Motivation for Profit Management and Bonus Goals During the Covid 19 Pandemic

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Abstract

This study contribute to the study of financial accounting, specifically profit management methods and their relationship with executive compensation during the Covid19 pandemic. The descriptive qualitative method was used to explore the motivation of profit and compensation management by comparing it with previous literature showing similar characteristics. Sequence, in particular past events that have had an effect on volatile financial conditions. In this uncertain situation, companies can use accounting techniques in financial statements to mitigate the negative impact of the pandemic on the operations of companies such as BigBath Accounting, Bailout Funds and Stimulus Packages; Large Profit Flattening and Loss Avoidance Accounting; Loose Accounting Rules During the Pandemic; and fiscal assistance packages. Accounting important role in reducing the impact of the pandemic on a company's operations. While accounting cannot be blamed for the negative effects of the pandemic on business, as a social science it can be blamed for not helping to mitigate of the pandemic on financial performance.

Keywords: Motivation, earning management, bonus goals, pandemi Covid 19.

1. Introduction

The increasingly fierce business competition in the era of globalization needs to be solved by business entities/enterprises by taking strategic measures for business continuity. The emergence of the Covid19 pandemic that has hit almost every corner of the world has caused a huge shock to the entire global economy. It shows an imbalance in financial aspects globally, as most of it is redirected to containment measures by the state. Indonesia is one of the countries that has also suffered the bad effects of the Covid19 pandemic. Many companies reduce production activities, lay off employees, and even go bankrupt.

The outbreak of Covid19 has had many impacts on financial markets and corporate financial performance, one of which is reduced profitability. The decline in earnings allows the company's management to take earnings management actions to meet investors' expectations. Profit is the most important factor and is valued by investors in financial statements. Investors use earnings information as the first standard to gauge management's performance, before they conduct an in-depth analysis of a company's published financial statements.

Jensen and Meckling (1976) argue that agency issues arise fundamentally because of conflicts of interest between shareholders and managers. Shareholders want managers to increase the value of the company, but managers can act to promote their personal interests at the expense of the company, for example, by adopting financing policies and capital structures for companies that can help to secure their work (Santoso, 2020). In other words, managers can engage in profit management practices as a way to maximize their profits.

There are several things that motivate the company to carry out profit management, such as violations of credit agreements, management compensation, obtaining/maintaining control over the company, tax savings, regulatory considerations, capital market considerations, stakeholder considerations, and considerations of competitive conditions. One of the motivations as mentioned earlier, management compensation, will be used to alleviate agency issues and align the conflicting interests of agents and principles. This compensation can be made up of different components: base salary, bonuses, stock options, limited shares, long-term incentive plans, and retirement plans (Murphy, 1985; Chang). and Chen, 2011). This offset can be attributed to the high-risk behavior of managers. Therefore, the main focus of this study should be on contributing to the study of financial accounting, particularly earnings management practices, and their relationship to executive compensation during the Covid19 pandemic.

2. Literature Review

2.1. Profit Management

There are two ways of understanding profit management. There are 5 (five) forms of profit management, namely as follows (Scott, 2003):

a. Taking a bath

   Also called big baths, can occur during periods where there is pressure in the organization or reorganization occurs, for example the replacement of directors. If this technique is used then the costs that exist in the future period are recognized in the current period. This is done if unfavorable conditions are inevitable. As a result, profits in the upcoming period become high despite unfavorable conditions.

b. Income minimization

   The pattern of minimizing profits may be done because of political motives or motives for minimizing taxes. This method is carried out at a time when the company is obtaining high profitability with the aim of not getting political attention. The policies taken can be in the form of write-offs of capital goods and intangible assets, charging advertising expenditures, research, and rapid development.

c. Income maximization

   Maximize profit aims to obtain a larger bonus, besides that this action can also be done to avoid violations of long-term debt contracts (debt covenants).

d. Timing Revenue and Expenses Recognation

   This technique is carried out by making certain policies related to the timing of a transaction, for example premature recognition of income.

Profit management is carried out by manipulating the amount of profit reported to shareholders which can later affect the outcome of the agreement depending on the reported accounting figures. There are several motivations in doing profit management as follows (Sulistyanto, 2008):

1. Bonus Motivation.
   The asymmetry of information about the company's finances causes management to be able to manage net profit to maximize their bonuses.
2. Other Contractual Motivations.
   The closer an enterprise is to a debt customer, management will tend to choose an accounting procedure that can move the profit of the future period to the current period, aimed at reducing the likelihood of the company experiencing a technical default (failure in debt repayment).
3. Political Motivation.
   Large companies and strategic industries will become monopolists. In such cases, this company will use profit management to increase its visibility by means of using accounting procedures to lower the profit earned.
4. Tax Motivation.
   Managers are motivated to carry out profit management due to income tax. Profit management practices are carried out in order to lower income tax.
5. CEO move.
   The hypothesis of the bonus plan states that the management to be replaced will carry out profit management in order to maximize the bonus it will get.
6. Capital Market Motivation.
   In such cases, this condition can be an opportunity for managers to manipulate earnings by affecting short-term stock prices.

There are 4 (four) ways used by managers to carry out profit management, namely (Sulistyanto, 2008):

a. Recognizing and recording income faster one or more periods. This effort is made by managers by recognizing and recording income for future periods or income that cannot be definitively determined when it can be realized as income for the current period.
b. Record fake income. This effort is made by the manager by recording the income from a transaction that has never actually occurred so that this income will also never be realized until any time.
c. Recognize and record costs faster and slower. This effort can be made by the manager by recognizing and recording the cost of future periods as the cost of the current period.
d. Does not disclose all obligations. This effort is made by the manager by hiding all or part of his obligations so that the obligations of the current period become smaller than the actual obligations.

2.2. Compensation

The provision of compensation to employees certainly has a positive purpose. It can be said that this compensation is a form of company appreciation to employees for loyalty in work (Yulisfan and Nedelea, 2021). Where this of course can make the enthusiasm of employees at work higher. That way the company will find it easier to achieve future targets.

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Compensation in the business world is defined as the reward given by the company to the employee for the performance he has done. Compensation is also one of the considerations of an employee before deciding to work in a company. The three types of compensation in general are as follows (Priansa,2017) :

1. Direct Compensation
   Awards or rewards called salaries or wages, which are paid on a fixed basis based on a fixed grace period.
2. Indirect Compensation
   The provision of a share of profits or benefits for workers beyond salary or fixed wages, can be in the form of money or goods.
3. Incentives
   Awards or rewards given to motivate workers so that their work productivity is high, not fixed or at any time.

3. Methods

A descriptive qualitative approach as a method that aims to explore the motivation for profit management and compensation/bonus provision. The data obtained are from several previous studies that have an impact on unstable financial conditions that have similar characteristics to this study. The data used in this study are secondary data, which are obtained from various summarized sources.

4. Result and Discussion

4.1. Result

In this situation of uncertainty, companies can use accounting techniques in their financial statements to reduce the negative impact of the pandemic on their business as follows:

Big Bath Accounting, Bailout Fund, and Stimulus Package

Big Bath accounting is a profit management technique in which large write-offs are made on current period earnings to reduce assets (Hope and Wang, 2018), resulting in lower costs in the future. The Center for Unpad Accounting Studies (CAS Unpad) hosted a panel discussion of the FEB Unpad Accounting Department speakers on Sunday, March 29, 2019 and brought together 16 speakers. According to the focus group discussion, companies are not allowed to engage in earnings management and/or misrepresentation practices as a result of the coronavirus or Covid19 pandemic. If a company experienced a sharp decline in sales in early 2020, that company should include its financial position in its first mid-year financial report of 2020.

The bailout packages have been given to financial and non-financial companies during the pandemic (Ozili and Arun, 2020), companies in these countries may have more More incentive to join the Bath Big Profit Management to take advantage of government aid and take advantage of the fact that the market cannot punish underperforming companies during the pandemic. When a company uses Big Bath accounting, it refers to the process of adjusting costs from subsequent years to the current financial year. This will reduce the current year's assets and profits for the company, but allows them to improve future results.

The government, which provides stimulus and relief packages to industries under pressure, will likely demonstrate the use of Big Bath accounting to try to hide excess wealth and income from businesses. These assets and income can be temporarily stopped for the following years, when the State has restored the situation.

In the midst of a global pandemic, where corporate finances are already poor, using the Big Bath technique can make a company's operating results look worse than they really are. This will create a margin of pause in earnings for the following years, allowing the company to reduce costs and increase profits in the future. While auditors can detect Big Bath practices in companies, companies can uphold these practices by claiming that the decision to significantly cut costs during the pandemic year was due to The pandemic's negative impact on business operations and as a result, will result in a slight decline in profits. use stimulus packages that companies receive from the government. This argument is supported by previous studies showing that incentives for Big Bath behavior are high for firms with poor performance (Riedl, 2004; and Christensen et al., 2008).

Large Profit Flattening and Loss Avoidance Accounting

Income flattening is the process of reducing or classifying variations in the size of earnings over time so that reported earnings are never too high or too low (Ozili, 2017). Companies can adjust revenue by delaying research and development (R&D) spending or reducing labor costs during the pandemic year. On the other hand, companies can take steps to avoid losses by suspending significant expenses for the next year or recognizing future profits during a pandemic year to avoid reporting losses during a pandemic year. For example, a business might delay the purchase of machinery, equipment, software or technology hardware, make large purchase lines of credit, and recognize future cash flows during a pandemic year.

Loose Accounting Rules During the Pandemic

Accounting rules that relax or allow managers more flexibility in financial reporting may be needed to avoid business failures and underperforming during the pandemic. But lax accounting rules during the pandemic have also led to manipulation of accounting numbers, which can ultimately reduce the reliability of accounting information during the pandemic. (Laux, and Leuz, 2010) show that flexible accounting rules, such as fair value pricing, lead to manipulation and reduce the reliability of accounting information due to lack of transparency about the value of the property. While governments have often pressured (Laux and Leuz, 2010).

Financial Assistance Package

Although financial reporting liberalization allowed companies to have better financial information during the financial crisis, such liberalization would also reduce transparency because Companies may use the aforementioned tactics to disguise underperformance or present themselves as weaker than they really are. It has also been shown that liberal accounting laws do indeed lead to manipulative claims. Therefore, the government should implement laws that allow businesses to be flexible, not allowing them the freedom to be misreported. In times of financial crisis, it is very common for companies to try to hide their results and come up with a better version of their statement. Therefore, accounting laws and practices should not be relaxed or liberalized during this pandemic.

4.2. Discussion

The Covid19 pandemic has changed the way people live, including the way they work, go to school and all aspects of society. This evolution had a major impact on areas of activity that evolved in tandem with the high mobility of humans. Some of the business sectors that have suffered during this pandemic are hotels and tourism, airlines, restaurants, shopping malls and retail, sports, autos and fuels.

In the context of the Covid19 pandemic, many companies are facing economic difficulties. This has an effect on the company's asset value. Due to the Covid-19 pandemic, large companies in most countries reported a decrease in total asset value in the first half of 2020 that was larger than the total decline in asset value in 2019. Of course, the impact of the pandemic on the economy is different between 2020 and 2021. Economic conditions are expected to be much better in 2021 than in 2020. Indeed, vaccination has implemented and some economic stimulus measures by the government were implemented distribution to accelerate the economic recovery process.

On the impact of the global financial crisis on earnings management practices, it is found that the company's earnings management is lowest during the financial crisis. These findings are consistent with the argument that companies may have other ways of reducing revenue from earnings management in times of crisis by using accounting techniques in financial statements to flatten the balance sheet, substantial income, loosening accounting rules, even getting government or private assistance or to hide their poverty status and try to hide a surplus of assets and corporate earnings.

5. Conclusion

Fair value methods, market valuation, provisioning loss recognition, profit balancing, and deep accounting to help companies hide underperformance or realize their financial position. worse than the actual situation. It concludes that a company's accounting policies greatly influence how its business is affected by recessions and unusual circumstances such as 2020. Additionally, accounting can help a company exists or is the cause of its demise. Overall, the discussion of this study suggests a number of accounting that can be used to reduce the negative impact of the pandemic on a company's financial statements.

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