

# Artikel

*by* Ratna Candra

---

**Submission date:** 24-Jul-2019 07:42AM (UTC+0700)

**Submission ID:** 1154468490

**File name:** 11.\_Paper\_AAABC\_Ratna\_Candra,\_Ida\_Ayu,\_Ajeng\_\_Do\_Religious.pdf (220.48K)

**Word count:** 3990

**Character count:** 23429

## DO RELIGIOUS ENVIRONMENT AND INDIVIDUAL ATTRIBUTE CURBING ACCRUAL, REAL ACTIVITY AND TUNNELING MANIPULATION?

Ratna Candra Sari

Ida Ayu Purnama

Ajeng Azizah

Universitas Negeri Yogyakarta

### Abstract

The flexibility of accounting standards is one of the drivers of creative accounting. Creative accounting is an ethical dilemma. It seems that creative accounting does not explicitly violate the rules, but led misinterpretation and misdirection in user's decision-making. University learning environment is critical to the development of ethical values. The social norm theory implies that religious institutions will shape people's behaviors. Otherwise, the theory of the sacred canopy argues that religion no longer affects the aspects of life due to the increased level of modern society materialism. The purposes of this study are: first, to test the differences of ethical perceptions of undergraduate students in religious and public universities; second, to examine the effects of moral disengagement on ethical perceptions. The data collection method involved a questionnaire to a total of 225 respondents from two religious-based universities and one public university. Analysis of Variance (ANOVA) was used to test the hypothesis. The results show: (1) there is a significant difference in students' ethical perceptions between the public university and religious-based universities, (2) there is a significant difference in students' ethical perceptions students with high and low level moral disengagement. Educational implication and suggestion for future research are proposed.

### Keywords:

Ethical perception, creative accounting, accrual manipulation, real activity manipulation, tunneling, ethics education, religiosity, moral disengagement

## Introduction

The accounting environment becomes more complex due to the change in accounting standards from US GAAP (Generally Accepted Accounting Principles) to IFRS (International Financial and Reporting Standards). Accounting rules become more flexible because IFRS-based accounting standards are based on principle-based. The flexibility of accounting standards is one of the drivers of creative accounting (Largay, 2002). Accountants take advantage of the flexibility of accounting standards in making discretionary accounting to move reported earnings toward desired goals. It seems that creative accounting does not explicitly violate or only slightly deviate from the rules. But from a user's perspective, this practice is unethical because everyone who uses earning information generated from creative accounting tends to misinterpret and misdirect in decision-making. Creative accounting is an ethical dilemma; then the assessment of students' ethical perceptions of the practice measures students' ability to recognize and understand ethical issues.

Not all accountants agree on creative accounting practices. Based on the survey, 56% of accountants stated that creative accounting is allowed and only 33% of respondents said that creative accounting is not allowed (Fragalla, 2015). The obvious question is: Why do some accountants agree with creative accounting and others do not? Therefore, the purpose of this study is twofold. Our first objective is to examine the effects of religiosity environments on ethical perceptions of creative accounting practices. Our second objective is to examine the effect of individual attributes of moral disengagement on ethical perceptions of creative accounting practices. Moral disengagement is internal mechanism that allow people to behave unethically without feeling distress (Moore et al., 2012).

Creative accounting is designed to prepare financial reports to achieve financial performance targets, resulting in a misrepresentation of corporate performances (Balaciu & Pop, 2008). There are several methods to do creative accounting, among others: First, accrual manipulation is earnings manipulation through the discretionary accrual manipulation. Discretionary accruals are accruals used to reduce or enlarge earnings reported by choosing accounting policies subjectively by management (Scott, 2009).

Second, real activity manipulation is defined as a deviation from normal operating activities of the company which are motivated by management's desire to give a false understanding to stakeholders that certain financial reporting purposes have been achieved through the company's normal operating activities (Roychowdhury, 2006). Third, tunneling is defined as transferring of resources out of a company for the benefit of its controlling shareholders (Johnson et al., 2000). Tunneling activities are often difficult to identify since the activities are made and hidden within the seemingly legitimate transactions. There were many ways for companies to do tunneling through related party transaction such as receivables, asset transactions, trading transactions, cash payments and equity transactions to related parties (Cheung et al., 2006; Cheung et al., 2009b and Jian & Wong, 2003).

Each type of creative accounting method have the costs and consequences. Accrual management has no direct effect on cash flow; therefore, less likely to destroy firm values (Badertscher, 2011). Because accrual management is done within Accounting standards, so the possibility to be detected by investors, regulators and auditors is low. Real activity manipulation and tunneling are more costly than accrual manipulation. Real activity manipulation and tunneling are impacts on cash flow, have negative impact on optimal business activity and destroy long the firm value (Badertscher, 2011; Bertrand et al., 2002; Cheung et al., 2006; Hosseinyan et al. 2016; Sari et al., 2016; Lo et al., 2010). The risk of detection of real activity manipulation is lower than accrual manipulation (Badertscher, 2011). For example, if management engages a real activity manipulation by cutting discretionary expenditures such as research and development costs (R & D), such activities will not be scrutinized by the auditor or regulator.

Therefore, we especially examine whether religious environment and moral disengagement influence ethical perceptions on methods of managing earnings. Differences from previous studies are: first, previous studies have extensively examined the influences of religions on personal behaviors (Lehrer, 2004; Rawwas et al., 2006) but the extent to which religious environments have effects on ethical perceptions of creative accounting of students has limited attention. Second, most of the previous studies focused on the ethical judgments of the accruals and real activity manipulation methods (Bruns and Merchant, 1990; Elias, 2002; Graham et al., 2005; McGuire et al., 2012) but ethical

considerations regarding tunneling have limited consideration. Meanwhile, with the business group structure and low legal enforcement cause many cases of tunneling in Indonesia, they are difficult to detect (Sari *et al.*, 2013). Recognition of ethical issues in tunneling activities is important because it may cause harm to the company and non-controlling shareholders may even lead to the transfer of state resources to other countries.

Understanding the impacts religious environment and individual attribute on ethical perceptions of creative accounting is important because it makes us understand the mechanism to increase the ethical values of accountants. Examining the factors that influence the perceptions of ethical students will provide useful insights to educators and regulators. The remainder of this paper proceeds as follows. In the next section, we provide a review of literature and hypothesis development. In section three, we describe the research method. Section four, we discuss the results. In the final section, conclusion, we present the implication of this study.

## **Review Literature and Hypothesis Development**

### **Religiosity and Ethical Perception of Creative Accounting**

There are two arguments about the influence of religion on creative accounting. First, the opinion that religion has an effect on creative accounting practice. According to this school of thought, religion influences the practice of creative accounting because: (1) anti-manipulative ethos of religion norms powerful reason against creative accounting (K. Kanagaretman *et al.* 2015); (2) several previous studies indicate that religion is the source of morality and ethical behavior (Vitell, 2009; Walker *et al.*, 2012); (3) social norm perspective of religion also suggesting a dampening creative accounting practice. Social norms influence behavior because individuals prefer to conform to their peer group (Kohlberg, 1984) and avoid punishment for opposing standards, values, and beliefs that are considered acceptable (Sunstein, 1996). Social norms have strong

<sup>6</sup> influence on human behaviors (Sunstein, 1996; Cialdini and Goldstein, 2004). Stavrou et al (2013) states <sup>7</sup> that religiosity as an social norm. Religion is a social control mechanism. <sup>7</sup> Those who behave in accordance with religious norms will receive a higher level of social recognition, on the contrary, those who violate the norm will accept social sanctions. (4) Risk aversion is another explanation of why religion has an effect on creative accounting. Manager in countries with higher religiosity relative more risk averse (Hilary and Hui, 2009; Shu et al, 2012). Risk-averse managers <sup>7</sup> are less likely to engage in opportunistic earnings management if only because of potential litigation cost.

Recent studies test whether religion matter for financial accounting outcomes. Conroy and Emerson (2004) examined the influence of religiosity on the use of “accounting tricks to conceal”. With an experimental design, they found that <sup>6</sup> religiosity is associated with lower acceptance of accounting manipulation. McGuire *et al.*, (2012) <sup>17</sup> found that firms in religious areas are less likely to engage financial reporting irregularities. They argue that religiosity reduces acceptance of unethical business practices. <sup>16</sup> Du (2014) found that religion mitigates tunneling. These findings are consistent with the view that religion has an important influence on corporate behavior and can be a set of social norms and/or alternative mechanisms for reducing unethical tunneling behavior.

Second, the theory of sacred canopy developed by Peter Berger (1967). The main component of Berger’s principles can be summarized that <sup>9</sup> religious worldviews are constructions by which societies legitimate the social order and maintain their constellation of things, meanings, rituals, and institutions. Religious legitimizes is <sup>9</sup> constructed and maintained by human activities; yet when this aspect of their existence is forgotten, they also inherently carry with them the danger of alienation (Kline, 2001). <sup>14</sup> Alienation is associated with the problems caused by rapid social changes, such as industrialization and urbanization (see Industrial Revolution), which have broken down traditional relationships among individuals and groups. The Sacred canopy theory argues

that religions have lost their influences in many aspects of life due to the increasing materialism of our modern society (Berger, 1967; Gorski, 2000). People have become very pragmatic and putting aside religious values. For example, politicians who are legitimized religiously may at the same time do their activities in contrary to religious values such as corruption and so on (Berger, 1967).

Several studies support the theory of sacred canopy. For example, among others, Rawwas *et al.* (2006) examined ethical belief differences in academic dishonesty among students at religious and secular universities in Japan. They found that religion is not an impediment to academic dishonesty. Because of the high pressure of the capital market to meet the profit targets, McGuire *et al.*, (2012) found positive association between religiosity and real activity manipulation. Managers in religious areas remain to manipulate earnings. They prefer to use real activity manipulation rather than accrual manipulation because managers view real activity manipulation is more ethical and less risky (Graham *et al.*, 2005).

Based on this discussion, we propose the following hypothesis 1 and More specifically, stated in H1a-H1c

H1. There is a difference in the ethical perception of creative accounting methods between students at state universities and religious universities.

H1a. There is a difference in the ethical perception of accrual manipulation between students at state universities and religious universities.

H1b. There is a difference in the ethical perception of real activity manipulation between students at state universities and religious universities.

H1c. There is a difference in the ethical perception of tunneling manipulation between students at state universities and religious universities.

### **Moral disengagement on Ethical Perception of Creative Accounting**

In addition to external factors, individual attribute of moral disengagement may significantly affect the ethical perception of creative accounting. Moral disengagement

describes a mechanism for people to behave ethically without feeling depressed (Moore et al., 2012). Social cognitive theory states that individuals use a three-step process to maintain moral behavior according to what the individual possesses socially acceptable. These measures include self-monitoring, assessment and reactions. Self-monitoring shows individuals controlling their behavior, according to their own moral standards. Furthermore, the individual assesses this behavior through self-assessment, to ensure appropriate action, given a moral standard. Eventually the process of individual self-reactions allows people to anticipate how they will fall given specific action.

However, this process may not always work well, and individuals may disengage the process. In this way, they can act in ways that are contrary to what they feel socially acceptable, but they will not suffer from cognitive impairment. Moore (2008) hypothesis that moral disengagement will result in increased initiation, facilitation and perception of corruption within an organization. Individual with high on moral disengagement will be easier to make an unethical decision (initiation), which result in a benefit for the organization (facilitation). If this practice is rewarded and prevalent within organization, it the organization could be perceived as corrupt (Moore, 2008). Research previously found that a tendency to morally disengage predicts some unethical outcomes, including self-reported unethical behavior, self-serving at work and a tendency to commit fraud (Moore et al., 2012).

Individuals with higher levels of moral disengagement will have a tendency to engage in unethical acts in a business setting that would agree on creative accounting practices even having a high tendency to undertake creative accounting. Following the formally stated hypothesis relating to moral disengagement.

H2. There is difference in the ethical perception on creative accounting methods between students with high and low moral disengagement

H3a. There is a difference in the ethical perception of accrual manipulation between students with high and low moral disengagement

H3b. There is a difference in the ethical perception of real activity manipulation between students with high and low moral disengagement

H3b. There is a difference in the ethical perception of tunneling manipulation between students with high and low moral disengagement

## Research Method

### Participants and Procedure

The survey offered to 225 undergraduated business students from two religious-based universities and one public university. The survey offered to 225 undergraduated business students from two religious-based universities and one public university. Sample selection using purposive sampling with criteria: first, the students come from university that accredited A. second, the student has taken the course of business ethics, intermediate accounting and auditing. Table 1 shows the sample characteristics.

Table 1: Participant Characteristics

	Public University		Religious-based university	
	Mean	SD	Mean	SD
<b>Age</b>	20.6	0.78	20.5	0.86
<b>GPA</b>	3.57	0.16	3.47	0.21
<b>Percent in Each Category</b>				
	Male	Female	Male	Female
<b>Number of Samples Observed</b>	35	64	46	80

There were 25 male and 64 female respondents in the public university. In the religious-based university, there were 46 male and 80 female students. The average age of the public university students is 20.6 and that of the religious-based universities is 20.5.

### Variable Measurement

Ethical Perception of Creative Accounting. We used modified Burns and Merchant's (1989) questionnaire to measure ethical perception of creative accounting. The questionnaire contained accrual and real activity manipulation cases and we added a

tunneling case. The respondents were required to rate each question on a five-point Likert scale ranging from 1 to 5 as follows: 1: ethical practice; 2: questionable practice; 3: minor practice; 4: serious infraction; 5: totally unethical.

Moral disengagement. We used self-assessment of the propensity to moral disengage which developed by Moore et al., (2012).

The type of university is measured by a dummy variable, 0 for public university and 1 for religious-based university. Gender is measured by variable dummy: 0 female, 1 male. Our model for testing the influence of ethics education, religiosity, and ethical orientation on ethical perception of creative accounting uses the following form:

Ethical Perception on Creative Accounting =  $B_0 + \beta_1 \text{Type of University} + \beta_2 \text{Moral Disengagement} + \beta_3 \text{Gender} + e$

The dependent variable, ethical perception, represents three measures of creative accounting for accrual-based, real earning management, and tunneling. The independent variables are type of university and moral disengagement. In addition to our variable interest, we also control for gender variable that prior research suggest are associated with ethical perception (Ritter, 2006).

### Hypothesis testing

To test the hypotheses, Analysis of Variance (ANOVA). The assumptions for factorial ANOVA are that the observations are independent, the variances of the groups are equal (homogeneity of variances), and the dependent variable is normally distributed for each group. To test the assumption of homogeneity of variances, Levene statistic was used. The result of Levene test is insignificant. This indicates that the assumption of homogeneity of variances has been fulfilled. One-Sample Kolmogorov-Smirnov test was used to test the assumption of normality, and the normality assumption is also fulfilled.

The analysis result of hypothesis testing of H1a - H1b presented at table 2.

Table 2 The result of Analysis of Variance

<b>Panel A: Result of testing hypothesis 1</b>				
Dependent Variable	Type of University	Mean	F Test	
Ethical Perception on Accrual Manipulation	Public University	2.92	7.16**	
	Religious-based university	2.64		
Ethical Perception on Real Activity Manipulation	Public University	2.48	4.77**	
	Religious-based university	2.35		
Ethical Perception on Tunneling Manipulation	Public University	3.29	10.12**	
	Religious-based university	3.03		

  

<b>Panel B: Result of testing hypothesis 2</b>				
Dependent Variable	Level of Moral Disengagement	Mean	F Test	
Ethical Perception on Accrual Manipulation	Low	2,92	19.89***	
	High	2,64		
Ethical Perception on Real Activity Manipulation	Low	2,55	7.24**	
	High	2,28		
Ethical Perception on Tunneling Manipulation	Low	3,27	8.14**	
	High	3,05		

\*\*\* p<0.01; \*\*p<0.05; \*p<0.10

Hypothesis 1a predicts there is a difference in the ethical perception of accrual manipulation between students at state universities and religious universities. The result show that there is a significant difference in the average value of students' ethical perceptions on accrual manipulation between public and religious based university students ( $p<0.05$ ). The mean response of accrual manipulation of public university students is higher than the mean response of religious-based university students. Results showed that students in public universities is considered that accrual manipulation are more unethical compared to the students in religious university. Therefore, the result

support hypothesis 1a.

The result of hypothesis 1b testing <sup>10</sup> show that there is a significant difference in the average value of students' ethical perceptions on real activity manipulation between public and religious based university students ( $p < 0.05$ ). The mean value of ethical perception of public university students (2.48) is higher than the mean value of religious-based university students (2.35). This suggests that students at religious-based universities view manipulation of real activity as a more acceptable practice compared to students in public universities.

Hypothesis 1c predicts that <sup>2</sup> There is a difference in the ethical perception of real activity manipulation between students at state universities and religious universities. The mean value of ethical perception of public university students on tunneling manipulation is higher than the mean value of religious-based university students. This implies that students in a religious-based university view tunneling manipulation as a more acceptable act compared to students in public universities.

The results of hypothesis testing 2a, 2b and 2c (Table 2 panel B) indicate that there are significant differences of students' ethical perception with high and low disengagement moral level. Students with low moral disengagement assess that accrual, real activity and tunneling manipulation are more unethical than students with low moral disengagement.

### **Discussion and Conclusion**

Although all the creative accounting methods have the same consequences of misinterpretation for the user and degrade the quality of information, the ethical judgment on creative accounting methods is different. Students in religious-based universities perceive that accrual, real activity and tunneling manipulation are more ethically acceptable than the students in the public university. This phenomenon supports the sacred canopy theory which contends that religious values have faded due to the high materialism. The results of this study also support McGuire et al. (2012) that managers in religious areas also manipulate earnings using real activity manipulation <sup>4</sup> due to high capital market pressure to achieve profit targets.

Results of the testing of hypotheses 2a, 2b and 2c indicate that as individual's propensity to disengage increase their acceptance in creative accounting practices. The result support

previous research that moral disengagement will result in initiation, facilitation, and perception of fraud (Bandura et al., 2000).

Overall, the results may be beneficial to academicians, practitioners, and accounting researchers. All interested parties can suggest possible remedies and solutions to mitigate creative accounting behaviors. Improvements should also be made on the education organizational infrastructure such as performance evaluation and reward not only oriented in the short term. This is because short term orientation can escalate competition and deprive organizational members of ethical perspectives (Park, 1998) and religious values (Rawwas, et al, 2006). Improvements are also required in the teaching of business ethics to instill ethical values in prospective practitioners. Effective ethics education will result in increased sensitivity ethical, moral reasoning, and even ethical behavior (Sims, 2002), thereby reducing the likelihood of moral disengagement.

#### REFERENCES

- Badertscher. 2011. Overvaluation and the Choice of Alternative Earnings Management Mechanisms. *The Accounting Review* American Accounting Association Vol. 86, No. 5 DOI: 10.2308/accr-10092 2011 pp. 1491–1518
- Badertscher et al. 2009. Earnings Management and the Predictive Ability of Accruals with Respect to Future Cash Flows. *University of Notre Dame*
- Balaciu, D.; Pop, C.M. 2008. *Is creative accounting a form of manipulation?*, „Analele Universitatii din Oradea”, seria Stiinte Economice, Volumul III, Sectiunea: Finante, Banci si Contabilitate, Tom XVII, pp.35-940
- Bean, D., & R. Bernardi. 2005. Accounting ethics courses: A professional necessity, *The CPA Journal* 75(12) 64-65.
- Berger, P. 1967. *The Sacred Canopy: Elements of a Sociological Theory of Religion* (Anchor, New York)
- Bruns, William J and Merchant, Kenneth A.. 1990. The Dangerous Morality of Managing Earnings *Management Accounting*; Aug 1990; 72, 2; ABI/INFORM Global pg. 22
- Cheung, Y., P. R Rau, and A. Stouraitis. 2006. Tunneling, propping and expropriation: Evidence from connected party transactions in hong kong. *Journal of financial economic* 82 (2): 343-386

- Conroy, S. J., & Emerson, T. L. N. 2004. Business ethics and religion: Religiosity as a predictor of ethical awareness among students. *Journal of Business Ethics*, 50, 383–396.
- Cragg, W. 1997. Teaching Business Ethics: The Role of Ethics in Business and in Business Education', *Journal of Business Ethics* 16, 231-245.
- Du. 2014. Does Religion Mitigate Tunneling? *J Bus Ethics* (2014) 125:299–327
- Elias, R. 2002. Determinants of Earnings Management Ethics Among Accountants. *Jurnal of Business Ethics* 40 (1), 33–45.
- Forsyth, D. 1982. Judging the Morality of Business Practices: The Influence of Personal Moral Philosophies', *Journal of Business Ethics* 11(5), 461–470.
- Greenfield, Jr. 2007. The Effect of Ethical Orientation and Professional Commitment on Earnings Management Behavior
- Kennedy, E. J. and L. Lawton. 1998. Religiousness and Business Ethics. *Journal of Business Ethics* 17(2), 163–175.
- Kohlberg, L. 1984. *Essays on Moral Development Vol. 2, the Psychology of Moral Development*. San Francisco, CA: Harper & Row.
- Kohlberg, L. 1981. *The Philosophy of Moral Development: Moral Stages and the Idea of Justice* (Harper & Row, San Francisco).
- Kline, T.C., 1981. *The Philosophy of Moral Development: Moral Stages and The Idea of Justice*. Harper & Row, San Francisco.
- Largay, J. 2002. Lessons from Enron. *Accounting Horizons*, Vol. 16, No. 2, p.154
- Longenecker, J. G., J. A. McKinney and C. W. Moore. 1989. Ethics in Small Business. *Journal of Small Business Management* ( January), 27–31.
- McGuire, S. T., Omer, T. C., & Sharp, N. Y. 2012. The impact of religion on financial reporting irregularities. *The Accounting Review*, 87(2), 645–673.
- Park, H. 1998. Can Business Ethics be Taught?: A New Model of Business Ethics Education. *Journal of Business Ethics* 17, 965-977.
- Rawwas, Mohammed Y. A. ; Ziad Swaidan and Jamal Al-Khatib. 2006. Does Religion Matter? A Comparison Study of the ethical Beliefs of Marketing Students of Religious and Secular Universities in Japan. *Journal of Business Ethics* (2006) 65: 69–86
- Sari, Ratna Candra and Sukirno. 2015. Creative Accounting: Do Character Education and Religion Matter?. *Finance and Banking Journal*, Vol. 17 No. 1

- Sims, R. R. 2002. Business Ethics Teaching for Effective Learning. *Teaching Business Ethics*, 393–410.
- Sunstein, C. R. 1996. Social norms and social rules. *Columbia Law Review* 96 (4): 903–968.
- Weaver, G. R., & Agle, B. R. 2002. Religiosity and ethical behavior in organizations: A symbolic interactionist perspective. *The Academy of Management Review*, 27(1), 77–97.
- Zeff, S. A. 2005. The Evolution of U.S. GAAP: The Political Forces Behind Professional Standards. *CPA Journal*, 75(2), 19–29.

# Artikel

## ORIGINALITY REPORT

29%

SIMILARITY INDEX

19%

INTERNET SOURCES

15%

PUBLICATIONS

12%

STUDENT PAPERS

## PRIMARY SOURCES

1

[pt.slideshare.net](http://pt.slideshare.net)

Internet Source

5%

2

Submitted to University of Mauritius

Student Paper

3%

3

Submitted to University of North Texas

Student Paper

3%

4

[www.tandfonline.com](http://www.tandfonline.com)

Internet Source

2%

5

A. C. Greenfield. "The Effect of Ethical Orientation and Professional Commitment on Earnings Management Behavior", Journal of Business Ethics, 12/2008

Publication

2%

6

[www.aaajournals.org](http://www.aaajournals.org)

Internet Source

2%

7

Kiridaran Kanagaretnam, Gerald J. Lobo, Chong Wang. "Religiosity and Earnings Management: International Evidence from the Banking Industry", Journal of Business Ethics, 2014

2%

---

8	<b>Submitted to Universitas Diponegoro</b> Student Paper	1%
9	<b>T. C. Kline III. "Sheltering under the Sacred Canopy: Peter Berger and Xunzi", Journal of Religious Ethics, 06/2001</b> Publication	1%
10	<b>ro.uow.edu.au</b> Internet Source	1%
11	<b>manualzz.com</b> Internet Source	1%
12	<b>media.neliti.com</b> Internet Source	1%
13	<b>Brandon, D.M.. "The joint influence of client attributes and cognitive moral development on students' ethical judgments", Journal of Accounting Education, 2007</b> Publication	1%
14	<b>www.dictionary.com</b> Internet Source	1%
15	<b>pinnacle.allenpress.com</b> Internet Source	1%
16	<b>link.springer.com</b> Internet Source	1%

---

Exclude quotes      On

Exclude matches      < 1%

Exclude bibliography      On