

Personality trait of self- construal and earnings management

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ABSTRACT

The present study investigate the relationship between self-construal and earnings management and aimed at recognizing the self-construal and its relationship to earnings management. The statistical sample included 238 financial experts of the companies listed on the Tehran Stock Exchange. The research instrument is questionnaire. The research hypothesis was tested based on multivariate regression. The results indicated a significant positive relationship between independent and dependent self-construal with efficient and opportunistic earnings management. The results confirmed that decision-making for earnings management is affected by behavioral and psychological traits.

Keywords: Self-Construal, efficient earnings management, opportunistic earnings management

Introduction

The issue of earnings management has been examined more from a positive perspective and less on a behavioral basis. This can be considered as a research vacuum accounting, like any other profession, is affected by social, cultural, and ethical features of society. In other words, the accountants adjust their professional relationships and behavior based on ethical and cultural components governing the national economy. In addition, developing the professional rules, standards, and instructions of accounting and auditing are emanated from the values governing the social, economic, and managerial system of the country. Meanwhile, accountants like other people and active professions in society are required to observe the general ethics of the society and the ethics of their professions. Lack of observing professional ethics can weaken the work ethics and accounting (Moayed far, 2006). Accounting rules and procedures have an ambiguous and flexible structure. The purpose of presenting the rules and standards should be reducing the violations governing the financial statements to present a uniform solution. Unfortunately, a wide range of different accounting methods was presented for each statement. The ambiguity and flexibility of accounting rules and standards became more serious with concepts such as accuracy, correctness, and significance. Such concepts create a big opportunity for judgment and abuse (Taplin et al, 2014). There is a pressure on companies to compete for the limited economic resources and gain earnings management on performance. In the competitive advantage, financial statements should lead to the satisfaction of investors in making the earnings and wealth flow uniform to the company. Conflict occurs when the real performance of the company is unstable and unpleasant. On the one hand, the uniformity of wealth flow requires

continuity and satisfaction of potential investors for acquiring reliable economic sources. On the other hand, the company should present its real performance even the unpleasant or unstable results (Tsunogaya, 2016). Researchers have always attempted to improve their perception of the relationship between skill and earnings management. Some studies helped the better understanding of this relationship using some tasks and different research tools. Zhang et al (2012) defined judgment as for the evaluation as the introduction of performing an action and considered decision under the influence of some variables like the psychological traits of individuals. Self-construal is one of the above-mentioned traits and is a kind of social behavior by which the person can understand and interpret the social conditions she/he is in. such a trait can affect the selection of accounting procedures especially the earnings increasing procedures. Thus, the main question of this study was “to what extent does the self-construal of accountants affect their judgment and ethical decision-making positively?” In addition, this study aimed to investigate the effect of self-construal as a psychological trait on the judgment of accountants in selecting earnings management procedures.

The results of this study are expected to have the following contributions:

First, the results of this study can enhance the theoretical foundations of previous studies in relation to accounting behavioral studies. Second, the evidence of the study can indicate whether there is a significant relationship between Self-construal and earnings management or not? This subject as a contributions can provide useful information for policy-makers in accounting. The next section presents the theoretical foundations, testing the hypotheses, and research variables.

Theoretical Foundation and Review of the Literature

Self-Construal

Self-construal includes our attitudes, feelings, and knowledge about ability, skill, and social acceptability. Self-construal encompasses all aspects of cognitive, perceptual, emotional, and evaluation procedures. Therefore, a set of personal attitudes is called Self-construal.

Table 1: The difference between dependent and independent Self-construal

dependent Self-construal	independent Self-construal	Compared traits
Related to social context	Apart from social context	Definition
Flexible, variable	Limited, integrated, stable	structure
General, external (status, role, relationship)	Internal, private (abilities, thoughts, feelings)	Important features
Being belonged and fit Occupying an appropriate place Participating in the appropriate action Promoting the goals of others Indirect Reading the minds of others	Unique Understanding the inner features Updating the objectives Direct Saying whatever in mind	Tasks
Definition: of self: Defining the relationships with others in their specific fields	Self-assessment: Others are important for comparison and reflected the evaluation	Role of others
The ability of regulation and self-avoidance to keep consistency with the social context	The ability of self-expression, validation of internal features	The basis of self-esteem

Different studies indicated that self-construal affects the judgment and decision-making of people. In particular, independent self-construal considers itself separated from the social context and focuses on its independence. Such people have the motivation to achieve their objectives and always state their potentials, needs, and rights. The people with independent Self-construal traits tend to achieve the desired earnings and utility by showing the information positive and suitable. For example, the studies by Lee et al (2000) indicated that people with independent Self-construal have more emphasis on profitability than those with dependent self-construal. In this regard, Lin et al (2012) indicated that people with independent self-

construal are more tolerable to more risk based on their self-confidence. In addition, the people with dependent self-construal consider themselves as a part of the social context and emphasize the social relationships on others and their dependency on others and social context. They are dependent on others to perform their tasks and only on social interactions. They obtain their self-confidence through creating a relationship with others. Such people attempt to use more caution in their personal judgment to bear less risk. Studies indicated that people with dependent Self-construal focus on the objectives connecting them to others for performing responsibilities and tasks in comparison to others. They are highly attached to risk-aversion and follow the rules to reduce the incompatibilities to their colleagues by relying on such rules. Accordingly, it can be said that independent and dependent Self-construal can be related to the non-conservative judgment of accountants in earnings overstatement (Pan and Paten, 2017).

Earnings management

Davidson (1992) defined management as the process of taking deliberate steps within accepted accounting principles, which enable managers to bring reported profits to the desired level.

Types of earning management

Scott (2000) described earning management in two ways:

1. Opportunistic earning management: means that management manipulates and reports earning in order to obtain maximum benefits for itself. ¹Opportunistic earnings management
2. Efficient (beneficial) earning management: It means the management modifies and reports the earning with its confidential and private information in order to have the maximum benefits for the shareholders.

Research background

Izadi Nia et al (2016) studied the ethical acceptance of earnings management. The study results indicated that earnings management is non-ethical for personal and corporate goals while earnings management for personal goals is more non-ethical than earnings management for corporate goals. In addition, they found that earnings management at any extent (significant or insignificant) is non-ethical while earnings management is non-ethical whether it is performed at the end or middle of the period indicating the more non-ethical earnings management at the middle of the period than at the end of the period. In addition, the results indicated that earnings management is more non-ethical than the artificial earnings of accounting.

Shafer and Wang (2011) studied the effect of ethical context and Machiavellianism on earnings management. They indicated that people with a high level of Machiavellianism had no strict judgment on earnings management. In addition, the professional accountants considered earnings management as a harmful phenomenon.

Habbash and Alghamdi (2015) investigated the motives of earnings management in Saudi Arabia and found that there are four main motives for earnings management by the managers of companies. Such motives include reward, earnings report, avoid loss, lean perception, and an increase in stock price.

Nargues Makhaiel (2017) showed that external factors such as the expectations of stakeholders, creditors, rules of the stock exchange, and privatization of state-owned companies can increase the motives of managers in Egypt for earnings management.

Stormback et al (2017) studied the positive psychological traits of people leading to positive financial decisions and indicated that people with high patience have better financial behavior and are not usually worried about financial issues.

Elghuweel et al (2017) evaluated the relationship between governance system and earnings management in Oman and indicated that religious tendencies and beliefs reduce the behaviors of managers in earnings overstatement.

Wang and Hong 92017) examined the relationship between ethical issues and decision-making among the auditors. The results of their analysis showed a positive significant relationship between ethical intention and ethical judgment of auditors with ethical sensitivity so that the ethical judgment of auditors leads to their ethical intention at a high degree. These results indicated a positive significant relationship between

ethical judgment and ethical intention of auditors so that the auditors with higher ethical sensitivity applied more ethical judgment in their decisions under ethical challenges which can increase their ethical intention.

Chen et al (2017) emphasized the effect of feelings and emotions of managers on earnings management. The results of their study showed that positive feelings in managers make them optimistic about the future performance of the company and estimate the future earnings of the company at a high level.

Research Hypotheses

- A. First hypothesis: Independent Self-construal has a significant effect on efficient earnings management.
- B. Second hypothesis: Independent Self-construal has a significant effect on opportunistic earnings management.
- C. Third hypothesis: Dependent Self-construal has a significant effect on efficient earnings management.
- D. Fourth hypothesis: Dependent Self-construal has a significant effect on opportunistic earnings management.

Research Methodology

The present study was of an applied type in terms of purpose. In addition, it was descriptive-survey in terms of data collection method.

The dependent variable in this study was efficient and opportunistic earnings management. In this study, Belski et al (2008) questionnaire was used. This questionnaire included six questions at 5-point Likert scale.

The independent variable in this study was Construal of Self. Pan and Paten (2018) questionnaire were used to measure the Construal of Self. This questionnaire included 12 questions at 5-point Likert scale. Gender, the field of study, level of study, and age were the control variables. In this study, both descriptive and inferential statistical methods were used to analyze the obtained data. Descriptive statistics were used to study the characteristics of the respondents. Structural equations model was used to analyze the data and test the research hypotheses. This study used SPSS 17 and LISREL 8 to conduct such analyses.

The statistical sample of this study was based on a random sampling method. In this study, 240 questionnaires were randomly distributed among the accountants and 228 questionnaires were received.

Research Findings

Confirmatory factor analysis of research variables

In the inferential analysis, the validity and reliability of research variables should be tested before testing the hypotheses by using the confirmatory factor analysis. The factor loads of each variable should be less than 0.4 and significant for testing the convergent validity using the confirmatory factor analysis. In other words, the significant coefficient or T-value statistics of each variable should be bigger than 1.96 but less than -1.96. On the other hand, the AVE should be higher than 0.4 (Magner et al, 1996). For testing the reliability of the research variables, the value obtained by the composite reliability method should be more than 0.7 to assure the reliability of the research variables. However, some researchers considered the CR value more than 0.6 also acceptable (Mose et al, 1998).

• Testing the first hypothesis

In the first hypothesis, independent Self-construal has a significant effect on efficient earnings management. The results of structural equation modeling for testing the first hypothesis were shown in Figure 1 at the significance level.

The results obtained from testing the first hypothesis indicated that:

Independent Self-construal was statistically significant because T-value statistics was equal to 3.08 which was more than 1.96. Thus, the first hypothesis could not be rejected.

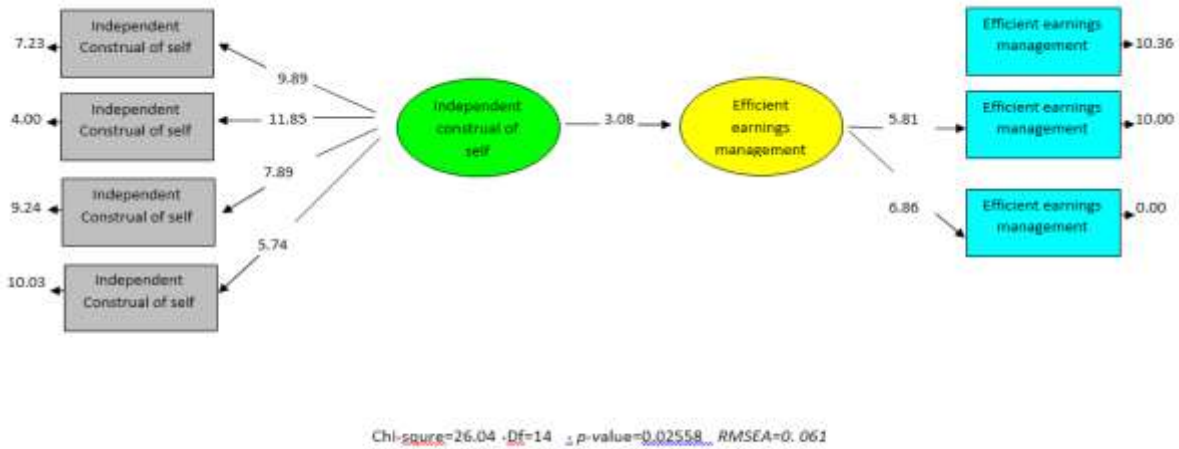


Figure 1: The results of testing the first hypothesis at the significance mode

• Testing the second hypothesis

In the second hypothesis, independent Self-construal has a significant effect on opportunistic earnings management. The results of structural equation modeling for testing the second hypothesis were shown in Figure 2 at the significance level.

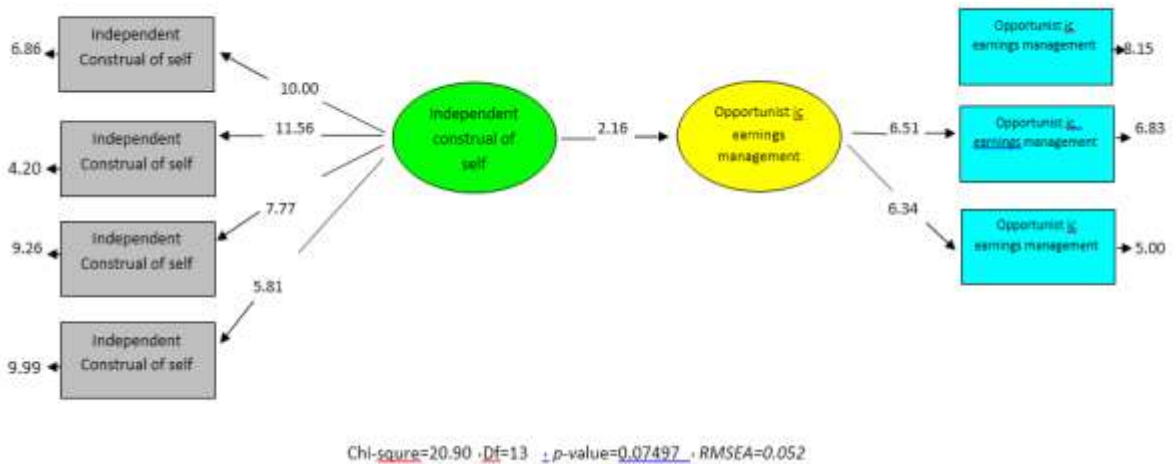


Figure 2: The results of testing the second hypothesis at the significance mode

The results obtained from testing the second hypothesis indicated that:

Independent Self-construal was statistically significant because T-value statistics was equal to 2.16 which was more than 1.96. Thus, the second hypothesis could not be rejected.

• Testing the third hypothesis

In the third hypothesis, dependent Self-construal has a significant effect on efficient earnings management. The results of structural equation modeling for testing the third hypothesis were shown in Figure 3 at the significance level.

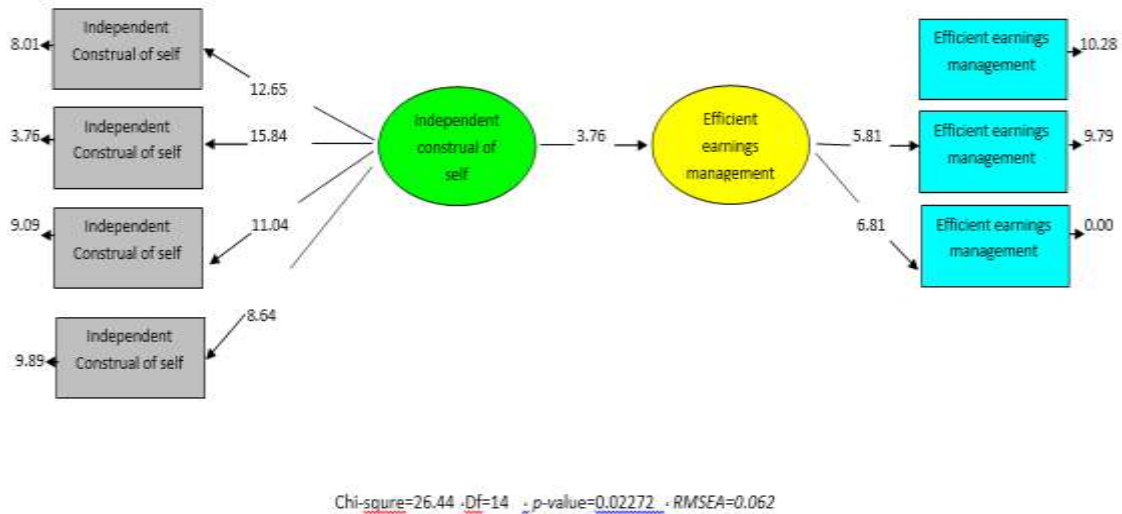


Figure 3: The results of testing the third hypothesis at the significance mode

The results obtained from testing the third hypothesis indicated that: Dependent Self-construal was statistically significant because T-value statistics was equal to 3.76 which was more than 1.96. Thus, the third hypothesis could not be rejected.

• **Testing the fourth hypothesis**

In the fourth hypothesis, dependent Self-construal has a significant effect on opportunistic earnings management. The results of structural equation modeling for testing the fourth hypothesis were shown in Figure 4 at the significance level.

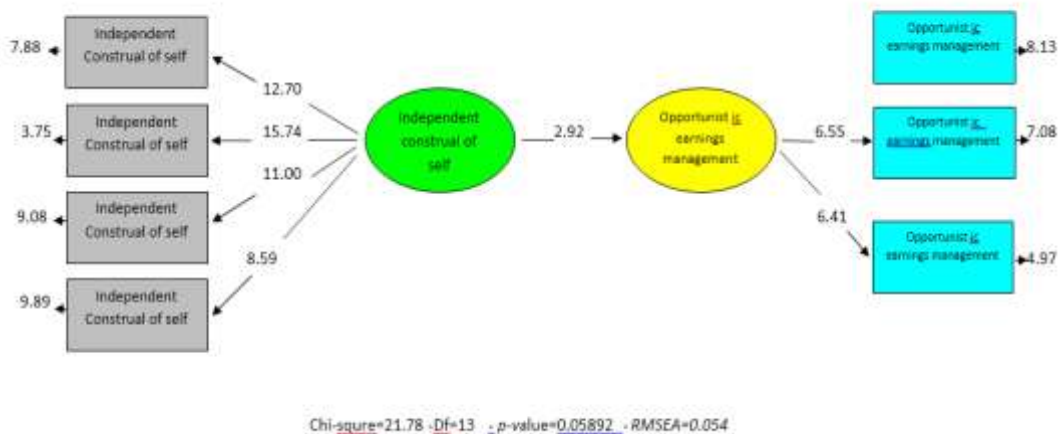


Figure 4: The results of testing the fourth hypothesis at the significance mode

The results obtained from testing the third hypothesis indicated that: Dependent Self-construal was statistically significant because T-value statistics was equal to 3.92 which was more than 1.96. Thus, the fourth hypothesis could not be rejected.

The results of testing the research hypotheses

Table 2: The table for the results of testing the research hypotheses

Test Result	T statistics	Path coefficient	hypothesis
Cannot be rejected	3/08	0/27	the effect of independent Self-construal of account on efficient earnings management
Cannot be rejected	2/16	0/19	the effect of independent Self-construal of account on opportunistic earnings management
Cannot be rejected	3/76	0/33	the effect of dependent Self-construal of account on efficient earnings management
Cannot be rejected	2/92	0/25	the effect of dependent Self-construal of account on opportunistic earnings management

Discussion and Conclusion

The results of this study indicated a positive significant relationship between independent Self-construal on efficient earnings management. In other words, efficient earnings changes in line with independent self-construal. In addition, independent Self-construal has a positive effect on opportunistic earnings management and changes in line with independent Construal of Self. Dependent self-construal has a positive effect in line with opportunistic earnings management. The studies on theoretical foundations indicated that according to Sara Buner, the factors such as ability, inner motives, and effects of feelings have a direct significant relationship to accounting judgment. In general, the results indicated that the judgment and decision-making of accountants are related to psychological traits. The gender of accountants is considered as an important factor in judgment and decision-making. Different psychological factors such as overconfidence, feelings, emotions, risk-taking, inner motives, etc. can play an effective role in judgment and decision-making of individuals. There is a significant relationship between independent Self-construal and efficient earnings management. Such a direct significant relationship was also established for dependent self-construal. Testing the research hypotheses indicated that Self-construal has a significant effect on judgment and decision-making of individuals in the area of earnings management. These results improve our understandings and awareness on the effect of personality traits on efficient and opportunistic earnings management. Thus, the investors and financial analysts are suggested to consider Self-construal in evaluations from the perspective of accounting.

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