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Factors Affecting Profit Quality in Post Pandemic Era

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Abstract.
Coronavirus events that attacked the whole world, especially in Indonesia, has a huge impact on economic and business life. Large companies with good reputation and great profit in the community are favourite places to invest because investors have a certain degree of confidence to get the profits. However, during the Covid-19 outbreak, this made the situation uncertain due to the fall of the global economy. Guarantees about companies being honest about results no longer refer to company size or reported profits. Therefore, the authors describe the problems related to the factors that affect each company's earnings quality. This study aims to analyze how the quality of profits are influenced from the implementation of corporate governance and dividend payment. The method applied in this study uses an analysis of social research documentation with the aim of finding a suitable theory and reviewing empirical results on the factors that affect the quality of earnings after the pandemic. The results from various empirical results showed that there is still little research on the ability of factors affecting profit quality in post pandemic area to conduct research on companies from industries that are validated on the Indonesian stock exchange. The results of the study can be expected to contribute to further research and facilitate the government to approach the development of banking industry sector to encourage the economy.This study is important to determine as a result of the implementation of corporate governance related to the effects of mitigation in the pandemic era. In addition, this study is expected to provide further guidelines, especially for national private companies and improve the quality of earnings post Covid-19 pandemic.

Keywords: profit quality, good corporate governance, dividend payment, banking industry sector, post Covid-19 pandemic

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1. Introduction

The bank as a financial institution is a body that functions as a financial intermediary from two parties, namely the party that is overfunded and the party that is underfunded [1]. Banks have a very important role in society, such as providing credit services, payment traffic services, and money storage. The bank is a business partner of the provider of funds and services for the smooth payment of money. Therefore, it is no wonder that banking sector companies are one of the favourite places to invest by investors [2].

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Investors in making investments in a company tend to relies on large and well-reputed companies. In fact, the size and reputation of the company is used as a standard in measuring the good or bad performance of a company [3]. However, the real situation does not necessarily describe what investors want. The guarantee that the company maintains the quality of its earnings by not changing the results of the financial statements is not always related to the company's reputation. The guarantee that the company maintains the quality of its earnings by not changing the results of the financial statements is not always related to the company's reputation. For example, the case of the financial statements of PT Garuda Indonesia (Persero) Tbk at the end of 2018, managed to record a significant performance. In fact, at the beginning of 2018 until Quarter III the same year, the company experienced financial difficulties. PT Garuda Indonesia posted a profit of USD 809,000 or the equivalent of Rp. 11.56 billion and jumped sharply with the 2017 financial statements, and the company suffered a loss of USD 216.5 million or the equivalent of Rp. 3,031 trillion. Garuda Indonesia incorporates the benefits of PT Mahata Aero Technology which owes debt to the red-plated airline. PT Mahata Aero Teknologi itself has debts related to the installation of wifi that have not been paid, and there are still many similar cases that have occurred related to the Financial Statements [4].

The incident of the corona virus attack that targeted the whole world, especially in Indonesia, over time has had far-reaching consequences for people's economic life [5]. The outbreak requires companies to find solutions and think hard about how to maintain the company's sustainability. In 2020, some companies experienced significant losses, as seen from their company's financial statements. Meanwhile, the performance of company leaders is expected to provide good results. To achieve good targets, some companies tried to fabricate financial statements. Financial statement is one of the company's tools to communicate with the investors regarding financial data information, operational activities, and others.

Obtaining high profits that can be used to improve the standard of living for shareholders is the main goal of a company that has a business orientation. Good accounting profits can be used for decision making for potential investors and creditors [6].

According to Susanti et al. [7], earning quality is an assessment of profits earned by the company on an ongoing basis so as to reflect the actual state of the company's finances. Earning quality is also an indicator of whether the profit earned by the company is the same as the previous plan.

According to Sukrisno [8], The definition of Good Corporate Governance is the arrangement of management in the form of a system with the aim of regulating the relationship between the Board of Commissioners, the role of the Board of Directors, shareholders and other stakeholders. Good corporate governance is also referred to as a transparent process of determining company goals, achieving them, and assessing their performance."

Lestari et al. [9] Examining that, the relationship between positive and significant influence is shown from the quality of returns on institutional ownership. This means that institutional supervision can supervise management not to manipulate earnings. The most effective way is to have an investor to monitor all management decisions and behaviors for the better.

According to Supomo and Amanah [10], the Audit Committee has a positive effect on the quality of earning. The results of this study are also in accordance with the research conducted by Aryengki and Satriawan [11]. The role of the Audit Committee influences earnings quality, this is stated because it significantly influences information for investors regarding earnings quality.

According to the results of Ni Wayan Novi Budiasni and Darma research [12], independent commissioners have a positive effect on profit quality, Research conducted by Situmorang [13] stated that the positive and significant influence described by the independent commissioner on earnings quality.

According to Soly and Wijaya research [14], dividend payments have a positive effect on earnings quality.

The authors chose the banking industry sector because of several things, including the fact that research conducted in the banking sector are not quite variable. In addition, banking sector companies provide adequate intellectual capital resources.

This study attempts to explore the theoretical model of the proposal on associated with institutional ownership mechanisms, audit committees, independent commissioners, and dividend payments determine whether or not it influences Good Corporate Governance. This study is important to determine the impact of Covid-19 pandemic, especially to explain the phenomenon in the earning quality in state-owned enterprises & private companies and encourage them all in sound practices in their business activities in Indonesia. This research is expected to provide further research guidelines and facilities to the government to encourage state-owned enterprises and private business actors to do good corporate governance post Covid-19 pandemic. The development of this model is the starting point for further discussion regarding beliefs that can be tested in empirical research and then discussed using related theoretical bases.

2. Literature Review

2.1. Agency theory

Agency theory is a profit management practices which are the influence between earnings management practices and conflicts of interest of management (agent) and owners (principal) so that there are times when each party competes to achieve and maintain the standard of living that is its goal [15] . According to Stolowy and Breton [16] explained that account manipulation is carried out solely on the basis of management's desire to influence investors' perception of the company risk. Risk can be divided into two components, namely: (1) the perception of investors who want; and (2) Risk associated with the company's financial structure measured by debt equity ratio. Thus, the goal of earning management itself is to lessen both risks. The higher the level of earning management shows the higher the risk of stock yields. Consequently, investors will raise the rate of equity capital cost.

2.2. Earning quality

According to Susanti et al. [7], earning quality is an assessment of profits earned by the company on an ongoing basis so as to reflect the actual state of the company's finances. Earning quality is also an indicator of whether the profit earned by the company is the same as the previous plan.

According to Helina and Permanasari [17], earning with good quality is an earning that is useful for decision making with its characteristics of relevance, reliability, comparability, or consistency. In this study, the earning quality will be measured by earning management, just as it was done in a study by Utami [18], where earning management is projected using the formula:

$$Earning\ Management\ (EM) = \frac{Working\ Capital\ Accrual\ (t)}{Sales\ for\ the\ period\ (t)} (1)$$

$$Working\ Capital\ Accrual = \ AL - HL - Cash (2)$$

Notes:

ΔAL = Change in current assets at the end of the period t

ΔHL = Change in current payables at the end of the period t

ΔCash = Change in cash and cash equivalents at the end of the period t

2.3. Good corporate governance

According to Brooks, in Mareta and Anggraini [19], "...*corporate governance is an area that deals with how a company conducts its business and implements controls to ensure proper procedures and ethical behavior*."

Whereas, according to Sukrisno [8], Good Corporate Governance can be defined as follows: "Governance as a system that regulates the relationship between the role of the Board of Commissioners, the role of the Board of Directors, shareholders and other stakeholders. Good corporate governance is also referred to as a transparent process of determining company goals, achieving them, and assessing their performance."

In this study, the mechanism of Good Corporate Governance used is as follows;

1. Institutional ownership

Institutional ownership is measured by the ratio scale through the number of shares held by institutional investors compared to the total shares of the company. There are also formulas used to measure the institutional ownership variable:

$$INST = \frac{Number\ of\ shares\ ownership\ by\ institutional}{All\ the\ share\ capital\ of\ company}(3)$$

1. Audit committee

According to Kurniasih [20], the Audit Committee is measured using the Dummy variable, which is 1 if there is an audit committee and 0 if there is no audit committee, and the audit committee consists of at least 3 people.

1. Independent commissioner

The independent board of commissioners in Law Number 40 of 2007 concerning Limited Liability Companies is a party appointed based on the decision of the GMS from parties not affiliated with the main shareholders, members of the board of directors and / or other members of commissioners. There is also a formula used to measure the independent commissioner variable;

$$Komind = \frac{Independent\ Commissioner}{Total\ board\ of\ commissioner}(4)$$

2.4. Dividend payments

Dividend is the distribution of profits to shareholders both in the form of cash distribution and shares [21]. According to Lawrence and Zutter [22], "Dividend per Share (DPS) is the dollar amount of cash distributed during the period on behalf of each outstanding share of common stock.”

DPS is a constituent advantage of shares that will be distributed to investors by companies in which investors invest their capital. The distribution is in accordance with the presentation of the capital invested in the company. The formula used to measure dividend payments is as follows:

$$Cash\ dividen\ per\ share = \frac{Cash\ dividen}{Total\ of\ shares\ outstanding} (5)$$

3. Method

The research was conducted using a social documentation analysis method approach. In analyzing it, this study uses a combination of interview methods and also content analysis. This study aims to gain knowledge on the interrelationships between factors affecting earnings quality after the pandemic so that aspects of financial performance can be determined. This model became the starting point for further discussion to develop a convincing model that could be further tested at the empirical research stage in Figure 1, followed by a discussion of the theoretical review that built it.

4. Discussion

4.1. The influence of good corporate governance on earning quality

4.1.1. Institutional ownership

Based on the research of Lestari et al. [9], the results of their research indicated that institutional ownership has a positive and significant effect on the earning quality. This means that institutional supervision can supervise management not to manipulate earnings. The existence of institutional investors is a powerful way to monitor all management decisions and behaviors for the better.

These results are in line with the research conducted by Budianto and Samrotun [23], but in contrast to the results of research conducted by Ni Wayan Novi Budiasni and Darma [12], institutional ownership has no effect on the quality of profits due to the lack of effective supervision of institutional companies. Surely there is a loophole for management to carry out earnings manipulation.

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4.1.2. Audit committee

According to Supomo and Amanah [10], the Audit Committee has a positive effect on the quality of earning. The results of this study are also in accordance with the research conducted by Aryengki and Satriawan [11]. The audit committee has a role on the quality of earnings, because it can affect the company's earning quality, which is the information needed by investors. In contrast to the results obtained by Wahyudianti et al. [4], namely that the Audit Committee mechanism has not been able to reduce the profit manipulation actions carried out by the management, this happens because there is still a weak practice of Good Corporate Governance in the company, or it can be said that the role of the Audit Committee is still not running optimally.

4.1.3. Independent commissioner

According to the results of Ni Wayan Novi Budiasni and Darma research [12], independent commissioners have a positive effect on profit quality, similar to the research conducted by Situmorang [13]. One of the characteristics related to earnings information is the composition of the board of commissioners, because the board of commissioners has the role of carrying out supervisory functions so that the reports produced by the management become quality. In contrast to the research conducted by Farida and Kusumumaningtyas [24], namely that the board of independent commissioners has no significant influence on the quality of earnings, this is due to the appointment of a board of independent commissioners only to fulfil regulatory requirements, resulting in independent commissioners not doing / performing their functions to the fullest.

4.1.4. Dividend payments

With the increase in dividend payments, this will decrease discretionary acruals, so that the earning shown is the earning that reflects the actual situation. In addition, the existence of dividend payments is a positive signal for investors or prospective investors that the company can maintain stability in the coming period, in accordance with research conducted by Fitriani that dividend payments, the increase in the amount of dividends, and the persistence of dividends have a positive effect.

4.1.5. Theoretical concepts

This theoretical concept examines that this study analyzes the effect of Good Corporate Governance and Dividend Payment on Profit Quality as shown in Figure 1 below:

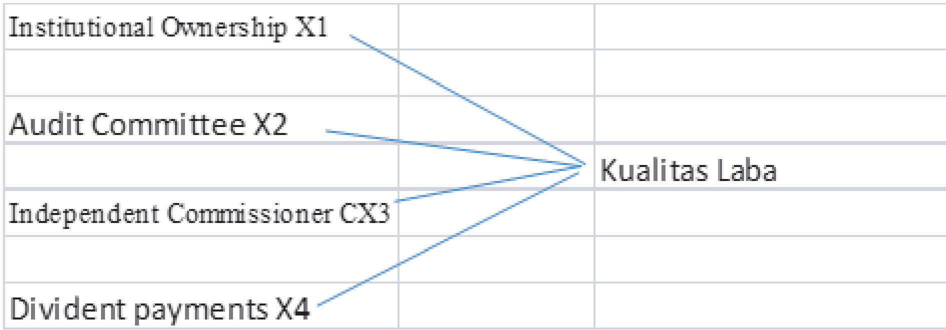

Figure 1: Thinking Framework.

5. Conclusion

The concept of this theoretical model will be empirically tested using econometric views (eviews) using the type of secondary data obtained from each audited financial statement recorded on the Indonesia Stock Exchange during the observation year.

This research will facilitate the government in taking an approach to the development of banking industry sector companies in driving the economy. In addition, investors can make this research as a material for consideration and source of information in decision making before investing in public companies. As for the company, it can be used as a consideration for management in developing and implementing good corporate governance provisions and scheduling the distribution of dividends so as to produce a good quality financial statement.

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