ENTERPRISE RESOURCE PLANNING AND REAL EARNINGS MANAGEMENT: A STUDY IN INDONESIA

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ABSTRACT
This research objective is to examine the effect of enterprise resource planning (ERP) on real earnings management (REM). The sample are 590 manufacturing firm-years listed in the Indonesian Stock Exchange 2017-2021. REM is proxied by three abnormal activities: over-sales, overproduction, and discretionary expense cutting. With panel data regression analysis, it is found that ERP implementation has a negatively significant effect on REM. Further, the ERP system implementation role to reduce REM is more pronounced for overproduction and discretionary expenses activities, and for suspect firms that beat earnings targets. ERP systems play an important role in reducing information asymmetry and effectively constraining REM. This research gives implications to firm management to make decisions about ERP an investment or to increase implemented ERP performance so that REM can be reduced. This research strengthens previous findings about ERP on REM by involving the ERP non-implementer as control group firms, using alternative ERP implementation period to control its effectiveness, and also examining REM suspect and non-suspect firms, since previous researches are lack of it.

JEL: M410, M400, M21.

Keywords: abnormal activities, enterprise resources planning, real earnings management, information asymmetry.

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Received : 24-11-2022, Accepted : 17-04-2023, Published : 30-04-2023
P-ISSN : 2087-9954, E-ISSN : 2550-0066. DOI : http://dx.doi.org/10.26418/jebik.v12i1.59655