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Religiosity and Clawback Provision to Curb Earnings Management

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Abstract

This study examines the impact of religion and clawback on corporate reporting behavior. Previous research indicates that the supervision and punishment aspects of God and secular authorities are able to improve prosocial actions, so we predict that individuals with high religiosity and involved in a clawback compensation scheme are less likely to engage in fraudulent financial reporting. This study used an experimental method with 266 participants who were personnel from finance departments. Our results suggest that religiosity and clawback, in terms of the main effect and the interaction effect, have an effect on reducing the level of fraudulent financial reporting. We also examine whether religiosity and clawback influence a manager's methods for earnings management. Although we found that clawback strengthened the negative influence of religiosity on accrual manipulation, we found that it strengthened the positive influence of religiosity and manipulation of real activity.

Keywords: Clawback provisions; religiosity; accrual manipulation; manipulation of real activity; earnings manipulation

Subject classification codes: M52; M41; M12

1. Background

Many previous studies have examined the influence of religion on prosocial behavior (Harrell 2012; Johnson et al. 2013; Shariff and Norenzayan 2011), but whether religion influences corporate behavior, especially earnings management has not been widely explored. Earnings management exists when earnings are manipulated to achieve a financial benchmark, which will allow executives to enjoy financial incentives (Efendi, Srivastava and Swanson 2007). Recently, McGuire, Omer, and Sharp (2012) examined whether religion, as a social norm, influences the choice of profit manipulation methods, and the results show that corporate managers, both religious and non-religious, operating in religious regions, continue to manipulate earnings due to high market pressure to reach profit targets. Additionally, Chant et al. (2015) found that managers choose manipulating real activities compared to accrual manipulation because real activity manipulation has a low risk of detection (Chan et al. 2015). This study extends this line of research by testing the effect of religiosity at the individual level on the selection of earnings manipulation methods. In addition, this is because previous research found that only aspects of punishment from God and secular authorities were able to improve prosocial actions, compared to aspects of affection and reward (Yilmaz and Bahçekapili 2016). Specifically, this study also aims to test the effectiveness of clawback compensation, that have a punishment feature for managers whose earnings manipulation is detected. In this case, the question is whether the clawback moderates the effect of religiosity on the choice of earnings management methods.

The influence of religion on prosocial behavior is based on the Supernatural Punishment Hypothesis (SPH) that there is a supernatural observer (God) who supervises every human action and is able to punish every violation, thus encouraging everyone to remain obedient (Yilmaz and Bahçekapili 2016). In the context of financial

reporting, the higher the level of one's religiosity, the less possible it is for that person to consider earnings manipulations as an acceptable practice (Conroy and Emerson 2004). Companies that are located in regions with high religiosity levels have a lower possibility of having financial reporting irregularities (McGuire, Omer, and Sharp, 2012).

However, because of the high level of materialism in modern society, religion has lost its influence over certain aspects of life as predicted in the theory of the sacred canopy (Berger 1967; Gorski 2000). Empirically, McGuire et al. (2012) found that in the high capital market pressure to achieve profit targets causes corporate managers operating in highly religious regions to continue to manipulate earnings. Additionally, since individuals with high religiosity levels tend to be risk averse (Benjamin, Choi and Fisher 2016), so managers prefer real activity manipulation to accrual management, because they consider real activity manipulation to be more difficult to detect by auditors and regulators. According to Graham, Harvey and Rajgopal (2005), real activity manipulation is a less risky option and is more ethical (Graham, Harvey and Rajgopal 2005).

In some modern societies, secular authorities such as judges, police, and leaders have punitive powers comparable to the roles of supernatural agents. In line with SPH, the Supernatural Monitoring Hypothesis (SMH) assumes that being supervised by supernatural agents (God) is the same as being supervised by secular authorities such as leaders, judges, police (Gervais and Norenzayan 2012). But there are still differences of opinion as to whether punitive attitudes or compassion, from both supernatural agents and leaders, lead to the same level of prosocial behavior. Some researchers argue that only aspects of love and reward from God enhance prosocial actions (Harrell 2012). Meanwhile, the aspect of punishment or anger from God will increase aggressiveness

(Johnson et al. 2013). Contrary to those studies, several researchers found that aspects of effective punishment improve prosocial behavior (Atkinson and Bourrat 2011; Shariff and Norenzayan 2011; Shariff and Rhemtulla 2012).

The latest research conducted by Yilmaz and Bahçekapili (2016) found that religion has a positive effect on prosocial actions only if there are aspects of punishment both by God and by institutions or secular authorities. This indicates that, in the current secular modern era, punishment, both through supernatural agents (God) and by agents of secular institutions (police, judges), plays an important role in cooperative and prosocial behavior.

In the business context, to prevent earnings management, many companies have recently adopted a policy of “recovery of compensation”, commonly known as clawback. Clawbacks are provisions that authorize the board of directors to recoup the compensation paid to their managers, based on the managers’ misstated financial reports (Chan et al. 2015). Previous studies have tested the effectiveness of clawbacks. (Dechow, Ge and Schrand 2010) found that clawbacks are capable of reducing accrual manipulation levels, since this type of manipulation is easily detected by legal authorities and auditors, thus triggering clawbacks.

From the SPH and SMH perspectives, this punishment aspect of clawback exists, so the manager will be motivated to act according to the rules to avoid punishment. Consequently, it is expected that clawback will reduce the level of earnings manipulation. Therefore, the objectives of this paper are twofold: first, to examine the influence of religiosity on the intention of manipulating earnings (both accrual and real manipulation); second, to test the effectiveness of clawback which has a punishment aspect to moderate the influence of religiosity on the intention of manipulating earnings.

The present study has important implication by providing recommendations to regulators concerning the importance of religious values and the possibility of the adoption of clawback compensation mechanisms for reducing agency conflict, particularly in countries with cultures that are different from the clawback initiator countries. This study differs from previous studies. Firstly, based on the previous research, which examined the effect of religion on corporate financial reporting (McGuire et al. 2012), this study adds clawback as a punishment mechanism in terms of the relationship between religiosity and earnings management. Second, this study uses as Indonesia setting, a country with different cultural dimensions; the majority of the previous studies which tested the clawback use the setting of companies listed on the US Stock Exchange. Thirdly, this study aims to test the effectiveness of clawbacks in reducing fraud. A previous study (Chan et al. 2015) focuses primarily on the effectiveness of clawbacks in reducing the earnings manipulations that were still in the corridor of accounting standards. Fourth, whilst the majority of the previous studies make use of secondary data (Chan et al. 2012, 2015; Iskandar-Datta and Jia 2013), this study uses an experimental design in view of the fact that, in Indonesia; clawback compensation schemes are still rarely used.

2. Literature Review

2.1. Earning Management

Earnings is used for performance appraisal, thus encouraging managers to manipulate earnings (Trueman and Titman 1988). One definition of earnings management refers to the use of personal judgment in reporting and in structuring the transactions to alter the financial reports to either mislead some stockholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on the

reported accounting numbers (Healy and Wahlen 1999). The manipulation of financial reporting can be categorized as: that which is within the corridor of financial reporting standards and that which is outside. The former category includes accrual manipulation, and manipulation of real activity. The latter category includes fraud and classification shifting. Classification shifting includes shifting items on the income statements.

This study focuses on profit manipulation outside the corridor of accounting standards (i.e. fraud) and within the corridor of accounting standards (accrual manipulation and real activity manipulation). Fraud is the flagrant violations of accepted accounting principles whilst accrual manipulation is the manipulation of earnings through the manipulation of discretionary accruals (Healy and Wahlen 1999). A discretionary accrual is one that is used to decrease or increase the earnings reported by the management selecting the accounting policies subjectively (Scott 2009). Additionally, the manipulation of real activity is defined as a deviation from the normal operating activities of a company motivated by the desire of its management to provide a false understanding to stakeholders that certain financial reporting objectives have been achieved through the normal operating activities of the enterprise (Roychowdhury 2006). In other words, real earnings management involves attempts to alter the reported earnings by adjusting the timing and scale of the underlying business activities, for example by reducing discretionary spending such as R&D expenses, Selling, and General & Administrative (SG&A).

Each earnings manipulation method has its costs and consequences. Accrual manipulation does not have a direct influence on cash flows, so it only has a small possibility of destroying a company's value (Badertscher 2011). Real activity manipulation is done by reducing the discretionary expenses so that this has an impact on cash flows. In the long run, real activity manipulation has a negative impact on the

optimal business activities and has the potential to destroy a company's value (Badertscher 2011). Earnings manipulation through real activities makes it possible for the company to elevate short-term profits and stock return, but this trend will reverse to the level before earnings manipulation started after three years (Chan et al. 2015). In spite of having an impact on the cash flow, the detection risk of real activity manipulation is lower than that of accrual manipulation (Badertscher 2011) since the decrease in the discretionary expenses, such as R&D, will not be a focus for inspection by the auditors or regulators. So, as seen in terms of detection risk, fraud is a method of earnings manipulation that has the highest risk of being detected followed by manipulation of accrual and real activity.

2.2. Religiosity and Earnings Management

According to the **Supernatural Punishment Hypothesis (SPH)**, it is not possible to monitor every action and punish each individual movement in a large number of groups. However, the opinion that there is a supernatural observer (God) who supervises every human action and has the ability to punish every violation can keep everyone obedient (Schloss and Murray 2011; Yilmaz and Bahçekapili 2016). Some studies use self-report measures to confirm that the intensity of religiosity is positively related to prosocial personality traits or helping behavior (Batson, Schoenrade and Ventis 1993; Randolph-Seng and Nielsen 2007; Saroglou 2004).

In the business context, (Weaver and Agle 2002) stated that religion influences business ethics whenever religion is an important component of one's self-identity. Why does identity salience affect behavior? Based on the theory of self-categorization, each individual has many social categories such as religion, gender or occupation, and each category has norms regarding how someone in that category must behave (Turner 1985).

When religion becomes the main self-identity, the violation of religious norms will cause cognitive and emotional discomfort, thus motivating the person to obey religious rules (Weaver and Agle 2002). So, the stronger a person's religious identity is, the more likely they are to act according to the rules of their religion.

Previous research found that the influence of religion on business ethics expanded to financial reporting. Longenecker, Mckinney, and Moore (1989) found that business managers and professionals who believe in religious values are less likely to approve of unethical behavior. Conroy and Emerson (2004) found that religiosity (with church attendance used as a proxy) is associated with a lower acceptance of accounting manipulation. McGuire et al. (2012), using social norms theory, found that company managers in religious regions tend to engage in few financial reporting irregularities.

We expect that religiosity influences the manager's financial reporting decisions. Religiosity provides ethical guidelines that provide directions for adherents to distinguish ethical or unethical actions (Weaver and Agle 2002). In addition, a religious person is convinced of the presence of a supernatural (God) who supervises their actions (Schloss and Murray 2011), so managers with high religiosity levels will have a lower tendency to carry out financial report manipulation outside the corridors of accounting or fraud standards. This expectation is stated formally in H1.

H1: Religiosity has a negative influence on the intention to commit fraud.

The theory of the sacred canopy argues that religions have lost their influence over many aspects of daily life due to the increasing materialism of our modern society (Berger 1967; Gorski 2000). Several studies support the theory of the sacred canopy. For example, McGuire et al. (2012) found that managers in religious regions still manipulate earnings because of the pressure from the shareholder to meet profit targets. Managers in religious regions prefer to use manipulation of real activity rather than

accrual manipulation because they view real activity manipulation as being more ethical and less risky (Graham et al. 2005). The empirical evidence shows that the earnings manipulation method with the biggest risk of detection is accrual manipulation and lastly real activity manipulation. Compared to someone with a low religiosity level, someone with a high religiosity level tends to be risk averse (Benjamin et al. 2016), so managers with high religiosity levels are likely prefer real activity manipulation methods to accrual manipulation. This is because in real activity manipulation, manipulation is carried out and hidden in transactions that are seemingly legal, so it is hard for auditors and regulators to detect.

H2: Religiosity has a negative influence on the intention to perform accrual manipulation.

H3: Religiosity likely increases the odds of the intention to perform manipulation of real activity.

2.3. Moderating effect of Clawback

Some previous studies have shown that religion influences prosocial actions (Harrell 2012; Johnson et al. 2013; Shariff and Norenzayan 2011) but it is still unclear whether aspects of virtue or punishment from God enhance prosocial behavior. Pichon, Boccato, and Saroglou (2007) found that only positive aspects of God (i.e. reward, heaven, forgiveness) were able to enhance prosocial actions. The study by Johnson et al. (2013) shows that aspects of virtue from God enhance prosocial behavior, while aspects of God's anger increase aggressiveness. Harrell (2012) study also found the same thing: it is only priming related to rewards in religious and secular institutions that increases generosity.

Unlike the research mentioned above, there are several studies that state that fear of punishment from God is an effective tool for social regulation. For example,

someone who thinks that God punishes people will have a wary character and tend to cheat less on academic tasks, whereas those who think God is primarily forgiving tend to cheat more (Shariff and Norenzayan 2011).

Fear of supernatural punishment is an effective tool for social regulation. Shariff and Rhemtulla (2012) indicate that the crime rate is negatively related to the belief in the existence of hell and is positively related to the belief in the existence of heaven. Atkinson and Bourrat (2011) found empirical evidence that belief in a punishing God enhance cooperation and reduce selfish behavior.

In some modern societies, secular authorities have taken over the role of judging and convicting from religious authorities. Along with SPH, the supernatural monitoring hypothesis (SMH) is based on the assumption that being supervised by supernatural agents (God) has the same influence as being supervised by other human beings (Gervais and Norenzayan 2012). The implication is that someone who believes that his actions are supervised by others will be more prosocial (Bateson et al. 2006), more generous (Kurzban et al. 2001) and more helpful (Van Rompay, Vonk and Fransen 2009).

Recently, Yilmaz and Bahçekapili (2016) examined whether, in the current secular modern era, religious or secular authority in general or even aspects of the two institutions lead to increased cooperation and prosocial behavior. The research they performed, which used predominantly Muslim samples, shows empirical evidence that punishment, both through supernatural agents (God) and by agents of secular institutions (police, judges), plays an important role in cooperative and prosocial behavior. Yilmaz and Bahçekapili (2016) found empirical evidence that religion is associated with an increase in prosocial actions only if there are aspects of punishment

both by God and institutions. Hence, it can be concluded that punishment plays an important role in the evolution and maintenance of cooperation in the human species.

Clawback is one form of recovery provision introduced by Section 304 of the Sarbanes-Oxley Act (SOX) in 2002. The Securities and Exchange Commission (SEC) seeks to clawback performance-based compensation paid to the CEOs and CFOs of public companies if previously generated financial statements have been requested to be restated as a result of misconduct. Clawback has a penalty or punishment aspect.

In line with the SPH and SMH lenses, because of the punishment aspect of this clawback, managers will be motivated to act according to the rules to avoid punishment, so it is expected that this clawback will reduce the level of earnings manipulation.

Another theory that supports effective punishment is Prospect Theory (Kahneman and Tversky 1979, 1992) which argues that people receive greater disutility from the losses than the utility they receive from equivalent benefits. Therefore, individuals must work harder to avoid penalty or punishment than to get bonuses amounting to equal amounts of dollars. Hannan (2005) found that individuals prefer to pursue a higher effort to avoid punishment rather than receive a bonus of an equivalent dollar amount.

There are a number of research studies that tested the effectiveness of the clawback scheme. Chan et al. (2012) found that after the adoption of clawbacks, financial misstatements decrease, external auditors are less likely to report material internal control weaknesses, audit fees become lower, and audit reports are issued with shorter delays. Earnings management increases the risk of detection by auditors and regulators, triggering a clawback. The implementation of clawbacks also increases the market's responses towards the company; while investors' motivation to invest in the company increases (Iskandar-Datta and Jia 2013). Dehaan, Hodge, and Shevlin (2013) found that companies which implement clawbacks have improved the quality of their

financial reports compared to those which do not. Therefore, companies implementing clawback provisions have better financial reporting quality than non-adopting companies to reduce detection risk (Dehaan et al. 2013) because the CEO will be more careful when making financial reports to avoid clawbacks or punishment. Thus, the existence of the punishment aspect of the clawback will strengthen the influence of religiosity on fraud in financial reporting.

H4: Clawback moderates the negative relationship between religiosity and the intention to perform fraud in such way that the fraud-preventing effect of the clawback scheme is stronger for religious people than the nonreligious

Denis (2012) found that markets and auditors see an improvement in the quality of financial reports after the implementation of clawbacks for the following reasons. Firstly, the adoption of clawbacks is a signal to the boards of directors that companies have a bigger commitment to greater financial integrity. Secondly, the auditors' erroneous belief that a company which adopts the clawback provisions will issue more accurate reports leads them to examine the firm's financial statements less carefully, thereby reducing the likelihood that they will find a material misstatement that requires a restatement. Therefore, the voluntary adoption of the clawback provisions does not, in fact, lead to more accurate financial statements (Denis 2012).

Clawback has a punishment aspect and makes managers feel that their actions are being supervised. Someone who feels supervised will prefer conservative actions (Manesi, Van Lange, and Pollet 2015). Therefore, it is expected that after implementation of the clawback, managers are more careful in choosing methods of earnings manipulation, i.e. they tend to change their earnings manipulation method from accrual manipulation to real activity manipulation (Chan et al. 2015). Managers prefer real activity manipulation to accrual manipulation, seeing that the former is harder for

auditors and regulators to detect, so this option offers less risk of being found out

(Graham et al. 2005). This is in accordance with findings from recent research (e.g.

Chan et al. 2015) showing that clawback carries unexpected consequences.

Accrual manipulation is the riskiest method of earnings manipulation compared to real activity manipulation. A person with a high level of religiosity tends to be risk averse, so he does not use accrual manipulation because of the high risk of detection. This is even more the case with the existence of the punishment and supervision aspects of the clawback, which causes managers to be more careful.

H5: Clawback moderates the negative relationship between religiosity and the intention to perform accrual manipulation in such way that the accrual -preventing effect of the clawback scheme is stronger for religious people than the nonreligious

The method of earnings manipulation in real activities is more difficult to detect by the authorities, so individuals with high religiosity tend to choose this method over the accrual method. Moreover, in a clawback compensation scheme, the positive influence of religiosity on the intention to manipulate real activities is getting bigger, compared to when there is no clawback.

H6: Clawback moderates the positive relationship between religiosity and the intention to perform real activity manipulation in such way that the real activity -preventing effect of the clawback scheme is weaker for religious people than the nonreligious

3. Research Method

3.1. Experimental Design

To test the hypotheses formulated in the previous section, a series of experimental sessions were conducted which lasted for approximately 45 minutes each. The

experiment consisted of four parts. Firstly, the participants were told they were in a bonus compensation scheme, which was then changed to a clawback compensation scheme. Secondly, their religiosity and individual attributes were measured. Thirdly, the participants' earnings were calculated for each of the previous parts. Fourthly, they answered questions about their understanding of the experiment and demographic characteristics in the exit questionnaire.

The participants were personnel from finance departments who were studying for a master's degree. The 2 x 2 within subjects design, with repeated measures of the dependent variable, was used to examine the likelihood of engaging in earnings management behavior. In all the scenarios, the participants were asked to assume the role of the CFO in a fictitious organization and make decisions based on the proposal presented in the scenario.

3.2. Manipulated Variables

Compensation Scheme

Two compensation schemes were used: a bonus scheme and a clawback scheme. Firstly, the compensation scheme provided is a bonus scheme. In this scheme, if the company achieves its profit targets, the participants will get a bonus. The participants were asked to select an alternative proposed proposal to achieve the profit targets. If they choose the alternative, then they will get a bonus in accordance with the alternative answer they selected. The experimenter invited an auditor to examine the participants' answers and detect any manipulation of the earnings. If participants are caught engaging in manipulation of earnings, they will be given a reprimand card by the auditor.

Secondly, the compensation scheme is changed to clawback. In the clawback scheme, the participants were informed that the authority had issued a new policy: the

clawback compensation scheme. In this scheme, if a participant is caught engaging in earnings' manipulation, the bonus that had been awarded would be returned.

Participants were given cases similar to normal bonus schemes, and were asked to select the available proposals to obtain the targeted profits. The experimenter examined the participants' answers to detect any manipulation of the earnings.

3.3. Measured Variables

The measured variables in this study include the intention to perform earnings management and religiosity.

3.3.1. Intention to Perform Earnings management

¹ Each participant was given one scenario and asked to select three proposals. The scenarios were modified from those developed by Clikeman and Henning (2000). The first proposal was to measure the intention of performing accrual manipulation. Participants evaluate a proposal to delay recognition of maintenance costs until the following year. To ensure that the participants understand that the scenario is in accordance with the accounting standards, this scenario is provided: "While you are aware this does not violate the accounting standards, you are concerned that this may affect the comparability of the financial statement from one year to the next."

The second proposal is to measure the intention to perform real activity manipulation through cutting maintenance costs. To ensure that the participants understand that the scenario is in accordance with the accounting standards and has a low detection risk, this scenario is given: "While you are aware this does not violate the accounting standards and has a low detection risk, you are concerned that this short-term advantage will disappear afterwards."

The third proposal is to measure the intention to commit fraud through capitalizing the routine maintenance and depreciating it over 10 years. To ensure that the participants understand that the scenario is not in accordance with the accounting standards, this scenario is given: “You have concerns regarding this proposal because the accounting standards indicate that expenses of this nature should be listed as expenses as incurred.”

The participants answered question relating to their intentions regarding the proposals made in the scenarios. The question was: “What is the degree of your intention to perform earnings manipulation?” The scale provided five options: 1 indicating strong disagreement and 5 strong agreement.

3.3.2. Religiosity

Measurement of religiosity using instruments developed by Underwood et al. (2003). Sample statements are: “I am convinced that God looks upon what I am doing” and “I am a religious person.”

3.3.3 Control Variables: Age and Gender

We control for age and gender. Huang et al. (2012) found that the ages of CEOs were positively related to financial reporting quality. Qi et al (2018) found empirical evidence that executives who are near retirement age were negatively related to the level of earnings manipulation because they tend to be more conservative and risk-averse. Older top executives are more conservative and risk-averse (Herrmann and Datta 2006). Peni & Vahamaa (2015) found that female CFOs are related to income-decreasing discretionary accruals, this indicates that female CFOs are more likely to be risk averse and conservative in terms of financial reporting strategies.

3.4 Data Analysis

To test the hypothesis, we consider the following specification:

$$Y = \alpha_0 + \alpha_1 \text{Religiosity} + \alpha_2 \text{Clawback} + \alpha_3 \text{Religiosity} \times \text{Clawback} + \alpha_4 \text{Age} + \alpha_5 \text{Gender}$$

From this specification, kita menguji hipotesis 1 dan 4 dengan menggunakan dependent variable niat melakukan fraud (Model 1) . Pada pengujian hipotesis 2 dan 5, digunakan dependent variable niat melakukan manipulasi akrual (Model 2). Sedangkan pengujian hipotesis 3 dan 6 menggunakan dependen variabel niat melakukan manipulasi aktivitas riil (Model 3).

3.5. Manipulation Check

Two questions were asked for the manipulation check. Firstly, to ensure that the participants understood the changes in the compensation schemes, the question asked were: "Will there be punishment, in the form of returning the bonus, if earnings manipulation is detected?" Secondly, to make sure that the participants understood the acceptability according to the accounting standards, the question asked was whether or not they believe the proposal they chose is in accordance with the accounting standards. These questions were asked at the end of the experiment.

3.5. Monetary Incentives

The participants receive compensation depending on their choice of proposals and this compensation will be returned if earnings manipulation is detected. The amount of the returned bonus depends on the proposals selected. A detailed description is presented in Table 1. The participants know they will be paid based on the scheme. After any clawback or returned bonus, payments averaged from \$2 to \$6

Insert Table 1. Manipulation Used in Each Experiment about here

4. FINDINGS

The Descriptive Statistics and Correlations are presented in Table 2, There were 273

participants who took part in this experiment, but 7 of them did not pass the manipulation check- The average age of the participants is 24.69 years dan the average religiosity level is 3,70. There is no multicollinearity problems since no interfactor correlation is above the threshold level of .65 (Tabachnick & Fidell, 1996: 86),

Table 3 panel A meyajikan deskriptif statistik niat melakukan manipulasi laba, sedangkan panel B menyajikan descriptive statistik % niat responden melakukan manipulasi laba berdasarkan masing-masing metode manipulasi laba dan skema kompensasi

Insert Table 3.

Pada skema clawback jumlah partisipan yang menyatakan sangat setuju melakukan fraud menurun dari 3.10% menjadi 0.78% , demikian juga yang menyatakan setuju turun dari 6.98% menjadi 0.78%. Hal yang sama terjadi pada manipulasi akrual, setelah adopsi clawback terjadi penurunan partisipan yang sangat setuju dan setuju pada manipulasi akrual. Akan tetapi berbeda dengan manipulasi real activity, setelah adopsi clawback justru partisipan yang sangat setuju pada manipulasi real activity naik dari 7.75 % menjadi 38.76%.

To test the hypotheses, we conducted moderated regression analysis. Table 4 reports the results from a series of models. Model 1 shows that the coefficient for Religiosity is negative but nonsignificant for explaining Fraud. The interaction effect of religiosity and Clawback also nonsignificant. Therefore H1 and H4 are not supported.

When a model was predicting intention to perform accrual manipulation (Model 2), Result indicate that the effect of religiosity on accrual manipulation is insignificant, therefore H2 is not supported. However, the interaction effect of religiosity and the

clawback is significant ($\alpha = -1.550$, $p < 0.01$). Individuals in the clawback scheme with high religiosity tend to have lower level of accrual manipulation ($M = 1.51$, $SD = 0.89$) than individuals with low religiosity ($M = 2.76$, $SD = 1.05$). The results of the study indicate that the accrual- prevention mechanism of clawback scheme is stronger for religious people than for non-religious people. Therefore provide strong support for H5.

Insert Table 4. **Moderated Regression Analysis Results: Clawback as a Moderator**

Next, Model 3 test the effect of religiosity on the intention to manipulate real activities. We find that tidak ada pengaruh signifikan dari religiosity, sehingga H3 tidak terdukung. Akan tetapi kami menemukan effect interaksi yang signifikan dari religiosity dan clawback ($\alpha = 0.885$, $p < 0.10$, sehingga mendukung H6. Individuals with high religiosity levels in the compensation clawback scheme have greater intention to manipulate real activities ($M = 3.82$, $SD = 1.13$), compared to individuals with low religiosity in the clawback scheme ($M = 3.10$, $SD = 1.41$), and compared to individuals with high religiosity in the bonus scheme ($M = 3.02$, $SD = 1.16$). Individu dengan tingkat religiosity tinggi cenderung risk averse (Benjamin et al. 2016). Change in the compensation scheme from a bonus scheme to a clawback scheme caused unexpected consequences. It causes the intention to use real activity manipulation methods to increase, although the intention to use accrual manipulation decreases; this finding is in agreement with (Chan et al. 2015). This is caused by the fact that accrual manipulation tends to attract more scrutiny from auditors and regulators. High accounting accruals are more likely to be associated with accounting restatements, which trigger clawbacks (Dechow et al. 2010). On the other hand, real activity manipulation is considered to be a less risky option than accrual management. Real activity manipulation is only a slight possibility of it being regarded as inappropriate by auditors and regulators (Cohen and Zarowin 2010; Roychowdhury 2006).

6. Discussion

We didn't provide evidence the main effect of religiosity pada niat melakukan manipulasi laba. Religiosity dapat efektif berpengaruh pada niat melakukan manipulasi akrual, hanya jika terdapat efek punishment dari clawback. Penelitian ini sejalan dengan Montenegro (2017), yang menemukan bahwa religiosity, together with other forms of external monitoring, is an effective mechanism in reducing aggressive accounting practices.

In some modern societies, punitive powers of secular authorities lead to the prosocial behavior (Gervais and Norenzayan 2012). Hasil penelitian ini juga konsisten dengan Yilmaz and Bahçekapili (2016) bahwa agama dapat berpengaruh pada perilaku prososial hanya jika terdapat aspek punishment. Hal ini mengindikasikan bahwa in the current secular modern era, punishment plays an important role in cooperative behavior. This reinforces empirical evidence that the aspect of effective punishment increases prosocial behavior (Atkinson and Bourrat 2011; Shariff and Norenzayan 2011; Shariff and Rhemtulla 2012; Yilmaz and Bahçekapili 2016).

However, fear of punishment in the clawback scheme also brings unexpected consequences, where individuals tend to manipulate profits with methods that are difficult to detect yaitu dengan menggunakan manipulasi aktivitas riil. Individuals with high religiosity levels and in the clawback compensation scheme have a higher level of intention to manipulate earnings using real activity methods than individuals with low religiosity level. This shows that skema kompensasi tidak mengeliminasi semua metode manipulasi laba.

² This study makes several contributions. Firstly, the contribution to the literature is that religiosity is a mechanism for monitoring corporate reporting behavior only if terdapat aspek punishment. Specifically, we found interaction effect of clawback, yang mengindikasikan bahwa ketakutan pada aspek punishment of clawback mampu memperlemah (memperkuat) pengaruh religiosity ke niat melakukan manipulasi akrual (real activity). Secondly, this study continues on from previous studies that tested earnings management (Grullon et al. 2010; McGuire et al. 2012) by providing evidence that in clawback scheme, managers with high religiosity levels prefer earnings manipulation methods that have a low detection risk, that being real activity manipulation as opposed to accrual manipulation. The punishment aspect of clawback causes individuals to be careful in choosing the method of earnings manipulation to achieve the profit target,

² More generally, we contribute to growing number of studies that examine the influence of religion on corporate reporting behavior (Dyreng, Hanlon and Maydew 2010; Grullon et al. 2010; McGuire et al. 2012). Our findings indicate that religiosity at the individual level bersama-sama dengan the punishment aspect of the clawback compensation system can influence the company ² in ways that can affect shareholder value. Therefore, this research should be of interest to investors, managers, members of boards of directors, and regulators.

5. CONCLUSION



Prior research provides evidence that religiosity influences corporate behavior, such as earnings management (Conroy and Emerson (2004); McGuire, Omer, and Sharp 2012).

only has a negative influence on the intention to commit accrual manipulation, but religiosity has a positive effect on the intention to manipulate real activities. Individuals with a high level of religiosity tend to be risk averse, so, to achieve the profit target, they choose to use a manipulation method that has a low risk of detection. Real activity manipulation is more ethical than accrual manipulation (Bruns Jr., William J. and Merchant 1990; Graham et al. 2005) and has a low risk of detection (Chan et al. 2015) even though both have the same consequence of lowering the quality of accounting information and misleading the financial statement's users. The results of this study are in line with (McGuire et al. 2012) who found that managers of companies operating in religious regions continued to manipulate earnings using real activity manipulation. This finding also supports the sacred canopy theory in so far as, due to the increasing materialism of modern society and pressure from the capital market to meet profit targets, religions have lost their influence over some aspects of life, including ethical behavior in financial reporting.

Recently, many companies have been using a compensation clawback mechanism to decrease the level of earnings manipulation. Clawback has a punishment aspect because the board of directors supervises and recovers compensation that has been given to managers if it is proven that those managers have made misstatements in financial reports. The existence of this punishment aspect of clawback means that the managers will try to avoid punishment by acting according to the rules.

7. Limitation

The This research, nevertheless, there is a weakness in the use of a questionnaire to measure religiosity. Ketika partisipan ditanya mengenai Tuhan atau surga, maka ada the possibility that the participants have been “primed” by the questions. Priming can nonconsciously guide subsequent behavior (Bargh, 2006), sehingga partisipan kemungkinan akan modifies their behaviour.

here

It would be interesting if future studies could replicate this model to test the applicability of the current framework in any other global context where different Cultural...

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Table 1. Manipulation Used in Each Experiment

Proposal number	Proposal given	BONUS			CLAWBACK
		Bonus received by participant	Outside/within corridor of accounting standards	Detection risk	
Proposal 1	Doing accrual manipulation by delaying recognition for machine maintenance and repair	Selecting proposal 1 will increase profits by 20%. CFO will receive compensation of 20% for net profit or \$10	Within the corridor of accounting standards	Moderate	\$6
Proposal 2	Doing real activity manipulation by reducing expenses for machine maintenance and repair	Selecting proposal B will increase profits by 20%. CFO will receive compensation of \$10	Within the corridor of accounting standards	Low	\$4
Proposal 3	Committing fraud by capitalizing cost	Selecting proposal C will increase profits by 40%. CFO will receive compensation of \$20	Outside the corridor of accounting standards	High	\$18

*) the amount of bonus returned is based on the level of detection of the selected proposal.

Table 2. Descriptive Statistics and Correlations

a

	Mean	SD	1	2	3	4
Religiosity	3.70850	.298359	1.000			
Compensation	.4922	.50092	-0.007	1.000		
Age	24.69	3.4159	-.129**	.010	1.000	
Gender	.34	.476	-.213***	-.005	.228	1.000

Table 3. Participants'

Panel A: Descriptive Statistics—Means Intention to Do Earnings Manipulation (Standard Deviations)

	Fraud		Accrual manipulation		Real Activity Manipulation	
	Low Religiosity	High Religiosity	Low Religiosity	High Religiosity	Low Religiosity	High Religiosity
Bonus	2.55 (1.13)	2.22 (0.91)	2.36 (1.12)	2.48 (1.14)	2.97 (1.10)	3.02 (1.16)
Clawback	2.10	1.80	2.76	1.50	3.10	3.83

	(0.98)	(0.85)	(1.05)	(0.89)	(1.41)	(1.31)
Column Means	2.32	2.01	2.56	2.00	3.03	3.42
	(1.07)	(0.90)	(1.09)	(1.13)	(1.25)	(1.30)

Panel B. %.

	Fraud		Accrual Manipulation		Real Activity Manipulation	
	Bonus	Clawback	Bonus	Clawback	Bonus	Clawback
Strongly disagree	42.64%	78.91%	22.48%	51.16%	7.75%	9.30%
disagree	37.98%	8.59%	38.76%	22.48%	34.11%	15.50%
neutral	9.30%	7.03%	14.73%	17.83%	18.60%	17.83%
agree	6.98%	4.69%	21.71%	4.65%	31.78%	18.60%
Strongly agree	3.10%	0.78%	2.33%	3.88%	7.75%	38.76%

Table 4. Moderated Regression Analysis Results: Clawback as a Moderator

VARIABLES	Model 1		Model 2		Model 3	
	Fraud	Accrual Manipulation	Real Activity Manipulation	Accrual Manipulation	Real Activity Manipulation	Real Activity Manipulation
Religiosity	-0.344	0.164	-0.151			
Clawback	0.246	5.159***	-2.671			
Religiosity x Clawback	-0.203	-1.550***	0.885*			
<i>Controls</i>						
Age	0.046***	-0.021	-0.014			
Gender	0.224*	0.022	-0.446***			
Constant						
R ²	0.373	0.361	0.328			
F Test	8.100***	7.497***	6.025***			
N	256	256	256			

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



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PAGE 1

PAGE 2

PAGE 3

PAGE 4

PAGE 5

PAGE 6

PAGE 7

PAGE 8

PAGE 9

PAGE 10

PAGE 11

PAGE 12

PAGE 13

PAGE 14

PAGE 15

PAGE 16

PAGE 17

PAGE 18

PAGE 19

PAGE 20

PAGE 21

PAGE 22

PAGE 23

PAGE 24

PAGE 25

PAGE 26

PAGE 27

PAGE 28

PAGE 29

PAGE 30

PAGE 31

PAGE 32

PAGE 33

PAGE 34
