DO ETHICS EDUCATION AND RELIGIOUS ENVIRONMENT MITIGATE CREATIVE ACCOUNTING?

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Abstract
There are increasing volumes of corporate scandals and declining ethical reasonings of accountants. The credibility crisis of accountants arouses the awareness of educators concerning the importance of instilling ethical values in the context of education because ethics is the most effective way to limit the scope of creative accounting. 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 examine the effect of ethics education on ethical perception of creative accounting; second, to test the differences of ethical perceptions of undergraduate students in religious and public universities; third, to examine the effects of individual’s ethical ideology 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. SEM PLS was used to test the hypothesis. The results show that business ethics education did not influence ethical perceptions on creative accounting. However, there is a significant difference in students’ ethical perceptions between the public university and religious-based universities. Individuals’ ethical ideology has an impact on ethical perceptions. Educational implication and suggestion for future research are proposed.

Keywords:
Ethical perception, creative accounting, accrual manipulation, real activity manipulation, tunneling, ethics education, religiousity
1. Introduction
The increased global corporate scandals and decline in ethical reasonings of accountants over a 15-year period, made public question the ethical behavior of accountants and auditors (Bean and Bernardi, 2005). One possible explanation of the decline in ethical values of accountants and auditors, among others, could be the lack of effectiveness of the ethical training currently being provided for future practitioners. Some researchers argue that ethics education is not effective (Conroy and Emerson, 2004). Another possibility is the increased pressure on accountants to produce reporting that is appropriate for their company’s best interests (Zeff, 2005), which encourages creative accounting.

Creative accounting is designed to prepare financial reports to achieve financial performance targets, resulting in a misrepresentation of corporate performances (Balaciur.Pop, 2008). 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 standards. 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.

Ethical judgment on creative accounting is vary, most of accountant and manager said ethically (Bruns and Merchant, 1990). While from the perspective of students as a future professional candidate, there is no difference in the intention of doing creative accounting between students in public universities and religion (Sari and Sukirno, 2015). The current study extends this line of research by investigating the effects of business ethics education and religiosity environments on ethical perceptions on creative accounting practices. The assessment of students’ ethical perceptions of the practice measures students’ ability to recognize and understand ethical issues.

We also test whether the internal factors of individual ethical ideologies influence ethical perceptions on creative accounting. Previous studies have extensively examined the influences of religions on personal behaviors (Lehner, 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.

Examining the factors that influence the perceptions of ethical students will provide useful insights to educators and regulators.

2. Review Literature and Hypothesis Development

2.1 Ethics Education and Ethical Perception on Creative Accounting
In general, creative accounting is unethical and causing negative consequence (Badertscher, 2011; Cheung et al., 2006). But ethical judgment on creative accounting is vary, most of accountant and manager said ethically (Bruns and Merchant, 1990). This raises the question whether or to what extent business ethics education has been effective in internalized ethical values, thereby reducing the intention of doing creative accounting in the future.

There are differing opinions about trainability of ethical decision making. Some argue that ethics can not be taught because of character development has been formed at college age (Cragg, 1997). One ethical business class or series of classes in college is not sufficient to change the character that was built at the beginning of one's life. It is reasonable to argue that it is difficult to transmit the value of ethics in a business course because of the cruel nature of our focus on outcome and competitive economy. Conroy and Emerson (2004) provide evidence that business ethics eduacion does not effect on ethical perception. Mayhew and Murphy (2009) suggests that ethics education does not result in internalized ethical value.

However, many professional organisasi and researcher believed that some components of ethical decision making can be taught. They argues that with proper implementation, ethics curriculum can be designed for effective learning (Sims, 2002). Some empirical evidence showed that teach ethics in the classroom would impact on improvement in ethical sensitivity, moral reasoning and even ethical behavior (Sims, 2002). There are conflicting evidence about the effectiveness of ethics education in internalized ethical value. Therefore we propose the folowing hypothesis in the form of null hypothesis

\[ H_0 \text{null1} : \text{There is no difference in the ethical perception of creative accounting ethics before and after ethics education} \]

2.2 Religiosity and Ethical Perception of Creative Accounting

There are two schools of thought about the influence of religion on ethical behavior: First, According to
social norm theory, social norms influence behavior because individual prefer to conform to their peer group (Kohlberg, 1984) and avoid punishment for opposing standards, values and beliefs that are considered acceptable (Sunstein, 1996). Religiosity as a social norm. Religious is a key social mechanism for controlling behavior and belief (Kennedy and Lawton, 1998). Assuming all else equal, the more salient a person’s religious identity, it is increasingly behaving in accordance with the expectation of his/her religion.

Weaver and Agle (2002) stated that religion influence bussiness ethics. Longenecker et al. (2004) found that bussiness manager and professional who believes that religious values are less likely to approve unethical behavior. Conroy and Emerson (2004) found religiosity is associated with lower acceptance of accounting manipulation. McGuire et al., (2012) found that firms in religious area are less likely to engage financial reporting irregularities. They argue that religiosity reduced acceptance of unethical bussiness practices. Du (2014) found that religion mitigate tunneling. The findings is 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, Theory of sacred canopy developed by Peter Berger (1967). According to this theory, religious legitimations are constructed and maintained by human activity, yet when this aspect of their existence is forgotten, they also inherently carry with them the danger of alienation (Kline, 2000).

Alienation is associated with the problems caused by rapid social change, such as industrialization and urbanization, which has broken down traditional relationships among individuals and groups. The Sacred Canopy theory argues that religion have lost their influence 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.

Several studies support the theory of sacred canopy, among others: Rawwas et al. (2006) found that religion not as an impediment to academic dishonesty. McGuire et al., (2012) found positive association between religiosity and real activity manipulation.

Social norms theory predicts that the influence of religious norms increased in an environment with a strong religious social norms such as religious-based university (Kennedy and Lawton, 1998). However increasing materialism of our modern society and high pressure to meet target, People have become very pragmatic and putting aside religious values as predicted by The Sacred Canopy theory. Based on this discussion, we propose the following hypothesis:

H2: There is difference in ethical perceptions of creative accounting between students at public universities and religious universities

2.3 Ethical Orientation on Ethical Perception of Creative Accounting

Individual’s ethical orientation (relativism vs idealism) impact on bussiness decision making such as earnings management decision (Greenfield, 2007). Individual ethical orientation is a continuum with relativism at one end and idealism at the other (Forsyth, 1980). Relativism is an individual’s concern for universal set of rules or standards. Idealism focuses on human welfare. Individuals who tend to idealism had less likely to manipulate earnings as it will cause harm to others, they tend to avoid it (Forsyth, 1982). On the other hand those who tend be more relativistic consider the circumstances first rather than potential harm a decision might cause. These individuals also tend to judge the decision with more leniently and judge earnings management is more ethical than do the idealist (Elias, 2002). Individuals who tend to be more relativistic considers the circumstances first rather than the potential losses that may be incurred decision.

Greenfiled et al (2008) found relativitiv individuals are more likely to engage creative accounting and idealistic individuals are less likely to engage creative accounting practice. Based on this discussion, we propose the following hypothesis:

H3a: there are negative relationship between relativism and ethical perception on creative accounting. In particular, relativitiv individuals are more likely to perceive that creative accounting is ethical.

H3b: there are positive relationship between idealism and ethical perception on creative accounting. In particular, idealistic individuals are more likely to perceive that creative accounting is unethical.
3. Research Method
3.1 Participants and Procedure
Business students from 2 religious-based university and 1 public university in Indonesia participated in this study. Table 1 shows the sample characteristics.

Table 1: Participant Characteristics

<table>
<thead>
<tr>
<th>Public University</th>
<th>Religious-based university</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean Age</td>
<td>Mean SD Age</td>
</tr>
<tr>
<td>Mean GPA</td>
<td>Mean SD GPA</td>
</tr>
</tbody>
</table>

Age
Mean 20.6 SD 0.78 Mean 20.5 SD 0.86
GPA
Mean 3.57 SD 0.16 Mean 3.47 SD 0.21

Percent in Each Category

<table>
<thead>
<tr>
<th>Number of Samples Observed</th>
<th>Male</th>
<th>Female</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>35</td>
<td>64</td>
<td>46</td>
<td>80</td>
<td></td>
</tr>
</tbody>
</table>

Participant currently enrolled in ethical businesses course. Pretest and post test field experimental design was used to examine effectiveness of business ethics education.

3.2 Variable Measurement
Ethical Perception of creative accounting. We used modified Burns and Merchant (1989) questionnaire to measure ethical perception of creative accounting. The respondent were required to rate each question on 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.
Ethical Orientation. We used the Ethical Position Questionnaire (EPQ), developed by Forsyth (1980) to measure students’ ethical orientation.
Ethics Education is measured by dummy variable equal to one after students finish ethical business course and 0 before. Type of university is measured by dummy variable, 0 for public university and 1 for religious based university. Gender is measured by variable dummy: 0 female, 1 male. Our model testing the influence of ethics education, religiosity and ethical orientation on ethical perception of creative accounting use the following form:

Ethical Perception on Creative Accounting = \( b_0 + \beta_0 \text{Ethics Education} + \beta_1 \text{Type of University} + \beta_2 \text{EthicsOrientation} + \beta_3 \text{Gender} + e \)

To test the hypotheses, a structural equation modeling with partial least squares (SEM-PLS) approach was employed because this model includes second order latent variables also reflective measurement (ethical orientation).

4. Result
Hypothesis testing used a structural equation modeling with partial least squares (SEM-PLS).
4.1 Measurement Model Analysis
The measuremen analysis indicating adequate discriminant validity and contract validity.
4.2 Model Fit
We evaluated ten goodness-of-fit indices for the structural equation model used in this study. Each of these test are considered a good fit.
4.3 Test of Hypothesis
We test the hypothesis based on their respective coefficient path value in the structural equation model and present those result in Table 2.

Hypothesis 1 predict that there is no difference in the perception of creative accounting ethics before and after ethics education. The observed of coefficient path of ethics education is not significant (Table 2), H1 is supported.

Hypothesis 2 predicted there is difference in ethical perceptions of creative accounting between students at public universities and religious universities. The negative and significant path coefficient (-0.17) indicate that students at religious-based universities consider creative accounting practices as acceptable practices compared to public university students. This result support the theory of sacred canopy that the value of religion has faded due to the increasing materialism of our modern society.

Table 2. PLS Results (Path coefficient, t-statistics, and R²)

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Path To</th>
<th>Ethical Perception on Creative Accounting</th>
<th>Ethics Orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethics Education</td>
<td></td>
<td>0.02</td>
<td></td>
</tr>
<tr>
<td>Type Of University</td>
<td></td>
<td>0.17***</td>
<td></td>
</tr>
<tr>
<td>Ethics Orientation</td>
<td></td>
<td>0.16***</td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td></td>
<td>0.03</td>
<td></td>
</tr>
<tr>
<td>Idealism</td>
<td></td>
<td>0.664***</td>
<td>0.664***</td>
</tr>
<tr>
<td>Relativism</td>
<td></td>
<td>0.664***</td>
<td></td>
</tr>
</tbody>
</table>

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

Hypothesis 3a predict relativistic individuals are more likely to perceive that creative accounting is ethical, suggesting the negative relationship between relativism and ethical perception on earnings management. The path coefficient is significant but in
the opposite sign (0.664 x 0.16). An explanation of the difference in results will be discussed in the discussion section.

Hypothesis 3b predict that idealistic individuals are more likely to perceive that creative accounting is unethical, suggesting the positive relationship between idealism and ethical perception on earnings management. The positive and significant path coefficient (0.664 x 0.16) support hypothesis 3b. These result are consistent with Greenfield et al. (2007) who found that idealistic ethical orientation will less likely to engage in earnings management behaviour. The path coefficient for gender is not significant, indicating there is no difference in the ethical perception of male and female students.

5. Conclusion, Implication and Limitation

The flexibility of accounting standards is one of the drivers of creative accounting (Largay, 2002). In general, Creative accounting is unethical and causing negative consequence. The result indicate that there is no ethical difference in perception on creative accounting before and after business ethics course. The results of this study are consistent with research Conroy and Emerson (2004) and Mayhew and Murphy (2009), suggests that ethics education does not result in internalized ethical value.

Results of testing hypothesis 2, indicate that Student's in religious-based university perceive that creative accounting more ethically acceptable than the student's in public university. This phenomenon support the theory sacred canopy which contends that religious values have faded due to the high materialism. The results of this study also support McGuire et al. (2012) that the manager in religious area also manipulates earnings using real activity manipulation due to high capital market pressure to achieve profit targets.

Realistivistic and idealism individual view creative accounting is ethically unacceptable. These result are not consistent with Greenfield et al. (2007), the possible explanation because this study focused on students' ethical perceptions while Greenfield et al. (2007) focus on student’s intention.

Overall, the result may be helpful to academician, practitioners and accounting researcher. It is needed improvements in teaching business ethics in order to instill ethical values in prospective practitioners. According to Park (1998), the potential harm ini bussiness ethics education is that conducted in the area of cognitive reasoning. Most bussiness ethics’s textbook contain case studies of ethical scandals, remain within boundaries of cognitive reasoning. Park (1998) propose Learning using experiental and practical level of learning necessary for ethical reasoning, moral sentiments and ethical praxis. Also improvements should be made to the organizational infrastructure such as performance evaluation and reward not only in the short term oriented. Because short term orientation can escalate competition and deprive organizational member of ethical perspective (Park, 1998) and religious value (Rawwas, et al, 2006).

The result of this study should be interpreted within the context of the following limitations. One such limitation relates to the inability to control the difference of teaching methods or quality of the lecturers, although the field study provides a real assessment of the effectiveness of learning business ethics that occurs at the university.

REFERENCES


Greenfield, Jr. 2007. The Effect of Ethical Orientation and Professional Commitment on Earnings Management Behavior


