



Bonus Compensation and Earnings Management in Islamic Bank Management Perspective: Gadamerian Truth and Method Analysis

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Received 25 September, 2016; Accepted 20 October, 2016 © The author(s) 2016. Published with open access at www.questjournals.org

ABSTRACT: *The purpose of this study is to understand the perspective of Islamic Bank management toward earnings management practice and how religion interacted with this issue. This study uses Gadamer hermeneutics yang suggest an understanding to come from prejudice. This later became the starting point of hermeneutic circle using fusion of horizon and act of dialogue to achieve cycle of interpretation. The study concluded that management that internalized religion will have or wish to develop a trust in something transcendent in the form of devotion (altruistic love). They apply religiosity using the values of altruistic love through their attitudes and behavior, while matching their visions with their subordinates. Furthermore, this study found that in the organization, management see their religion as more than a symbol in Islamic Bank, they saw it as a way of life. Finally, this internalization makes them afraid to do unethical behavior, including earnings management practices. Through altruistic love internalization in organization, religion is capable of influencing management into behaving ethically.*

Keywords: earnings management, Gadamer, qualitative, Islamic, hermeneutic

"Those who see reality as a construction in the minds of individuals asserts that it is dubious, whether there is a reality. If there is, we can never know it. Furthermore, no amount of inquiry can produce convergence on it. There is, in this ontological position, always an infinite number of constructions that can be made and hence there are multiple realities" Lincoln and Guba (1985: 83)

I. INTRODUCTION

Some accounting academic research recognized earnings management as an unethical behaviour (Hamza and Lakhali, 2010; Ahadiat and Hefzi, 2012; and Abaoub Amar, 2010; Zang, 2011; Cohen and Zarowin, 2010). Earnings management occurs when management make a disclosure policy based on standards to manipulate the actual financial condition of the company (Healy and Wahlen, 1999; Rosenfield, 2000; Kaplan, 2001; Antigone and Lougee, 2011; Beneish and Vargus, 2002; Makni et al , 2010).

One of the motivation to do earnings management is bonus scheme (Khoshtinat and Khani, 2003; Park and Shin, 2004; Tsai and Chiou, 2008). Scholars began to study the consequences of earnings management, for example, when manager does earnings management to increase their compensation and how this impact their reputation within the company (Kaplan and Ravenscroft, 2004).

In the practice of earnings management, various forms of accounting principles are used to affect reported result, which in turn makes a larger or smaller earnings report than it should be. As a result, earnings management gives no real picture on the company's performance and the effectiveness of managers. In addition, management also have many opportunities to do earnings management due to their ability to use their judgement to manipulate financial statements to decide both the profit target and the actual reporting output (Jensen, 2001).

Based on the facts described above, researcher is inspired to ask: "What is the management's perspective on earnings management practices and how it interacts with religion?" The purpose of this study is to develop a deeper understanding on the management's perspective of earnings management and its interaction with religiosity.

II. RESEARCH METHODOLOGY

This research use Gadamerian methodology which argues that knowledge cannot be entirely objective, therefore it is impossible for researcher to escape the prejudice they have over an issue. However, researchers should be

able to bring their perspectives into a form of reflective consciousness called fusion of horizons between their viewpoint and informants' viewpoints (Morrow and Harrington, 2007).

In his book, *Truth and Method*, Gadamer discover that understanding occurs when there is a real communication between one individual to another (in the Roy and Oludaja Gadamer, 2009). He also suggested an "I-Thou" relationship by equalizing the rights arising from the behavior of non-domination. This relationship is based on openness and mutuality, characterized by a willingness to listen to the claims of the interlocutors and the ability to see the validity of these claims (Scheibler, 2000).

According to Gadamer, to get the real experience of Thou, we should put ourselves in a different perspective, especially if the initial perspective that we own turned out to be incorrect or inaccurate (Gadamer, 1989). Ingram (1985) stated that the outlook on Gadamer dialogical understanding has a teleological dimension where "the nature of human understanding theologically oriented toward Thou recognition as a person an individual that has rights to be respected and understood".

The early stage of hermeneutic understanding is to understand who the individual in a phenomenon based on the results of two-way communication that researchers do with the informants. It is important to understand who are these actors involved and what are their roles in this issue (Gadamer, 1989).

The site that was selected in this study is Bank Muamalat Indonesia, which based on the approval of President Soeharto, was established as a commercial bank in Indonesia to implement Islamic Sharia principles in conducting its operations. Established since 1991 and began operations in 1992, this bank is the oldest Islamic bank and achieved a lot of support from Muslim scholars and businessmen, as well as the wider community.

Bank Muamalat Indonesia was awarded as the best Islamic bank in Indonesia for seven years by Alpha Southeast Asia. This award was acquired by Bank Muamalat during the 2009 and they still hold the title until 2015. This award was obtained from Alpha Southeast Asia because how Bank Muamalat is capable to gain positive appreciation in its expansion with the international community (Shahid, 2015). However, some studies still found the presence of earnings management in their practice (Padmantlyo 2010; Faradila and Cahyati, 2013; Quttanah et al, 2011).

As the person responsible for the Bank's performance, manager become an involved party in decision making regarding management policy and accounting within the company, and were expected to provide an understanding about the earnings management occurrence.

Gadamer (1989) describes the ideal type of dialogue that shows the relationship "I-Thou" occurs in a communicative understanding. Based on Gadamer's (1989) views, the researcher's and informants assumptions and biases will be confronted and debated. During these interviews, I-Thou encounter requires researcher to open themselves to the truth of informants ideas and opinions. In addition, there must be a willingness to accept the fact that these opinions or thoughts be different with researcher's beliefs or values.

III. DISCUSSION

This study revolves around Islamic Bank, which is different from conventional banks, therefore it emphasizes on how the link between religious values and people's behavior in an organization. Some studies suggest that there are practices of earnings management in Islamic Bank (see Fischer and Rosenzweig, 1995; Rahman et al, 2005). From this fact, this study's original purpose was to thoroughly explore the practice of earnings management in the research sites. However, researcher then found that there was no earnings management practice, therefore we try to examine management's perspective on earnings management to find out their perspectives on earnings management from Gadamer's hermeneutical framework. Gadamer's hermeneutics emphasizes the importance of language in this study by incorporating the results of the interview into writing, and understand the meaning behind each statement to be able to reach an understanding.

According to Gadamer, the first step to understand a phenomenon is to explore the views and the historical experience of informants. This is achieved by understanding the cultural aspects, or in this case, the internalization of informant's religious values and religiosity, and how these things shaped informant perspective on earnings management. Researcher found that religiosity allows bring individuals to acknowledge the relationship themselves and their community, as well as the consequences of their actions in the eyes of the Almighty. Additionally, religiosity, which refers to the awareness of religious values while conducting their responsibilities as a manager, is able to reduce the possibility of earnings management practices. Researcher found that the management of Bank Syariah, channelling this religiosity in their workplace, manage to avoid earnings management behavior.

Furthermore, religiosity encouraged people with different interests to go hand in hand toward one goal. Religiosity that is accompanied by individual's realization in regard of ethics is able change the orientation of a manager from their goal of profit maximization using earnings management, into the search for the deeper meaning in their workplace. This study would then try to understand how the Islamic Bank management's perspectives in an environment free of earnings manipulation elements. Researcher tries to observe exactly shapes management's thoughts, and how this thinking is able to form an environment free of earnings

management.

Academics have linked religiosity with various functions and organizational practices, although the main focus so far is about the positive impact of religion on the organization reality (Benefiel, 2008; Hall et al., 2012; Neal and Biberman, 2003; Wong and Hu, 2012), management process (Dean and Safranski, 2008; Lewis and Geroy, 2000; McCormick, 1994; Steingard, 2005), and leadership practice (Chen and Yang, 2012; Fry, 2005). Studies on religiosity, according to Mitroff and Denton (1999), nowadays was due to people who now seek religious solution in the face of turmoil in social and business world, and a major change in the meaning of value globally, has raised the importance of awareness to internalize values religious values (Aburdene, 2005; Fry and Nisiewicz, 2013).

One of these academics who tried finding the meaning of religion and ethics in the interaction among human beings was a German philosopher, Hans-Georg Gadamer. In the years before and after his work in *Truth and Method* (1989) was released, Gadamer always pondered questions about religion and ethics based on his view in the book. In his writings, Gadamer tried to raise awareness toward the importance of this issue to the academics in the field of ethics and theology. In the essay he wrote, "Kant and the Question of God", "Thinking as Redemption: Plotinus between Plato and Augustine" and "Friendship and Self-Knowledge: Reflections on the Role of Friendship in Greek Ethics", Gadamer discussed the basis of the behaviour of one's morals, ethics as a form of consciousness, and the hermeneutics' task as a mediation between ethos and philosophical ethics.

In his latest work titled *Gadamer's Century*, Charles Taylor and Gianni Vattimo (2002) outlines Gadamer's contribution as an understanding of human affairs, or in this case the interactions among humans which has a role that is more superior than the science methodology that had been tied closely to social science field. Gadamer maintained a scholarly communication model that is different from science idealism in three aspects, namely how our understanding are "bilateral, they are partly dependent, [and] they involve; revising goals" (Taylor and Vattimo, 2002: 279-281). Taylor describes Gadamer's legacy to our generation as a form of knowledge based on intercultural understanding in a world filled with heterogeneity. Gadamer's relics, based on the conclusions Taylor, helps are to face the greatest challenge of this century, which is to understand each other.

Phenomenological hermeneutics which is a research method developed by Gadamer, assume that a study is value-laden, because each researcher will always bring their bias and prejudice into the study, giving a distinctive color between one research with the other (Lincoln and Guba, 1985). Gadamer (1989) considers that this prejudice element as researchers attempt to understand the issue.

To incorporate informants' perspectives and researcher's prejudice, we used what is called the fusion of horizons. Researcher observed a subject with prejudices that are formed from other academics' and practitioners' views, and then compared them with informants' views in order to bring real meaning of each topic (Gadamer, 1989: 267). Furthermore, researcher reflected on these findings and further explores the topic to get "the whole in terms of the detail and the detail in terms of the whole" (Gadamer, 1989: 291).

Through Gadamer's framework, researcher hope to be able to provide another perspective on the behavioural aspects of accounting, particularly from management's perspective, and provides an understanding of religiosity's role in the decision-making process of earnings management.

Profit Management: Individual's Religiosity Reflections in the Workplace

The term of earnings management refers to the legitimate and illegitimate decisions that affect the company's profit reporting. Although it is difficult to distinguish between which earnings management that can be justified and which are not. However, it can be said that the more aggressive an earnings management behaviour is, the greater the opportunity to mislead investors about company's economic condition. Furthermore, by manipulating reported income aggressively, companies can potentially alter the outcome of contractual obligations (eg, debt agreements and executive compensation) which rely on income reporting. For this reason, earnings management is seen by many as opportunistic and unethical.

One aspect that is interesting in earnings management is the presence of compensation for managers based on certain level of profits obtained by the company. The issue here is not whether the executives are eligible for compensation, since managers might have deserved a great compensation package if they generate profits for shareholders' interests. The focus which will be examined here is whether this compensation is enough to make managers rationalize earnings management behaviour. As expressed by Muslimah, a financial manager:

"Manager's behaviour which tries to meet their targeted profit in order to meet market's demands occurred because of pressure from certain parties. In their perspective, religion became the final consideration and not something that should be put in front and above everything as a desire-control".

What is interesting from Muslimah's perspective is that compensation is seen as a pressure by managers. In this case, Islamic banks as a competitive company in the market encouraged their managers to always show a positive and superior performance compared to other banks. One of the bank's initiatives is to

provide a compensation package as to provide an incentive for managers to achieve the desired productivity. While stating this perspective, Muslimah truly believes that without the orientation of religious values are qualified, such pressure will encourage deviant behaviour.

Fischer and Rosenzweig (1995), as well as DeZoort and Lord (1994) stated that the motivation of earnings management can be divided into attitudes and beliefs, and pressure from an affiliated party. Compensation bonus here becomes a dilemma and pressure for managers, an opportunity for profit, as well as an opportunity to showcase their capability. This resulted in a decline of financial reports' quality. Another effect of earnings management is the declining credibility of financial statements, which creates bias and misleads financial statements' users to believe the earnings' numbers as a form of income without manipulation. Muslimah then continued:

“Islam invites its followers not to take anything that is not rightfully theirs. To manipulate earnings for personal interest is haram, because it is not theirs”

To control the desire which arises because of employer's pressure, Muslimah views Islam as a solution to this issue. In her opinion, Islam became a guide for her and as a filter that determines what it is right, and wrong. Islam provides strict sanctions for its adherents to take something that is not their right, so they will always be cautious in their behaviour and when they make a decision.

Researcher finds that a community, in this case Islamic Bank, which is guided by religious values, will be more careful in taking high-risk action or violate ethics or norms of their religion. Therefore, earnings management behaviour in order to obtain compensation earnings management is likely to be avoided.

Furthermore, in relation to earnings management application, Ikhwan, assistant manager of marketing, stated:

“Earnings management has become a common phenomenon that occurs in a number of companies. Practices that occur to to affect earning's rate of a company can happen legally or illegally”

Legal practice refers to an attempt to influence the profit figures which do not conflict with the rules of financial reporting in the General Acceptable Accounting Principles (GAAP), especially in the Accounting Standards. This is done by taking advantage of opportunities in determining the accounting estimates, changing accounting method, and period shift in revenue or expense. According to Ikhwan

Earnings management that is done illegally (also called financial fraud), is when it is carried out in ways that are not allowed by GAAP, namely by reporting fictitious transactions of income or expense by marking it up or down the actual value, or by not reporting a number of transactions, in order to reach a desired level of profit

Researcher is interested about informants' views in earnings management, and tried to understand how they perceive and address this behaviour. Assistant financial manager of Bank Syariah, Sulaeha, revealed that:

“Earnings management is very much related to human's self-indulgent behaviour. Earnings management uses accounting techniques to create financial reports that can provide a very positive picture of company's business activities and financial position. Earnings management happens because of the opportunities that are presented by the accounting standards, which allows manager to manipulate company's recorded costs and revenue. It is difficult to distinguish between earnings management practices that are truly ethical and the ones that are earnings manipulation ... this makes it a somewhat gray area. In the end, the term earnings management is used as a synonym for earnings manipulation or fraud.”

Earnings management purpose is essentially to provide positive perspective for financial statements. Because how materialistic the goal is, people sometimes interpret earnings management in a negative connotation as a form of earnings manipulation. Sulaeha considers that the company's management should come from spiritual elements of religion, rather than manipulation of financial reporting with the intent to maximize profits.

When making decisions related to company's management policy, Giacalone and Jurkiewicz (2003) explains that there is a reciprocal relationship that is built between religiosity and earnings outlook. Fernando and Jackson (2006) revealed that the idea of religiosity in leadership could influence their decision making. Emphasising on the religiosity elements in a person, Sulaeha argues that earnings management behaviour in financial accounting is related to the internal value of its leader. Therefore, this study also explores how the role of religious values internalization in the workplace interacts with earnings management.

Earnings Management in Individuals and Organizations Ethical Concept: Informants' Understanding

Chung et al (2002) suggest that earnings management is a reflection of management concerns instead of the operating results of the company. This means that earnings management were created by managers who try to meet market expectations or personal interests, rather than a necessity born from the company's operations. Sheep (2006) also found that the factual principle from any economic activity always follows the intention, experience and passion of the people involved in it. These elements usually highlight a reflection of individuals as human beings, or their moral substance. In relation to this topic, Irfan as an assistant accounting manager, points out:

In Islamic Ethics review, in order to maintain the quality of reliability and comparability to financial statements, financial reporting process should be based on the principle of amanah (truthfulness). In regard of this statement, the principle of amanah was used as the basis in reliability and comparability requirements realization in preparing financial information, requires completeness, honesty and cleanliness of the financial information. Amanah become the substance of employee morale, and the basis of their behaviour.

This principle emphasized how users of financial information based their decisions on truthful and essential information. Otherwise the information will be deceiving because it does not give an overview of the existing reality. Religiosity in the workplace is the beginning of an innovative in earnings management practices that require transparency and academic acceptance. This practice, if applied, will be able to improve the welfare and intelligence (ingenuity), harmonization of the organization, and long-term business success (Dan Butts, 1999).

This study found that the meaning of religiosity is when someone practices living by the values they hold, such as honesty, courtesy, enthusiasm, teamwork, ethics, loyalty, and open-mindedness. As expressed by Suryani, Manager of Credit:

"Islamic ethics review to earnings management can be divided into three subjects, namely Islamic ethics review to the spirit underlying earnings management activity ... Islamic ethics review of the implementation process of earnings management... Islamic ethics review of the impact and implications toward implementation of earnings management ... organizational environment play a role in shaping these mental ethics."

The basic that Basic Suryani expressed in this analysis are the ethical principles of Islam contained in the concept of Islamic business and accounting concepts of Islam that originated from Sharia (Islamic Law). Suryani explained that employees' ethics are affected by their work environment, thus incorporating elements of Islam in the business will allow a positive contribution in terms of performance of the company, and will provide spiritual satisfaction for employees.

This is point of view is in accordance to McCormick (1994) statement, which defines religiosity as inner experience of an individual who can be proved by his behavior. This concept refers to the elements of ethics, values, motivation, work and life balance, as well as leadership in the organization. Organization that emphasizes on behaviour of religious values internalization pays more attention to employee development and the optimization of their potential. Organization will also focus on how to resolve the problems created in the workplace by the conflict from balancing life and work (McCormick, 1994). Here individuals and organizations view the work as a spiritual path as well as to contribution to society and the environment (Smith and Rayment, 2007).

Earnings Management, Religion and Leadership: Trickle-Down Effect

Manager's leadership needs to be discussed because this explains how management was able to lead and navigate Islamic Banks operation. This is an important aspect that underlies how the internalization of religious values took root in the company and neutralizes the earnings management practices. Interaction of religious values against the leadership, and how religious values can influence earnings management decisions eventually become an area of research that is interesting to explore.

Attention to these issues arise from the desire of business sector to have the best leaders in running their organizations, This desire comes from studies that find a correlation between a good leader and a high-performance enterprise with big profits (Anderson, 2013; Zenger et al, 2010; Zigarmi et al , 2009).

From fusion of horizons with informant, researcher found that the internalization of religious values could increase the resistance of one individual against earnings management behaviour (Worden, 2005). According Suryani:

The values of religion are an important factor in the decision, based on individual opinion and bias that permeates the leadership framework

This is consistent with Phipps (2012) literature that evaluates the potential for leadership, where the

leader has a trickling down effect, where their style of leadership and policies were trickling down to the entire organization. Their manager strategic policy is, including their decisions on the hierarchy and the structure of organizational autonomy. By using religious values as the basis for decision-making, organization will be able to make a move with religiosity as a course as formed by the manager. The ability of managers to explore their decision and religious values to various aspects of the organization makes the manager's role and the moral ethics that were followed become an important thing to be considered by the organization.

Increased attentions towards religion on organizational science become an interesting research area, with important implications for the theory, research and practice of leadership (Hill et al, 2013). In the religious leadership model developed by Fry (2003), the intrinsic motivation framework is associated with leadership aspects (such as vision, confidence, and faith) and welfare (such as harmony and inner well-being). Fry (2008) later revise the model of religious leadership to include the inner life and life satisfaction. In the view of Ahmad as a manager of the accounting department:

“The person inner life, or also called their spiritual practices, is a fundamental source of inspiration and insight ... it then becomes a tool for developing faith toward transcendence ... which led to the sincerity to receive a share of profits which has become their right. That is, did not allow earnings management, especially if it is for the benefit of the bonus.”

Ahmad's view point was in tune with how Fry (2008) looked at the practices of ideal leadership. A leadership model that pursue transcendence in their practice will be able to create a work environment that is ethical. Religiosity on religious leadership is the basis used by researchers to understand the perspective of the manager. Rahmat as assistant manager of the credit department sees leadership as:

“The essence of religious leadership is the key process of creating a transcendent vision of service to others, where someone gets a call in life so they has a meaning in their life and a desire to make a difference.”

Meaning, the religious leadership is a basis to build or strengthen the organizational culture based on the principles of devotion (altruistic love) to the Almighty, where someone wants to continue to contribute to the environment, to feel understood and appreciated, and have concern and appreciation for himself and others ,

In this case, religious values give a perception to individuals about who they are, what they should do, and what their contribution and role in life (Vaiil, 1998). Included here is the application of religious values in their lives (such as meditation, prayer and religious practices etc.) and how these contexts within the organization (for example, a special room for worship) to help individuals become more self-aware and aware of the moment -to-moment in his life (Fry and Kriger, 2009; Fry and Nisiewicz, 2013).

Religiosity in Manager Decision: An Effort to Reduce Earnings Management

Many researchers have investigated how personal characteristics influence managerial decisions in an organization (Benmelech and Frydman, 2014; Smith et al, 2013; Faccio et al, 2012; Francis et al, 2014). Some researchers have attempted to explore the relationship between religion and ethical decision making by managers.

Douglas Hicks (2003), in his work, *Religion and the Workplace*, claiming that employees are not supposed to lose the essence of themselves as they work. At the same time, he argued that the attempt to separate between ethical behaviour and religion in related to business manager decision making is naive and ineffective. Hicks (2003) states that an effective leader creates a work environment where an individual will be able to express their beliefs and religious values in their behaviour and work.

Reder (1982) adds that the organizational culture based religiosity is even more productive, and through maximization of productivity they can achieve market dominance. In addition, several other studies have shown that a spiritually healthy workplace will be able to perform better (Duchon and Plowman, 2005; Elm, 2003; Fry et al, 2011; Garcia-Zamor, 2003).

Some experts argue that companies with religiosity based provide answers to contemporary problems resulting from major changes in the organization, such as downsizing and re-engineering (Driver, 2005; Fry and Slocum, 2008; Gotsis and Kortezi 2008; Kinjerski and Skrypnek 2004). Distrust towards the company that arise from these changes make the employees see themselves as an expandable resources (Cohen, 1996), and encourage them to seek meaning and deeper connection with their lives, which is then integrated into the identity of their work (Ali and Falcone , 1995). Some researchers, then, argue that changes in the world of work are thus ultimately lead to demoralization and disorientation of employees spiritual (Kinjerski and Skrypnek, 2004; Leigh, 1997), the effect can be neutralize by applying a more religious working environment (Driver, 2005; Kinjerski and Skrypnek 2004; Petchsawang and Duchon, 2012).

Internalizing aspect of the values of one's faith and religion applications in everyday life, and as a guide

in organizational management behaviour is an aspect to be observed. In this case, the internalization of religious values will be a window to peek to manager's perspective on earnings management, because their decision is capable of affecting fellow employees, investors, and communities (Pava, 1998). Researchers also looked at how the trust an individual, or religiosity, affecting their ethical behaviour.

In general, those who recognize themselves religious, those who are always clutching at their trust, not only more ethical in their business decisions, but they does not tolerate unethical actions (Wong, 2008). As said Asy'arie, a marketing manager of Bank Syariah:

“Islamic Ethics is a thought or reflection about morality that limits its terms of reference to the conception of an organization based on the teachings of Islam.”

Researcher found that Asy'arie emphasize ethical decision-making in the context of such behaviour in the view of Islam, and not for the personal benefit themselves, because compliance with the beliefs religion.

In this case, Islamic ethics in business is the implementation of a system that includes the business activities of man. Islamic ethical perspective to business activities is very important as a way to align the strategic importance of a business or company with the demands of morality. Alignment is an attempt to reconstruct an understanding of business as well as implementing business as an organization or company that is ethical. Islamic business ethics provide public with awareness of the changes in business by providing an understanding or a new perspective, that the business is not separate from ethics.

Some literature suggests that the meaning of religious values for the individual is what became a compass or guide them in their behaviour, and it is what drives the ethical and unethical behavior (McMahon, 1985; Noussair et al, 2013; Weaver and Agle, 2002). As to the statement of Ahmad: "Religion is a guide for me in running the accounting tasks given by the top management to me. In Islam we were taught about honesty and that I hold very dearly. I would not manipulate data or accounting figures for private gain ". From the statement of the informant we found that religious conservatism is what a guide in giving judgment and ethical behavior.

Religion and Earnings Management Decisions: the Cycle of Interpretation

Researcher experience during interview then poured out in the form of a written text. Here the researchers had the opportunity to study and sort each sentences and speech into several groups called as horizontalization (Creswell, 1998). This sentence inserted into several groups of themes that are then incorporated into sub-sections of this chapter.

In the hermeneutical phenomenology, the task of a writer is creating an article that is able to attract readers to learn and understand what is trying to be submitted by the author (Gadamer, 1989: 393), so that the writing was made in such a way so it become interesting and clear. Direct quotations are used in some of the topics to clarify what is trying to be delivered by the informant, followed by the translation done by the author. This is to direct the themes on each section and organize text based on the theme. An example is how the views of scientists and economists about the elements of religious values in the context of business and management.

Scientists have varying definitions of social science on religious values, which reflect the multiple dimensions and perspectives. In this study, researchers used a view by Gadamer (1989), which sees religion as a beliefs and values espoused by ethnic and social groups, in which has not changed much from generation to generation. In accordance with this significance, the researchers wanted to see the internalization of values that managers profess the religion and how it shapes their perspective on earnings management by the manager.

In this case, Bowen and Lawler (1995), and Spreitzer (1996) states that the manager is part of an organization that eventually creates a connection between the work at the level of groups and individuals, as well as the vision and values of the organization, then giving direction to subordinates in the act (Deci and Ryan, 2000; Ford and Fottler, 1995; Fry, 2003; Fry et al, 2011). The role of religion in the organization here is to strengthen the values that are fundamental to the ethical system of a person, giving the experience of transcendence in work, and to create connections between people by generating mutual togetherness (Giacalone and Jurkiewicz, 2003; Fry and Nisiewicz, 2013).

Furthermore, until now, economists did not give much attention to the importance of religion in explaining a behaviour, despite its emphasis on classical economists like Adam Smith who pushed the importance of behaviour as aspects that influence the decision of an individual (Taylor and Vattimo, 2002). More recently, as shown by Guiso et al (2006), developments in this field is to try to interpret the basis of religious values to answer the economic question, which resulted in a new appreciation for looking at the role of religious values in research about earnings management. In particular, Guiso et al (2003) and Barro and McCleary (2003) show that countries where people have strong religious beliefs will have lower earnings management and the economic growth rate is higher.

A number of studies have looked at the interaction of religion and executive decision-making, but from the perspective of a more conceptual and qualitative. The study investigated whether the internalization of

religious values have an impact on the decisions of managers in terms of earnings management (Vasconcelos, 2009). The researchers found that regardless of whether the manager did it consciously or not, religious values will always affect their decision making.

There are also small literatures that see how internalization of the manager religious values influence the accounting policies and financial reporting (McGuire et al, 2010). Researchers found that there were fewer irregularities in the financial reporting company with the manager who internalize religious values, because they tend to reject the immoral behaviour, in line with previous studies in the area of business ethics (McMahon, 1985; Orwig, 2002; Wong, 2008).

Unethical irregular behaviour intended here is an act that does not want to be published by the company, or actions that have a negative impact on the image of the company as earnings management. Unethical behaviour examined here is the earnings management, and how is the interpretation of manager over this. Although earnings management cannot be justified as truly illegal because its compliance with existing standards, this behaviour is still seen as something unethical by stakeholders.

Furthermore, the researchers incorporate elements of compensation and religiosity manager. Although not able to indicate the exact level of compensation that appropriate or whether a manager deserve compensation, but the researchers feel that the compensation can be a motivating factor for a manager in earning management. In this paper the researchers observed how the internalization of religious values embraced by the manager to form a perspective on earnings management behaviour and motivators, the bonus compensation. Ahmad said:

“The manager is a role model for employees. For me, the manager with a strong motivation to perform earnings management can encourage and influence its staff. In this condition, I see our managers have a high religious ethics that always gives a good example for us.”

Based on the Gadamer view, religious morality will create moral sentiments, such as the emergence of feelings of guilt or pride when someone does something (Kaplow and Shavell, 2007; Akerlof and Kranton, 2000). This moral sentiments, in view Krentzman (2016), is a guideline in determining what behaviour is right and wrong, and gives meaning and value in one's life. Indirectly, managers' moral sentiments can also be an example for his subordinates, and is one of the elements that make up the religious environment in the organization.

Moral sentiments in a community are a behaviour that is more than just satisfy personal interests of an individual. This then becomes a tool of control and supervision over unethical behaviour within the company. Someone who internalize religious values or involved in the community with strong religious norms would tend to avoid unethical behaviour such as earnings management.

This is in line with the Harrison (1985) view who found significant difference between people who internalize religious values and who did not internalize religious values. Harrison (1985) found that religiosity able to reduce the occurrence of earnings management behaviour, including here the level of executive compensation. In particular, companies that internalize religious values are less likely to manipulate earnings and provide a great compensation package for their manager. In this case Rahmat a marketing manager argued:

Spirit of earnings management in view of the positive accounting theory has based his conception of utilitarianism. With the spirit of utilitarianism, earnings management only focuses its business objectives to the utility nature of matter and ignoring the utilities that are nonmaterial, as well as profit-oriented was intended only for the management and owners of capital (stockholders) only, while the stakeholders were neglected or even harmed.

Rahmat added:

“Spirit of utilitarianism is in line with capitalism that directs the concept of income (profit) only for stockholders. Utilitarianism spirit is contrary to the values contained in the ethics of Islam.”

Islamic ethics see that every business must rely their spirit on the ethics of Islam. Contrary to the principle of utilitarianism, the conception of profit in the business of Islam is divided into two, namely the return of material and non-material profit. Orientation profit in the business of Islam is not only addressed to the stockholders, but also to the stakeholders.

The manager's role in this is to create harmony between the vision and the value of the whole individual, unit and organizational levels, as well as to develop effective relationships between stakeholder organizations and environmental (Fry, 2003). At the organizational level or strategic, organizational religiosity is a picture of the organization as an entity. Giacalone and Jurkiewicz (2003, 13) defines the work environment as:

“As a framework of organizational values evidenced in the culture that promotes employees' organizational experience of transcendence through the work process, facilitating Reviews their sense of being connected to others in a way that Provides feelings of completeness and joy”

Thus, religiosity at this level can be considered as the vision and values shared by all employees. Furthermore, at the level of teams or units, organizations must build an ethic with values that reflect the organization religiosity. In this case Suryani argued that:

“The important aspect for religiosity here is the concept of empowerment, which involves the division of powers, devolution of power, authority, and responsibility to the followers of the organization. In this case, the manager has an important role in explaining and directing subordinates attitudes about the dangers of earnings management from the viewpoint of Islam”

Religiosity be the result of beliefs and values shared by the manager, which in turn form the decision-making. This view is in line with Dyreng et al (2009), which looked at the impact of internalization of religious values in financial reporting decisions. The analogy is, the manager here became like a steering wheel that controls the direction of the organization. Managers become an important part of the company that determines the value that became operational base of the company. By embracing the Islamic religiosity, as a compass in driving the company, managers are able to avoid the risk of earnings management.

IV. CONCLUSION

The study concluded that religious managers will be more likely to have, or wish to develop, trust in something transcendent in the form of devotion (altruistic love). To apply these religious values, leaders use the values of altruistic love through their attitudes and behaviour, while matching vision with subordinates. Furthermore, both leaders and subordinates get a religious wellbeing (spiritual) through a spiritual calling, which gives a meaning and purpose of life, and a sense of contributing to something better. Finally, these guidelines make them feel afraid of making an unethical behaviour including earnings management practices.

This study found that if religiosity internalized within an organization by example manager, will cause the religion to not only become a symbol of a business movement. As described in the previous chapter, many Islamic banks that were not Sharia in their operation is considered implementing earnings management. This means that not only because of religious symbols in Islamic banks, but through the internalization of altruistic love, religion is able to encourage the manager to behave ethically.

One of the issues that were found during the study was the relationship between the religious approaches to earnings management practices. Religiosity when viewed through the traditional lens, namely the view that salvation is only able to be achieved through an approach to God. The study found that organizations that have a high level of religious and internalized this values will create a model that improves the spiritual quality in its organization in order to avoid earnings management, without creating conflicts and controversy its fundamental values.

Religiosity in this study is based on several components, namely the recognition that an employee has the inner life, assuming that employees basically seek jobs that have meaning beyond mundane aspects, and is committed to being individuals who play a role in the development community. Moreover, religion also includes the dimensions of spiritual well-being, in which a person feels he has a purpose and direction in life.

Furthermore, it was found that an employee should not have left their "soul" or religious value as they work. Precisely, the effort to encourage religious attitudes in business management is effective in minimizing earnings management practices. This study found that the effective leader is someone who is able to create an environment for employees to express their beliefs and their faith in the work environment.

Religiosity role here is to encourage transcendence or the feeling of finding a calling in their life and work, and indulge in their need for connections and social engagement, which is seen as something that is needed as a foundation for any organization's ethical practices. Therefore, earnings management must be understood in the context of a holistic and attachment to the values of the culture in it. In addition, leaders and organizations must demonstrate the utility religiosity on performance, turnover , productivity, and other effectiveness criteria.

This study concludes that what is needed to reduce earnings management is the inner life that nourishes and maintained by self-transcendence in the context of a community based on the values of altruistic love. Fulfilling the religious needs in the workplace will affect the psychological well-being, and form the foundation for ethical management practices.

REFERENCES

This heading is not assigned a number.

A reference list Must be included using the following information as a guide. Only *cited* text references are included. Each reference is referred to in the text by a number enclosed in a square bracket (i.e., [3]). References must be numbered and ordered according to where they are first mentioned in the paper, NOT alphabetically.

Examples follow:

Journal Papers:

- [1]. M Ozaki, Y. Adachi, Y. Iwahori, and N. Ishii, Application of fuzzy theory to writer recognition of Chinese characters, *International Journal of Modelling and Simulation*, 18(2), 1998, 112-116.
- [2]. Note that the journal title, volume number and issue number are set in italics.

Books:

- [3]. R.E. Moore, *Interval analysis* (Englewood Cliffs, NJ: Prentice-Hall, 1966).
- [4]. Note that the title of the book is in lower case letters and italicized. There is no comma following the title. Place of publication and publisher are given.

Chapters in Books:

- [5]. P.O. Bishop, *Neurophysiology of binocular vision*, in J.Houseman (Ed.), *Handbook of physiology*, 4 (New York: Springer-Verlag, 1970) 342-366.
- [6]. Note that the place of publication, publisher, and year of publication are enclosed in brackets. Editor of book is listed before book title.

Theses:

- [7]. D.S. Chan, *Theory and implementation of multidimensional discrete systems for signal processing*, doctoral diss., Massachusetts Institute of Technology, Cambridge, MA, 1978.
- [8]. Note that thesis title is set in italics and the university that granted the degree is listed along with location information

Proceedings Papers:

- [9]. W.J. Book, *Modelling design and control of flexible manipulator arms: A tutorial review*, Proc. 29th IEEE Conf. on Decision and Control, San Francisco, CA, 1990, 500-506