EFFECT OF EARNING MANAGEMENT ON THE STOCK PRICE OF ENTERPRISES LISTED IN HO CHI MINH CITY IN THE PERIOD OF COVID 2019-2021

Thach Ha Xuan\textsuperscript{A}, Quy Tran Thi Thanh\textsuperscript{B}, Hieu Ha Truong Minh\textsuperscript{C}

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\textbf{ABSTRACT} \\
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\textbf{Purpose:} The aim of this study is to examine the phenomenon of earnings management (EM) and its impact on stock prices, providing valuable empirical evidence in this field.

\textbf{Theoretical framework:} Agency theory suggests that profit management behavior comes from conflicts between managers and shareholders. The efficient market theory assumes that information will be reflected in stock prices.

\textbf{Design/methodology/approach:} To achieve the research objectives, the study analyzes the financial statements (FRQs) of 74 enterprises listed on the Ho Chi Minh Stock Exchange in Ho Chi Minh City. The data collected in the period from 2019 to 2021, Covid-19 pandemic and analysis by GSEM.

\textbf{Findings:} Specifically, the study shows that earnings management exerts a direct negative impact on stock prices. Additionally, it highlights the positive influence of EM on the quality of FRQ information. However, the quality of FRQ news demonstrates a negative effect on stock prices. The study also investigates the role of intermediate variables in the relationship between financial reporting information quality and stock prices.

\textbf{Research, Practical & Social implications:} By providing empirical evidence and highlighting the significance of accounting practices in the capital market, the study adds value to academic research, while offering practical insights for investors, regulators, and businesses.

\textbf{Originality/value:} By providing empirical evidence and highlighting the significance of accounting practices in the capital market, the study adds value to academic research, while offering practical insights for investors, regulators, and businesses.

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\textbf{EFEITO DO GERENCIAMENTO DE RESULTADOS NO PREÇO DAS AÇÕES DAS EMPRESAS LISTADAS NA CIDADE DE HO CHI MINH NO PERÍODO DA COVID 2019-2021}

\textbf{RESUMO}

\textbf{Objetivo:} O objetivo deste estudo é examinar o fenômeno do gerenciamento de resultados (GR) e seu impacto sobre os preços das ações, fornecendo evidências empíricas valiosas nesse campo.

\textbf{Estrutura teórica:} A teoria da agência sugere que o comportamento de gerenciamento de lucros decorre de conflitos entre gerentes e acionistas. A teoria do mercado eficiente pressupõe que as informações serão refletidas nos preços das ações.

\textsuperscript{A} Associate Professor in Accounting, Faculty of Accounting, UEH University. Ho Chi Minh City, Viet Nam. E-mail: hxt@ueh.edu.vn Orcid: https://orcid.org/0000-0003-4284-0035

\textsuperscript{B} Doctor Student in Accounting, Faculty of Accounting, UEH University. Ho Chi Minh City, Vietnam. E-mail: quyttt@dlu.edu.vn Orcid: https://orcid.org/0009-0004-9157-6255

\textsuperscript{C} Master of Art. Erasmus University of Rotterdam. University of Economics and Finance. Ho Chi Minh City, Vietnam. E-mail: hieuhtm@uef.edu.vn Orcid: https://orcid.org/0009-0001-6492-9041
Projeto/metodologia/abordagem: Para atingir os objetivos da pesquisa, o estudo analisou as demonstrações financeiras (FRQs) de 74 empresas listadas na Bolsa de Valores de Ho Chi Minh, na cidade de Ho Chi Minh. Os dados foram coletados no período de 2019 a 2021, pandemia de Covid-19 e analisados pelo GSEM.

Conclusões: Especificamente, o estudo mostrou que o gerenciamento de resultados exerce um impacto negativo direto sobre os preços das ações. Além disso, destaca a influência positiva do GR na qualidade das informações de FRQ. Entretanto, a qualidade das notícias da FRQ demonstra um efeito negativo sobre os preços das ações. O estudo também investiga o papel das variáveis intermediárias na relação entre a qualidade das informações dos relatórios financeiros e os preços das ações.

Implicações sociais, práticas e de pesquisa: Ao fornecer evidências empíricas e destacar a importância das práticas contábeis no mercado de capitais, o estudo agrega valor à pesquisa acadêmica, ao mesmo tempo em que oferece percepções práticas para investidores, reguladores e empresas.

Originalidade/valor: Ao fornecer evidências empíricas e destacar a importância das práticas contábeis no mercado de capitais, o estudo agrega valor à pesquisa acadêmica, ao mesmo tempo em que oferece percepções práticas para investidores, reguladores e empresas.

Palavras-chave: Gerenciamento de Ganhos, Qualidade da Informação Financeira, Violações de Divulgação de Demonstrações Financeiras, Preços das Ações, Mercado de Ações.

EFECTO DE LA GESTIÓN DE BENEFICIOS EN EL PRECIO DE LAS ACCIONES DE LAS EMPRESAS COTIZADAS DE LA CIUDAD DE HO CHI MINH EN EL PERIODO COVID 2019-2021

RESUMEN
Propósito: El propósito de este estudio es examinar el fenómeno de la gestión de beneficios (GA) y su impacto en el precio de las acciones, aportando valiosas pruebas empíricas en este campo.

Marco teórico: La teoría de la agencia sugiere que el comportamiento de gestión de beneficios se deriva de los conflictos entre directivos y accionistas. La teoría del mercado eficiente supone que la información se reflejará en los precios de las acciones.

Diseño/metodología/enfoque: Para alcanzar los objetivos de la investigación, el estudio analiza los estados financieros (FRQ) de 74 empresas que cotizan en la Bolsa de Ho Chi Minh. Los datos se recopilaron en el periodo comprendido entre 2019 y 2021, Covid-19 pandemia y se analizaron mediante GSEM.

Conclusiones: En concreto, el estudio muestra que la gestión de beneficios ejerce un impacto negativo directo en los precios de las acciones. Además, destaca la influencia positiva de EM en la calidad de la información FRQ. Mientras tanto, la calidad de la información FRQ muestra un efecto negativo sobre los precios de las acciones. El estudio también investiga el papel de las variables intermedias en la relación entre la calidad de la información financiera y los precios de las acciones.

Repercusiones sociales, prácticas y de investigación: Al aportar pruebas empíricas y destacar la importancia de las prácticas contables en el mercado de capitales, el estudio agrega valor a la investigación académica al tiempo que ofrece ideas prácticas para inversores, reguladores y empresas.

Originalidad/valor: Al aportar pruebas empíricas y destacar la importancia de las prácticas contables en el mercado de capitales, el estudio agrega valor a la investigación académica al tiempo que ofrece ideas prácticas para inversores, reguladores y empresas.

Palabras clave: Gestión de Beneficios, Calidad de la Información Financiera, Incumplimiento de la Obligación de Divulgar los Estados Financieros, Cotizaciones Bursátiles, Mercado de Valores.

INTRODUCTION

At the end of 2019, the Covid-19 epidemic originated in Wuhan, China, and quickly spread worldwide, causing significant impacts on the global economy, society, and stock market. In response to the outbreak, many countries implemented restrictive policies, including travel restrictions and lockdown measures. This study aims to highlight the influence of these Covid-related policies on the behavior and psychology
of corporate managers and investors. Covid-19 pandemic severely disrupts good governance, accountability, and broad participation (Soputan et al., 2023).

In Vietnam, the stock market experienced a sharp decline in early March 2020, resulting in a 28% decrease in the Vietnam Index compared to the end of 2019 (UK & Gan, 2021). During this period, there were numerous discussions regarding earnings management (EM) practices and their impact on corporate stock prices and the overall stock market, particularly concerning the quality of financial statement information (QAFRQ). This issue garnered significant attention from investors, managers, and researchers.

There has yet to be any research on the relationship between EM on QAFRQ and stock price in Vietnam, so the author wants to conduct this study to learn about the impact of earnings management on stock prices directly and indirectly through the intermediate variable QAFRQ in the context of research in Vietnam during the Covid-19 period. It can provide more empirical evidence about this relationship and serve as a reference and basis for investors, administrators, and policymakers to make appropriate management decisions and policies.

LITERATURE REVIEW

Research by Shakhatreh et al. (2020) believes that for financial reporting to achieve high accuracy, it is necessary to strengthen the requirements for profit management and stricter regulations. Shaw's study (2003) explores the relationship between earnings management and corporate recognition through the relationship between analysts' assessment of earnings disclosure, earnings stabilization actions, and earnings management, profit (through unusual accruals) and timeliness of profit recognition (through the combination of profit and profit). The study by Nguyen Thanh Tu (2020) published in the Financial Review mentioned to the relationship of forest management and forestry quality. According to author, managers often tend to adjust financial statements when there is asymmetry of information and conflicts of interest between parties in order to meet the expectations of shareholders, investors and maintain the position of enterprises.

The study by Badu & Appiah (2018) focuses on the relevance of accounting information and its possible influence on stock prices. Research results show that there is a positive relationship between profitability and book value of equity with
stock price. Besides, some studies also show that EPS and BVPS are two factors that affect stock prices when applying Ohlson 1995 model like Tong's research (2017) with secondary data sources collected from financial statements of 120 companies real estate companies on the Ho Chi Minh Stock Exchange in the period 2011-2016.

Research in Nigeria (Cyril et al., 2019) uses data from 115 companies for the period 2006-2017 and shows that profit management through adjusted accruals has a positive impact on stock prices, increasing share prices. Stock value. In Tehran, Iran, a study (Mohamamdi, 2020) with data from 167 companies for the period 2012-2018 investigated the relationship between accrual-based profit management and stock crash risk. Van's study (2017) investigates the relationship between profit management and stock prices of 150 companies listed on the Vietnamese stock exchange in the period 2009-2012 before and after the issue of shares.

**Earning Management**

Earnings management (EM) refers to the behavior exhibited by managers to influence a company's financial reporting information quality (FRQ) to achieve specific objectives. It encompasses various aspects such as FRQ management, operational dynamics, profit stabilization, earnings manipulation, creative accounting, and window-dressing (Consoni & Colauto, 2016; Kliestik et al., 2020).

This study will measure EM through adjusted accruals using the adjusted Jones model proposed by Dechow et al. (1995). Specifically, the focus will be on discretionary accruals (DA), which are calculated by summing the total accruals (TA) and non-discretionary accruals (NDA) based on the following formula:

\[
\text{DA}_{it} = \frac{\text{TA}_{it}}{A_{t-1}} - \frac{\text{NDA}_{it}}{A_{t-1}}
\]

From this,

\[
\frac{\text{DA}_{it}}{A_{t-1}} = \frac{\text{TA}_{it}}{A_{t-1}} - \frac{\text{NDA}_{it}}{A_{t-1}}
\]  \hspace{1cm} (1)

According to Lai (2011), \( \frac{\text{DA}_{it}}{A_{t-1}} \) is EM through adjusted accruals (which can be positive or negative).
Quality of Finance Statement Information

QAimir, which represents the quality of financial reporting information, is a multidimensional concept that can be measured directly based on the characteristics of the FRQ information or indirectly through the lens of earnings management (EM). Shakhatreh et al. (2020) suggest that measuring QA through actual disclosure violations provides an objective and highly reliable assessment. Therefore, the QAimir will be measured using a disclosure violation assessment in this study. Data will be collected from the website of the State Securities Commission on an annual basis. A dummy variable will be used for analysis, where 1 represents cases with violations, and 0 represents cases without violations. In addition to QAimir, the study considers stock prices as a crucial factor. According to Vietnam’s regulations, companies listed on the stock market must disclose their audited FRQs before March 31 each year. While some companies disclose their reports before December 31, which immediately affects their stock prices, most businesses publish their FRQs on March 31.

Theory Background

Agency theory, as discussed in previous studies (Hung, 2022; Khuong et al., 2022; Shakhatreh et al., 2020), explains the conflicts between corporate managers and investors regarding the division of ownership and control within a company. These conflicts arise when managers prioritize their personal interests and limit access to crucial company information. Such behavior can adversely affect financial outcomes and stock prices (Xie et al., 2002).

On the other hand, the efficient market theory focuses on market efficiency and investor profitability (Fama, 1970). In an efficient market, stock prices reflect publicly available information, including a company's financial data and investor expectations. However, if a company engages in earnings management and provides inaccurate information, the stock price will fail to accurately reflect the company's actual performance.

Research Hypotheses

From the background theory and inheritance of previous studies, author summarizes the research hypotheses according to Table 1.
Table 1: Summary of proposed hypotheses and expected dimension

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Hypotheses</th>
<th>Authors</th>
<th>Afternoon of expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>EM has an impact on stock prices.</td>
<td>Habib et al. (2013), Cyril et al. (2019), Mohammadi et al. (2020), Ahmed (2021)</td>
<td>(+)</td>
</tr>
<tr>
<td>H2</td>
<td>EM has an impact on QAFRQ</td>
<td>Yadollah et al. (2012), Consoni et al. (2017), Saleh et al. (2020), Ogundajo et al. (2021)</td>
<td>(+)</td>
</tr>
<tr>
<td>H3</td>
<td>QAFRQ has an impact on stock price</td>
<td>Zhu &amp; Niu (2016), Badu &amp; Appiah (2018), Rahman &amp; Liu (2021), Uniamikogbo(2018)</td>
<td>(+)</td>
</tr>
<tr>
<td>H4</td>
<td>EM has indirect impact on Stock price through QAFRQ</td>
<td></td>
<td>(+)</td>
</tr>
</tbody>
</table>

Source: Prepared by the authors (2023).

METHODOLOGY

The thesis uses qualitative research and quantitative research.

• **Qualitative research:** Using qualitative method to identify the impact of profit management directly on financial statement information quality and stock price.

• **Quantitative research:** After having qualitative research results, the study uses quantitative research to measure impact of EM on QAFRQ and stock prices of companies listed on the Ho Chi Minh City Stock Exchange, Vietnam. Data is collected from FRQs of 74 enterprises, a period from 2019 to 2021 affected by Covid epidemic. Then use general structural regression (GSEM) analysis (suitable for small samples).

General Regression Model

Model 1

\[ P_i = \beta_0 + \beta_1 \times DACC_{it} + \beta_2 \times CLBTC_{it} + \beta_3 \times CLBTC DACC_{it} + \varepsilon_i (1) \]

In there,

\( P_i \): the stock closing price on March 31 of the next fiscal year of company \( i \) (coded in the test data as \( lead_P313 \)).

\( \beta_0 \): Intercept coefficient.

\( \beta_1, \beta_2, \beta_3 \): coefficients.

\( DACC_{it} \): EM is measured according to the adjusted Jones model of company \( i \) up to year \( t \).

\( CLBTC_{it} \): is FRQ quality through the published violation, dummy variable (which is 0 in case of no violation, is 1 in case of violation) of company \( i \) up to year \( t \).

\( CLBTC DACC_{it} \) (encoded as \( CLBTC DACC_{it} \)) is the interaction variable between \( DACC_{it} \) and QA FRQs.

\( \varepsilon_i \): random error.
Model 2

\[ CLBCTC_{it} = \beta_0 + \beta_1 \times DACC_{it} + \epsilon_i \]  

(2)

In there,

- \( CLBCTC_{it} \): is measured against disclosure violations.
- \( DACC_{it} \): EM of company i at year t.
- \( \beta_0 \): Intercept coefficient.
- \( \beta_1 \): coefficients.
- \( \epsilon_i \): random error.

Table 2: Summary of variables in the research model and measurement methods

<table>
<thead>
<tr>
<th>Variable name</th>
<th>Variable Type</th>
<th>Encode</th>
<th>Measure</th>
<th>Inheritance</th>
</tr>
</thead>
<tbody>
<tr>
<td>EM</td>
<td>Independence</td>
<td>DACC</td>
<td>Adjusted accrals</td>
<td>Mohamamdi et al. (2020), Ahmed (2021)</td>
</tr>
<tr>
<td>QAFRQ</td>
<td>Intermediary</td>
<td>CLBCTC</td>
<td>Violations of information disclosure, dummy variables (1 are cases with violations, 0 are cases without violations)</td>
<td>Shakhatreh et al. (2020)</td>
</tr>
<tr>
<td>Stock price</td>
<td>Dependent</td>
<td>lead_P313</td>
<td>ln(The stock price closed at 31 March of the year following the fiscal year)</td>
<td>Badu et al. (2018), Al-Shattarat (2021)</td>
</tr>
</tbody>
</table>

Source: Prepared by the authors (2023).

RESULTS AND DISCUSSION

Qualitative Research Results

In summary, the results of the qualitative study show that there exists an indirect impact of profit management on stock prices through the quality of financial statements (measured through breach of disclosure). Most CGs believe that the way to measure research concepts (profit management through accrual basis).

The research model and formal research hypothesis are unchanged from the original proposal.

Results of Quantitative Research

After performing descriptive statistics, the study carried out correlation analysis.
Correlation Analysis

This analysis aims to examine the relationships between independent variables, intermediate variables (QAFRQ), dependent variables, and control variables in the model. The correlation analysis, presented in Table 3, shows the Pearson correlation coefficients ranging from -0.1339 to 0.3466. The highest correlation (0.3466) is observed between CLBCTC and lead_P313, while the lowest correlation is found between DACC and lead_P313. The low correlation coefficients among independent variables suggest a good fit and reduce the likelihood of multicollinearity issues in the research model (Gujarati et al., 2009). This correlation analysis provides a foundation for further analysis, ensuring the validity of the model.

| Source: Data from Ho Chi Minh City Stock Exchange, calculations from Stata17. |

Table 3: Results of running correlation matrix

<table>
<thead>
<tr>
<th></th>
<th>lead_P313</th>
<th>DACC</th>
<th>CLBCTC</th>
</tr>
</thead>
<tbody>
<tr>
<td>lead_P313</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DACC</td>
<td>-0.1339</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>CLBCTC</td>
<td>0.3466</td>
<td>0.1284</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

Multicollinear Analysis

The study tested for multicollinearity using the VIF criterion. Results in Table 4.3 indicate that the mean VIF values are 1.24, which is below the acceptable threshold of 5. A VIF value less than 5 suggests minimal multicollinearity in the model (Gujarati et al., 2009).

Analyze and Discuss Research Results

| Source: Data from Ho Chi Minh City Stock Exchange, calculations from Stata17. |

Table 4: Results of running GSEM

|       | Coefficient | Robust std. err. | Z     | P>|z| | 95% conf. interval |
|-------|-------------|------------------|-------|-----|------------------|
| lead_P313 | 0.7862618 | 0.2015256 | 3.90 | 0.000 | 0.391279 | 1.181245 |
| 1.CLBCTC | 0.0612436 | 0.0234731 | -2.61 | 0.009 | -0.10725 | -0.0152733 |
| DACC | -2.468463 | 0.5236756 | -4.71 | 0.000 | -3.494848 | -1.44077 |
| CLBCTC#c.DACC | 9.483205 | 0.2182266 | 43.46 | 0.000 | 9.055489 | 9.910921 |
| _cons | 9.2203144 | 0.0648584 | 9.59 | 0.000 | 0.4951942 | 7.494345 |
| CLBCTC | 2.20038 | 0.4699169 | -4.69 | 0.000 | -3.123059 | -1.281018 |
The results reveal important findings. Firstly, the study demonstrates a positive effect of financial reporting quality (QAFRQ) on stock prices, with a statistically significant β coefficient of -0.786 (p < 0.001). This highlights the significance of measuring FRQ disclosure violations for enhancing stock prices. Secondly, earnings management (EM) has a negative impact on stock prices, as indicated by a β coefficient of -0.612 (p < 0.001). This suggests that EM practices can harm stock prices and investor confidence. Furthermore, there is a significant positive relationship between EM and QAFRQ, with a β coefficient of 0.622 (p = 0.011). This implies that higher levels of EM are associated with improved financial reporting quality.

In summary, these initial findings emphasize the importance of measuring FRQ disclosure violations in improving stock prices, while also highlighting the negative impact of EM on stock prices. Further tests and research will delve deeper into the mediating role of QAFRQ in the relationship between EM and stock prices, providing valuable insights for investors, regulators, and companies.

Testing the Direct Impact of EM on Stock Prices and Indirectly Through QAFRQ

| Case         | EM -> Stock Price | Coefficient | Std. err. | BILLION | P>|t|  | [95% conf. Interval] |
|--------------|-------------------|-------------|-----------|---------|-----|------------------|
| CLBCTC = 0   | Indirect          | -0.489302   | 0.1632064 | 3.00    | 0.003 | -1.694233        | 0.8091807 |
|              | Direct            | -0.0612436  | 0.0234731 | -2.61   | 0.009 | -0.10725         | -0.0152733 |
|              | Total             | 0.4280584   | 0.1397392 | 3.06    | 0.002 | -0.1541746       | 0.7019422 |
| CLBCTC = 1   | Indirect          | 0.489302    | 0.1632064 | 3.00    | 0.003 | 0.1694233        | 0.8091807 |
|              | Direct            | -2.529706   | 0.5451605 | -4.64   | 0.000 | -3.598201        | -1.461211 |
|              | Total             | -2.040404   | 0.3986569 | -5.12   | 0.000 | -2.821757        | -1.259051 |

Source: Data from Ho Chi Minh City Stock Exchange, calculations from Stata17.

The regression coefficient β for the impact of "DACC" on "lead_P313" is approximately -0.061, indicating a negative direct effect on stock prices when there are no disclosure violations. In the case of information disclosure violation, the regression coefficient β is approximately -2.5297, indicating a stronger negative impact on stock prices. Therefore, hypothesis H1 is accepted.

The regression coefficient β for the impact of EM on QAFRQ is approximately 0.622, indicating a positive effect when there is a breach of information disclosure. This suggests that EM affects QAFRQ, supporting hypothesis H2.
The regression coefficient $\beta$ for the impact of QAFRQ on stock prices is approximately 0.786, indicating a positive effect. This suggests that higher QAFRQ is associated with higher stock prices. However, in cases where QAFRQ is measured through disclosure violations, it has a negative effect on stock prices. Therefore, hypothesis H3 is accepted, considering the overall positive impact of QAFRQ on stock prices.

The regression coefficient $\beta$ for the indirect impact of EM on stock prices through QAFRQ is approximately 0.489, indicating a statistically significant influence. This suggests that EM affects stock prices indirectly by influencing QAFRQ. Hence, hypothesis H4 is accepted.

These findings highlight the significance of EM, QAFRQ, and their impact on stock prices. They contribute to our understanding of the relationships between these variables and provide valuable insights for investors, researchers, and stakeholders.

**CONCLUSION AND IMPLICATIONS**

The findings of this study have practical implications for various stakeholders:

Businesses: The study highlights the tendency of EM behavior to cause larger losses during economic crises, affecting stock prices. This finding raises awareness about the manipulation of stock prices and illegal practices such as share repurchases for profit. Businesses should be cautious and comply with ethical practices to maintain investor trust. Research by Al Maani et al. (2023) shows that a large board with a female director and a Corporate Social Responsibility Committee (CSRC) enhances sustainability decision-making, controls management choices, and improves sustainability disclosure.

Local Government: The study emphasizes the importance of monitoring EM behavior, especially in state-owned enterprises, during economic crises. Regulatory agencies should closely observe and take appropriate actions to ensure transparency and accountability in the market.

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