Analyzing Managers' Speech to Detect Bad Earnings Management and Opportunistic Earnings Management in Pandemic Covid19 Outbreak

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Abstract
This paper highlights the Earnings Management that has been carried out by previous companies and how they were practiced during the Covid 19 pandemic. Literature study was conducted on earnings management practice research both before and during the Covid 19 pandemic. The results of the study show that almost all companies that carry out earnings management experience difficulties. in maintaining the quality of its financial information/financial reports, because it worsens the economic situation, especially for large companies during this covid pandemic, such as service and distribution companies. The COVID-19 pandemic has also caused companies that carry out earnings management to be late in submitting financial reports, this is due to changes in regulators by the government so that it has an impact on company policies that will be reported. This delay also has an impact on the audit report that investors and stakeholders have been waiting for. The results of this literature study can be said that companies that carry out earnings management experience difficulties in maintaining the quality of financial reports, so that the quality of financial information submitted to investors and stakeholders. On the other hand, earnings management is still being carried out to help investors and stakeholders that the company can survive in the midst of the pandemic.
Keywords: Earnings management, financial information, managers' speech.

1. Introduction

In the face of COVID-19 which infects around the world, various efforts have been made in each of these countries. The Central Statistics Agency (BPS), Indonesia noted that almost all business sectors, including industry, food and beverages and other services, were affected by this pandemic. There were 92.47% of the accommodation, food, and beverage sectors affected and, then other service sectors decreased by 90.90%, and finally the transportation and warehousing sectors which decreased by 90.34% (Statistik, 2020).

When viewed from the business sector, there are 2 sectors that experienced a very deep decline, namely accommodation and food and drink, as well as transportation and warehousing. The following is a picture of the decline in the business sector during the COVID-19 pandemic.

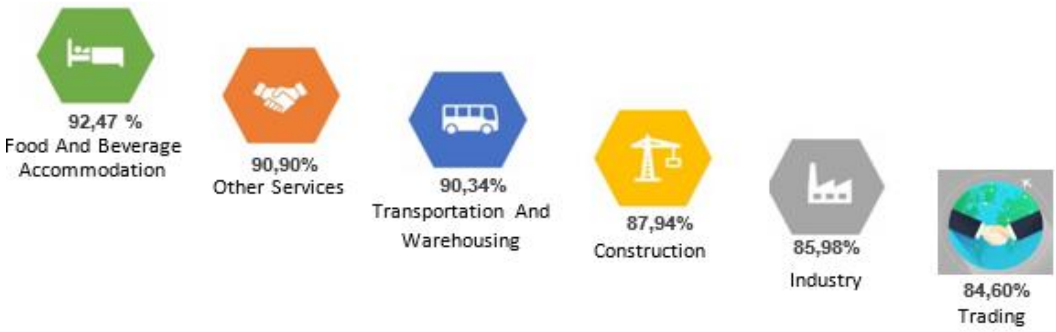

Figure 1; The Impact of the Pandemic on the Business Field

Source: bps.go.id

From Figure 1, it can be seen that apart from the two accommodation and beverage sectors, other services, the construction industry sector, and trade also experienced a decline in growth during and warehousing, following the business field in the second quarter of 2020 economic growth. Facing the fact of this decline in business, company managers are required to quickly make changes in strategy and revenue management to be able to maintain the sustainability of the company. Therefore, it is an important strategic issue to maintain business continuity in the face of declining business income. Many companies have failed to adapt during the COVID-19 pandemic, causing financial difficulties. Financial difficulties during this pandemic have become the focus of many studies today. Poorly executed earnings management will be put to the test when the company is in a state of financial difficulty.

States that the measure of management performance in managing the company's operations can be seen through the level of profit generated by the company. From this, it is suspected that there is earnings management practice when the company's profit has not met the specified target(Arthik Davianti, 2022). Companies that are in financial distress have a high potential to carry out earnings management in order to hide their losses and trade payables and present financial statements that look healthy (Muda et al., 2018). Financial distress will encourage companies to use various techniques to manipulate their financial statements with the aim of obtaining a good image from their stakeholders through earnings management.

The results of other studies show that during the COVID-19 pandemic, distribution and service companies carried out a lot of earnings management during the post-COVID-19 period. Companies that have fewer interests with stakeholders and have higher information asymmetry tend to do more earnings management than larger companies(Haeyoung RYU1, 2022).

This literature study was conducted to examine how companies react through their managers who tend to do old management in the year before the pandemic, and whether during the covid 19 pandemic they tend to do it worse and Opportunistic Earnings Management during the Covid-19 Pandemic Outbreak.

2. Literature Review

The outbreak of coronavirus was an event unparalleled for decades which caused a sudden and intense impact on economic activities and financial markets worldwide. The approximate 11 percent fall of China's stock market index CSI 300 from 23rd January to 3rd February 2020 (China Securities Index, n. d.) was the overture of subsequent financial repercussions in other countries. U. S. stock market index S&P 500 plunged nearly 34 percent from 20th February to 23rd March 2020 (Bloomberg, n. d.). The value decrease of Croatian index CROBEX and its timeline was identical (Zagreb Stock Exchange, n. d.)

This situation stressed the need for urgent reactions to alleviate repercussions of economic standstill and stimulate economic activity, such as moratorium on repayments of loans, various fiscal reliefs etc. Among these measures, regulatory actions were taken in order to extend deadlines for disclosing financial information to public. At the time, some companies already submitted their financial statements prior to deadline extension, certain of them decided not to exercise the right on additional reporting time, while significant number of them did so. Investors and other stakeholders scrutinize various aspects of business operations in order to determine future financial prospects of a company, and the time needed to deliver financial statements is one of them.

Despite the importance investors attach to financial reporting timeliness and the fact that deadline for submission of financial statements was relatively close, considerable part of companies decided to exercise the right provided by regulatory changes. In this context, potential problem arises because accounting standards offer flexibility in financial reporting which could be opportunistically abused. Given that stakeholders were probably more tolerant in assessment of corporate reporting behaviour because of ongoing pandemic, there was a possibility that companies tried to utilize accounting discretion in order to adjust to pessimistic expectations for future.

Previous research shows that a reduced proportion of foreign ownership weakens the effect of management supervision by foreign investors while relatively increasing the stake and, consequently, the in fluence of the majority shareholders, increasing the possibility of earnings management (An, 2019). Choe, Kho, and Stulz (2005) analyzed the impact of the changes in the stakes of majority shareholders and foreigners on companies' accrual earnings management before and after the global financial crisis. However, management may feel more tempted to reduce or hide their business's deteriorating performance and financial soundness during a pandemic. This occurs because the economic benefits of upward earnings management in creases while potential losses decrease, as the possibility of being detected is lower due to increased information asymmetry and relaxed monitoring.

In contrast, some companies in industries that are benefiting from the COVID-19 crisis may resort to discretionary accounting practices to smooth earnings by underreporting business performance and deferring earnings. Pharmaceutical companies and the manufacturers of test kits are enjoying explosive demand from the outbreak of the pandemic, and distribution and service industries are benefiting through the expansion of untact distribution channels. Thus, the incentives for management to make opportunistic accounting choices after the COVID-19 outbreak may differ among industries. This is likely to undermine the neutrality and consistency of financial statements, lowering the usefulness and reliability of accounting information (Moscariello, Fera, & Cinque, 2020). Aljawaheri, Ojah, Machi, and Almagtome (2021) mentioned that worsening business performance and increasing uncertainties due to the pandemic encourage opportunistic accounting practices and reduce the quality of accounting reports.

3. Methods

The research method used is a systematic literature study. A systematic review was carried out with Earnings Management and Opportunistic Earnings Management in Pandemic Covit19 during the pandemic and after the pandemic. The indicators of the developed literature review are:

a. Bad Earnings Management and

b. Opportunistic Earnings Management in Pandemic Covit19.

4. Result and Discussion

4.1. Result

Earnings Management in Pandemic Covit19

Companies are facing growing uncertainties in the management environment and worsening business performance since the outbreak of COVID-19. Some companies have attempted to report higher quarterly earnings than actually achieved by, for example, deferring recognized impairment. Clearly, COVID-19 is an accounting crisis as well as a public health and economic crisis. Companies increased DA significantly in the post COVID-19 period compared to the pre COVID-19 period, suggesting the that financial reporting quality has declined during the pandemic. In addition, the practice of earnings management was more evident in companies with higher information asymmetry and with a smaller number of stakeholders and a lower level of monitoring activities. This study contributes to the literature by examining how health crises such as the COVID-19 pandemic can affect the accounting practices of distribution and service companies.

Riset lain menemukan bahwa selama COVID-19 that financial reporting delays after regulatory changes during pandemic could be attributed to earnings management activities. Higher tolerance of investors and other stakeholders regarding audit reporting delays in comparison to regular reporting environment was conjectured. Companies have transferred part of their good results from relatively prosperous period to the period of worst economic downturn over the past several decades (Šušak, 2020).

Another study shows that earnings management in each period does not show a significant effect on stock returns. In accordance with agency theory that the manager is the only party who controls all the information needed to prepare financial statements while other parties outside the company, namely owners, potential investors, stakeholders, and others. have limited resources and access to obtain information about the company. This indicates that management continues to carry out earnings management to protect investors and potential investors for stock returns and the confidence of potential investors to keep investing.

The results of research in Europe show that companies tend to manage earnings during the pandemic period compared to the previous period. This finding implies a decrease in the reliability of financial statements during the COVID-19 pandemic. Further analysis provides evidence of earnings management of significant earnings increases during 2020. These findings suggest that firms manage earnings upwards by reducing reported loss rates to rebuild investor and stakeholder confidence needed to support economic recovery.

Research results in Indonesia proves no difference in accrual earnings management before the COVID-19 pandemic and after the COVID-19 pandemic in the second-quarter period, so it can be concluded that there is no effect from the COVID-19 pandemic on accrual earnings management practices in manufacturing companies in Indonesia. Companies cannot carry out earnings management activities and make inaccurate representations of the economic phenomena of companies affected by this pandemic.

Research conducted by Viana and Laurenco(Dante Baiardo C. Viana Jr, 2020), overall shows that companies use firm and defensive Impression Management (IM) tactics such as self-promotion, performance comparison, reasoning, omission, ingratiation, and exemplification, both to minimize negative impacts and to support aspects positive company related to the COVID-19 outbreak. This is done by management to protect the interests of investors and other stakeholders as a whole by dealing with the narrative manipulation of company information, especially regarding the impact of COVID-19 on the excessive performance of consumer industries, such as luxury goods companies.

Social Implications

This paper study shows that the government needs to consider the impact of economic policies on enterprises when introducing and changing policies and guide enterprises to increase human capital allocation under different internal and external conditions to finally realize the optimal allocation of social resources.

4.2. Discussion

From the results of the literature study, it can be found that almost all companies that carry out earnings management have difficulty in maintaining the quality of their financial information/financial reports, due to the worsening economic situation, especially for companies that have been heavily affected by the COVID-19 pandemic, such as service and distribution companies (Nasution et al., 2020).

During the covid 19 pandemic, it also caused companies that made management earnings to be late in submitting financial reports, this was due to changes in regulators by the government so that it had an impact on adjusting policies in companies that would be reported. This delay also has an impact on the delay of the audit report which is awaited by investors and stakeholders. Overall, the results of this literature research show that almost all companies that carried out earnings management before and during the outbreak of the COVID-19 virus experienced difficulties in maintaining the quality of the financial reports reported (Nazara et al., 2021). The company is trying to maintain company stability in difficult economic times and with many changes in government regulations that have an impact on delays in submitting financial reports and audits which are very much needed by investors and other stakeholders. The company seeks to maintain the sustainability of its business to ensure the confidence of investors and stakeholders that the company can survive during the COVID-19 period.

5. Conclussion

This paper highlights the Earnings Management that has been carried out by previous companies and how they were practiced during the Covid 19 pandemic. Almost all companies that carry out earnings management have difficulty maintaining the quality of their financial information/financial reports, due to the worsening economic conditions, especially for affected companies. big in this covid pandemic, such as service and distribution companies. The COVID-19 pandemic has also caused companies that carry out management earnings to be late in submitting financial reports, this is due to changes in regulators by the government so that it has an impact on adjusting policies in companies that will be reported. This delay also has an impact on the delay of the audit report which is awaited by investors and stakeholders. The results of this literature study can be concluded that companies that carry out earnings management experience difficulties in maintaining the quality of financial reports, thus worsening the quality of financial information submitted to investors and stakeholders. On the other hand, earnings management practices are still being carried out to convince investors and stakeholders that the company can survive in the midst of the pandemic.

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