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Ethic Perfective of the Managers and Profit Management

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Abstract- The effect of different factors on earnings management behavior is investigated in the study. Two important questions are issued in this study whether the moral status of the person plays a role in the likelihood of earnings management and whether the professional obligations of individuals affects on decision of earnings management or not? And provide hypotheses regarding to the determinants of earnings management behavior are compatible with pattern of the study or not. It has tried to identify the effects of ethical ideology on decision of earning management and relation of professional commitments of person on such decisions. Method of the study is selective and non-probabilistic which review the reports and documents in the first phase and distribute a questionnaire between cement and petrochemical company financial managers in the second phase to investigate the affecting factors on earnings management behavior through Pearson's correlation test and multiple regression model and simple linear.

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Ethic Perfective of the Managers and Profit Management

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Abstract- The effect of different factors on earnings management behavior is investigated in the study. Two important questions are issued in this study whether the moral status of the person plays a role in the likelihood of earnings management and whether the professional obligations of individuals affects on decision of earnings management or not? And provide hypotheses regarding to the determinants of earnings management behavior are compatible with pattern of the study or not. It has tried to identify the effects of ethical ideology on decision of earning management and relation of professional commitments of person on such decisions. Method of the study is selective and non-probabilistic which review the reports and documents in the first phase and distribute a questionnaire between cement and petrochemical company financial managers in the second phase to investigate the affecting factors on earnings management behavior through Pearson's correlation test and multiple regression model and simple linear. This study used financial executives of 37 cement and petrochemical companies accepted in Stock based on a proposed causal model that support from moral judgment about the difficulties in accounting or management. It is demonstrated empirically that individuals with higher levels of professional commitment are less likely to engage in earnings management operations and contrary to this, individuals with lower levels of profession commitment are more likely to engage in earnings management operations that are consistent with previous background. In addition the effect of earnings manipulation has been proven on both the moral status and professional commitment on individuals. This study suggests that when there is an opportunity to increase personal wealth temptation affects negatively on the moral status of the individual as well as the individual's professional commitment level. This result provides a better view of the importance of the ethical status on the behavior of earnings management and also provides a solution in the use of Code of Conduct for reducing earnings management.

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I. INTRODUCTION

The growing spread of economic activities and their growing complexity on the one hand and the importance of attention to accurate accounting information and financial statements, on the other hand has caused analytical methods and modern management on accounting. One of the most

important inventions was emphasis and attention paid to income statement, which was previously turning to the balance sheet leads to something born and raised called, Earnings Management. Earnings management is defined as a process to take conscious steps within Accepted Accounting Principles (GAAP) to meet the desired level of reported earnings [1-5].

In a company whose profit levels does not meet analysts' forecasts, potential benefits arising from the manipulation of interest seem necessary, but is not a sufficient condition for such earnings management behavior.

The question arises in the present study: Whether the moral status of the person (beliefs and ethic values) as well as the level of professional commitment of individuals plays a role in the likelihood of earnings management behavior or not?

Therefore research pattern describes earnings management behavior as a performance of professional commitment¹, moral status, tendency to look bad to the current level of company's profit and the primary question posed in this way:

Are determinants of earnings management behavior compatible with the pattern of the study?

National Commission of Financial Reporting Fraud (1987) concluded that the earnings management decisions that are inconsistent with accepted principles of accounting tend towards a different decision which is trying to mislead the shareholders. So, if professional organizations or regulators could approve an effective set of standards or rules, then the future losses to shareholders may be minimized. This study attracts more importance because of the large losses suffered by investors in companies that are engaged in management methods of suspect earnings. The study has choice Non-contingent and selective type that the collection methods is the whole number given the limited availability of population data and the entire of the population include 30 individuals [6-9].

II. VARIABLES

a) Independent Variables

i. Ethical status

Fussy argues that an individual's moral ideology is determined by the relationship between idealism and relativism.

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Thus a person with relativistic ethical orientation makes decision based on particular situation. It means these people are paying attention to the moral decisions that they are the best decision given the circumstances [10].

At the opposite end of the moral status chains of the individual with more idealistic ethical orientation consider all possible outcomes to determine whether everyone can ultimately reach to the worse position because of decision. Therefore they prefer not to adopt the decision where there is a risk of harm to others [11-13].

ii. *Professional commitment*

According to Porter et al. definition, Professional commitment is defined as: (1) acceptance and confidence in the values and goals of a career. (2) A willingness to exert enough effort on the part of a career. (3) A clear vision for the survival of professional membership.

Shob et al tested whether an auditor's ethical position affect the level of his professional commitment.

The study investigating the level of professional commitment and its impact on the earnings management by the individual's moral orientation develops the study of Shob, and colleagues.

b) *Dependent variable*

i. *Earnings Management Behavior*

According to Haley and Vahlen definition that is more comprehensive than others:

Earnings management occurs when managers use their own judgment in financial reporting and manipulate transactions structures to alter financial reporting. The purpose or intent is to mislead some stakeholders about the economic performance or impact on the results of contracts that their critical is subject to the achievement the personal profit [12-15].

III. HYPOTHESES

The first hypothesis: " professional commitment is negatively related to earnings management behavior. "

The second hypothesis:

- a) "people with an idealistic ethical orientation are less likely to manipulate earnings."
- b) "People with a moral relativist orientation are more likely to manipulate earnings."

The third hypothesis:

- a) "There is a negative relationship between the moral status of idealism and self-interest."
- b) "There is a positive relationship between the moral relativism and self-interest."

Fourth hypothesis: "There is a negative relationship between professional commitment and personal interest."

IV. METHODS OF DATA ANALYSIS

Hypotheses were analyzed by statistical methods of Pearson correlation test and multiple regression model and simple linear to investigate the effect of each factor by spss software. Also, Cronbach's alpha value of the present study by mentioned software is calculated equal to 876%.

V. RESULTS

The results suggest that whatever the orientation of the individual's moral is more relativist, there are more likely to engage in earnings management practices and conversely, whatever the ethical orientation is more idealistic, there is less likely.

The results also support from the perspective that there is a profound relationship between professional commitment and earnings management behavior. This perspective suggests that individuals with a higher level of professional commitment demonstrate the lower likelihood of engaging in earnings management, the reverse situation is also true.

In the first hypothesis as the level of professional commitment increases, it is argued earnings management behavior reduces. The results support the view that higher levels of professional commitment desire to reduce their earnings management behavior.

In the second hypothesis, which has been argued as a person moves along the moral orientation chain (from the highest degree of idealism to the highest of relativism) likelihood of engaging in earnings management practices increased. The results support the second hypothesis. The moral orientation of relativist increases the likelihood of earnings management behavior. While on the other hand, the idealistic ethical orientation reduces the likelihood of earnings management behavior.

In the third and fourth hypotheses, we assume that the profit potential, professional commitment reduce the individual's ethical orientation. Therefore it causes increasing the earnings management practices. The results show that the incentive to increase the private benefits (possible to get more bonuses) increases tendency to engage in earnings management behavior.

Contingent or non-contingent earnings management behavior can be more observed by the managers that will benefit in the process of intervention and financial managers in the field are prior.

Hence, in this paper has tried to provide a model relying on survey data from 37 financial managers of cement and petrochemical companies to explain individual judgments. As in previous studies (Shop et al, 1993; Douglas and wire 2000 and Elias 2002), these results show deep relationship between

moral orientation of the individual and the subsequent judgment. In line with the hypothesis, whatever the orientation of the individual's moral is more relativist, there is more likely to engage in earnings management practices and, conversely, whatever the ethical orientation is more idealistic, there is less likely. The results also support the view that there is a profound relationship between professional commitment and earnings management behavior. This perspective suggests that individuals with higher levels of professional commitment to apply its participation in earnings management is likely to be lower, the reverse of the situation is also true. These findings are consistent with previous work and correspond. According to the observations of Heele (1985) who has the ability and incentive to manipulate earnings are more likely to engage in earnings management practices. Especially, when they have personal interests in their decisions. The results of the current study are based on Haley's perspective. In this study, the manipulation of ideology and moral benefits associated with the level of professional commitment. This means that when there is an opportunity to increase their personal wealth, such action tends to be negatively related to the individual's moral ideology, that does not mean the fundamental transformation will occur from the highest degree of orientation idealistic ethical to orientation the highest levels of relativist. Rather, individual ethical orientation will turn to increase the likelihood of engaging in earnings management practices. In the current study, the decision to engage in earnings management practices is evident when personal income (bonuses) was affected by it. It develops our understanding of earnings management by plan a relevant moral dimension. In addition, it also develops previous studies on the relationship between ethical orientation, professional commitment and earnings management. The results support the hypothesis that the ethical orientation, professional commitment and personal gain, all help to explain the behavior of earnings management.

a) Offers practical

In conclusion, the results are important for the regulators, managers, employees, investors, analysts and researchers of the accounting rules and standards. With a better understanding of the potential impact of individual ethical orientation and professional commitment to the earnings management behavior, all stakeholders are in a better position to offer a possible alternative solution to modify the behaviors. Regulators of the accounting rules and standards examine options that would cause to reduce undesirable behaviors in the standard setting process.

The board and senior management of the companies assess their organizational structure (proper

decision, reward system and performance appraisal system) and whether this structure is designed to detect their immediate problems. In addition, the managers should assess policies and methods according to the principles of ethical, applicable standards and acceptable behavior within the company. Zygoos (2001) concluded that the ethical standard affect on ethical decision-making process at each location.

b) Recommendations for future research

Fursys (1992) developed his 1980's study by dividing the position of ethical idealism and relativism into four distinct groups: (1) position-oriented (2) fantasy-oriented (3) absolute-oriented (4) niggling.

People with high scores on both the idealism and relativism are told position-oriented.

Position-oriented tends to reject laws or ethical code and search for best results or outcomes in any decision. (Fursys 1992)

People who score high on the scale of relativism and score low in idealism are fantasy-oriented, they also tend to reject moral rules and do moral judgments based on their personal feelings. (Fursys 1992)

Absolute-oriented people score low in relativism scale and high on a scale of idealism and believe that actions are moral when they provide positive effects conform to the global set of rules and moral standards. (Fursys 1992)

The niggling people are the last group; they tend to low scores in both categories idealism and relativism. They believe that it is useful to follow the Code of Ethics, although there are exceptions to these rules. (Fursys 1992)

Repetition of the research using these four groups in other areas is the proposal for future research to provide better understanding on the behavior of earnings management of accountants and managers.

Another potential area is interesting for future research, testing a number of different groups on the basis of such differences as public or private accountants, corporate and public managers (non-profit), or other similar professions.

Finally, it is possible that variables that have been omitted from the current study can raise our understanding of decision-making about the earnings management.

Perhaps the background of organizational behavior be the source of the most interesting and useful factors that are able to be tested to explain more fully the behavior of managers in such situations.

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