

***RECIPROCAL IMPACT BETWEEN FINANCIAL DISTRESS AND
EARNING MANAGEMENT
EMPIRICAL EVIDENCE FROM ASEAN COUNTRIES COMPANIES***

By Ayu Sheila Soraya

ABSTRACT

This study examines the reciprocal relationship between financial distress and earning management among public listed companies in six ASEAN countries Indonesia, Malaysia, Singapore, Thailand, Vietnam, and the Philippines from 2019 to 2022. The findings reveal no significant effect of earning management on financial distress, as ASEAN companies prioritize operational stability and financial restructuring over manipulation practices. Similarly, financial distress does not significantly impact earning management, which is primarily driven by profit-based bonus incentives. Leverage significantly affects financial distress, with higher leverage increasing financial risks due to elevated interest obligations. However, leverage does not significantly influence earning management, as moderate debt levels reduce creditor pressure. Profitability shows a significant negative relationship with financial distress, as higher profitability strengthens liquidity and reduces reliance on debt. Conversely, profitability positively influences earning management, driven by income-smoothing strategies tied to performance-based incentives. Country level analysis shows Malaysia, Singapore, and Vietnam face higher financial distress levels than Indonesia due to low operating cash flow, reduced liquidity, and high leverage. The Philippines demonstrates lower financial distress due to stable profitability, while Thailand benefits from robust profitability and cash reserves. Earning management is higher in Malaysia, the Philippines, Thailand, and Vietnam, driven by incentives, but Singapore's strict regulatory framework limits manipulation.

Keywords :Financial distress, Earning management, Leverage, Profitability, Firm size, ASEAN, Non-financial companies, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam

***RECIPROCAL IMPACT BETWEEN FINANCIAL DISTRESS AND
EARNING MANAGEMENT
EMPIRICAL EVIDENCE FROM ASEAN COUNTRIES COMPANIES***

Oleh Ayu Sheila Soraya

ABSTRAK

Penelitian ini mengkaji hubungan timbal balik antara *financial distress* dan *earning management* perusahaan terdaftar di enam negara ASEAN Indonesia, Malaysia, Singapore, Thailand, Vietnam, dan Philippines periode 2019 hingga 2022. Hasil penelitian menunjukkan bahwa *earning management* tidak berpengaruh signifikan terhadap *financial distress*, perusahaan ASEAN lebih memprioritaskan stabilitas operasional dan restrukturisasi keuangan daripada manipulasi laporan keuangan. Sebaliknya, *financial distress* juga tidak memengaruhi *earning management*, yang lebih dipengaruhi oleh insentif bonus berbasis laba. *Leverage* memiliki pengaruh signifikan terhadap *financial distress*, *leverage* yang lebih tinggi meningkatkan risiko keuangan akibat kewajiban bunga yang besar, *leverage* tidak signifikan terhadap *earning management* karena tingkat utang moderat di ASEAN mengurangi tekanan kreditur. Profitabilitas memiliki hubungan negatif signifikan dengan *financial distress*, profitabilitas tinggi memperkuat likuiditas dan mengurangi ketergantungan pada utang, profitabilitas berpengaruh positif terhadap *earning management* karena strategi *income smoothing* untuk memenuhi target insentif. Analisis per negara menunjukkan Malaysia, Singapore, dan Vietnam memiliki tingkat *financial distress* lebih tinggi dibandingkan Indonesia akibat rendahnya *operating cash flow*, likuiditas terbatas, dan *leverage* tinggi. Philippines menunjukkan tingkat *financial distress* lebih rendah karena profitabilitas stabil, sementara Thailand mendapat keuntungan dari profitabilitas tinggi dan cadangan kas memadai. Praktik *earning management* lebih tinggi di Malaysia, Philippines, Thailand, dan Vietnam, tetapi regulasi ketat di Singapore membatasi manipulasi tersebut.

Keywords : *Financial distress, Earning management, Leverage, Profitability, Firm size, ASEAN, Non-financial companies, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam*