

CHAPTER I

INTRODUCTION

1.1 Background

This study was conducted to find out how companies' accrual earnings management affects their achieving earnings benchmarks in this situation, as the COVID-19 pandemic that occurred in early 2020 had various economic effects. In 2020, various economic outcomes due to COVID-19 can be observed and one of the important observations is GDP growth.

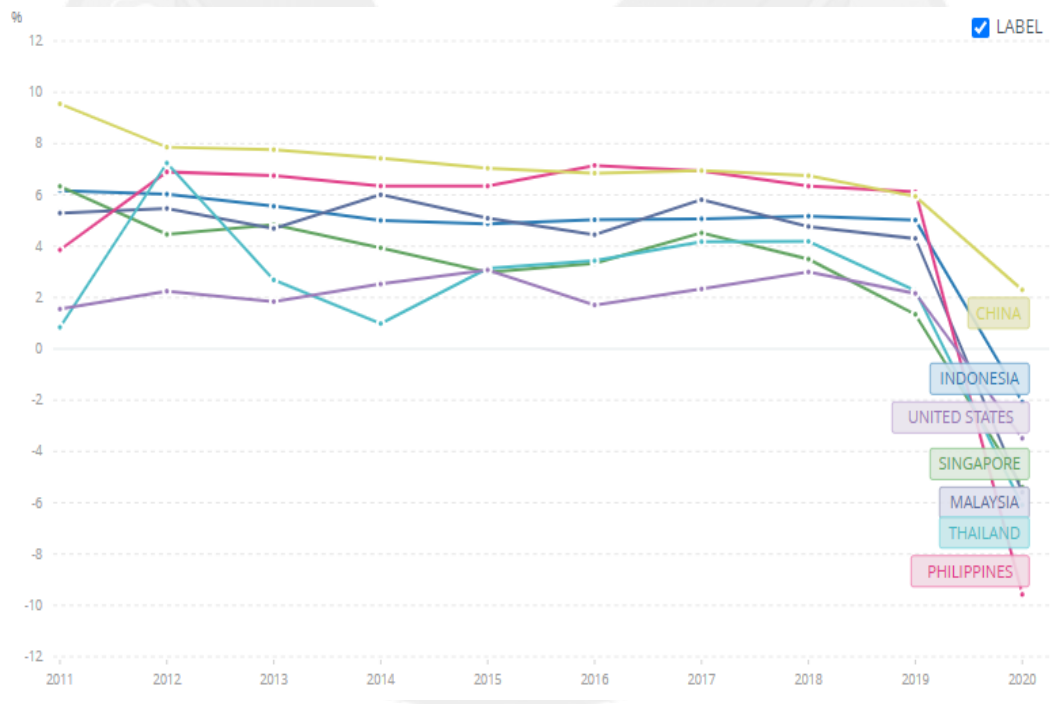


Figure 1.1 GDP Growth Rate of Five ASEAN Countries, United States, and China

Source: The World Bank (2021)

According to Figure 1.1, the economic growth rates of ASEAN countries, including the US and China, which have large economies, have remained constant for the past 10 years, but then declined sharply in 2020. Decreasing GDP can give

rise to incomes decreases, lower consumption and unemployment (Economic Growth, n.d.). If these continue, there could be a recession. A recession can have a bad impact on businesses big and small. As a company's sales and profits decline along with the economic downturn, it can cause layoffs, reduced research and development costs, a decline in the quality of goods and services, a decline in stock prices and dividends, and problems with debt repayment due to credit damage and, in severe cases, bankruptcy may occur (Boyle, 2020). It cannot be said that an economic recession has occurred because GDP has fallen for just one year, but in a situation where it cannot be predicted when the COVID-19 will end, companies should be prepared for what will happen in the future.

Companies basically have their benchmarks to achieve or exceed. All companies try to achieve their benchmarks unless they are really intentionally aiming not to achieve benchmarks. According to Graham et al. (2005), managers are motivated to achieve benchmarks because of capital market incentives, reputational effects with stakeholders, contracting, and career concerns. However, as the economy becomes unstable, income may fall which can make it difficult to achieve benchmarks.

Earnings management is a deliberate intervention in the external reporting process for the purpose of obtaining personal gain (Schipper, 1989). It is mainly divided into two types and these are accrual-based and real activity based. Cohen et al. (2008) documents that real earnings management increased after the passage of Sarbanes-Oxley Act (SOX) in 2002 while accrual-based declined. However, this is not to say that companies do not fully do accrual earnings management.

Graham et al. (2005) says that firms do earnings management in order to meet earnings target. This research starts with the assumption that if firms do accrual earnings management, even the tendency to use accrual-based declined after the passage of SOX, how the impact to meeting earnings benchmarks will be. Moreover, one assumption is added that what the difference between the impact to earnings benchmarks before the period of COVID-19 and during the period of COVID-19 is.

1.2 Problem Material

Based on the background mentioned above, the author proposes the problems as followings:

1. Does accrual earnings management positively impact the earnings benchmarks?
2. Does accrual earnings management in the period of COVID-19 more positively impact the earnings benchmarks?

1.3 Purpose of Research

Based on the problems mentioned above, the objectives to be achieved by the author are:

1. To know whether accrual earnings management positively impact the earnings benchmarks or not.
2. To know whether accrual earnings management in the period of COVID-19 more positively impact the earnings benchmarks or not.

1.4 Advantage of Research

The advantage of this research towards:

1. Author

The author will be available to understand and increase the knowledge on accrual earnings management behavior of company during the pandemic era. It will be a good support for the further studies and future careers.

2. Investors

Accrual earnings management behavior can also be the important factor for the investors when they invest on the companies. This study will be a helpful direction to invest companies especially during and after the pandemic era.

3. For the future researcher

The research conducted for this study will be a reference for the future researchers in analyzing and studying the accrual earnings management behavior during any other world crises.

1.5 Limitation

The limitation of this research towards:

1. The observation of the research used in this study is a public company which is still in operating status, from five ASEAN countries which are Singapore, Indonesia, Malaysia, Philippines, and Thailand, and listed in S&P Global Market Intelligence during the period of 2017 to 2020.
2. The independent variable used in this study is the absolute value of discretionary accruals which is calculated using performance-matched discretionary accruals model developed by Kothari et al. (2005). The year of

COVID-19 which is year 2020 is also used as independent variable to divide the period of COVID-19 and before COVID-19.

3. The dependent variable used in this study is the earnings benchmarks which is calculated by net income divided by lag total assets.

1.6 Writing Scheme

This paper is separated into five chapters as follows:

CHAPTER I: INTRODUCTION

This chapter will discuss the basic information including background, purpose of research, advantage of research and writing scheme.

CHAPTER II: THEORETICAL FRAMEWORK

This chapter will discuss the definition of the theories and the explanation with theoretical base to support the concept of this study.

CHAPTER III: RESEARCH METHODOLOGY

This chapter will discuss the data used, the method collecting information, and the explanation of implementation in this study.

CHAPTER IV: RESULTS AND DISCUSSION

This chapter will discuss the results obtained in this study.

CHAPTER V: CONCLUSION

This chapter will discuss the concluded information of this study including the consequence of the study and suggestions for future research.