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Determinant of love of money and organization ethics environment implication to earnings management behavioural perceives

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Abstract

This study which aims to test the effects of love of money and the ethical environment of the organization on perception of earnings management behavior with 2x2 factorial experimental research with quasi experiment design. Data collection techniques that used in this study was questionnaire and distributed to participants in university. The result showed that, there are differences among individuals in who has a high levels of love of money and a low levels of love of money in perception of earnings management behavior; and there are differences between a company's condition that has a high internal control elements (organizational ethical environment) and in company condition where there is no internal control elements (organizational ethical environment) is low in perception of earnings management behavior; and there are interaction between love of money and ethical environment of the organization on perception of earnings management behavior.

Keywords: Love of Money; Organizational Ethical environment; Earnings Management;

JEL Classification: M490, M1, M410

1. Introduction

The opportunistic behavior by choosing accounting manipulation on the permanent or transitory earnings is well-known as earning management (Beyer, Cohenb, Lys et al., 2010)

Earnings management has multifaceted issue, which is seen from an ethical perspective. Earnings management activities can accept as legal or not violate the generally accepted accounting principles and such actions are supported by firm's

management. Otherwise firm's management endorse earning management activities to provide beneficial for certain parties. Information about incorrect and misleading profits will result in a wrong decision (Mahmudi, 2001).

Money is the origin reason of the corporation's financial scandal (Tang & Chiu, 2003), and indicated by low ethical perceptions in business situations (Wong, 2008). Thus, a person with a love of money motivation can be intricate influence one's moral to against ethical or unethical judgments of earnings management behavior (Chang, 2007). Fisher's theory reveal the important thing about money is transferable power, however it does not explain why people prefer to hold money than assets, or why management do fraud on earnings.

The results of this study indicate that there is the influence of love of money and the ethical environment of the organization to management decisions in the practice of earnings management in amongst accounting students.

2. The ethical perceptions and altruistic practices

The agency theory assumes that all individuals act on their own behalf that shareholders as principals are assumed to be only interested in increased financial results or their investment within the firm, while agents are assumed to receive satisfaction in the form of financial compensation and the conditions that accompany those relationships (Yuliarini, Ku Ismail, Bararoh, 2017). Earnings management is seen as a fraud, when one's perceives justify of some parties in corporation's managerial engineering fraudulent activities such considered as recording sales before realization, recording fictitious sales, withdrawing the evidence of purchase date, and recording inventory fictitious (Mulford and Comiskey, 2010). Firm's management use the gaps in accounting policies and claim the activities undertaken by managers are still within the framework of accounting principles acceptable public.

Ethical perception is the process whereby a person chooses, attempts, and interprets stimuli into an integrated and meaningful mind set about ethic (Lubis, 2011). According Handayani (2013), perception can be interpreted as the acceptance or view of a person through a process that can be from experiences and learning, so that an individual is able to decide about a thing. Previous research and hypothesis about learning process was revealed by Charismawati (2011) who examined about the relationship of love of money to the students' ethical perception. It showed the students' ethics perception about the love of money factor has a negative relationship with learning process. She found the higher the level of love of money, the lower students' ethical perception in assessing the behaviour of earnings management and vice versa. Student have

early experiences to understand the risen problem related to earning management activities.

Meanwhile, Kusjainah (1998), has conducted a study of empirical studies on the ethical environment of the organization. Hence, it can be concluded that the love of money and the ethical organization environment have simultaneously negative affect. It means accounting student have knowledge about the ethical perceptions on earnings management behavior. Based on the description, the researcher formulates the research hypothesis as follows, H1: There is a difference between individuals who have high levels of love of money and low levels of love of money in the perception of earnings management behavior. H2: There are differences between individuals in high organizational climatic conditions and in the low organizational environment in the perception of earnings management behavior. H3: There is an interaction between love of money and the ethical environment of the organization in the perception of earnings management behavior.

3. Research methods

The design of this study employs a causal-comparative study that examines causal relationships and also includes comparative inter-groups. The research method uses quasi experiment design. This research had experiment group consists of 60 accounting students at in Surabaya, which is total members of the experimental and control groups compared with equal numbers, and found high ethical organizational environment as a control group, however organization with low ethical environment has different value of love of money. The research employed experimental design of 2x2 factorial. It can be seen in Table 1.

Tabel 1
The experimental design of 2x2 factorial

| Organization ethical environment | <i>Love Of Money</i> Level | |
|----------------------------------|----------------------------|--------|
| | High | Low |
| High | Case A | Case B |
| Low | Case C | Case D |

Source: Wany, E, 20184. Results

4.1 *The influence of love of money on earnings management behaviour*

The results support the first hypothesis (H1) that there is a difference between a person with a high and a low Love of Money level in the perception of earnings management treatment. The greater level of love money of students is in the lower level of their ethical perceptions. The results of this study support the research conducted by Charismawati (2011) who examines the relationship of Love of money to the students' ethical perception shows that there is a relationship between the level of Love of money in accounting students with their ethical perception. It is supported by Paesani (2010) conveys that love of money is related to moralistic and aesthetic issues. Furthermore the intention on love of money in corporation have potential to generate disruptive effects such as financial crises. Hence, the process of making decision based on lack rationality from the perspective of moralistic involved in the transformation processes creates fraud practices such as earning management activities.

4.2 *The influence of the organization's ethical environment on earnings management behavior*

This study support the second hypothesis (H2) that there is a difference between individuals who are in high organizational environment conditions and at low organizational conditions in the perception of earnings management behavior, regardless of other treatment. The results of this study support previous research by Puspasari (2012), the more effective of the ethical organizational environment in high conditions that existed in the company as internal control, the lower the tendency of someone to commit accounting cheating in the company. Therefore, with the establishment of regulations within an organization as one form of Internal Control, then the goals of the organization will be more easily achieved.

Improving ethical environment in organization through by giving the ethical training to individuals who's dealing with financial policies is needed. Individuals who have develop their knowledge to the positive-oriented ethical training context mere likely to avoid doing earnings management than the counterparts who were exposed to the negative-oriented ethical training context for the same earnings management situation (Jeffrey, 2007). Similar treat to accounting students such in early exposed of positive-oriented ethical education provide students to develop their ethical perspectives and detect on earnings management situation.

4.3 The influence of the relationship between love of money and ethical organization

The results support the third hypothesis (H3) that there is an interaction between love of money with the condition of ethical organizational environment. A person with a high level of love of money tends to do earnings management when she/he in low ethical environment conditions. Whereas a person with a low level of love of money tends to be stable not in performing earnings management practices, both in high organizational environment and poor organizational environment. The changing of the organization's ethical environment conditions (the existing or without Internal Control elements) resulted in changes of individual moral levels by certain levels of love of money (high or low) to practice earnings management.

Paesani (2010) underline that love of money is related to moralistic issues, which is in specific practice of gluttony for purchasing power, for liquidity and for social recognition in unreliable world and living competition. Organization should provide a fair mechanism to provide fair reward for its employee. It may replace the bonus-based incentive mechanism with post performance valuing-based reward such as giving 1% shares to pension fund for employees.

5. Conclusion

This study aims to compare the tendency of a person to the perception of earnings management behavior in high and low ethical organizational conditions with someone who has a high level of love of money and someone with a low level of love of money.

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