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# Earnings Management as Moderator of Financial Performance and Firm Value in Indonesian Banks

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ABSTRACT

This study investigates the moderating role of earnings management in the connection between financial performance and firm value in conventional national commercial banks in Indonesia during 2017–2023, including the coronavirus pandemic period. Financial performance is measured by Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). At the same time, the company's value is represented by the Price-Earnings Ratio (PER), Operating Expenses to Operating Income (OEOI), and Non-Performing Loans (NPL). A purposive sampling method selected 23 conventional banks, generating 161 observations. Data were analyzed using Structural Equation Modeling using Partial Least Squares (PLS-SEM) to examine both direct and moderating effects. The analysis shows that financial performance significantly and negatively affects firm value. However, earnings management does not exert a significant effect and fails to moderate the relationship. These findings indicate a gap between theoretical assumptions and actual market behavior, as firm value tends to increase even as profitability declines. The study concludes that firm value in banking is shaped more by market expectations and government policies than short-term profits. Managers should strengthen communication, apply effective risk management, and focus on sustainable strategies. Future research is encouraged to broaden indicators and incorporate macroeconomic and regulatory variables.

Keywords: Earning Management, Financial Performance, Value



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## INTRODUCTION

Investors have a significant interest in achieving prosperity through their investments in public companies. Therefore, they expect efficient company management across various operational functions throughout the business process to increase productivity, reduce operating costs, and optimize profits. A company's primary focus is on increasing its value, as this reflects the company's overall reputation and quality, as well as investor well-being (Cristofel & Kurniawati, 2021).

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Efficiency and risk management are values reflected in financial reports. Investor perception is generally reflected in stock price movements, with rising prices indicating increased company value and strengthening market confidence in the company's performance and prospects (Muhamad Fahminuddin Rosyid et al., 2022). Although stock prices fluctuate due to market dynamics, investors still assess management's success based on stock price trends, which reflect the company's performance.

Company value is closely related to financial performance over a specific period, aiming to enhance shareholder welfare and reflecting investors' views on the company's business activities, both current performance and future expectations (Cristofel & Kurniawati, 2021). Investor perceptions of performance success are often reflected in stock price fluctuations in the capital market (Muhamad Fahminuddin Rosyid et al., 2022). In the banking industry, the company value indicated by the market price relationship, namely PER, experiences fluctuations. At the same time, the operational efficiency levels of BOPO and NPL, which represent credit quality, remain stable. The development of the commercial bank company value during the study is shown in Figure 1.

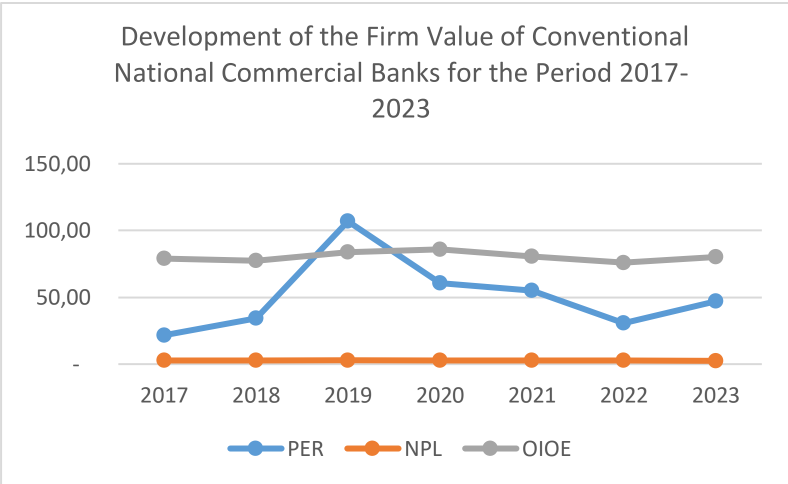


**Figure 1. Development of Company Value**

Company value is also influenced by the growth and sustainability of the banking industry, as reflected in the bank's financial performance, both in terms of fundraising and financing distribution (Teguh Harmaen, 2022). Good financial performance reflects promising prospects, thus attracting investor interest and increasing stock prices, with commonly used indicators such as Return on Asset (ROA), Return on Equity (ROE), and Net Interest Margin (NIM), where ROA plays a crucial role in determining company value (Daud Alifian & Dwi Ermayanti Susilo, 2024) investors are more attracted to high profitability (Ake Dahlia et al., 2024) and NIM has been shown to significantly influence ROA (Wildan Dwi Dermawana & Desiana, 2019). According to Ikponmwosa Michael Igbinovia & Bamidele Oyakhiromhe Agbadua (2023), citing Nguyen et al. (2021), profitability is a key indicator for assessing the effectiveness of a company's managerial and operational decisions. Therefore, high profitability ratios, particularly Return on Assets (ROA), tend to attract investors' attention because they indicate a company's revenue exceeding its investment.

Previous research on the effect of financial performance on firm value has shown inconsistent results, particularly in the banking sector. Some studies found a positive effect, while others showed a negative one. Research conducted by Shinta Wijayaningsih & Agung Yulianto (2021) and Lorensius R. L. Dhae (2023) found that profitability had a significant positive effect on firm value, as measured by ROA and ROE. While Astuti & Tina Lestari (2024) also found ROA to have a significant effect, ROA found a different result. However, Luh Pande Eka Setiawati et al. (2023) found that ROA had a significant negative effect on firm value. Furthermore, studies of earnings management in the research literature are still mostly focused on it as an independent variable, and its role as a moderating variable in the relationship between financial performance and firm value is relatively limited in the banking industry. Therefore, research is needed to explain how earnings management practices influence the strength of the relationship between financial performance and firm value. The novelty of this research lies in testing the role of earnings management as a moderating variable in the relationship between financial performance and company value in Indonesian commercial banks, and in using Partial Least Squares Structural Equation Modeling (PLS-SEM).

Drawing on these results, this research seeks to investigate the link between financial performance and firm value using reflective indicators of ROA, ROE, and NIM for financial performance, as well as OEOI, NPL and PER for firm value in conventional commercial banks operating in Indonesia for the years 2017 through 2023, while also proving the function of earnings management as a moderating factor.

## THEORETICAL FRAMEWORK AND HYPOTHESES

Signaling Theory explains that management, as the party with more complete information than investors, can convey signals through financial reports, policies, or strategic decisions to reduce information asymmetry and offer insight into the company's condition and future outlook, where executives are motivated to communicate positive information to investors. In the banking industry. Financial performance is a key signal, measured through ROA, ROE, and NIM, which assess bank health and stability. Positive signals, such as increased profitability or decreased credit risk, can boost market confidence. Halimah & Komariah (2017) found that ROA has a significant impact, and Andry Priharta et al. (2023) found that ROA and NIM have a significant positive effect on firm value. Meanwhile, negative signals, such as decreased profits or increased non-performing loans, can undermine market perception.

Signaling theory is also relevant to the practice of earnings management because, under certain conditions, management can create signals that the market desires, even though they may not reflect real conditions. Therefore, its effectiveness depends on management credibility and investors' ability to interpret the information. Consistent and credible positive signals will improve market perception, raise share prices, and enhance firm value. In this study's context, financial performance is expected to be the main signal influencing company value, with earnings management strengthening or weakening this relationship depending on the credibility of the information it conveys. Agency Theory explains the conflict of interest between managers and shareholders, in which earnings management practices often arise from information asymmetry. Devih Anggraini & Emi Lestari (2024), Olisiang Chandra Putra et al. (2024) stated that earnings management does not affect company value. This theory was developed by Jensen & Meckling (1976), which describes the contractual relationship between the owner (principal) and the manager (agent), who is delegated authority to manage resources to maximize shareholder value. However, due to differences in interests, agents may make decisions that benefit themselves more.

In the banking context, this theory is relevant because bank management manages funds from third parties, such as customers and investors, and must therefore present transparent financial information. However, the pressure to deliver strong performance often drives the emergence of earnings management practices that undermine the reliability of financial information and create a gap between the company's actual conditions and investor perceptions. Agency theory emphasizes

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that effective management that minimizes conflicts of interest increases firm value by fostering investor trust, while high agency conflicts, such as the manipulation of financial information, decrease firm value by eroding market trust. Thus, agency theory provides an important framework for understanding the relationship among financial performance, income management, and firm value, where financial performance reflects the agent's responsibility to the principal. In contrast, earnings management is seen as an agent's opportunistic behavior that may alter the strength of the relationship between financial performance and firm value in the Indonesian banking sector.

**Financial Performance**

Company management strives to meet profit targets each period through various productive activities, such as in banking, which increases productive assets by expanding lending. Financial performance is a key indicator of the efficiency and effectiveness of company resource management and reflects the achievement of organizational goals (Sandhika Cipta Bidhari et al., 2013). Performance reflects a company's success in achieving its goals, as measured by specific standards (Sochib, 2016; Siti Nurkholifah Bunadi & Tarjo, 2022), and serves as the basis for managerial decision-making (Astuti & Tina Lestari, 2024). Furthermore, financial performance also reflects the board of directors' effectiveness in managing funding sources, investments, and operations. Even the incentives received by the board of directors are often determined by the company's success in achieving performance targets (Brigham, 2021). In banking-related studies, financial performance is measured using metrics such as Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM).

Return on Assets (ROA) is an indicator of a firm's efficiency in using its assets to generate earnings. In other words, ROA assesses the degree to which investments in the firm's overall assets can generate a return on investment. Several researchers, such as Wildan Dwi Dermawana & Desiana (2019), Mardin et al. (2021), Ria Karina et al. (2023), and Endang Kurniati et al. (2024) have used ROA to assess asset utilization effectiveness. Return on Assets (ROA) diukur sebagai persentase dengan membandingkan income before income tax expense terhadap total asset. Return on Equity (ROE) is a metric that measures how effectively a company generates earnings from the capital invested by shareholders. This ratio is calculated by dividing net income by total shareholder equity. The higher the ROE, the better the company's performance in providing profits to shareholders. Researchers who use ROE to measure a company's capital effectiveness include Emilia Nurdin et al. (2023) and Andry Priharta et al. (2023). Return on Equity (ROE) dioperasionalkan sebagai persentase yang diperoleh dari pembagian income before income tax expense oleh total ekuitas.

Net Interest Margin (NIM) describes the level to which bank management has the capacity to create net interest income from its earning assets. Technically, NIM is calculated by comparing net interest income, the gap between interest earned and interest paid, relative to the bank's average earning assets. Researchers who use NIM to measure a company's capital effectiveness include Debora (2021), Andry Priharta et al. (2023), and TiaraWardani & Dewa Putra Khrisna Mahardika (2023). NIM diukur dengan persentase selisih antara pendapatan bunga (interest income) dan beban bunga (interest expense) yang dibagi dengan total equity.

**Firm Value**

Firm value is the market's assessment of an entity's achievements and future potential as reflected in changes in stock prices. High values reflect positive investor expectations for the company's growth (Muhamad Fahminuddin Rosyid et al., 2022). In the banking industry, company value is important because it reflects investors' views on long-term prospects, with a focus on management effectiveness and efficiency to reduce operational costs (Aditya Gede et al., 2023). This study reflects company value through the OIOE, NPL, and PER indicators. OIOE assesses a bank's ability to reduce costs, NPL indicates credit quality, and PER captures the market's response to company earnings information. OEOI compares operating expenses and operating income over a specific period, reflecting a bank's ability to manage costs and optimize revenue per expense. Studies that use OIOE to predict firm value include: Halimah & Komariah (2017) and Lilis A. Kansil & Paulina Van Rate (2021). The percentage difference between operating expenses and operating income measures Operational Expense to Operational Income (OEOI).

Meanwhile, Non-Performing Loans (NPLs), or problem loans, refer to loans classified as substandard, doubtful, or delinquent. Studies that use NPL to predict company value include: Halimah & Komariah (2017), Lilis A. Kansil & Paulina Van Rate (2021), and Pracoyo & Ladjadjawa (2022). NPL is measured as a percentage of total non-performing loans relative to total loans. The Price Earnings Ratio (PER) is a valuation indicator that compares a company's share price to its earnings per share. Researchers who use the Price Earnings Ratio (PER) include: Reza Cholifah Dwi Yulianti et al. (2023). Price Earnings Ratio (PER) is measured by the percentage of the comparison of the stock's market value per share and the profit generated per share (Earnings per share).

**Earnings Management**

At the end of an accounting period, profit-oriented companies typically evaluate their profit achievement. When profits exceed targets, management tends to make adjustments to avoid using them as the basis for subsequent budgets. However, if profits fall short of targets, various methods are employed to meet the targets, all of which reflect earnings management practices designed to influence reported earnings (Cindy Felicya & Paulina Sutrisno, 2020). This practice involves common patterns such as taking a bath, income minimization, income maximization, and income smoothing (Dedhy Sulistiawan, Yeni Januarsi, 2011). However, in practice, it reduces reporting quality because the information does not reflect the true economic conditions (Poppy Nurmayanti et al., 2022) and can even mislead stakeholders through modified financial statements (Dudi Pratomo & Daniel Adventheo Sudibyo, 2023).

Various studies, such as those conducted by Pedi Riswandi and Rina Yuniarti (2020), Ria Karina et al. (2023), and Devih Anggraini and Emi Lestari (2024), use Discretionary Accrual (DA) to measure earnings management practices. This study used the Modified Jones Model with discretionary accruals as the main indicator (Dedhy Sulistiawan, Yeni Januarsi, 2011).
$TAit = NIit - CFOit$ with Total Accrual Value (TA) estimated using the OLS regression equation, namely $TAit / Ait\text{-}1 = \alpha 1\ (1 / Ait\text{-}1) + \alpha 2\ (\Delta Revit / Ait\text{-}1) + \alpha 3\ (PPEit / Ait\text{-}1) + \varepsilon it$. Using the regression coefficients above, the value of non-discretionary accruals (NDA) can be determined with the following formula: $NDAit = \alpha 1\ (1 / Ait\text{-}1) + \alpha 2\ (\Delta Revit / Ait\text{-}1 - \Delta Recit / Ait\text{-}1) + \alpha 3\ (PPEit / Ait\text{-}1)$. Furthermore, discretionary accrual (DA) may be computed using the formula: $DAit = TAit - NDAit$.

This research framework examines the relationship between financial performance and firm value, with earnings management as a moderating variable. Conceptually, financial performance, as indicated by ROA, ROE, and NIM, should positively contribute to increasing firm value, as reflected in OEOI, NPL, and PER. Earnings management practices can influence this relationship, either strengthening it by increasing investor confidence or weakening it by reducing the reliability of financial reports.

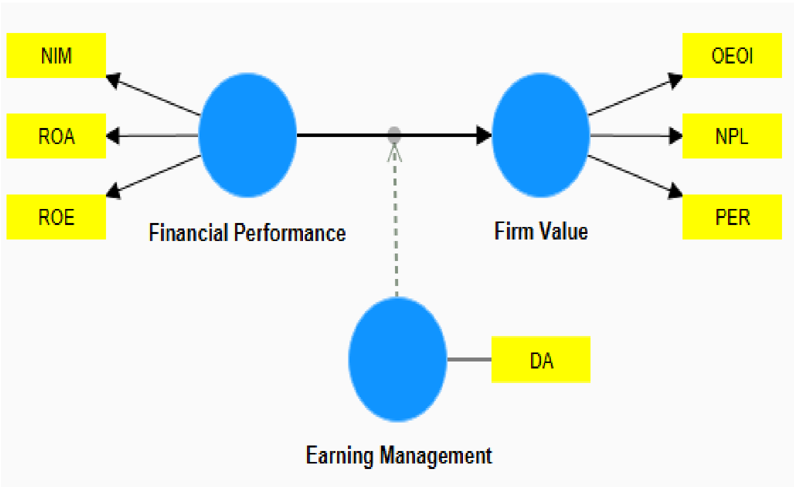


**Figure 2. Research Framework**

**The Influence of Financial Performance on Firm Value**

Financial performance reflects how effectively a company manages its assets, capital, and operations to generate profits. Theoretically, good financial performance will strengthen investors' belief in the company's future potential, thereby driving increased company value. Research conducted by Shinta Wijayaningsih and Agung Yulianto (2021) and Lorensius R. L. Dhae (2023) found that profitability has a significant positive influence on company value, using ROA and ROE as indicators. In this study, financial performance is measured by Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). In contrast, company value is measured using Operating Expenses relative to Operating Income (OEOI), Non-Performing Loans (NPL), and the Price Earnings Ratio (PER). A positive relationship is expected because higher profitability leads to higher market appreciation of the company's value.

However, in the banking industry, particularly during periods of economic uncertainty, the alignment between financial performance and company value is not always clear. External factors such as market sentiment, government policies, and economic recovery prospects often dominate investor perceptions. Researchers Halimah & Komariah (2017), Andry Priharta et al. (2023), and Ake Dahlia et al. (2024) found that profitability significantly influences firm value. Firm value plays a crucial role because it reflects a business entity's overall performance. Yuliati Galuh Nur Safitri & Nurul Hasanah Uswati Dewi (2023) stated that higher firm value indicates a higher level of owner welfare, as reflected in positive share prices. Based on previous concepts and empirical findings, this research hypothesis can be formulated as follows:
H1: Financial performance influences the firm value of national commercial banks.

**The Impact of Earnings Management on Firm Value**

Earnings management is a managerial action that influences the presentation of financial reports to achieve specific objectives, such as stabilizing earnings, meeting targets, or attracting investor attention. In agency theory, this practice arises from the divergence of interests between managers, as agents, and shareholders, as principals. Conceptually, earnings management can affect firm value because financial statements are the primary basis for investors to evaluate a company's prospects and performance. Earnings management affects company value (Amarta Iyanda Luckyta et al., 2024).

If earnings management practices are carried out in a controlled manner, this can increase market confidence because the company appears to be performing stably, thus driving firm value upward. However, if these practices are carried out excessively and are exposed by the market, it can undermine the credibility of financial statements and trigger a decline in investor confidence. In the banking context, where transparency and public trust are crucial, earnings management can significantly influence a company's value. Research by Pedi Riswandi & Rina Yuniarti (2020), Hana Tamara Putri found that earnings management has a positive effect on firm value. Building on previous studies and conceptual frameworks, this study formulates the hypothesis as follows:
H2: Earnings management affects the firm value of national commercial banks.

**Earnings Management Moderates the Relationship Between Financial Performance and Firm Value**.
Financial performance essentially represents a firm's ability to manage assets, capital, and operational activities to produce earnings. The higher the financial performance, the greater the potential to increase firm value, as investors perceive the company as having profitable prospects. However, this relationship is not always direct, as additional factors, such as management accounting practices, may affect how the market perceives performance information. Earnings management strengthens the moderating effect of profitability on firm value (Olisiang Chandra Putra et al., 2024). Earnings management has emerged as a factor that can adjust the impact of financial performance on firm value. If earnings management practices are carried out prudently and do not violate accounting principles, financial statements will appear more stable, thereby strengthening the direct positive connection between financial performance and firm value. Conversely, if earnings management is excessive or detected by the market, the credibility of financial statements can decrease, affecting the effect of financial performance on a company's value. This is particularly relevant in the banking industry, where public trust and information transparency are key aspects in investor assessments.

The role of earnings management as a moderating variable needs further testing to determine the extent to which earnings management practices can strengthen or weaken the impact of financial performance on corporate value. Therefore, the hypothesis formulated for this research is:
H3: Earnings management moderates the relationship between financial performance and firm value in national commercial banks.

## METHODS

This study's population includes all Conventional National Commercial Banks registered on the IDX for the 2019–2023 period. Sample selection was carried out using a purposive sampling technique on 23 conventional commercial banks based on the following criteria: (1) banks consistently registered on the IDX during the research period, (2) having complete published annual financial reports for the 2019–2023 period, and (3) presenting data relevant to the research variable indicators, such as ROA, ROE, NIM, BOPO, NPL, and PER, (4) companies that consistently made a profit during the research period. Using this sampling process, 161 observations were collected from 23 banks.

The study employs Structural Equation Modeling–Partial Least Squares (SEM-PLS) analysis using SmartPLS software. Analysis was performed in two steps. First, testing the outer model (measurement model) for assessing the accuracy and consistency of the construct, which includes convergent validity through the loading factor value (>0.70) and Average Variance Extracted/AVE (>0.50), discriminant validity through the Fornell-Larcker Criterion, Cross-Loading, and construct reliability using Cronbach's Alpha and Composite Reliability (>0.70). Second, testing the inner model (structural model), which aims to evaluate the relationships among latent variables through

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path coefficients and their significance (p-values), and the coefficient of determination ($R^2$) to measure the predictive ability of endogenous variables.

## RESULTS AND DISCUSSION

Based on Partial Least Squares (PLS) analysis, convergent validity was assessed using loading factor values, which indicate the degree of correlation and association between the measurement indicators and the latent variables they represent. The findings of the loading factor calculations are presented in Table 1 as the basis for assessing construct validity.

**Table 1. Loading Factor Uji Validitas Convergent**

| | Financial Performance | Earning Management | Firm Value | Explanation |
|---|---|---|---|---|
| **Return on Asset (ROA)** | 0.962 | | | Valid |
| **Return on Equity (ROE)** | 0.915 | | | Valid |
| **Net Interest Margin (NIM)** | 0.614 | | | Valid |
| **Discretionary Accounting (DA)** | | 1.000 | | Valid |
| **Operational Expense to Operational Interest (OEOI)** | | | 0.893 | Valid |
| **Non-Performing Loan (NPL)** | | | 0.712 | Valid |
| **Price Earnings Ratio (PER)** | | | 0.664 | Valid |

Source: PLS Analysis Results

The convergent validity test results, as shown in Table 1, reveal that the ROA 0.962 and ROE 0.915 indicators have very strong loading factors because they exceed 0.90, so they are valid in representing the financial performance construct, while the NIM 0.614, although below 0.70, is still acceptable in exploratory research because it exceeds the minimum threshold of 0.50. In the company value construct, OEOI (0.893) and NPL (0.712) meet the validity criteria with values above 0.70, while PER (0.664), although slightly below 0.70, is still suitable for use because it is close to the acceptance limit from the perspective of exploratory research. The AVE calculation in Table 2 shows the extent to which each construct in this study meets its criteria.

**Table 2. Average Variance Extracted (AVE) Convergent Validity Test**

| | Average Variance Extracted | Explanation |
|---|---|---|
| **Financial Performance** | 0.713 | Valid |
| **Firm Valuar** | 0.582 | Valid |

Source: PLS Analysis Results

The convergent validity test results in Table 2 show that financial performance and firm value have AVE values above 0.50, indicating validity. The financial performance construct had an AVE of 0.713, indicating that it explains more than 70% of the indicator's variance. Meanwhile, the firm value construct had an AVE of 0.582, indicating that over 50% of the indicator variance is accounted for by the construct.

The discriminant validity test ensures that the research instrument truly measures a distinct construct and does not overlap with other constructs. Discriminant validity was assessed using cross-loadings, and the results are shown in Table 3.

**Table 3. Cross-Loading Discriminant Validity Test**

| | Financial Performance | Firm Value | Earning Management | Explanation |
|---|---|---|---|---|
| Return on Assets (ROA) | 0.962 | -0.802 | -0.006 | Valid |
| Return on Equity (ROE) | 0.915 | -0.694 | -0.096 | Valid |
| Net Interest Margin (NIM) | 0.614 | -0.333 | -0.030 | Valid |
| Operational Expense to Operational Interest (OEOI) | -0.822 | 0.893 | 0.002 | Valid |
| Non-Performing Loan (NPL) | -0.410 | 0.712 | -0.126 | Valid |
| Price Earnings Ratio (PER) | -0.356 | 0.664 | 0.020 | Valid |
| Discretionary Accrual (DA) | -0.051 | -0.035 | 1.000 | Valid |

Source: PLS Analysis Results

The cross-loading test results in Table 3 show that all indicators in the financial performance and firm value variables exhibit higher correlations with their respective constructs than with other constructs. Financial performance indicators, namely ROA 0.962, ROE 0.915, and NIM 0.614, have a higher correlation value with the financial performance construct compared to firm value. Similarly, the firm value indicators measured by OEOI 0.893, NPL 0.712, and PER 0.664 show a higher correlation with the firm value construct compared to financial performance. These findings confirm that each indicator accurately represents the measured variables, with no overlap across constructs. The discriminant validity test using the Fornell-Larcker criteria and the AVE root is presented in Table 4, showing the extent to which each construct meets these criteria.

**Table 4. Fornel Larcker or √AVE Discriminant Validity Test**

| | **Earning Management** | **Financial Performance** | **Firm Value** | **√ AVE** | **Explanation** |
|---|---|---|---|---|---|
| **Earning Management** | 1.000 | -0.051 | -0.035 | 1.000 | Valid |
| **Financial Performance** | -0.051 | 1.000 | -0.767 | 0.844 | Valid |
| **Firm Value** | -0.035 | -0.767 | 1.000 | 0.763 | Valid |

Source: PLS Analysis Results

The analysis results in Table 4 show that the square root of each construct's AVE (√AVE) is higher than the correlations between the other constructs: Earnings Management 1.000, Financial Performance 0.844, and Firm Value 0.763. This condition indicates that each latent variable has strong discriminatory power, differentiating it from other variables. Thus, all constructs in the model have met the discriminant validity criteria, which emphasizes that the √AVE of a construct must be greater than the correlation with other constructs. The results of the Cronbach's Alpha and Composite Reliability calculations are presented in Table 6.

**Table 5. Reliability**

| | **Cronbach's alpha** | **Composite reliability (rho_c)** | **Explanation** |
|---|---|---|---|
| Financial Performance | 0.796 | 0.878 | Reliabel |
| Firm Value | 0.668 | 0.804 | Reliabel |

Source: PLS Analysis Results

Based on the reliability test results in Table 6, the financial performance construct showed a Cronbach's Alpha of 0.796, exceeding the minimum limit of 0.70. In contrast, the company value construct obtained 0.668, which, although slightly below the standard, is still acceptable because it is close to the recommended minimum criteria. Furthermore, the Composite Reliability values for the two constructs were 0.878 and 0.804, respectively, both exceeding the 0.70 threshold. All constructs have adequate internal consistency, so the indicators used reflect the latent variables consistently and reliably.

The inner model test is used to explain the causal link between a latent construct that cannot be directly measured, with evaluations including the path coefficient and the $R^2$ value. The $R^2$ statistic indicates the degree to which the exogenous variable explains variance in the endogenous variable, with 0.75 deemed strong, 0.50 moderate, and 0.25 weak. The path coefficient is used to test hypotheses, with a positive value indicating a unidirectional relationship and a negative value indicating an inverse relationship.

**Table 6. Path Coefficient and R-Square**

| | **Original sample (O)** | **T Statistics (O/STDEV)** | **P Values** | **Explanation** |
|---|---|---|---|---|
| Financial Performance → Firm Value | -0.764 | 14.657 | 0.000 | Significant |
| Earning Management → Firm Value | -0.022 | 0.147 | 0.441 | No Significant |
| Financial Performance x Earning Management → Firm Value | -0.085 | 0.384 | 0.351 | No Significant |
| | R-Square | | R-Square Adjusted | |
| Nilai Perusahaan | 0.595 | | 0.587 | |

Source: PLS Analysis Results

The analysis results in Table 7 show that the Adjusted R Square is 0.587, indicating that exogenous variables explain 58.7% of the variation in endogenous variables. In comparison, the remaining 41.3% is influenced by other external factors not included in the model. The small difference between R Square and Adjusted R Square confirms the model's stability, with a moderate predictive category. The path coefficient of financial performance on firm value is -0.764, with a p-value of $0.000 < 0.05$, indicating a significant negative influence: an increase in ROA, ROE, and NIM is followed by a decrease in OIOE, NPL, and PER. Conversely, earnings management does not significantly influence firm value (coefficient -0.022; p-value $0.441 > 0.05$). Similarly, its role as a moderating variable is found to be unable to strengthen the relationship between financial performance and the firm value coefficient (-0.085; p-value $0.351 > 0.05$).

**The Influence of Financial Performance on Firm Value**

Based on the results, the path coefficient from financial performance to firm value in the original sample was -0.764 (p-value = 0.000), which is below the 0.05 significance level. This study shows that financial performance, as reflected in Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM), has a negative and significant effect on the firm value of commercial banks, as reflected in the Price Earnings Ratio (PER), Operating Expenses to Operating Income (OEOI), and Non-Performing Loans (NPL) during the 2017–2023 period. Any changes in financial performance, as reflected by ROA, ROE, and NIM, will significantly impact firm value, as reflected in OEOI, NPL, and PER, in the opposite direction.

Empirical evidence indicates that during the 2017–2023 period, shows that during the COVID-19 pandemic (2019–2021), there was a downward trend in ROA, reflecting a decline in banking sector profitability due to external factors such as increased operating expenses, increased credit risk, slowing economic growth, and easing policies from financial authorities. From a signaling theory perspective, this short-term decline in financial performance is not necessarily responded to negatively by the market, as investors also consider long-term outlook signals reflected in stimulus policies and regulatory support for the banking industry. In line with agency theory, the increased role of regulatory oversight and intervention during the crisis period also reduced uncertainty and the risk of opportunistic management, leading the market to view the decline in profitability as a temporary condition.

The increase in PER values during the pandemic reflects investor optimism about the company's long-term prospects, despite declining short-term financial performance. This finding is consistent with empirical evidence showing that ROA has a significant negative effect on firm value (Luh Pande Eka Setiawati et al., 2023) and on NPL (Cep Jandi Anwar & Sunaenah, 2016). Meanwhile, risk and efficiency indicators such as NPL and BOPO fluctuated and tended to increase, indicating deteriorating credit quality as banks may face difficulties in selecting eligible borrowers or experience limitations in credit risk management. In terms of efficiency, costs rose relative to operating income, thereby increasing BOPO. Banks experienced a decline in operational efficiency, as each unit of revenue generated had to bear higher costs.

**The Effect of Earnings Management on Firm Value**

The analysis results show that the earnings management variable has a path coefficient on firm value of -0.022 (p-value = 0.441), which is above the 0.05 significance level. These results indicate that earnings management activities have a negative and insignificant effect on firm value. Any change in earnings management, as reflected by the Discretionary Accruals indicator, will cause a change in firm value in the reverse direction, but this is not significant. Earnings management practices fluctuate in firm value, with a tendency to increase, although the increase is not significant. This negative trend may be related to market or investor perceptions that view earnings management practices as a negative signal, as they may reflect manipulative behavior or a lack of transparency in financial reporting.

The statistical insignificance of this study's results indicates that, within the analyzed period and sample, earnings management practices did not significantly influence investor decisions or were inconsistently reflected in the company's market value. From the perspectives of agency theory and signaling theory, the effectiveness of external oversight, such as that by auditors and regulators in the banking and financial sector, can suppress opportunistic management behavior, thereby limiting the negative impact of earnings management and minimizing investor reactions to the practice. This finding aligns with empirical evidence showing that earnings management has no significant effect on firm value (Devih Anggraini & Emi Lestari, 2024; Olisiang Chandra Putra et al., 2024; Tiolensa Kristina Situmorang et al., 2025). Pedi Riswandi & Rina Yuniarti (2020) found that earnings management has a positive effect on firm value.

**The Moderating Effect of Earnings Management on Firm Value**

The path coefficient for the interaction between financial performance and the impact of earnings management on firm value was -0.085, with a p-value of 0.351, which is above the 0.05 significance level. This result indicates that earnings management weakens the link between financial performance and firm value, though the effect is not significant. This fact indicates that earnings management is unable to moderate the effect of financial performance on firm value. When earnings management practices occur, the effect of financial performance on firm value is weakened, though it remains insignificant. This suggests that earnings management cannot play a role and obscures the company's true financial performance, reducing market confidence in the information it provides. Investors who perceive manipulative signals in financial reports are likely to respond negatively to such information.

From the perspective of agency and signaling theory, earnings management is often considered a form of information asymmetry that can disrupt financial transparency. Dudi Pratomo & Daniel Adventheo Sudibyo (2023) stated that earnings management practices or the manipulation of financial reports can reduce company value by weakening the credibility of financial information and investor confidence. However, this result indicates that the market does not adequately react to earnings management practices carried out concurrently with financial performance. This finding differs from several previous studies that suggest earnings management has a significant moderating role. Olisiang Chandra Putra et al. (2024) asserted that earnings management can moderate the effect of profitability on firm value, as proxied by PBV.

## CONCLUSION

Based on the analysis, evidence indicates that financial performance has a notable negative effect on firm value, suggesting that declining financial performance is associated with increased firm value. While earnings management, as a moderating variable, has no significant effect, it cannot moderate this relationship. This confirms that the connection between key financial indicators and a company's market valuation is not always unidirectional. Although ROA, ROE, and NIM decreased during the study period, firm value indicators such as PER, NPL, and OEOI tended to increase. This condition indicates that the value of firms in the banking industry is not exclusively determined by short-term financial performance but is also influenced by market anticipation of economic recovery and government and monetary authority stimulus policies. Subsequent studies are encouraged to consider other moderating variables, such as ownership structure, corporate governance, or macroeconomic conditions. For practitioners, maintaining transparency and accountability in financial reports is crucial to maintain investor confidence, even though earnings management practices do not directly impact firm value in the short term.

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