

Earning Management Intention: In Love of Money, Idealism, and Organizational Ethical Climate Aspects

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ABSTRACT

The purpose of this study is to analyse the effect of love of money, idealism, and organizational ethical climate on earnings management actions. The regression analysis is used to test the relationship at 95% confidence. Data collection method obtain directly to the research object by the researcher in order to find out the influence between variables. The results shows that only love of money has significant influence on earnings management while the others variables, idealism and organizational ethical climate have no effects. Results expected from this research is to provide more comprehensive information about the earnings management phenomenon that occurs in many companies in Indonesia.

Keywords: *Love of money, organizational ethical climate, idealism, earnings management*

1. INTRODUCTION

Earnings management is an accounting concept that has been studied since the late Eighties. Earnings management activities have become an ethical issue in financial reporting because financial management matters in many countries around the world. [1] states that earnings management is a deliberate and manipulative act with the aim of, among others, giving bonuses or incentives, stock market mechanisms and contracts.

Earnings management has various perceptions and views from an ethical perspective. Earnings management activities can be accepted as actions because this action comply with applicable rules or company accounting standards in financial reporting and also supported by management. On the other hand, managers usually manage their earnings therefore it provides benefits to certain parties. The earning information will lead to wrong decision making by stakeholders in the company.

There are several factors that cause someone to take earnings management actions. Several studies have examined the motives and techniques of earnings management actions, but there are still few examined the effect of someone's idealism on earnings management. The influence of someone's idealism or view of something will affect a person in decide something.

Money is the main reason for various financial scandals [2]. This is the low ethical perception in a business environment [3]. Therefore, someone with a high love of money motivation can behave according to or against the ethics of earnings management behaviour. Fisher's theory states that an important concept about money is its ability to move very easily. However, this is not able to explain why someone prefers to misuse money over other assets, as well as the reasons for management to carry out earnings management activities.

The environment has a great influence on the ethical values and behaviour of a person. In terms of business, the environment is also very influential where the culture and values adopted by an organization determine the direction and policies taken by the company. In this case the organizational environment is the reason for the occurrence of earnings management in a company.

Therefore, the researcher tried to examine the effect of idealism, love of money and organizational ethical climate on the intensity to perform earnings management. Researchers add idealism variable as a driving factor for earnings management behaviour.

Based on the issues described, the objectives of the research were determined:

1. To analyse the level of influence of Love of Money (LOM) on a person's intention to exhibit earnings management
2. To analyse the level of influence of idealism on a person's intention to exhibit earnings management
3. To analyse the level of influence of the organizational ethical climate on a person's intention to practice earnings management

2. LITERATURE REVIEW

Earnings management has been the subject of various studies. In the accounting literature, there are several understandings of earnings management, including [4] states, the company's management actions regarding economic advantages (economic advantages) so that it affects reported earnings and these actions in the long term can be detrimental to the company. In research [5], the motivation of managers to take earnings management actions is based on three groups. First motivation is stock returns on the capital market. Second, contract motivation which can be in the form of debt and management compensation contracts. The third is regulatory motivation. Management compensation motivation is included in the love of a group of managers for bonuses or commonly referred to love of money.

This study uses the love of money variable that influence managers on exhibits earnings management. Typical managers who focus on bonuses because of their love of money can lead to earnings management actions by increasing profits so that the company's performance is good. [6] defines earnings management as an intervention in the external financial reporting process intentionally with the aim of obtaining personal gain. [7] stated that earnings management occurs when managers use judgment in financial reporting and the preparation of transactions to change financial statements. This action can mislead stakeholders' assessment of the company's economic performance because the decisions taken depend on the reported accounting numbers so that they can influence decision making. Furthermore [8] states that earnings management is the selection of accounting policies to achieve specific objectives. The objectives to be achieved by management through earnings management include: getting bonuses and other compensation, influencing the decisions of capital market participants, avoiding debt covenant violations and avoiding political costs [9]. There are many ways that managers can do in making judgments on financial reporting. The judgment then requires estimates for future economic events. One economic transaction can use several methods in accounting standards and managers can choose between these accounting methods.

Manipulation in earnings management can be carried out by managers through various contexts, such as estimating the useful lives of fixed assets, pension obligations, bad debt losses, choosing inventory valuation methods, giving price discounts to increase sales, cutting expenses such as warranty costs and advertising costs.

[10] states that the ethical orientation is controlled by two characteristics, idealism and realisms. Idealism is considered as a difference that influences a person in making judgments on moral issues. Idealism refers to the extent to which an individual believes that the desire for consequences can be produced without violating moral guidelines. The lack of pragmatic idealism recognizes that a negative consequence (including crimes against others) often accompanies a positive consequence of the moral imperative and that there are morally valid negative consequences of an action. [11] states that one thing that determines a person's behaviour in response to ethical problems is his personal moral philosophy. Idealism and relativism, are two separate ethical ideas viewed in the aspect of an individual's moral philosophy ([10]; [12]). Relativism is an attitude of rejection of absolute moral values in directing moral behaviour. While idealism refers to something that is believed by individuals with the consequences they have and want that does not violate moral values. The two concepts are not contradictory but rather separate scales, which can be categorized into four classifications of ethical orientation: (1) Situationism; (2) Absolutism; (3) Subjective; and (4) Receptionism.

Individuals who have idealism focus on well-being and try to avoid making decisions that endanger others. Idealism is an individual ethic that emphasizes the goodness inherent in the law in society and does not harm others in every condition, including urgent conditions. Idealism is an attitude that is considered right so that it has an impact on the desired result. Someone who is idealistic tends to avoid attitudes that harm others and they will not take actions that cause negative consequences. If there are conditions where there are two choices that lead to negative consequences, then an idealist person will choose the action that causes the least amount of harm to the other individual.

Organizational ethical climate is the result and reflection of management attitudes and behaviours that lead to organizational ethics [13]. Questionnaires are presented in cases where the respondent is likened to a manager of a company, then from that case there is an assessment of the respondent's belief in capitalizing costs. This respondent's assessment will be used to detect how much influence the ethical climate of the organization has on earnings management.

The main motivation for someone to commit fraud or scandal is money. Someone committing the scandal is indicated by the perception of low ethics in business situations. Thus, someone with a love of money motivation can be a complicated moral influence to oppose the assessment of ethical or unethical earnings management attitudes [14]. Fisher's theory reveals that an important thing about money is its transferability, but it does not explain why people prefer to hold money over assets, or why management fraudulently affects their earnings. The results of this study indicate that there is an influence of love of money and organizational ethical environment for management decisions in income management among accounting students.

[15] discusses the investigation of the level that affects earnings management in companies listed on the Vietnam Stock Exchange. The results show that the factors that are positively related to earnings management are consolidated financial statements, board of directors, financial performance, company size, and share issuance. [16] in her research examines the effect of ethical ideology on earnings management attitudes by using a self-administered survey questionnaire on accounting practitioners and students. The results of the study stated that there was no significant difference in ethical ideology between accounting practitioners and students, then there was a significant positive effect between relativism and earnings management attitudes and a negative relationship between idealism and earnings management attitudes. The hypothesis of this research is

H1: There is a positive and significant relationship between love of money and earnings management action intentions

H2: There is a negative and significant relationship between idealism and earnings management action intentions

H3: There is a positive and significant relationship between organizational ethical climate and earnings management action intentions

3. METHODS

1.1 Population and Samples

The population of this research is undergraduate accounting students at State University of Padang who passed courses in business ethics and financial accounting. The student represents a manager's decision related to making decisions on earnings management practices when in a high or low organizational ethical climate, idealism and high or low love of money.

Primary data used in this study is obtained directly to the respondents through the provision of questionnaires. The sampling technique in this research is through purposive sampling technique. The research sample was taken through the criteria of S1 Accounting students at Padang State University who had taken financial accounting and Business Ethics courses.

The data processed through regression analysis research. This research was conducted by collecting data directly given by the researcher to the object of research to see whether there was an influence between the variables. The following is the definition of research variables.

(a) Earnings Management

Earnings management is a management practice in choosing the application of accounting principles to achieve certain goals, both personal and organizational goals. Perceptions of the ethical practice of earnings management have been widely studied. Some researchers consider earnings management practices carried out for organizational purposes to be ethical and others consider these actions to be unethical actions.

(b) Idealism

Idealism shows beliefs that influence a person in deciding a behaviour in decision making that distinguishes one person from another. Someone with high ideals will consider the interests of others and will not act or do something that will harm others. Idealism concerns ideology, orientations, judgments, and ethical positions and moral philosophies. In this research, what is used as a measurement of idealism is ethical ideology.

(c) Love of Money

Money is the reason for the financial scandals in companies around the world. Love of Money is a money-oriented behaviour or attitude [2]. Sloan (2002) in [2] describes love of money as the desire to get more money than a person needs, which leads to acts of greed, an attempt to get more money than it should. [2] revealed that love of money is the motive of various criminal behaviour. Frauds in the company such as misuse of company assets, theft, lies and charging higher fees to customers are actions that are driven by the behaviour of love of money.

(d) Organizational Ethical Climate

Organizational ethical climate is the result and reflection of management attitudes and behaviours that lead to organizational ethics. Questionnaires are presented

in cases where the respondent is likened to a manager of a company, then from that case there is an assessment of the respondent's belief in capitalizing costs. This respondent's assessment will be used to detect how much influence the ethical climate of the organization has on earnings management.

This research was conducted through regression analysis to determine the relationship or influence between the independent variable and the dependent variable or the relationship between love of money, idealism and organizational ethical climate on the intention to take earnings management actions.

4. RESULTS AND DISCUSSION

The instrument testing in this study used validity and reliability tests. A valid instrument means that the measuring instrument used to obtain data (measure) is valid. Valid means that the instrument can be used to measure what should be measured. The results of the validity test show that all research variables, idealism, love of money and organizational ethical climate are valid.

A reliable instrument is an instrument used several times to measure the same object, it will produce the same data. The results of the reliability test show that all research variables have a Cronbach Alpha value of more than 0.6.

Table 1. Reliability Test

No.	Variable	Total variables	Alpha	Reliability
1	Idealism	7	0,729	Reliable
2	Love of Money	7	0,821	Reliable
3	Organizational ethical climate	7	0,801	Reliable

To detect the normality of the data, the Kolmogorov Smirnov test can be used, seen from the residual value. From the normality test, data is normally distributed. Therefore, the research hypothesis was tested through parametric test equipment. The first hypothesis in this study states that participants who have a high level of love of money have a greater intention to perform earnings management actions. The second hypothesis is the lower idealism of participants, the higher their intention to do profit management. The third hypothesis suggests that the ethical climate of the organization The high level will also have a big effect on someone doing earnings management. To test the hypothesis, statistical tests were carried out. Test result statistics can be seen in the following table:

Table 2. Coefficient

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.265	.333		6.800	.000
Idealism	-.015	.115	-.019	-.134	.894
LoM	.280	.135	.293	2.078	.040
OEC	-.051	.027	-.186	-	.061
				1.897	

a. Dependent Variable: Earnings Management

Table 3 Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.345	.119	.091	.500

a. Predictors: (Constant), OEC, LoM, Idealism

Table 4 Anova

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.170	3	1.057	4.221	.008 ^b
	Residual	23.532	94	.250		
	Total	26,702	97			

a. Dependent Variable: Earnings Management

b. Predictors: (Constant) OEC, LOM, Idealism

The table above determine the results of the research that love of money influence the earnings management action and variables which idealism and climate organizational ethics have no effects. The overall effect of the variables (adjusted R Square) by 9.1% of the trend of earnings management actions.

5. CONCLUSION

Based on the results of the data that has been processed, only love of money has a significant effect on earnings management while other variables, idealism and organizational ethical climate have no effect. The results of this study are expected from this research is to provide a more comprehensive picture of the earnings management phenomenon that occurs in many companies in Indonesia. The tendency to carry out earnings management by students as prospective accountants and financial managers in a company in Indonesia. The indicator of success in this study is that it can provide additional comprehensive empirical evidence regarding the phenomenon of a person's tendency to perform earnings management.

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