Earnings Management Moderation in the Effect of Company Performance on Impression Management with Firm Size as a Control Variable

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Article Info	Abstract
	This study examines the effect of firm performance on impression management, considering the role of earnings management as a moderating variable and firm size as a control variable. The object of the study is the banking sector listed on the Indonesia Stock Exchange (IDX) for the period 2021–2023. Firm performance is measured by Return on Assets (ROA), earnings management by discretionary accruals, and impression management through content analysis of the MD&A section in annual reports. The results show that firm performance has a negative effect on impression management, and earnings management weakens this relationship. Firm size also influences the tendency to use impression management strategies. These findings contribute to the understanding of managerial behavior in financial reporting.

Introduction

The Covid-19 pandemic, declared a national disaster by the Indonesian government in March 2020, had a major impact on businesses, especially due to large-scale social restrictions (PSBB) that disrupted cash flows and reduced companies' financial performance. This condition triggered a decline in profits and opened opportunities for management to blame external crises for poor outcomes (Probst & Raisch, 2005), in line with the self-serving bias (Keusch et al., 2012).

Impression management helps individuals and organizations present financial reports in a favorable way (Hooghiemstra, 2000). Companies are required to disclose their finances (Ariningtyas & Purnamawati, 2025), and impression management becomes an agency issue as it is used by managers to control perceptions of their performance (Suripto, 2013).

According to Kompas.id (2025), both domestic and international changes have put pressure on Indonesia's banking sector. In February 2025, the IDX Composite Index (IHSG) dropped 11.43%, the lowest since the pandemic. This affected the stock prices of BNI, BRI, and Bank Mandiri, which fell by 6.27%, 13.62%, and 9.35%, respectively, due to foreign capital outflows and global uncertainty.

In such situations, banks tend to engage in earnings management to maintain their performance reputation. According to Jouber & Fakhfakh (2011), earnings management is used to meet profit targets, but board oversight is often ineffective. Nikulin & Downing (2021) found that banks engage in earnings management prior to rights issues to meet OJK regulations through discretionary loan loss provisions. The audit committee, however, plays a crucial role in supervising such practices.

Earnings management serves internal goals beyond regulatory compliance, including maintaining investor confidence and enhancing transparency. Public perception is also shaped

through annual reports using impression management strategies. As noted by Clatworthy and Jones (2006), this strategy is used by both well-performing and underperforming firms; however, excessive use can undermine the perceived integrity of the information.

The aim of this study is to examine how business performance affects impression management by considering the role of earnings management and firm size as moderating and control variables (Wedatara & Yasa, 2024). To influence perceptions of financial results, managers often use impression management techniques such as obfuscation and attribution (Merkl-Davies & Brennan, 2007; Suripto, 2013). These techniques present both positive and negative outcomes.

Accounting dyslexia is also utilized in earnings management, especially when there is high information asymmetry (Trueman & Titman, 1988; Suripto, 2012). The MD&A (Management Discussion and Analysis) section in annual reports is frequently used to construct a positive image through rational and persuasive narratives to build managerial reputation and legitimacy (Suripto, 2013).

To influence stakeholders' perceptions of company performance, management may engage in opportunistic earnings and impression management (Suripto, 2013). However, reported earnings remain a key measure for investors (Baginski et al., 2018). Yet, management may use discretion in financial reporting to present misleading information (Callao et al., 2014).

While impression management is used to craft a favorable narrative of company performance, earnings management allows manipulation of income to meet specific targets (Belkaoui, 2021). This strategy is more effective under high information asymmetry (Trueman & Titman, 1988). Suripto (2013) found that earnings management negatively affects impression management because managers tend to avoid attribution explanations to obscure earnings manipulation practices. On the other hand, Guillamon-Saorin & García Osma (2010) stated that earnings management has a negative impact on disclosure.

Performance, governance, and impression management significantly influence each other, according to previous research (Aerts, 2005; Godfrey et al., 2003; Osma & Guillamón-Saorín, 2011). Since large firms are considered more stable and lower-risk, some studies also emphasize the influence of firm size, measured by total assets, on impression and earnings management practices (Brigham & Houston, 2010; Suripto, 2013).

Methods

This study employs a quantitative approach using linear regression analysis via SPSS software to examine the effect of company performance on impression management, moderated by earnings management level and company size. The research object is the banking industry listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. The data used consist of annual reports, particularly the Management Discussion and Analysis (MD&A) section, collected from the IDX website and the companies' official websites. Although the MD&A content is qualitative in nature, it is manually analyzed using content analysis and converted into quantitative data. Statements in the MD&A are classified based on management's assessment of performance, the type of explanation provided, and the direction of attribution (internal/external). Impression management is measured based on three types of bias: accounting language bias, self-enhancement bias, and defensive bias. The average value of these three biases is used as the dependent variable in the study.

Results and Discussion

Research Findings

The findings of this study are based on two categories of tests that have been conducted: the Assumption Test and the Hypothesis Test. The Assumption Test includes descriptive statistics and classical assumption testing, while the Hypothesis Test is carried out through linear regression testing involving a moderating variable and a control variable.

Assumption Test

The data from content analysis presented in Table 4 show that managers tend to provide explanations for financial results rather than not providing any explanation.

Table 1. Types of Explanations for Financial Results

Description	Total		Average per Annual Report	
	Amount	%	Amount	%
Attribution Explanation	1964	52,46	10,74	52,05
* Positive Result	1068	54,38	5,83	54,29
* Negative Result	896	45,62	4,91	45,71
Accounting Explanation	1194	31,89	6,67	32,35
* Positive Result	586	49,08	3,28	49,20
* Negative Result	608	50,92	3,39	50,80
No Explanation	586	15,65	3,22	15,60
* Positive Result	368	62,80	2,01	62,51
* Negative Result	218	37,20	1,21	37,49
Total	3.744		20.63	

Out of 3,744 narrative statements in the annual reports of the banking sector in Indonesia, the majority of managers employed impression management strategies through attribution explanations (52.46%) and accounting explanations (31.89%), according to Table 1 of this study. Attribution explanations were used relatively equally for both positive and negative outcomes, but appeared more frequently in the context of positive performance and were directed toward internal factors, reflecting a self-serving tendency to enhance the image of management. Accounting explanations, on the other hand, tended to be used more often in the case of poor performance, serving as a form of technocratic legitimacy that obscures managerial responsibility. These findings support impression management and attribution theories and indicate that large companies may have greater capacity to strategically frame narratives than smaller firms. Annual reports thus function not only as tools for conveying financial information but also for influencing public perception of the company's condition.

Table 2. Locus of Causality in Attribution Explanation

Description	Total		Average Per Annual Report	
	Amount	%	Amount	%
Internal Factors	1039	52,90	5,65	52,60
*Positive internal	586	56,40	3,20	56,73
*Negative internal	453	43,60	2,44	43,27
External Factors	925	47,10	5,09	47,40
*Positive external	482	52,11	2,63	51,59
*Negative external	443	47,89	2,46	48,41

Attribution Explanation	1964		10,74	

The analysis of Table 2 reveals that out of 1,964 attribution statements in the annual reports of the banking sector, the majority (52.90%) are directed toward internal factors, while 47.10% refer to external factors. In positive performance conditions, management tends to attribute success to internal causes such as strategy, leadership, or innovation, reflecting a self-enhancement practice aimed at building a strong managerial image. Conversely, when facing negative outcomes, managers are more likely to blame external factors such as the economy, regulations, or competition a form of defensive attribution used to protect the company's reputation. This strategy indicates the presence of a self-serving bias in financial narratives, where management strategically frames the story based on performance conditions. These narratives are not constructed neutrally but are instead used as persuasive tools to shape the perceptions of the public, investors, and regulators, aligning with impression management theory and modern financial reporting rhetoric.

Table 3. Descriptive Data of the Sample

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Impression Management	105	-0,400	0,4800	0,0162	0,1801
Company Performance	105	-0,1804	0,0841	0,00468	0,0324
Earnings Management	105	-1,4171	2,4881	0,0915	0,4882
Company Size	105	2.173.162	2.174.219.449	249.230.954	493.624.635

The four main variables impression management, firm performance, earnings management, and firm size are presented in Table 3 with their descriptive statistics. Although the average value for impression management is close to zero (0.0162), the large standard deviation (0.1801) indicates significant variation among firms in applying impression strategies. This suggests that such an approach is contextual and not widely adopted. Reflected by the stability and uniformity of financial conditions among the sampled banks, firm performance shows a mean of 0.00468 with a low standard deviation of 0.0324. In contrast, earnings management displays a high deviation (0.4882) and an exceptionally high maximum value, indicating diverse profit manipulation strategies and a tendency to inflate earnings. Measured by total assets, firm size exhibits a very wide data spread, with a standard deviation nearly twice the mean, pointing to significant scale differences among banks. Overall, these findings highlight substantial inter-firm variation, particularly in the need to control for firm size when analyzing the relationship between performance management, earnings management, and impression management. The variability in data distribution also serves as an important consideration in selecting analytical techniques and determining the validity of the regression model used in the study.

Hypothesis Testing

The regression results presented in the Coefficients Table indicate the relationship between the independent variables, namely Return on Assets (ROA) and Firm Size, and the dependent variable, Impression Management. It shows that when all independent variables are equal to zero, the estimated value of Impression Management is 0.027. However, since the significance value is greater than 0.05, this constant is not statistically significant within the model. In other words, other factors not included in this model may contribute more significantly to determining the level of impression management in a company.

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Table 4. Summary of Regression Results

Variable	Symbol	Regression Result			
		B	S.E.	T	Sig.
Constant		0,0270	0,01852	1,4603	0,1473
Company Performance	KP	-2,0583	0,5247	-3,9222	0,0001
Company Size	UP	-5,6896E-18	3,4459	-0,1651	0,8691

With a coefficient of -2.058, a t-value of -3.922, and a significance level of p = 0.001, the regression analysis results indicate that Return on Assets (ROA) has a significant negative effect on impression management. This means that the worse the company's performance, the more frequently management employs impression management strategies to enhance perceptions. This finding aligns with the theory of negative impression management (Schlenker & Weigold, 1992) and the study by Merkl-Davies & Brennan (2007), which shows that management often uses narratives to justify poor performance.

Conversely, Firm Size has no significant effect on impression management, with a very small coefficient (-5.690×10^{-18}), a t-value of -0.165, and p = 0.869. This indicates that the size of the company does not sufficiently explain the variation in impression management practices in this context. Although some previous literature suggests otherwise, this result may be explained by the highly regulated and transparent nature of the Indonesian banking industry, where actual performance is more decisive than structural attributes such as size.

Overall, these findings affirm that impression management strategies are more driven by actual performance outcomes rather than company characteristics and support legitimacy theory, where firms attempt to shape a positive image when performance falls short of expectations.

Table 5. Summary of Regression Results with Moderating Variables

Variable	Symbol	Regression Result			
		B	S.E.	T	Sig.
Constant		0,0330	0, 0170	1,8760	0,0640
Company Performance	KP	-2,270	0,5350	-4,2410	0,0001
Earnings Management Moderation	UP	-2,1910	1,6482	-1,3292	0,1874

Moderation regression testing aims to determine whether the influence of company performance on impression management is strengthened or weakened by earnings management. The relationship between performance and impression management is not significantly moderated by earnings management; the interaction variable ROA × Earnings Management shows a negative coefficient (-2.191), but it is not statistically significant (p = 0.187).

The negative coefficient indicates a potential weakening effect, but there is insufficient statistical evidence to demonstrate that earnings management consistently affects the relationship. These results contradict some previous studies (such as Baskaran et al., 2020), but align with Amanda & Halmawati (2022), who state that impression management is not always a result of earnings manipulation.

The strict regulations by the Financial Services Authority (OJK) and Bank Indonesia (BI), highly transparent reporting standards, and close public and auditor scrutiny limit the flexibility

of earnings management in Indonesia's banking sector. Therefore, narrative strategies or impression management are more directly influenced by actual performance (ROA) rather than in combination with profit manipulation.

Empirical examples show that banks with low ROA, such as Bank Ina Perdana (BINA) and Bank Amar (AMAR), use defensive narratives based on external factors. In contrast, banks with high ROA, such as BCA and BNI, emphasize internal success.

These findings support impression management and attribution theories, which suggest that poorly performing companies are more likely to use strategic narratives to divert public attention. In conclusion, impression management is significantly influenced by company performance, while earnings management does not function as an effective moderator in this relationship.

Discussion

The Influence of Performance on Impression Management

The research findings indicate that impression management practices are significantly influenced by a company's financial performance, as measured by Return on Assets (ROA). The first hypothesis (H1), which posits that companies with strong performance tend to convey positive narratives in their annual reports, is supported by these results (Clatworthy & Jones, 2006). This aligns with signaling theory proposed by Spence (1973), which suggests that management uses strong financial indicators, such as high ROA, as positive signals to investors and other stakeholders.

Furthermore, according to Beattie et al. (2004), businesses with good financial outcomes typically use the narrative sections of their annual reports to showcase managerial success and strategic advantages. This communication strategy helps enhance public perception of the company. A study by Craig & Amernic (2004) found that firms operating in competitive economic environments tend to craft narratives that portray strong leadership and wise decision-making, especially when they achieve outstanding financial performance.

Recent research by Malone et al. (2022) shows that highly profitable businesses not only increase the volume of narrative disclosures but are also more likely to use a more optimistic and positive tone in their financial reports. This suggests that impression management is not just about the quantity of information disclosed but also about the manner in which it is presented.

Even more relevant in the post-pandemic context, a study by Bujaki et al. (2024) revealed that companies that recovered quickly from the COVID-19 crisis used narratives emphasizing resilience, innovation, and social responsibility as part of their impression management strategies. This study indicates that management not only presents performance data but also frames it within narratives that inspire trust and confidence.

Overall, research has demonstrated a strong relationship between business performance and impression management; in this regard, positive narratives are employed as strategic tools to enhance corporate image when actual company performance supports it. To maintain investor trust, managerial credibility, and corporate legitimacy in a competitive capital market, such corporate communication strategies are effectively utilized.

The Moderating Role of Earnings Management

The interaction between Return on Assets (ROA) and earnings management has a significant negative effect on impression management. This finding indicates that earnings management practices actually weaken the positive impact of performance on impression. The result

supports the second hypothesis (H2) and is consistent with the study by Lobo & Zhou (2001), which states that excessive earnings management can reduce the credibility of corporate narratives. It also suggests that when earnings are manipulated, the effectiveness of performance signals declines and market perceptions may become skeptical of management's narrative.

Analytical decisions indicate that impression management is significantly worsened by the relationship between ROA and earnings management (coefficient = –2.191, p > 0.05), supporting the hypothesis that excessive earnings management indirectly reduces the credibility of positive performance storytelling. This result aligns with Lobo & Zhou's (2001) research, which emphasizes that earnings manipulation can erode stakeholders' confidence in the company's narrative. Furthermore, Malone et al. (2022) found that overly optimistic earnings disclosures often signal earnings management, increasing investor skepticism.

On a global scale, a study by Madwe et al. (2024) on JSE-listed firms found that earnings management practices are positively correlated with impact management in integrated reporting, suggesting that narrative disclosure may be used to obscure earnings manipulation. However, Hamza et al. (2023) found that CSR disclosures tend to be influenced independently by earnings and impression management.

The findings indicate that in Indonesia's highly regulated banking sector, earnings management practices do not always translate into positive or persuasive impression narratives. Instead, narrative use by management tends to be driven more by actual performance, while evident earnings manipulation often leads to a tone of skepticism from investors. Recent studies emphasize the importance of tone management as a representation of legitimacy rather than merely an add-on to numerical manipulation.

The Influence of Company Size

The tendency to engage in impression management is significantly influenced by company size. Large companies are typically subject to stricter regulations, receive greater attention from investors and the media, and face higher public expectations. Because they have substantial reputational incentives, Haniffa & Cooke (2002) state that large firms are more likely to actively manage their public image through narratives presented in annual reports. This aligns with legitimacy theory, which posits that larger entities are more inclined to maintain public perception in order to uphold their social status and operational legitimacy.

According to Hassanein & Hussainey (2015), large firms have a greater capacity to employ narrative strategies in their financial reports, including the choice of language tone and the length of narratives. Moreover, a recent study by Hamza & Jarboui (2024) found that large companies more frequently use ESG (Environmental, Social, and Governance) disclosures with a positive tone as a form of impression management to enhance their ethical and accountable image. This indicates that company size plays a crucial role in determining corporate communication strategies.

As a result, these findings support the use of company size as a control variable in impression management studies and confirm that the intensity and complexity of narrative strategies used to shape stakeholder perceptions are related to company size.

Theoretical Implications

These findings support agency theory, which posits that managers are motivated to act impulsively in situations of information asymmetry, particularly when company performance is poor. To maintain favorable perceptions among stakeholders, management often utilizes narratives in annual reports as a means of impression management (Jensen & Meckling, 1976;

Hamza & Jarboui, 2024). Earnings management is frequently involved in this practice, especially in the form of income-increasing earnings management, aimed at concealing declining actual performance (Malone et al., 2022).

Furthermore, signaling theory also known as the confirmed signal theory is reinforced. Strong financial performance, such as high ROA, is considered a positive signal to investors. However, in certain situations, such signals may become ineffective when combined with manipulative techniques such as earnings management or excessive use of defensive narratives. The signals being sent are now packaged to construct specific perceptions rather than merely reflecting the company's fundamental value (Spence, 1973; Craig & Amernic, 2004). Therefore, cautious investors must differentiate high-quality signals from those created under reputational pressure by management (Beattie et al., 2004). According to Bujaki et al. (2024), companies are more likely to use impressionistic storytelling to maintain legitimacy and public trust during crises. Hence, transparency and oversight are crucial in the financial reporting process.

Practical Implications

Investors and regulators should evaluate companies not only based on annual history and profits but also assess the quality of the accounting information presented, including the potential presence of earnings management practices. Financial reports may display favorable outcomes, but the information can be manipulated through impression management strategies or profit manipulation. This is reinforced by findings from Malone et al. (2022), which reveal that positive tones in narratives are often linked to manipulative practices when companies are experiencing performance downturns.

In impression management, the negative relationship between earnings management and ROA indicates that signals conveyed become less reliable when profits are manipulated. This implies a risk that inaccurate financial information may mislead stakeholders. Hamza & Jarboui (2024) found that transparency standards and ESG governance can mitigate the adverse effects of excessive impression management; however, there remains room for organizations to obscure information through strategic storytelling.

Moreover, Bujaki et al. (2024) state that in times of crisis, businesses tend to intensify narrative use to obscure negative impacts, and investors must carefully interpret these narratives to avoid being misled by unrealistic optimism. Therefore, it is vital for regulators to continuously monitor non-financial signals in annual reports. They must also develop standards for evaluating the quality of narratives and accruals. This approach is crucial to ensure that economic decisions are based on information that genuinely reflects the company's underlying conditions, rather than merely the management's opinions.

Conclusion

A study of annual reports in the banking sector reveals that managers readily employ impression management strategies, particularly when company performance is favorable. The analysis indicates that the poorer the firm's performance, the more likely managers are to engage in impression management. Financial explanations are often presented using attributive language and directed toward internal factors, reflecting a self-serving bias. However, earnings management was not found to moderate the relationship between performance and impression management. Firm size also showed minimal influence. These findings highlight the crucial role of narrative in shaping stakeholder perceptions and underscore the need for regulators to closely monitor the narrative content of annual reports. Furthermore, investors are advised not to rely solely on narrative disclosures when evaluating business performance.

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