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OVERCOMING INDUSTRIAL MYOPIA (REMEDIES FOR MYOPIA PROBLEMS IN CHEMICAL COMPANIES)

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Abstract

The purpose of this study is to overcome the problem of Myopia in chemical companies. The chemical industry is currently growing in a widespread and integrated manner. The rapid development of industrial and semi-finished materials has been a driving factor for the construction of these industrial units driving contemporary economic growth in most major countries and creating jobs, becoming a focal point for the public, government officials and non-governmental organizations. Myopia is a well-known, dysfunctional side effect of the financial results control system. Despite these problems, managers use control of financial results to good effect. Control of financial results is emphasized on current accounting profit which can cause managers to have an excessive short-term orientation in every decision making. Research shows that the stock market also evaluates announcements of strategic significance, such as investments in capital or research and development (R&D) projects, new management employees, and mergers and divestitures. In other words, if management is deemed to be making sound long-term decisions, the market is likely to factor in its judgment of what the long-term path to earnings is, even though the result may not be wholly – or even sufficiently – in short-term gains with immediate effects.

Keyword : Myopia, Industry, Chemical Company

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1. INTRODUCTION

The chemical industry has become a key sector in the modern world economy the importance of meeting the needs and improving the quality of life of the community, convert raw materials into energy. The chemical industry is currently growing in a widespread and integrated manner. The rapid development of industry and semi-finished materials so far has become the driving factors for the construction of these industrial units encourage economic growth contemporary in most countries and create jobs, being the point focus for the public, government officials, and non-governmental organizations. The chemical industry is a very relevant force that has extensive connections, in chemical plants, the main owner relies labor from the outsourced entity every day to complete the job. We think this is a big challenge to learn because these companies outsource maybe even an international company .

Managers , especially top level managers , must understand the ever - existing tension between short term and long term results and continue to guard against unwise tradeoffs between them . What one promotes often gets in the way of the other, or so it seems. Every manager should always - for both, perform well today while, at the same time, develop the business for a sustainable future. As Peter Drucker said, a manager "has to keep his bottom to the grindstone while lifting the eyelid to the hill, which is an acrobatic feat." "Raising the eye to the hill" is particularly difficult when managers believe that the stock market will be a loud audience for short-term earnings reports. Managers, then, may be inclined to take steps to maintain a smooth and stable pattern of revenue growth and profitably meet or beat market earnings expectations at almost any cost.

Measurement of company performance is often measured by the size of the profits earned. Profits are contained in financial reports, profit and loss statements. Apart from that, it is also calculated from the availability of cash, because it is useless if only high profits but cannot be disbursed, or uncollectible receivables. If top management only focuses on selling profit targets, seen from a one-year period let alone interim, then if the target is not achieved, the company's performance is considered not good. Even though it would be better if the company also focused on other things, especially intangible assets. An example like this: A new player manufacturing company in the electronics industry produces a new brand. Meanwhile in this industry there are already many established old players who have a large number of loyal customers and well-known *brand images* (Dilham et al., 2018). It would not be wise if company management only focused on short - term sales and profits , because in the short term , of course , one cannot expect high direct sales . The company's marketing team must start from building a brand *image* first. Building *a brand image* is one of the functions of a marketing mix , namely promotion . Promotion is a marketing mix activity which of course costs money. Companies should not see this as a mere *expense* , but must see it as a long-term investment to build the company's *brand image* .

Stein (1989) defines myopic management as the desire to increase stock prices by increasing current earnings at the expense of long-term cash flows (profits). myopic behavior in the wider artist (from the context used in this study) means a misplaced shift of priorities between long and short term goals. This means making good decisions for the suboptimal term in the long term (Laverty, 1996). A common form of myopic behavior is fixing the budget. In extreme cases, when managers really need "additional funds" to inflate profits, what they do is cut this budget.

Many academics and practitioners believe that myopia is a first-rate problem faced by

modern companies. In the last century, companies were mostly capital-intensive, but today's competitive success is increasingly dependent on intangible assets such as human capital and R&D capabilities (Zingales (2000)). Building such competencies requires significant and ongoing investment. Indeed, Thurow (1993) argues that investment is a matter of national interest that will critically determine US success in global competition. However, managers may fail to invest if they care about the company's short-term share price.

Myopic investing behavior is underinvestment in long-term, intangible projects such as research and development, advertising, and employee training to meet short-term goals. This study focuses on research and development expenditures to examine the presence of myopic investment behavior (managerial myopia).

Sometimes managers are faced with conditions that force them to choose a strategy that only focuses on the short term at the expense of long term performance. Managers may feel pressured against book profit targets to meet analyst expectations, return expectations, or performance evaluations that only focus on short-term performance (Sadalia et al., 2020). These conditions often force managers to choose strategies that are temporarily profitable but sacrifice future performance. This myopia behavior will actually cause consequences for the company in the long run and harm various parties, especially investors.

Myopia and gaming are the two most common forms of what is generally referred to as income management. Some companies are known for revenue management. For example, an article in Fortune explains that, although earnings management is a no-no among types of good governance, [General Electric] has never denied doing it , and GE Capital [a large capital division of GE that has helped finance GE's diverse businesses is a mechanism Perfect . Because a financial asset is, under normal circumstances, much more liquid than a tangible set, companies can buy or sell it in the last days of the section so that reported earnings rise at a comfortable tidy pace, exactly in line with Wall Street's expectations.

2. LITERATURE REVIEW

2.1. Industry Overview

Worldwide, the chemical industry transforms various types of raw materials (oil, petroleum and natural gas, among others) into more than 70,000 products. Currently, the chemical industry is expected to increase its economic importance. Economists argue that this power-competitive sector depends on investment technology as well as the size of the country or region where the industrial facility operates, including the ability to interact globally. Its development was heavily dependent on several major investments in technology, which only took place in the second half of the 20th century, with industrialization. In line with that, in the chemical industry, the main goal of making improvements related to increased energy efficiency and environmental management is very striking, although there are still many who try to resist these changes.

2.2. Myopic

Myopia is a well-known, dysfunctional side effect of the financial results control system. Despite these problems, managers use control of financial results to good effect. Control of financial results is emphasized on current accounting profit which can cause managers to have excessive short term orientation in every decision making . Myopia can be reduced at the top management level by holding these managers accountable for increased market judgment. Shares are priced , though certainly not perfectly, based on

the company 's expected future , not just on current period results . But the task of reducing myopia is more difficult at middle and lower management levels. This study describes six alternatives that can be considered to reduce myopia. Neither of the alternatives is a panacea. However, it is important to understand where each alternative falls short of perfection and how those deficiencies can be overcome. Selecting the "right" amount of pressure for the short-term results to sample, the "right" control mix to use, and/or the "right" measurement alternative to adopt requires complex analysis and complex judgment. Each approach has advantages and disadvantages, but when implemented effectively, it increases understanding of the role each person plays in creating value, motivates and rewards accordingly for creating it, and reduces behavioral burnout.

2.3. Pressure to act myopia

There are two things that cause myopia

1) Managers have a belief that if income is high, then the share price will be high, managers, especially top level managers, tend not to understand between short-term and long-term results. Managers tend to take steps to maintain patterns and patterns of strong earnings growth. This is because management performance measurement is measured using financial results controls which are emphasized on the current period accounting profit which can cause excessive short-term higher managers to organize. Nonetheless , the pressure on short - term results remains . Acting myopicly is one common response that arises from beliefs about the need to sustain short-term profits. In addition, investors seem to be happy to pay extra for companies whose earnings have increased sharply to disperse with uncertain earnings.

2) **Income Management**

Earnings management is a method used by management to maximize and minimize company profits. The relation with myopia is that profit management is used by the company as a tool to increase the desired income / profit achieved.

Ortega and Grant (2003) argue that earnings management is possible because of the style in preparing financial reports in order to change the operational financial results of a company. In other words, Abdelghany (2005) explains that earnings management is the handling of income that is carried out to meet the targets set by management.

2.4. Approach to overcoming Myopia

There are several approaches that can be taken in dealing with myopia, as follows

1) Replacing accounting measures with performance value drivers, changing what has been regulated (creating shareholder value otherwise accounting income)

2) Using pre-action excellence to control development which includes long-term investment,

3) adjust or improve accounting measurements to better reflect economic income,

4) Extend the range over which performance is measured and rewarded

5) Reducing pressure for short term gains.

2.5. Myopia investment

Investment myopia stems directly from two problems with the accounting measures described above: their destructive bias and their neglect of an amorphous set with a predominance of future returns. Accounting rules do not allow companies to recognize profits until they are realized; that is, until critical revenue-generating activities (such as sales) have occurred and revenue can be measured in an objective way and can be summed up . On the other hand, the law requires companies to start recognizing costs when an investment is made. Understated earnings in the initial

measurement period are enlarged because the accounting rules are deliberately artificial. Projects with uncertain returns and little liquidation value, such as R&D and employee development projects and customer acquisition initiatives, must be correct as costs are incurred, and capital investments must be correct for a period that is typically shorter than the period in which returns will be realized.

The motivational effect of this rule of measurement is misguided because managers who are motivated to generate accounting profits or returns can (in the short run) do so by not making a worthwhile investment. By not making investments, managers reduce costs in the current period and suffer no loss of income until future periods. Worse, the search for short-term profits and returns sometimes drives managers to engage in manipulative earnings management practices, such as not immediately reserving operating expenses, but instead pushing them into the future as investment capital .

3. METHOD

3.1. Types of research

Through further topic analysis , this study uses a qualitative descriptive methodology . (Sugiyono, 2005:21)

3.2. Research Instruments and Data Collection Techniques

Literature books and scientific publications were used as research sources for this shooting. In addition , official websites may serve as sources used by research tools . To achieve the objectives of this study , the data collection method used literary and documentary studies .

4. RESULTS AND DISCUSSION

4.1. Myopia Surgery and Myopia Problem Correction

Myopia is a well-known, dysfunctional side effect of the financial results control system. Despite these problems, managers use control of financial results to good effect. Managers employ one or various combinations of six corrective measures for myopia problems, which include:

1. Replacing accounting measures with performance value drivers
2. Changing what is measured (value creation for shareholders not accounting revenue)
3. Use preventive measures to control developments that include long-term investments
4. adjust or improve accounting measurements to better reflect economic income
5. Extend the range over which performance is measured and rewarded
6. Reducing pressure for short-term gains

4.1.1 Myopia problem

Two steps must be taken to deal with the problem of myopia effectively. First, managers, especially top-level managers, must provide an understanding of how the stock market is concerned with earnings announcements. Many managers believe that the stock market reacts strongly to any public earnings announcement, even quarterly disclosures. Because of this belief, managers take steps to try to maintain a steady pattern of revenue growth and to meet or beat profit forecasts at almost any cost. Myopia and gamesmanship are the two most common forms of earnings management.

4.1.2 Measuring a Set of Value Drivers

A combination of caring actions can help overcome myopia problems. Supplementing accounting measures with some combination of value drivers can be used to ensure that managers do not maximize short-term financial measures and then sacrifice future performance. One of the most commonly used measurement combinations is the market and accounting measurement combination. This involves

using either accounting measurements, selected financial elements, or both, with one of a number of non-financial measures. The Kaplan and Norton Balance Scorecard proposes a combination of leading short-term measurements and indicators defined in four perspectives, namely: financial perspective, customer perspective, internal perspective, and learning and development perspective. In essence, the combined approach measures including key indicators for future performance, or driver values, should reflect the economic impact on shareholder value of specific management achievements and failures more quickly than do the measurement measures. Despite its features, no measure is too important, no matter how good it is, can reflect organizational performance well enough to motivate optimal management of decision-making as well as reflect stakeholder views of the company.

Cost is also sometimes a concern. The cost of designing and implementing a simple combined measurement system may involve the minimal possible use of some of the existing measures. However, in most situations it is difficult to argue that a measurement system cannot be made congruent, understandable, controllable, and timely. Basing outcome controls on a group of value drivers can reduce the risk of Myopia, even if it puts pressure on short-term performance. However, specifying, using, and assessing combinations of measures can also be problematic and costly.

4.2 ROI Performance Measures

4.2.1 ROI Defence

Return On Investment is a ratio that displays the results of the number of assets used in the company or a measure of management efficiency. This ratio shows the result of the whole controlled activation regardless of the source calculation, this ratio is usually measured by the proportion.

4.2.2 Factors that can affect ROI include:

1. The turnover rate of assets used for operations (Turnover of operating assets), is the speed of turnover of operating assets in a certain period.

2. Profit margin, namely the amount of operating profit which is referred to in the form of a proportion and the amount of net sales. Profit margin can increase the company's profit level and is related to its sales.

4.2.3 Return On Investment (ROI) Usability Analysis

1. If the company runs good accounting practices, management using ROI analysis techniques can improve the efficiency of capital use, production efficiency, and sales department efficiency.

2. If the company has industrial data so that it can obtain industry ratios, then by using this analysis the company can compare the efficiency of using capital in the company with other similar companies, so that the company owner can find out whether the company is below, the same, or above the average. flat. flat. In this way, it will be known where the weaknesses and strengths of the company are compared to other similar companies.

3. This analysis can also be used to measure the efficiency of actions taken by each division, namely by allocating all costs and capital to these divisions.

4. This analysis can also be used to predict the profitability of each product produced by the company.

5. ROI is also useful for control purposes, for planning purposes. For example ROI can be used as a basis for decision making if the company is going to expand.

4.2.4 Lack of Variety of Return On Investment (ROI) Analysis

1. One of the advantages of ROI is that it is difficult to compare the ROI of a company with other similar companies.

This is because sometimes the accounting practices used by each company are different. Differences in the method of judgment between one company and another can give a wrong picture.

2. Another drawback of this analysis technique is that there are fluctuations in the value of money (purchasing power).

4.2.5 How to calculate ROI

ROI can also be referred to as the ratio of net profit to costs. The formula for calculating ROI is as follows:

ROI = (Total Sales-Investment)

Investment x 100%

For example, if an investment of IDR 10,000,000 generates sales of IDR 15,000,000, it means that a profit of IDR 5,000,000 is obtained. Then in a simple way the calculation of ROI in percentage is

ROI = (IDR 15,000,000-IDR 10,000,000)

IDR 10,000,000x 100%

ROI = 50%

From the sum above, it can be concluded that the ROI level is 50%. Often we only focus on profit margins on products or services. But we should calculate ROI accurately to get certainty and confidence that the business we are in is capable of growing. In running a business, an entrepreneur must record the amount of funds that must be invested in order to achieve a satisfactory sales target, the amount of profit margin earned, and the profit margin that will be used to develop the business.

5. CONCLUSION

Measurement of company performance is often measured by the size of the profits earned. Profits are contained in financial reports, profit and loss reports. Apart from that, it is also calculated from the availability of cash, because it is useless if only high profits but cannot be disbursed, or uncollectible receivables. If top management only focuses on selling profit targets, seen from a one-year period let alone interim, then if the target is not achieved, the company's performance is considered not good. Even though it would be better if the company also focused on other things, especially intangible assets. An example like this: A new player manufacturing company in the electronics industry produces a new brand. Meanwhile, in this industry there are already many old players who are well-established, have a large number of loyal customers and a well-known brand image. It would not be wise if company management only focused on short - term sales and profits , because in the short term , of course , one cannot expect high direct sales . The company's marketing team must start from building a brand image first. Building a brand image is one of the functions of a marketing mix , namely promotion . Promotion is a marketing mix activity which of course costs money. Companies should not see this as a mere cost , but should see it as a long - term investment to build the company 's brand image .

1. Job Appraisal System

Managers, especially top managers, must work hard for both short and long term profits in order to maintain smooth, strong earnings growth patterns and to meet or exceed market revenue expectations at almost any cost.

2. Intensive System

Estimate and provide initiatives related to long-term targets and evaluate the performance of managers for promotion factors.

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