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The Influence of Earnings Management, Corporate Strategy, and the COVID-19 Pandemic on Bankruptcy Risk in Indonesian Retail Companies

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Abstract

COVID-19 pandemic has had a significant impact on retail companies. “Stay at home” policy reduce sales products significantly distributed through retail channels. The potential risk of bankruptcy is a threat to the retail companies existency. This research aims to prove empirically how income smoothing earnings management, company strategy (cost leadership and differentiation), and the COVID-19 pandemic influence bankruptcy risk. This research took a sample of 23 retail trading subsector companies listed on the Indonesia Stock Exchange (IDX) in the first to the fourth quarter of 2019-2020. The method used in this research is Multiple Linear Regression. The results show that income smoothing earnings management has a positive relationship with bankruptcy risk. In addition, if a company implements a cost leadership strategy in its business, it will reduce the risk of bankruptcy borne by the company. On the other hand, differentiation strategy and the COVID-19 pandemic do not have a significant effect on bankruptcy risk.

Keywords: Bankruptcy Risk, Earnings Management, Corporate Strategy, COVID-19 Pandemic, Retail Industry

INTRODUCTION

COVID-19 pandemic has had impacted not only on the health aspect, but only on the economic sector. Indonesia’s economic growth reached negative 2.19 percent at the end of 2020 (Ministry of Finance RI, 2020). Most of companies struggle to pay the installments as a result of economic crisis occured in Indonesia (BPS RI, 2020). Moreover, the relationship between creditors and debtors deteriorated and various litigation cases arose due to problems with delayed loan payments. This problem impacts almost all sectors in Indonesia, does not only concern one particular sector (Kontan, 2020).

Declining sales and closing retail stores during COVID-19 pandemic are related to companies’s bankruptcy risk which will impacted on companies performance and society expectation, especially creditor (Purnamasari. 2020). With this great impact for stakeholders, bankruptcy risk become essential topic on management, business, and accounting field (Lukason & Camacho-Miñano, 2019). Bankruptcy risk is same as force the companies to take legal action by declaring bankcruptcy with the aim to pay its debt (Bryan et al., 2013). According to Sindo

News (2016), both of internal and external factors have an impact on the risk of bankruptcy.

As one of internal action which can reduce bankcruptcy risk, profit management is a practice of changing the factual financial statement and covering companies condition from public attention (Healy & Wahlen, 1999). Management profits are derived from management process and financial manipulation practice because this act aims to ensure that the nominal amount annouced is in line with what was anticipated. Kurniawansyah (2019) stated that profit management is not a fraudulent act because its is permitted under accounting standard and company law. Mahrani dan Soewarno (2018) stated that this technique decrease the reliability of profit information in financial statement, which will impact on business performance.

Apart from profit management, company strategy become a factor influence bankrupcty risk. This strategy exists by making the company more profitable because it can reduce the risk of bankcruptcy (Bryan et al., 2013). There are two strategies can be implemented by company, such as cost leadership and diferentiation (Porter, 1998). Diferentiation focuses on how business pursue unique aspect of product, meanwhile, cost leadership focuses on how company reach cost eficciency and assets saving in practice (Bryan et al., 2013).

The company tend to take the optimal efforts to reduce risk of bankruptcy, however this risk remain exist and need to be anticipated. It This is the reason and basis for conducting this research. The aim of this research is to analyze the influence of income smoothing management, company strategy, and the COVID-19 pandemic on business bankruptcy. By examining the issue of retail business bankruptcy for the 2019–2020 period, the COVID-19 pandemic is an extraordinary accident that has an impact on multiple aspects. Indonesia as a developing country can provide new and enriching contributions to previous studies.

Bankruptcy Risk

COVID-19 pandemic had significant impact on retail business in Indonesia. Declining sales, shifting to online shopping, supply chain disruption, store closures, increased technology adoption, and government policy are some of key impacts of pandemic (Putritamara et al., 2023). Outecheva (2007) stressed that there are two perspectives to describe risk of bankruptcy , namely event oriented definition and process oriented definition. Bankruptcy risk based on event oriented develop when a business declares bankruptcy and fails to meet its financial obligations to creditors (Beaver, 1966). Meanwhile, bankcruptcy risk based on process oriented consists of several event, it began fwhen when the company experienced a decline in cash flow, then the company reduced dividend payments, and was followed by filing for bankruptcy (Turetsky & McEwen, 2001). The process-oriented approach to bankcruptcy risk views bankrutcy risk as a set of circumtances that includes not only the declaration of bankruptcy but also financial difficulties experienced by the company.

This research used Altman Z-Score to know the risk of bankcruptcy. Altman Z-Score method was chosen because previous reserach conducted by Ohlson (1980), Zmijewski (1984), and Agustia et al. (2020) showed that Alman Z-Score method as one of the best method to predict bankcrupcty. Five financial ratios, such as liquidity, solvency, leverage, profitability, and activity are used to create the Altman Z-Score.

$$Z\ score = 1{,}2\ (WC) + 1{,}4\ (RE) + 3{,}3\ (EBIT) + 0{,}6\ (MVE) + 0{,}999\ (S) \qquad (1)$$

Notes:

WC = Working Capital scaled by total asset

RE = Retained Earnings scaled by total asset
EBIT = Earnings before Interest and Taxes scaled by total asset
MVE = Market Value of Equity scaled by total asset
S = Sales scaled by total asset

Income Smoothing Earnings Management

Income smoothing earning management is a management practice to influence income statement with the aim to changing financial data, especially reported earning account, and provides different information from the actual economic performance of company. (Healy & Wahlen, 1999). Earnings management is an accounting method to produce appropriate financial statement and show strong company performance. Financial statement is one of essential element to analyze investor material, which allows investors to understand the company's overall performance and consistency (Vishnani et al., 2019). Incentives from the stock market, private information, political costs, extraordinary CEO performance, and the existence of internal objectives are possible justifications for using earnings management (Verbruggen et al., 2008).

Modified Jones Model is used to measure income smoothing earnings management activity. This research focuses on accrual-based earning. This modification model was chosen because it is the latest version of Jones (1991) model which offers more accurate findings for discretionary accruals.

(1) Total Accrual Calculation (TAC):

$$Total\ accrual\ = NIit\ -\ CFOit \tag{2}$$

(2) Total accrual calculated by Ordinary Least Square (OLS) with:

$$\frac{TAit}{Ait-1} = \beta 1\left(\frac{1}{Ait-1}\right) + \beta 2\left(\frac{\Delta Revit}{Ait-1}\right) + \beta 3\left(\frac{PPEit}{Ait-1}\right) + \varepsilon \tag{3}$$

(3) Non-discretionary accruals (NDA):

$$NDAit = \beta 1\left(\frac{1}{Ait-1}\right) + \beta 2\left(\frac{\Delta Revit}{Ait-1} - \frac{\Delta Recit}{Ait-1}\right) + \beta 3\left(\frac{PPEit}{Ait-1}\right) \tag{4}$$

(4) Discretionary accruals (DA) as revenue management proxy:

$$DAit = \frac{TAit}{Ait-1} - NDAit \tag{5}$$

DAit = *Discretionary Accrual by company i in period t*
NDAit = *Non-Discretionary Accruals by company i in period t*
TAit = *Total Accruals by company i in period t*
NIit = *Net Profit by company i in period t*
CFOit = *Cash Flows from operational activity by company i in period t*
Ait-1 = *Total asset by company i in period t-1*
ΔRevit = revenue by company *i in year t reduced by the income by company i in year t-1*

PPEit = *property, plant, and equipment by company i in period t*
ΔRecit = *Accounts receivable by company I in year t reduced by the accounts receivable by company I in year t-1*
ε = *error*

Corporate Strategy

Porter (1998) stated that corporate strategy is a company policy to adapt with competitive environment and innovate its mixed products to compete with competitor. Porter (1998) explained three corporate stategies such as cost leadership, differentiation, and focus strategy. However, in this discussion excluded focus strategy because this strategy stems from a combination of cost leadership and differentiation applied to small markets (Wu et al., 2015).

Cost leadership is a method to cut expenses so that it become the company with the lowest costs in its sector while maintaining certain quality standards. Asset Turnover of Operation (ATO), was measured by Hambrick (1983) and David et al. (2002), is the main metric in cost leadership, where the higher the output to input ratio, the better the company is at utilizing its resources to achieve operational excellence.

$$ATO = \frac{Operating\ sales}{Average\ operating\ assets} \quad (6)$$

$$Operating\ assets = Total\ Asset - Cash - Short\ Term\ Investment$$

Differentiation focuses on creating value by generating high margins in pursuit of product features that differentiate it from competitors. Differentiation is a strategy designed by how a company can make a product different from competitors. There is a proxy proposed by Wu et al. (2015) to measure differentiation strategy, namely Profit Margin (PM).

$$PM = \frac{(Operating\ income + R\&D\ Exp)}{Sales} \quad (7)$$

This research used four different variables: dependent, independent, control, and dummy. Dependent variable used in this research is risk of bankruptcy (Z-Score) for each retail company. In addition, there are three independent variables namely income smoothing earning management (DA), cost leadership (ATO), and differentiation strategy (PM). Control variables include size (which is calculated by the natural logarithm of the company's total assets), liquidity (which is calculated by the cash holding ratio), and leverage (which is calculated by the ratio of total liabilities to total assets). Also a dummy variable, namely the COVID-19 pandemic, where this variable is categorized into two, namely number 1 for the period affected by COVID-19 in Indonesia and number 0 for the period not affected by COVID-19.

Hypothesis

The research hypothesis can be formulated as follows:

Table 1
Research Hypothesis

Hypothesis	Research Hypothesis
H1	Income smoothing earnings management has a positive effect on bankruptcy risk
H2a	Cost leadership strategy has a negative effect on bankruptcy risk
H2b	Differentitation strategy has negative effect on bankruptcy risk
H3	COVID-19 pandemic has positive effect on bankruptcy risk.

METHOD

This research used the information related to bankruptcy risk, income smoothing risk management, and corporate strategy from various company during two periods from 2019 to 2020 and company data subjects from first quartal to fourth quartal. Panel data type combine cross-sectional data (data consisting of one entity with several observations time) and data time series (data consisting of several entities with one observation time).

This research used secondary data. Most of information used in this research comes from retail companies listed on the Indonesia Stock Exchange in their first to fourth quarter financial reports for the 2019–2020 period. The author also reviews supporting books, articles and journals to solve research challenges.

The researcher used a non-probability and purposive sampling approach. The following specifications and conditions that apply in collecting research samples are as follows: 1) Retail trade subsector companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2020 period; 2) Retail trading subsector companies whose share prices are published by the Indonesia Stock Exchange (IDX) for the 2019-2020 period; 3) Retail trade subsector companies that publish quarterly financial reports for the 2019-2020 period; 4) Retail trade subsector companies whose financial reports end on 31st December.

Empirical Research Method

The research model was carried out using the Multiple Linear Regression (MLS) approach to test the hypothesis in this research, and the Stata Corp application. STATA MP Version 14. was used to observe the relationship with the dependent variable. The empirical model used in this investigation is as follows:

$$Z\ Score_{i,t} = \beta 0\ +\ \beta 1\ DA_{i,t} + \beta 2 ATO_{i,t} + \beta 3 PM_{i,t} + \beta 4 LEV_{i,t} + \beta 5 SIZE_{i,t} + \beta 6 LIQ_{i,t}\ + COVID19_t + \varepsilon \quad (8)$$

Notes:

$Z\ Score_{i\,t}$ = *Altman Z-Score (Bankruptcy Risk) by company i on periodet*

$\beta 0$ = *Constanta*

$\beta 1$ *s/d* $\beta 6$ = *Regession coefficient*

$DA_{i\,t}$ = *Discretionary Accruals (Income Smoothing Earnings Management) company i on period t*

$ATO_{i\,t}$ = *Asset Turnover of Operation (Cost Leadership) company i on period t*

$PM_{i\,t}$ = *Profit Margin (Differentiation) company i on period t*

LEV_{it} = *Leverage company i on period t*
$SIZE_{it}$ = *Size company i on period t*
LIQ_{it} = *Liiquidity company i on period t*
$COVID19_t$ = *COVID-19 pandemic on period t*
ε = *error*

RESULT AND DISCUSSION

Descriptive Analysis

Uji normalitas diterapkan guna mengetahui sampel berdistribusi normal atau tidak. Hal ini harus dilakukan karena berkaitan dengan ketepatan dalam pemilihan uji statistik yang akan digunakan. Pada uji normalitas penelitian ini, metode yang digunakan untuk mengolah data adalah uji *Kolmogorov-Smirnov* dengan ketentuan sebagai berikut:
Jika nilai sig > 0,05 maka data berdistribusi normal.
Jika nilai sig < 0,05 maka data tidak berdistribusi normal

Table 2
Descriptive Analysis Result

Variable	N	Mean	Min	Max
Bankruptcy Risk (BR)	184	1.218	-0.861	3.915
Income Smoothing Earnings Management (DA)	184	0.081	-0.825	1.145
Cost Leadership Strategy (ATO)	184	0.012	-0.099	0.293
Differentiation Strategy (PM)	184	-0.172	-23.261	2.177
Leverage (LEV)	184	0.504	0,094	0,959
Size (SIZE)	184	21.903	19.051	24.130
Liquidity (LIQ)	184	0.084	0.001	0.475
COVID-19	184	N/A	0	1

According to the descriptive analysis result on table 2, there were 184 data collected from 23 retail companies on the Indonesia Stock Exchange in the first quarter to the fourth quarter of 2019 to 2020. The average value for calculating bankruptcy risk using the Z-Score was 1.218, where the nominal value was included in the distress zone group. Income smoothing earnings management has an average value of 0.081 with the smallest value being -0.825 and the largest value being 1.145. Asset Turnover of Operation (ATO) and Profit Margin (PM) as proxies for calculating company strategy, namely cost leadership and differentiation, have an average value of 0.012 and -0.172 respectively. Leverage has a mean of 0.504, indicating that leverage accounts for the majority of the capital structure of companies in the data set. Company size has an average value of 21.903 and company liquidity has an average value of 0.084.

Classical Assumption Test

Tabel 3.
Classical Assumption Test Result

Variable	Normality		Multicorlilinearity		Heteroscedasticity
	Slope	*Kurtosis*	*VIF*	*TOL*	*Prob > Chi²*
Bankruptcy Risk (BR)	0.374	0.116	-	-	
Income Smoothing Earnings Management (DA)	0.046	0.043	1.34	0.746	
Cost Leadership Strategy (ATO)	0.700	0.620	1.25	0.803	
Differentiation Strategy (PM)	0.210	0.400	1.20	0.833	0.6906
Leverage (LEV)	0.460	0.580	1.14	0.875	
Size (SIZE)	0.071	0.002	1.11	0.897	
Liquidity (LIQ)	0.150	0.100	1.11	0.900	
COVID-19	1.000	1.000	1.0	0.956	

According to the table 3, all data meets the normality test with each nominal statistical slope and kurtosis being in the required range, namely between -2 and +2. Thus, it can be concluded that all variables have a normal distribution. Apart from that, all data is free from multicollinearity with each variable having a VIF (variance-inflating factor) value of less than 10 and a TOL value of more than 0.1. In addition, based on the results of the Breusch-Pagan-Godfrey test that has been carried out, Prob > chi2 is greater than the 5% significance level, namely 0.6906. Thus, the model used meets all the requirements for the normality test, multicollinearity test and heteroscedasticity test.

Correlation Test

Table 4
Correlation Test Result

	BR	DA	ATO	PM	LEV	SIZE	LIQ	COVID-19
BR	1.00							
DA	-0.110	1.00						
ATO	0.376	-0.216	1.00					
PM	0.010	-0.143	0.333	1.00				
LEV	-0.526	-0.102	-0.121	0.091	1.00			
SIZE	0.346	-0.033	0.101	0.085	0.104	1.00		
LIQ	0.201	0.202	0.000	-0.281	-0.241	-0.138	1.00	
COVID-19	0.247	-0.002	-0.317	-0.130	0.152	0.052	-0.022	1.00

According to table 4, income smoothing earnings management variable, cost leadership strategy variable, leverage, size, and liquidity bave significant value more than 5%, thus, it can be concluded that there is a direct relationship between these variables and risk bankruptcy.

Multiple Linear Regression Test

Table 5
Multiple Linear Regression Test

	Model	Coefficient	Sig.	Remark
1	(Constanta)	-16.512	0.013	
	Income Smoothing Earnings Management (DA)	-3.919	0.000	Significant
	*Cost Leadership Strategy (*ATO*)*	7.821	0.037	Significant
	*Differentiation Strategy (*PM*)*	0.038	0.843	Not significant
	*Leverage (*LEV*)*	-0.344	0.000	significant
	*Size (*SIZE*)*	0.715	0.018	Significant
	Liquidity (LIQ)	20.184	0.000	significant
	COVID-19	0.906	0.221	Not significant

Table 5 provides coefficient regression result and according to equality 8, Berdasarkan tabel 5 yang menunjukkan hasil koefisien regresi dan mengacu pada persamaan 8, then the regression equation can be created as follows:

$$Z\ Score = -16{,}512\ +\ (-3{,}919)\ DA + 7{,}821\ ATO + 0{,}038\ PM + (-0{,}344) LEV + 0{,}715\ SIZE + 20{,}184\ LIQ + 0{,}906\ COVID19 \quad (9)$$

Income Smoothing Earnings Management on Bankruptcy Risk

The significance value for income smoothing earnings management is 0.000. Thus, the formulated hypothesis is accepted because this value has a nominal value of less than 0.05 (0.000 < 0.05). Due to the coefficient value of the income smoothing earnings management variable n is -3.919, it can be concluded that discretionary accruals, which are used as a substitute for income smoothing earnings management, have a negative impact on the Z-Score, it means that income smoothing earnings management has a positive impact on risk bankruptcy.

The findings of this research in line with previous research conducted by Campa and Miñano (2013) rather than research by Agustia et al. (2020). Campa and Miñano (2013) examines the impact of income smoothing and earnings management manipulation on the financial condition of various companies in Madrid. The findings show that many businesses change earnings management when they experience serious financial problems, which over time increases their chances of bankruptcy. It is known that the practice of earnings management by smoothing revenues will have a long-term negative impact on the organization. Luu Thu (2023) explained that there is a simultaneous impact of earnings management on the risk of financial distress, more specifically if earnings management is applied to business operational activities.

Cost Leadership Strategy on Bankruptcy Risk

The cost leadership strategy (ATO) variable has a significance value of 0.037. This value has a nominal value that is smaller than 0.05 (0.037 < 0.05), thus, hypothesis formulated is accepted. Cost leadership is a strategy implemented by most companies in the retail industry. Due to the coefficient value on the corporate strategy variable (ATO) is 7.821, it can be concluded that Asset Turnover of Operation (ATO), which is a measurement of the cost leadership strategy, has a positive influence on the Z-Score. The cost leadership strategy (ATO) has a negative effect on the risk of bankruptcy. The results of this research are in line with research by Agustia et al. (2020), Chang et al. (2015), and Bryan et al. (2013), where these three studies state that cost leadership strategies can reduce the risk of bankruptcy. Based on research conducted by Bryan et al. (2013), it was found that this business strategy can improve company performance and will reduce the risk of bankruptcy. Specifically, companies that successfully implement Porter's generic strategy will have little risk of bankruptcy.

While research by Chang et al. (2015) explicitly show a favorable relationship between cost leadership strategies and productivity. Companies will be succed because of high productivity and low of bankruptcy chance. Pursuing economies of scale, TQM, JIT, and EOQ is helping company to reduce inventory carrying costs. Cost leadership aims to lower costs in all areas of its operations. This finding in line with Luu Thu (2023) that corporate strategy in business and management has implications for the risk of financial distress. This strategy is related to the choice of cost leadership or differentiation strategy of the business.

According to previous research, it can be concluded that there is a negartive relationship between cost leadership strategy and bankruptcy risk. If company implements cost leadership strategy on its business, it will reduce bankruptcy risk.

Differentiation Strategy on Bankruptcy Risk

The company differentiation strategy (PM) variable has a significance value of 0.843. This value has a nominal value greater than 0.05 (0.843 > 0.05), so the hypothesis formulated is rejected. The results of this study contrast with research condusted by Agustia et al. (2020) but is in line with the statement in research conducted by Bryan et al. (2013), where companies can apply one of the two theoretical frameworks proposed by Porter (1998), namely in this case a cost leadership strategy. Meanwhile, research conducted by Bhattarai (2018) specifically states that if a company implements a cost leadership and differentiation strategy, the cost leadership strategy will have a significant impact on bankruptcy risk. This study found that if a company prioritizes a differentiation strategy, it will have a detrimental impact on reducing the risk of bankruptcy. Furthermore, cost leadership strategies are more significant in reducing the risk of bankruptcy.

Dalwai & Salehi's (2021) study revealed that there is an influence of business strategy on company performance and bankruptcy risk in non-financial sector companies. Based on the Miles and Snow typology (Daft, 2019), most of the companies are non-financial, more specifically companies in the analyzer category. Empirical results show a negative relationship between business strategy and return on equity (ROE). Subanidja et al. (2020) also explains the consistency of findings where cost leadership strategies have an impact on productivity and reduce the possibility of bankruptcy in retail companies in Indonesia, while the differentiation approach has little or no impact on productivity. In this study, it is claimed that productivity, but

not differentiation methods, can be a mediator in the causal relationship between cost leadership tactics and bankruptcy risk in retail organizations. Ultimately, differentiation strategy does not have a significant effect on a company's bankruptcy risk

COVID-19 pandemic on Bankruptcy Risk

The COVID-19 pandemic variable has a significance value of 0.221. This value has a nominal value greater than 0.05 (0.221 > 0.05), so it can be concluded that the hypothesis formulated is rejected. According to a study conducted by Ulivi (2020), there are other factors that allow companies to survive and reduce the risk of bankruptcy. This factor is the digitalization adopted by the industry. Research conducted by Ulivi (2020) shows that there is a positive relationship between digitalization and company performance. This positive relationship also indicates that companies with higher digitalization adoption will avoid the risk of bankruptcy. This finding is also in line with the study conducted by Ji et al. (2022), after conducting research on several companies in China, one of the factors that influences the risk of bankruptcy is technology adoption. The findings of this research revealed that there is a negative relationship between companies that adopt digitalization and the risk of bankruptcy.

Many businesses in Indonesia have adopted digitalization both before and after COVID-19 pandemic. Around 95% of members of the Indonesian Retail Entrepreneurs Association (Aprindo) in the retail sector switched to digital systems, especially using online networks, in 2019. According to Roy Mandey, chairman of Aprindo, of the 600 association members with 40,000 non-online outlets, around 95% have using digitalization. Along with significant customer demand, online platforms such as marketplaces have enabled offline retail to enter the market. As a result, the retail sector will continue to use digital technology. This shows that many retail businesses were already using digitalization in their operations even before COVID-19 arrived in Indonesia in early 2020.

According to Shankar et al. (2021) technology adoption in the retail industry has not only reshaped the industry during the COVID-19 era, but also enabled retail to thrive and survive in a new and unpredictable environment. According to research conducted by Rosita (2020), one of the industries that can survive during the COVID-19 pandemic is retail. In this study, it is stated that the retail industry was able to survive during the COVID-19 pandemic because of digital strategies, especially online marketing.

Apart from digitalization, government intervention in providing assistance during the COVID-19 period can also be a factor for companies to survive, thereby minimizing the risk of bankruptcy. Cin et al. (2017) found that providing subsidies from the government can provide added value for manufacturing companies in Korea. In Indonesia itself, the retail industry's contribution to the economy is huge, so the government has taken several steps to help the retail industry deal with the COVID-19 pandemic. The government has provided various incentives and stimuli to encourage the retail industry, namely by providing subsidies and cash assistance to the public. According to information from the Chairman of Aprindo, Roy Mandey, this step has a positive impact on retail industry sales. In August 2020, retail industry sales increased by around 8-9% compared to the previous month. This action is believed to help increase public consumption because people's purchasing power increases. Therefore, the COVID-19 pandemic does not have a significant impact on the company's bankruptcy risk.

CONCLUSION

This research was driven by the need to comprehensively analyze the influence of Income Smoothing Earnings Management, corporate strategy, and the impact of the COVID-19 pandemic on the possibility of business bankruptcy on the retail sector during the 2019–2020 period.

Despite the potential for inaccuracies in financial reports and their consequential impact on management, shareholders and capital markets, Income Smoothing Earnings Management practices are observed to have a positive influence in reducing bankruptcy risk. Additionally, the adoption of a leading cost strategy, measured through Asset Turnover of Operation (ATO), emerged as a protective factor, negatively impacting bankruptcy risk. In contrast, differentiation strategy, measured through Profit Margin (PM), does not show a distinguishable effect on bankruptcy risk. Moreover, the extraordinary challenges faced by the COVID-19 pandemic do not appear to have contributed to an increase in bankruptcy risk within the scope of this analysis. Companies need to consider the direction of the chosen business strategy. The cost leadership strategy has the effect of reducing the risk of bankruptcy in the retail sector. This is because price aspects that are sensitive to consumers have implications for broader business decisions. However, the differentiation strategy does not have an influence on the risk of bankruptcy. This indicates that differentiation can increase innovation in the retail sector, resulting in increasingly vibrant business prospects.

SUGGESTION

For future research, it is recommended to apply broader sampling criteria to go beyond single sub-sectors, thereby enabling a comprehensive picture of the diversity of Indonesia's industrial landscape. In addition, researchers are encouraged to consider larger sample sizes to increase the precision of research findings over a longer period of time. Furthermore, an investigation into the impact of digitalization of the COVID-19 pandemic on businesses provide valuable insights into the role of technology in navigating these challenging times.

For Companies, the cautionary advice against engaging in excessive earnings management tactics, coupled with the recommendation to use insights from earnings smoothing practices and corporate strategy for informed lending or investment decisions, underscores the importance of ethical financial practices. This research shows a high probability of bankruptcy associated with earnings management, organizations are advised to adopt at least one of Porter's generic methods in formulating corporate strategy.

For Debt Investors, a thorough risk assessment, particularly regarding bankruptcy risk, is recommended before providing a loan to a company, with the aim of reducing the potential for failed to pay. In addition, the emphasis on fundamental analysis, which includes financial performance and broader economic factors alongside technical considerations, underscores the need for a comprehensive evaluation process in investment decision making..

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