2022
Vol.26 No.2

POLISH JOURNAL OF MANAGEMENT STUDIES
Fuad, Jatmiko A.

EARNINGS MANAGEMENT AND POST-MERGERS AND ACQUISITIONS' PERFORMANCE: EVIDENCE FROM AN EMERGING MARKET

Fuad, Jatmiko A.*

Abstract: The main objective of this study is to determine whether acquiring firms decision to manage their earnings is related to post-acquisition performance. Particularly, the authors examine whether real earnings management through sales accrual management, sales manipulation, over production and discretionary expenditures affect firms' ability to earn higher financial performance after mergers and acquisitions. The researchers collected 259 firm-year observations of financial data from 2006 to 2017 amid Mergers and Acquisitions deals in Indonesia. The results indicate that acquiring company's decision to manage its earnings through accrual management has a significant positive impact on firm's subsequent post-acquisition performance. On the other hand, real earnings management through overproduction activities also significantly increases firms' post-mergers and acquisition performance. However, the study reveals that real earnings management activities through discretionary expenditures and sales manipulation do not yield higher post-acquisition performance. This study's novelty lies in how financial accounting gimmicks prior to corporate strategy implementation (mergers and acquisitions) may yield higher (or lower) economic performance. The current research also provides some potential avenues for further investigations.

Keywords: Mergers and Acquisitions, Firm's Performance, Accrual Management, Real Earnings Management, Indonesia

DOI: 10.17512/pjms.2022.26.2.08

Article history:
Received September 13, 2022; *Revised* September 28, 2022*; Accepted* October 23, 2022

Introduction

Research on mergers and acquisitions has progressed rapidly. However, the research was fragmented and based on the different phases of mergers and acquisitions, making the deduction of the findings difficult (King et al., 2019). The present research focuses on how the accounting gimmicks channeled by earnings management practices positively affect post-mergers and acquisitions' performance. Indeed, if correctly executed, mergers and acquisitions could create value, and synergy can be created (Gupta et al., 2021). However, it could also backfire because mergers and acquisitions carry high uncertainty and risk (Tang et al., 2021; Bratianu and Anagnoste, 2011; Vu and Moisescu, 2013), that as a consequence, investors

* **Fuad**, Ph.D., Department of Accounting, Faculty of Economics and Business, Universitas Diponegoro; ✉ corresponding author: fuad@lecturer.undip.ac.id,
ORCID: 0000-0002-3883-724X
Adinda Jatmiko, SE., Ernst & Young, Indonesia; ✉ e-mail: adindadjatmiko18@gmail.com

require higher returns to compensate for the risk (Sheikh et al. (2015). For example, Nguyen et al. (2021) found that banks liquidity of Vietnamese commercial banks decreases after mergers and acquisitions occur. This would be more prevalent if there were no proper due diligence. Take Adidas, for example; they acquired Reebok in 2005, which they later agreed to since they were facing tough competition from other sportswear brands such as Nike or Puma. After the acquisition, the market share of Reebok in the US leapt significantly, from 8.9% to 21%. Adidas could create and maximize its value with this Reebok-Adidas acquisition. However, there are also instances where the acquiring companies did not get a satisfying result; HP-Autonomy case, for example, since HP's due diligence, or lack thereof, was unable to detect the faulty assessment, they wrote down almost $9 Billion loss. Many acquisition phenomena lead us to believe that this is not a minuscule case and needs further studies.

Many reasons prompted the acquisition. The most obvious reason a manager would want to acquire or takeover a company is to grow their company through inorganic means; rather than emphasizing process maturity that systematically encourages improvement (Pypłacz, 2022). Conversely, this pattern is more prevalent in innovative acquisitions only. However, it seems to be a latent dysfunction of this predicament. Although it is not the manifest function of acquisition, it doesn't mean that acquisitions aren't without risks (Tang et al. 2021). In fact, acquisition often fails to garner its stipulated objectives instead of creating value for the firms (Hossain, 2021). Personal motives from the managers played a part in this process, both acquirer's manager and target's manager. Shleifer and Vishny (2003), in their study, stated that severance pay and stock options are the compromises that the acquirer's manager agreed upon to buy their agreements. The manager of the acquiring firm must want to show a good performance, hence why earnings management tends to be associated with the acquisition. With that being said, not every act of EM is of malicious intent. Earnings management is said to be effective at controlling acquirer's performance had it been done correctly (Zhang, 2017).

The frequency and volume of Indonesian acquisitions fluctuated over the past decade, which means that acquisition remains a relevant case in the Indonesian current setting and needs to be studied further. This notion is strengthened by Indonesia's current position as one of the three ASEAN countries to be the core of MandA and intra-ASEAN expansion; this further indicates that Indonesian markets are not to be overlooked. With that being said, Indonesia still ranks quite low in World Bank's Ease of Doing Business, standing at 73rd place among 190 economies in 2018. Another thing worth mentioning is that Indonesia's corporate governance score, although increased in the last few years, is prompted solely by 5 major contributors, implying that without those 5 firms, Indonesia's current score wouldn't be as high as it is now. The lack of good corporate governance could be caused by many things; however, the one the writer is particularly invested in is the possibility of EM making an acquisition.

Acquisition, a huge corporate event, should pass several tests of due diligence on the shareholders' part. Since managers, as agents, have more information than the shareholders, they are more prone to be exposed to countless opportunities to benefit themselves. As previously mentioned, managers would definitely want to showcase their ability to run a company, hence why some of them did the unmentionables to show a good performance. Regardless of earnings manipulation itself resides in a grey area, whether or not it should be done, it is agreeable that even the slightest manipulation of earnings does not represent the actual amount.

However, this study ignores the morality of EM and focuses on its effect on a firm’s post-acquisition performance. To illustrate it simply, companies could be faced with acquisition topics countless times; however, a manager could only acquire so much in his lifetime since the position of a manager is temporary, hence why if a company happens to experience a successful acquisition under one manager’s term, his reputation will skyrocket, especially since acquisitions are quite prone to failures. With that logic, managers might use EM as a method to generate a positive return which will then benefit the managers, and if they were entrusted with such a manner, they would have more liberty to engage in big moves such as an acquisition. Since acquisition is known for its failure rates, EM might be used to prolong the effect of gaining a positive return even after the acquisition.

Literature Review

According to Healy and Wahlen (1999), accrual-based earnings management is the practice of manager’s judgement in reporting financial information in order to manipulate a firm’s earnings. While accrual itself could be a parameter of firm’s real performance, it could also be a tool for managers to manage their earnings.

Manager’s behavior in terms of engaging in accrual management practices is predicted by the agency theory. In agency theory, the segregation of roles between the owners and managers is expected to inflict potential conflicts between them. Since information acts as a way to lessen uncertainties, managers are more at an advantage since they have more information than the owners. This drawback can be misused by the managers for their gain. Since acquisition is one of the big corporate events, managers might be engaging in accrual management practice to generate a positive return, thus satisfying shareholder’s previously stipulated target. This will then be used as a justification for manager’s decision to engage in MandA, and to prolong the effect, managers might continue to manage their accruals. This is supported by Zhang (2017), stating that the occasional use of EM will generate a positive return.

Studies regarding EM and company’s subsequent performance mostly resulted in different conclusions. The previous study, for example, found that the use of AM will inflict a reversal return in the next period following the year of the event (Francoeur, 2012). Fuad et al. (2019) also stated that earnings management is part of opportunistic managerial behavior to attain self-interests. However, a study conducted by Alphonse and Zhang (2016) found that acquiring companies engaging in EM generated a positive return for the following years. This study uses the same logic that EM is used to generate a positive return and to prolong that effect, especially since the financial market neglects firms' pre-acquisition EM behaviors and appreciates a firm's future growth to its current performance and that pre-acquisition management no longer matters (Alphonse and Zhang, 2016). Therefore, the hypothesis is stated as follows:

H1. Accrual management taken by acquiring firms positively affects their post-acquisition performance.

The Effect of Sales Manipulation on Post-Acquisition Performance

Agency theory also explains how information asymmetry may induce managers to engage in earnings management through sales manipulation. Managers are also more inclined towards real earnings management through sales manipulation because of Sarbanes-Oxley Act in 2002. The public is more likely to identify and scrutinize the former method, accrual management (Mellado-cid, et al., 2017). Sales manipulation is more prevalent when salespersons are rewarded based on their direct contributions to firms' revenues through commission on sales (Todd et al. 2013). The presence of such systems may pile up and encourage manipulative behavior by manipulating sales forecasts that would lead to excessive inventory.

Manipulating sales could be as simple as offering more discounts to meet a certain pre-determined target. Essentially by doing that, firm can accelerate sales from the next period into the current period. While there is no extensive research on REM and its effects on acquiring firm's post-acquisition performance aside from a study conducted by Alphonse and Zhang (2016) and Zhang (2017), where the latter mainly explains the preferred method of EM in acquiring firms rather than its relation to the subsequent post-acquisition performance, the concept is pretty much similar with the hypothesis formulation for the accrual management. Occasionally managing earnings upward through sales manipulation is found to be beneficial to enhance a firm's future performance. Based on using this logic, it is conjectured that:

$H_{2.}$ Acquiring companies' decisions to manage their earnings through sales manipulation will result in better post-acquisition performance.

The Effect of Abnormal Discretionary Expenditures on Post-Acquisition Performance

In order to finalize an acquisition proposition, the managers will need to have a good resume by presenting a desirable outcome, thus convincing the principals to entrust the managers' assessment and eventually agree to the acquisition proposition. To help generate a positive return and prolong that effect, managers use REM prior and after an acquisition, in this case, by altering their discretionary expenditures. The methods may include reducing or delaying research and development expenses, moving the shipment schedule to later period or simply reducing the advertising and other overhead expenses(Abbas and Ayyub 2019, Dechow et al. 2010).

It is conjectured that acquiring firms may be more preemptive to engage in real earnings management practices through discretionary expenses with the belief that the firms' value can be increased. Stock and stock acquisitions would also be considered more beneficial when the stocks of acquiring firms are overvalued, although they may hurt the target firms in the long run (Akbulut, 2013). Therefore, it is hypothesized that:

$H_{3.}$ Acquiring companies' decisions to manage their earnings through a reduction of discretionary expenditure will result in better post-acquisition performance.

The Effect of Abnormal Production Cost on Post-Acquisition Performance

The authors also explain the hypothesis by predicting that in order to manage earnings upwards, firms would typically overproduce their goods. The higher the production level, the lower the fixed cost per unit since it is spread over a larger number of units, that is, if the marginal cost for each unit doesn't also increase, thus offsetting the effect. The implication is that the reported cost of goods sold is lower for companies that manage their earnings upwards, indicating better-operating margins (Roychowdhury, 2006). Therefore,

$H_{4.}$ Acquiring companies' decisions to manage their earnings through overproduction will result in better post-acquisition performance.

Research Methodology

The dependent variable in this research is the acquiring firm's post-acquisition performance. Firm's performance can be measured using several methods; however, this research uses abnormal ROA to determine whether or not the firm generates a positive return. Abnormal ROA is used instead of normal ROA since it captures the normal (expected) level of ROA and thus can see the deviation from the normal level. Abnormal ROA is measured by regressing the current ROA to ROA from the previous year, and the residual is the abnormal ROA.

Since it is needed to see the effect EM has on firm's performance after the acquisition announcement, there is a need to use an interacting variable to capture the effect EM has specifically on acquiring firm's performance following the acquisition. This is measured by using a dummy variable. Years before the acquisition (-3,-2,-1) are indicated by the number '0', while years after the acquisition (0,1,2,3) are indicated by the number '1'. This dummy will then be multiplied by the independent variables to see the effect. The researchers consider the result of the independent variables on the dependent variable only when it has been interacted by the acquisition.

This study uses four independent variables. Independent variables used as follows:

1. Accrual Management

   Accrual management is the practice of manager's judgement in reporting financial information in order to manipulate firm's earnings (Healy and Wahlen, 1999). The writer uses the modified Jones model to estimate the total accruals. First, to find the total accruals, cash flows must be subtracted from operation from the company's net income. Afterwards, a simple regression must be done to determine the discretionary accruals. The regression formula is as follows:

   $$\frac{Total\ Accruals}{TAs} = \alpha + \beta 1\left(\frac{1}{TAs}\right) + \beta 2\left(\frac{\Delta RVN - \Delta ARV}{TAs}\right) + \beta 3\left(\frac{GrPPE}{TAs}\right) + \varepsilon \quad \text{...........} \quad (1)$$

After finishing the regression, the result is transferred to the following NDA formula:

$$\text{NDA} = \alpha + \beta 1\left(\frac{1}{\text{TAs}}\right) + \beta 2\left(\frac{\Delta RVN - \Delta ARV}{TA_s}\right) + \beta 3\left(\frac{G_r PPE}{TAs}\right) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(2)}$$

Lastly, the NDA is subtracted from the total accruals in order to find the discretionary accruals.

2. Sales Manipulation

The proxy for sales manipulation is abnormal cash flow. Abnormal cash flow is the deviation of cash flow from its 'normal' level. To determine the abnormal flow of cash, a simple regression is conducted with the formula as followings:

$$\frac{CFO}{TA_{t-1}} = \beta 0 + \beta 1 * \left(\frac{1}{Assets_{\text{ it}-1}}\right) + \beta 2\frac{Sales_t}{TA_{t-1}} + \beta 3\frac{\Delta Sales_t}{TA_{t-1}} + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots \text{(3)}$$

The abnormal CFO is simply the difference between the actual CFO and the normal level of CFO. Negative abnormal CFO should emerge if the firm is engaging in REM.

3. Abnormal Discretionary Expenditures

The discretionary expenditure is defined as the accumulation of RandD expenses and SGandA expenses. Hence, that is the first step to calculating abnormal discretionary expenditures. The next step requires a simple regression with the following formula:

$$\frac{Disexp}{TA_{t-1}} = \alpha + \beta 1 * \left(\frac{1}{TA_{t-1}}\right) + \beta 2 * \frac{Sales_{t-1}}{TA_{t-1}} + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(4)}$$

The abnormal discretionary expenditure is the difference between the actual discretionary expenditure and its normal level. Negative abnormal discretionary expenditure should emerge if the firm is engaging in REM.

4. Abnormal Production Cost

Abnormal production cost is the proper proxy to determine overproduction. The first step is to determine the production cost, which essentially is just the Cost of Goods Sold added to the changes in inventories. After obtaining the result, a simple regression is done as follows:

$$\frac{Prod}{TA_{t-1}} = \alpha + \beta 1 * \left(\frac{1}{TA_{t-1}}\right) + \beta 2 * \left(\frac{Sales_{t-1}}{TA_{t-1}}\right) + \beta 3 * \left(\frac{\Delta Sales_{t-1}}{TA_{t-1}}\right) + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(5)}$$

The abnormal production cost is the difference between the actual production cost and its normal level. A positive coefficient should emerge if a company is engaging in REM.

Population and Sample

The population in this study were Indonesian public companies that are engaging in the acquisition and completed said deals from 2009-2014 and must contain information regarding the Cost of Goods Sold. The sample was selected using a purposive sampling technique with criteria determined based on the needs of researchers. Each acquisition deal is studied using the acquisition window of years -3,-2,-1,0,1,2,3, totalling 7 years of observation.

Analyses

The hypothesis in this study is the effect of accrual management (DACxMA), sales manipulation (AbCFOxMA), abnormal discretionary expenditures (DisxpxMA), and abnormal production cost (ProdxMA), which all have interacted with the acquisition, on the firm's post-acquisition performance (AbROA), in addition, there are control variables such as firm size (Size), debt to equity ratio (DER), and cash level (Cash Level). Panel regression analysis is the method being used in this research. Regression equations are separated into two different models since AM cannot be combined with REM. The first model can be formulated as follows:

$AbROA = \alpha + \beta 1 * DAC + \beta 2 * MA + \beta 3 * DACxMA + \beta 4 * size + \beta 5 * DER + \beta 6 * Cash\ Level + \varepsilon$The second model, the REM model can be formulated as follows:

$$AbROA = \alpha + \beta 1 * AbCFO + \beta 2 * AbDisXp + \beta 3 * AbProd + \beta 4 * MA + \beta 5 * (CFO * MA) + \beta 6 * (Disxp * MA) + \beta 7 * (Prod * MA) + \beta 8 * size + \beta 9 * DER + \beta 10 * Cash\ Level + \varepsilon$$

Research Result And Discussion

Sample selection

The financial data were collected from 2006 to 2017 amid mergers and acquisitions with 3 years window period. The study collected data up to 2017 to reduce potential market noises in 2018. Cable News Network (CNN) shows that 2018 was the worse for stocks in 10 years. Lehnert (2022) argues that price noises may affect the stock price, which could impair the validity of our findings. All data were extracted from Bloomberg terminals. The research sample selection process is described as follows:

Table 1. Research Object Description

No	Criteria	Number of companies
1.	Initial firm-year observations	6,258
2.	Deleted observations: purchase or company takeover	(3,220)
3.	Deleted observations: Publicly listed companies	(2,562)
4.	Deleted observations: Non-successive acquisitions	(91)
5.	Deleted observations: Non-financial companies that failed to produce the complete information	(126)
	Total Observations	259

Descriptive Statistic Analysis

The descriptive statistic defines research data from standard, maximum, and minimum deviations. The descriptive statistic result for each variable is shown below:

Table 2. Descriptive Statistics of Variables

	Obs	Minimum	Maximum	Mean	Std. Deviation
AbROA	259	-46.19	105.69	1.00E-15	11.05
DAC	259	-1.16	2.5	-5.13E-07	0.26
AbCFO	259	-1.78	1.12	-3.37E-07	0.23
AbDisXp	259	-0.69	0.95	-2.19E-08	0.13
AbProd	259	-2.06	3.26	2.72E-07	0.37
MA01	259	0	1	0,57	0.5
DACMA	259	-1.01	1.81	0.00	0.16
CFOMA	259	-1.29	0.82	-0.01	0.13
DisxMA	259	-0.23	0.95	0.00	0.09
ProdMA	259	-2.06	0.77	0.00	0.23
Size	259	16.91	26.19	22.67	1.62
Lev	259	-7.54	55.16	1.58	4.27
Cash Level	259	0	0.59	0.12	0.12

Note: AbROA is the abnormal ROA, DAC is the Discretionary accruals, AbCFO is the abnormal cash flow from operations, AbDisXp is the abnormal discretionary expenditures, AbProd is the Abnormal Production cost, MA01 is the dummy variable for the acquisition, DACMA is the DAC multiplied by MA01, CFOMA is the AbCFO multiplied by MA01, DisxMA is the AbDisXp multiplied by MA01, ProdMA is the AbProd multiplied by MA01, Size is the firm's size (natural log of total assets), Lev is the leverage which is proxied by Debt to Equity Ratio, and Cash Level is the total cash scaled by total assets.

Hypothesis Testing Results

The panel regression test is used to ensure that the independent variable can affect the dependent variable. A significant level of 5% is used in this research. This part generates two different results since the study uses two different models. The first model is for the accrual management model, where the AM itself is indicated by a variable called DAC and DACXMA for its effect after the acquisition. The second model is the REM model, which contains sales manipulation (ABCFO and CFOXMA after the acquisition), abnormal discretionary expenditures (ABDISEXP and DIESEXPXMA after the acquisition), and lastly, abnormal production cost (ABPRODIT and PRODITXMA after the acquisition). The results below are for the accrual model and REM model, respectively:

Table 3. Hypothesis Testing Result 1

Variable	Coef.	Std. Error	t-Statistic	Prob.
C	4.23	4.10	1.03	0.30
DAC	0.98	2.37	0.41	0.68
MA01	-0.40	0.44	-0.90	0.37
DACXMA	9.31	3.93	2.37	0.02
SIZE	-0.32	0.18	-1.75	0.08
LEVERAGE	-0.01	0.09	-0.08	0.94
CASH_LEVEL	22.95	2.30	10.00	0.00

Note: AbROA is the abnormal ROA, DAC is the Discretionary accruals, MA01 is the dummy variable for the acquisition, DACMA is the DAC multiplied by MA01, Size is the firm's size (natural log of total assets), Lev is the leverage which is proxied by Debt to Equity Ratio, and Cash Level is the total cash scaled by total assets.

Table 4. Hypothesis Testing Result 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.06	4.10	0.01	0.99
ABCFO	6.99	2.56	2.73	0.01
ABDISEXP	0.51	4.26	0.12	0.90
ABPRODIT	-5.46	2.28	-2.40	0.02
MA01	-10.64	5.43	-1.96	0.05
CFOXMA	1.30	4.24	0.31	0.76
DIESEXPXMA	9.89	5.45	1.81	0.07
PRODITXMA	5.97	2.79	2.14	0.03
SIZE	-0.05	0.18	-0.27	0.78
LEVERAGE	-0.11	0.05	-2.03	0.04
CASH_LEVEL	11.09	2.51	4.43	0.00

Note: AbROA is the abnormal ROA, AbCFO is the abnormal cash flow from operations, AbDisXp is the abnormal discretionary expenditures, AbProd is the Abnormal Production cost, MA01 is the dummy variable for the acquisition, CFOMA is the AbCFO multiplied by MA01, DisxMA is the AbDisXp multiplied by MA01, ProdMA is the AbProd multiplied by MA01, Size is the firm's size (natural log of total assets), Lev is the leverage which is proxied by Debt to Equity Ratio, and Cash Level is the total cash scaled by total assets.

The Effect of Accrual Management on Post-Acquisition Performance

The first hypothesis test shows that Accrual Management has a regression coefficient value of 9.31 and a significance level of 0.01. This result indicates that acquiring company's decision to manage its earnings through accrual management has a significant positive impact on firm's subsequent post-acquisition performance. The results of this study support the research conducted by (Alphonse and Zhang, 2016) that accrual management has a positive effect on post-acquisition performance.

The Effect of Sales Manipulation on Post-Acquisition Performance

The second hypothesis test shows that sales manipulation has a regression coefficient value of 1.30 and a significance level of 0.76. This result indicates that acquiring company's decision to manage its earnings through sales manipulation has an insignificant positive impact on firm's subsequent post-acquisition performance. This finding contradicts the study by Joosten (2012), stating that firms actively engaging in REM will result in negative performance.

If we only consider cash flow and not the accrual aspect, an abnormal CFO may be caused by several things. For example, managers are aggressively engaging in profitable projects to inflate their performance, and this might indicate manager's efficiency in managing the firm. The different levels of significance are not explained in any previous study; however, the direction of these relationships remains unchanged. This finding is supported by a study conducted by Soet et al. (2018), which connects the relationship between CFO and firm's performance.

The Effect of Abnormal Discretionary Expenditures on Post-Acquisition Performance

The third hypothesis test shows that the alteration of discretionary expenditures has an insignificant positive relationship to firm's post-acquisition performance. The result shows a coefficient of 9.887526 with a p-value of 0.0707. The p-value is higher than 0.05; therefore, the relationship is insignificant. This result is in line with the study executed by Alphonse and Zhang (2016) in terms of significance, although they used a different discretionary expenditure formula. This means that managers' decision to manage earnings through discretionary expenditures does not really affect firm's post-acquisition performance. Although the roles are insignificant, one important thing to note is that the result shows a positive coefficient, whereas companies actively engaging in REM through discretionary expenditures should generate a negative coefficient.

The regression result suggests that the sample firms are not actively engaging in REM through discretionary expenditures to inflate their earnings. Instead, they found a positive coefficient, meaning that these companies did not reduce their earnings to increase earnings. Rather, they accrued expenses more than usual (the normal level of Discretionary Expenditures). This might support the relationship with the previous hypothesis, where managers are just diligently seeking to improve their company's performance. The authors suggest that managers intentionally taking more projects (thus more expenses to be recognized) will help them perform better in the future because they are not postponing any project or any possible investment. Again, while the influence is insignificant, the explanation might justify the result.

The Effect of Abnormal Production Cost on Post-Acquisition Performance

The fourth hypothesis test shows that overproduction has a significant positive relationship to firm's post-acquisition performance. The result shows a coefficient of 5.97 with a probability of 0.334, signifying that the relationship is significant since the number is below 0.05. The result is in line with the hypothesis. Therefore, the fourth hypothesis is accepted.

To the best of the authors' knowledge, no prior research studied this effect on a firm's post-acquisition performance aside from Alphonse and Zhang (2016). They found evidence that REM generally has no significant role in a firm's post-acquisition performance; however, they compiled the REM proxies. Thus, there is no way of knowing how overproduction affects the firm's performance. With that being said, this finding supports the idea that earnings management that is done to beat a certain target should positively affect the firm's performance because essentially (with that perspective in mind) earnings management is done in order to 'fix' the reported earnings to generate a desirable outcome.

Conclusion

The present research indicates that acquiring company's decision to manage its earnings through accrual management has a significant positive impact on a firm's subsequent post-acquisition performance. The results of this study support the research conducted by (Alphonse and Zhang, 2016) that accrual management has a positive effect on post-acquisition performance. It is also noted that overproduction has a significant positive relationship with firm's post-acquisition performance. This result contradicts the study of Alphonse and Zhang (2016), who found that REM generally has no significant role in a firm's post-acquisition performance. Nevertheless, they use the composite measure of REM, rather than partial measures. Therefore, it is difficult to compare how overproduction affects the firm's performance.

The findings are not without limitations. First, it only uses payment methods to finance the acquisitions and lacks information on the daily stock price at year 0, and the third one is the lack of reported financial information. The payment methods are not diversified in this study since the sample mainly uses cash to finance its acquisition deal, and the authors cannot gather information regarding daily stock prices from years back. Therefore, it cannot determine the effect of independent variables on a firm's short-term performance.

Based on the conclusions and limitations described in this study, the researchers give suggestions: 1) Future research should consider adding other variables to be tested to obtain more findings. 2) Related to the contradicting result in the second and third hypotheses, future researchers may use those variables again and gather different samples and populations to garner more findings regarding these matters. (3) Future research should review the other REM methods apart from operating and financing activities. (4) Future research could use an absolute value for both AM and REM to determine the role of such actions, neglecting their directions.

References

Abbas, A., Ayub, U. (2019). Role of earnings management in determining firm value: An emerging economy perspective. *International Journal of Advanced and Applied Sciences*, *6*(6), 103-116.

Akbulut, M.E. (2013). Do overvaluation-driven stock acquisitions really benefit acquirer shareholders? *Journal of Financial Quantitative Analysis*, *48*(4), 1025-1055.

Alphonse, P., Zhang, S. (2016). Stock payment acquirers' pre-acquisition earnings management and post-acquisition performance. *SSRN electronic journal*, 1–31.

Bratianu, C., Anagnoste, S. (2011). The role of transformational leadership in mergers and acquisitions in emergent economies. *Management and Marketing*, *6*(2), 319.

Dechow P.M., Myers L.A. and Shakespeare, C. (2010). Fair value accounting and gains from asset securitizations: A convenient earnings management tool with compensation side-benefits. *Journal of Accounting and Economics*, *49*(1-2), 2-25.

Fuad, F., Juliarto, A. and Harto, P. (2019). Does IFRS convergence really increase accounting qualities? Emerging market evidence. *Journal of Economics, Finance and Administrative Science*, *24*(48), 205-220.

Fuad, F., Zulaikha, Z. and Juliarto, A., (2021). Linking institutional environment to the IFRS and accounting quality: a proposed framework. *Universal Journal of Accounting and Finance*, *9*(3), 347-351.

Francis, J., LaFond, R., Olsson, P.M. and Schipper,K. (2005). The market pricing of accruals quality. *Journal of Accounting and Economics*, *39*(2), 295-327.

Francoeur, C., Ben-Amar, W. and Rakoto, P. (2012). Ownership structure, earnings management and acquiring firm post-merger market performance Evidence from Canada. *International Journal of Managerial Finance*, *8*(2), 100-119.

Graham, J.R., Harvey, C.R. and Rajgopal, S. (2005). *The economic implications of corporate financial reporting*. Working Paper, Duke University.

Gupta, I., Mishra, N. and Tripathy, N. (2021). The impact of Merger and Acquisition on value creation: an empirical evidence. *International Conference on Business and Technology – The Importance of New Technologies and Entrepreneurship in Business Development: in the context of economic diversity in developing countries*, 1435-1456

Healy, P. M., Wahlen, J. M. (1999). A Review of the Earnings Management Literature and Its Implications for Standard Setting. *Accounting Horizons*, *13*(4), 365–383.

Hossain, M.S. (2021). Mergers and Acquisitions (MandAs) as an important strategic vehicle in business: Thematic areas, research avenues and possible suggestions. *Journal of Economics and Business*, 116(July-August).

Joosten, C. (2012). Real earnings management and accrual-based earnings management as substitutes Real earnings management and accrual-based earnings management as substitutes. Working paper: Tilburg University.

King, D.R., Bauer, F. and Schriber, S. (2019). *Mergers and Acquisitions: A Research Overview*. New York NY: Routledge

Kothari, S.P., Loutskina, E. and Nikolaev, V. (2006). Agency Theory of Overvalued Equity as an Explanation for the Accrual Anomaly Valeri Nikolaev Agency Theory of Overvalued Equity as an Explanation for the Accrual Anomaly. *SSRN electronic journal*.

Lehnert, T. (2022). Betting against noisy beta. *The Journal of Finance and Data Science*, *8*, 55-68

Mellado-cid, C., Jory, S. R. and Ngo, T. (2017). Real earnings management activities prior to bond issuance. *Business Research Quarterly*, *20*(3), 164-177.

Nguyen, T.N.D., Ha, T.C. and Nguyen, M.C. (2021). Factors affecting the liquidity of firms after mergers and acquisitions: a case study of commercial banks in Vietnam. *Journal of Asian Finance, Economics and Business*, *8*(5), 0785–0793.

Soet, M. A., Muturi, W. and Soet, M.A. (2018). Effect of Operating Cash Flow Management on Financial Performance of Mutual Funds in Kenya. *European Journal of Business, Economics and Accountancy*, *6*(5), 37–46.

Pypłacz, P. (2022). Determinants of organizational process maturity - research study. *Global Journal of Entrepreneurship and Management*, *3*(1), 1-12

Roychowdhury, S. (2006). Earnings Management Through Real Activities Manipulation. *Journal of Accounting and Economics*, *42*(3), 335–370.

Sheikh, M.J., Ahmed, M., Arshad, Q. and Shakeel, W. (2015). Mergers and acquisitions as vital instruments of corporate strategy: current and historical perspective. *Journal of Asian Finance, Economics and Business*, *2*(1), 15-21.

Shleifer, A., Vishny, R.W. (2003). Stock market driven acquisitions. *Journal of Financial Economics*, *70*(3), 295-311.

Tang, Q., Guo, J. and Huang, Z., (2021). The role of accounting conservatism in MandA target selection. *China Journal of Accounting Research*, *14*.

Todd, S.Y., Crook, T.A. and Lachowetz, T. (2013). Agency theory explanations of self-serving forecast inaccuracies. *Business and Management Research*, *2*(2), 13-21.

Vu, D. A., Moisescu, O. I. (2013). Brand integration practices in mergers and acquisitions. *Management & Marketing*, *8*(3), 403-428

Zhang, S. (2017). Acquiring firms' Earnings Management strategies around Mergers and Acquisitions, *SSRN electronic journal*, *2932932.*

ZARZĄDZANIE ZYSKAMI A WYNIKI PO FUZJACH I PRZEJĘCIACH: DOWODY Z RYNKU WSCHODZĄCEGO

Streszczenie: Głównym celem tego badania jest ustalenie, czy decyzje firm przejmujących o zarządzaniu swoimi dochodami są związane z wynikami po przejęciu. W szczególności, badamy czy rzeczywiste zarządzanie zyskami poprzez zarządzanie rozliczeniami międzyokresowymi sprzedaży, manipulowanie sprzedażą, nadmierną produkcję i wydatki uznaniowe wpływają na zdolność firm do osiągania wyższych wyników finansowych po fuzjach i przejęciach. Zebraliśmy 259 firm rok obserwacji danych finansowych z 2006 - 2017 wśród Mergers and Acquisitions transakcji w Indonezji. Nasze wyniki wskazują, że decyzja firmy nabywającej o zarządzaniu swoimi dochodami poprzez zarządzanie memoriałowe ma znaczący pozytywny wpływ na późniejsze wyniki firmy po przejęciu. Z drugiej strony, rzeczywiste zarządzanie zyskami poprzez działania nadprodukcyjne również znacząco zwiększają wyniki firm po fuzjach i przejęciach. Nasze badanie ujawnia jednak, że rzeczywiste zarządzanie zyskami poprzez wydatki uznaniowe i manipulację sprzedażą nie skutkuje wyższymi wynikami po przejęciu. Nowością w tym badaniu jest to, w jaki sposób sztuczki księgowości finansowej przed wdrożeniem strategii korporacyjnej (fuzje i przejęcia) mogą przynieść wyższe (lub niższe) wyniki ekonomiczne. Nasze badania wskazują również na potencjalne kierunki dalszych badań.

Słowa kluczowe: Mergers and Acquisitions, Firm's Performance, Accrual Management, Real Earnings Management, Indonesia.

盈利管理与并购后的业绩：来自新兴市场的证据

摘要：本研究的主要目的是弄清收购公司管理其收益的决定是否与收购后的绩效有关。特别是，我们研究了通过销售应计管理、销售操纵、过度生产和随意支出等实际收益管理是否影响企业在并购后获得更高的财务业绩。我们在印度**尼西**亚的并购交易中收集了2006-2017**年的**259**个公司年度**观察财务数据。我们的结果表明，收购公司决定通过应计管理来管理他们的收益，对公司随后的收购后绩效有明显的积极影响。另一方面，通过过度生产活动进行的实际收益管理也会显著提高公司的并购后绩效。然而，我们的研究显示，通过自由支配的支出和销售操纵的实际收益管理活动并没有产生更高的收购后绩效。 这项研究的新颖之处在于，在企业战略实施（并购）之前，财务会计的噱头如何能够产生更高（或更低）的经济绩效。我们的研究也为进一步调查提供了一些潜在的途径

关键词。兼**并和收**购，公司业绩，应计管理，实际收益管理，印度尼西亚