banking companies listed on the Indonesia Stock Exchange (BEI) for the 2019-2022 period by downloading the annual report which can be accessed at www.idx.co.id. The analytical techniques used in this research are descriptive analysis and inferential analysis using multiple regression analysis.

RESULTS

Descriptive Analysis

Gross NPL in Manufacturing Companies Listed on the Indonesian Stock Exchange 2019 – 2022

Table 1 Manufacturing Company Gross NPL for the 2019-2022 period

<table>
<thead>
<tr>
<th>NPL Bruto</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>168</td>
<td>0,00</td>
<td>9,08</td>
<td>1,4473</td>
<td>2,08299</td>
</tr>
</tbody>
</table>

Source: Financial Report Data

The table above depicts the Gross NPL of manufacturing companies listed on the Indonesian stock exchange in 2019 - 2022. The average value of Gross NPL in the 2019 - 2022 period is 1.4473 ± 2.08299. Meanwhile, the range of Gross NPL values from 2019-2022 is between 0.00 - 9.08.

Net NPL in Manufacturing Companies Listed on the Indonesian Stock Exchange 2019 – 2022

Table 2 Manufacturing Company Net NPL for the 2019-2022 period

<table>
<thead>
<tr>
<th>NPL Netto</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>168</td>
<td>0,00</td>
<td>4,96</td>
<td>,8455</td>
<td>1,18754</td>
<td></td>
</tr>
</tbody>
</table>

Source: Financial Report Data

The table above describes the Net NPL in manufacturing companies listed on the Indonesian stock exchange in 2019 - 2022. The average value of Net NPL in the 2019 - 2022 period is 0.8455 ± 1.18754. Meanwhile, the range of Net NPL values from 2019-2022 is between 0.00 - 4.96.

Earnings Management in Manufacturing Companies Listed on the Indonesian Stock Exchange 2019 – 2022

Table 3 Manufacturing Company Profit Management for the 2019-2022 period

<table>
<thead>
<tr>
<th>Manajemen Laba</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>168</td>
<td>-13113,27</td>
<td>128274,86</td>
<td>600,9873</td>
<td>10038,35455</td>
<td></td>
</tr>
</tbody>
</table>

Source: Financial Report Data

The table above describes earnings management in manufacturing companies listed on the Indonesian stock exchange in 2019 - 2022. The average value of earnings management in the
2019 - 2022 period is $600.9873 \pm 10038.35455$. Meanwhile, the range of earnings management values from 2019-2022 is between -13113.27 - 128274.86.

Inferential Analysis
Classic Assumption Test

Table 4 Normality Test
One-Sample Kolmogorov-Smirnov Test

<table>
<thead>
<tr>
<th>Unstandardized Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Normal Parameters$^{a,b}$</th>
<th>Mean</th>
<th>.0000000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most Extreme Differences</td>
<td>Std. Deviation</td>
<td>20.79174011</td>
</tr>
<tr>
<td></td>
<td>Absolute</td>
<td>.393</td>
</tr>
<tr>
<td></td>
<td>Positive</td>
<td>.393</td>
</tr>
<tr>
<td></td>
<td>Negative</td>
<td>-.158</td>
</tr>
<tr>
<td>Test Statistic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td></td>
<td>.000$^c$</td>
</tr>
</tbody>
</table>

$^{a}$ Test distribution is Normal.
$^{b}$ Calculated from data.
$^{c}$ Lilliefors Significance Correction.
Source: Processed Secondary Data, 2023

After the outlier data was removed, it turned out that the significance value was still smaller than 0.05. Because it is still not normally distributed, in this study the normality test uses central limit theorem assumptions. According to Gujarati (2006) central limit theorem, if the number of samples is greater than 30, then the sample distribution will be considered close to normal. In this study, the number of samples was greater than 30, so the research could still be continued.

Multicollinearity Test

Table 5 Multicollinearity Test Table

<table>
<thead>
<tr>
<th>Coefficients$^a$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>(Constant)</td>
</tr>
<tr>
<td>NPL Bruto</td>
</tr>
<tr>
<td>NPL Netto</td>
</tr>
</tbody>
</table>

$^a$ Dependent Variable: Earnings Management
Source: Processed Secondary Data, 2023

Based on calculations, it shows that the regression model does not have multicollinearity problems. This can be seen from the tolerance value being above 0.1 and the VIF value being below 10. Thus, it can be concluded that there is no multicollinearity problem in the data.
Heteroscedasticity Test

Table 6 Heteroscedasticity Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>12.353</td>
<td>2.166</td>
<td>5.702</td>
<td>.000</td>
</tr>
<tr>
<td>NPL Bruto</td>
<td>-.792</td>
<td>1.933</td>
<td>-.070</td>
<td>-.410</td>
</tr>
<tr>
<td>NPL Netto</td>
<td>2.714</td>
<td>3.111</td>
<td>.149</td>
<td>.873</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Abs_Residual
Source: Processed Secondary Data, 2023

Data is said to be free from heteroscedasticity problems if the significance value is greater than 0.05. Based on the results of heteroscedasticity testing using the Glesjer test, it can be seen that the significance value of the two independent variables has a value greater than 0.05. So it can be concluded that there is no heteroscedasticity problem in the regression model.

AutoCorrelation Test

Table 7 Autocorrelation Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.958</td>
</tr>
</tbody>
</table>

b. Dependent Variable: Lag_Y

Based on the table above, the Durbin-Watson value is 1.958. Because the DW value is between $d_U (1.6882) < DW (1.958) < 4 - d_U (2.3118)$, it can be concluded that there is no autocorrelation.

All classical assumption tests have been fulfilled so that the multiple regression analysis can be continued because it has been found that there are no violations of the classical assumptions so that the multiple regression analysis can be continued. The multiple analysis method is used to see the influence of EPS (X1), ROE (X2) and DPR (X3) on Earnings Management (Y). Multiple linear regression analysis is used with the following equation:

$$Y = a + b_1X_1 + b_2X_2 + e$$

Where:
Y = Profit Management
X1 = Gross NPL
X2 = Net NPL
a = Constant
$b_1$, $b_2$ = Koefisien Regresi

The results of SPSS 25.0 software processing for multiple regression analysis are presented in the following table.
Table 8 Multiple Regression Analysis

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Correlations Zero-order</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1</td>
<td>5.305</td>
<td>2.785</td>
<td>1.905</td>
<td>.061</td>
<td></td>
</tr>
<tr>
<td>NPL Bruto</td>
<td>2</td>
<td>-14.243</td>
<td>2.485</td>
<td>-5.733</td>
<td>.000</td>
<td>-.798</td>
</tr>
<tr>
<td>NPL Netto</td>
<td>3</td>
<td>-13.597</td>
<td>3.999</td>
<td>-3.400</td>
<td>.001</td>
<td>-.742</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Earnings Management

Based on the calculation results in the table above, the results of the multiple linear regression equation are obtained as follows:

\[ Y = 5.305 - 14.243X_1 - 13.597X_2 \]

The value of the regression coefficient on the independent variables illustrates that if the independent variable is estimated to increase by one unit and the value of the other independent variables is estimated to be constant or equal to zero, then the value of the dependent variable is expected to increase or decrease according to the sign of the regression coefficient of the independent variable.

The sign of the regression coefficient of the independent variable shows the direction of the relationship between the variable concerned and Earnings Management. The regression coefficient for the independent variable \(X_1\) is negative, indicating that there is a unidirectional relationship between Gross NPL \((X_1)\) and Profit Management \((Y)\). The regression coefficient for variable \(X_1\) is \(-14.243\) which means that if Gross NPL will cause Profit Management \((Y)\) to decrease and vice versa.

The regression coefficient for the independent variable \(X_2\) is negative, indicating that there is a unidirectional relationship between the Net NPL Ratio \((X_2)\) and Earnings Management \((Y)\). The regression coefficient for the variable

Hypothesis Testing

Partial Hypothesis Testing

Table 9 of Gross NPL Hypothesis Testing on Profit Management

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Correlations Zero-order</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1</td>
<td>5.305</td>
<td>2.785</td>
<td>1.905</td>
<td>.061</td>
<td></td>
</tr>
<tr>
<td>NPL Bruto</td>
<td>2</td>
<td>-14.243</td>
<td>2.485</td>
<td>-5.733</td>
<td>.000</td>
<td>-.798</td>
</tr>
<tr>
<td>NPL Netto</td>
<td>3</td>
<td>-13.597</td>
<td>3.999</td>
<td>-3.400</td>
<td>.001</td>
<td>-.742</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Earnings Management

Based on the table above, it can be seen that the direction of the relationship between Gross NPL and Profit Management is negative (Gross NPL coefficient value in column B), it says \(-14.243\), meaning that when there is an increase in Gross NPL it will decrease Earnings Management.
**Hypothesis 1:**

H0: $\beta_1=0$: There is no significant influence of Gross NPL on Earnings Management  
H1: $\beta_1\neq 0$: There is a significant influence of Gross NPL on Earnings Management

**Gross NPL T Test on Earnings Management**

Based on the conditions stated previously, the t-count is -5.733 and the degrees of freedom $(n-k-1)$ or $80-2-1 = 77$, the t-table number is -1.991 so that $t$-count < $t$-table. This means that H0 is rejected and H1 is accepted, so there is a significant influence between Gross NPL on Earnings Management.

**Effect of Net NPL on Profit Management**

Analysis of the influence of the Net NPL variable ($X_2$) on Profit Management ($Y$) obtained results based on calculation results with SPSS software as follows:

**Table 10 Net NPL Hypothesis T Test on Earnings Management Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Correlations Zero-order</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>5.305</td>
<td>2.785</td>
<td>1.905</td>
<td>.061</td>
<td>.798</td>
</tr>
<tr>
<td>NPL Netto</td>
<td>-14.243</td>
<td>2.485</td>
<td>-5.733</td>
<td>.000</td>
<td>-.798</td>
</tr>
<tr>
<td>NPL Netto</td>
<td>-13.597</td>
<td>3.999</td>
<td>-3.400</td>
<td>.001</td>
<td>-.742</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Earnings Management

Based on the table above, it can be seen that the direction of the relationship between Net NPL and Profit Management is negative (Net NPL coefficient value in column B), it says -13.597, meaning that when there is an increase in Net NPL it will decrease Earnings Management.

**Hypothesis 2:**

H0: $\beta_2=0$: There is no significant influence of Net NPL on Earnings Management  
H1: $\beta_2\neq 0$: There is a significant influence of Net NPL on Earnings Management
Net NPL T Test on Earnings Management
Based on the conditions stated previously, the t-count is -3.400 and degrees of freedom (n-k-1) or 80-2-1 = 77, the t-table number is -1.991 so t-count < -table. This means that H0 is rejected and H1 is accepted, so there is a significant influence between Net NPL on Earnings Management.

Simultaneous Hypothesis Testing
Simultaneous testing was carried out to prove whether together Gross NPL and Net NPL had a significant effect on Earnings Management.

Hypothesis 4
H04: There is no influence of Gross NPL and Net NPL on Earnings Management.
Ha4: There is an influence of Gross NPL and Net NPL on Earnings Management.

Table 11 Simultaneous Hypothesis Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regressi</td>
<td>74167.259</td>
<td>2</td>
<td>37083.630</td>
<td>83.611</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>34151.420</td>
<td>77</td>
<td>443.525</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>108318.679</td>
<td>79</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Earnings Management
b. Predictors: (Constant), NPL Netto, NPL Bruto

With a value of [] = 5%; df1=k=2; df2=n-k-1=80-2-1=77 obtained an F table value of 3.115. Based on the results of the Fcount calculation, it is obtained that it is 83.611 with an Ftable value of 3.115. The test criteria are, "reject Ho if Fcount > Ftable". Because the test results obtained a value of Fcount = 83.661 > Ftable = 3.115, then at α = 5% it was decided to reject H04 so that Ha4 was accepted. So based on the test results it can be concluded that Gross NPL and Net NPL have a significant effect on Earnings Management.

Coefficient of Determination
Coefficient of determination analysis is used to calculate the total influence of Gross NPL and Net NPL on Earnings Management.

Table 12 Coefficient of Determination

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.827a</td>
<td>.685</td>
<td>.677</td>
<td>21.06003</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), NPL Netto, NPL Bruto
Source: SPSS Data Processing Results, 2023

Based on the table above, it can be seen that the correlation coefficient (R) value is 0.827, then the determination coefficient (R2) value is 0.685. This means that there is an influence between Gross NPL and Net NPL on Profit Management of 68.5% while the remaining 31.5% is
influenced by other variables that researchers did not involve in this research. In other words, Credit Risk is able to explain Profit Management by 68.5%.

Based on the description above, a hypothesis test conclusion can be made which is described as follows:
1. H1: The first hypothesis can be accepted because there is a significant influence of Gross NPL on Earnings Management.
2. H2: The second hypothesis is rejected because there is no significant influence of Net NPL on Earnings Management.
3. H4: The fourth hypothesis is accepted because there is a significant influence between Gross NPL and Net NPL on Earnings Management.

DISCUSSION

Based on the results of hypothesis testing, the significance value of the simultaneous regression model was obtained at 0.000. This value is smaller than 0.05, namely 0.000<0.05. This research shows that simultaneously the independent variables, namely gross Non-Performing Loans (NPL) and net Non-Performing Loans (NPL) have a significant effect on the dependent variable, namely Profit Management. In other words, if a bank has a high Non-Performing Loan (NPL) value, the bank will also carry out earnings management practices. Vice versa, if the Non-Performing Loan (NPL) value of a bank is small, the smaller the company will carry out earnings management practices as stated in the first discussion. This is in line with agency theory, the theory says that agency conflict occurs when managers act for their own benefit rather than optimizing firm value from the shareholder’s point of view (Fajriati, Wahyuni, and Rosdini 2023).

In research conducted by (Kibtiah and Reni Cusyana 2020) where NPLs influence earnings management positively because NPLs cause banks to experience losses. The interest income that should be received and become the bank’s profit, is not able to be given by the customer. If the NPL is high, the company will tend to carry out earnings management, namely by increasing profits in order to build public trust again.

In research conducted by (Karmilah and Prastyani 2020) using agency theory. This theory is still relevant because it explains that NPL has a small value which means it is good because if NPL is high it will increase costs which will make company profits fall which will cause public confidence to decrease.

CONCLUSION

Based on the results of research and discussions that have been carried out previously, it can be concluded that: (1) Gross NPL has a negative and significant effect on Profit Management. In other words, when there is an increase in credit risk in terms of gross NPL, earnings management will decrease and the opposite will happen; (2) Net NPL has a negative and significant effect on Profit Management. In other words, when there is an increase in credit risk in terms of Net NPL, earnings management will decrease and the opposite will happen; (3) Credit risk has a significant effect on Earnings Management. In other words, when there is an increase in credit risk, earnings management will decrease and the opposite will happen.

SUGGESTION

For future researchers, they can complement the shortcomings of the results of this research with similar research and objects by adding other independent variables which are considered to have an influence on earnings management. And the limitations of this research only focus on banking companies listed on the Indonesia Stock Exchange in 2019 - 2022.
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