

The Islamic Business Ethics Review toward Earning Management on Islamic Financial Service Board (IFSB) 09 Version

Kiki Pungki Kumalasari, Andi Triyawan¹
(kpungky95@gmail.com, anditriyawan@unida.gontor.ac.id)

ABSTRAK

Laba berperan penting dalam jalannya suatu perusahaan. Laba juga sering dijadikan sebagai tolak ukur kinerja perusahaan, dimana laporan mengenai laba ini dipergunakan oleh pengguna informasi perusahaan, seperti *stakeholder*, investor, kreditor, pemerintah, dan lain sebagainya. Dengan alasan inilah manager sering kali mendesign laba perusahaan dengan motif-motif tertentu guna mengambil keuntungan bagi perusahaan atau bahkan keuntungan pribadi manager. Hebatnya, perubahan informasi laporan perusahaan yang dibuat oleh manajer ini tidak keluar dari Prinsip Akuntansi Berterima Umum (PABU). Sehingga, munculah beberapa argumentasi mengenai implementasi etika dalam praktik manajemen laba. Adanya kontroversi mengenai praktik manajemen laba serta menilai efek-efek yang dialami oleh perusahaan yang menjalani praktik manajemen laba, maka peneliti melakukan pengkajian lebih mendalam mengenai tinjauan etika bisnis Islam terhadap manajemen laba. Kekhususan dalam penelitian ini adalah penggunaan prinsip-prinsip berbisnis yang dirumuskan dalam konferensi *Islamic Financial Service Board (IFSB) 09* yang diadakan di Dubai. Jenis penelitian pada skripsi ini adalah penelitian library research dengan teknik pengumpulan data dan analisis deskriptif komparatif dengan literature terkait manajemen laba dan etika bisnis Islam. Efek negative serta kerugian yang akan dialami oleh perusahaan serta ketidakadilan yang dirasakan oleh pihak luar perusahaan seperti *stakeholders*, investors, kreditor, pemerintah khususnya perpajakan, dan lain sebagainya membuat peneliti membuat kesimpulan bahwa praktik manajemen laba tidak sesuai dengan etika bisnis Islam pada umumnya, serta tidak sesuai dengan prinsip-prinsip berbisnis yang telah dirumuskan oleh IFSB pada khususnya. Dari penelitian ini, peneliti berharap kepada perusahaan yang masih dan hendak menjalani praktik manajemen laba agar meninggalkan praktik ini dalam perusahaannya karena banyaknya sisi negative yang timbul dari praktik manajemen laba ini.

Kata Kunci: Manajemen Laba, Etika Bisnis, IFSB

¹ Kampus Pusat UNIDA Gontor, Jl. Raya Siman Km. 06, Siman, Ponorogo Jawa Timur, Telp. +62 352 483762 Fax. +62 352 488182.

INTRODUCTION

Earning was an important instrument of a company. Ahmed Belkaoui² lays out that the earnings would be the legal basis for the company in deciding the policy dividends, and taking into account the tax liabilities of the company, and the instructions in determining the direction of investment and earning also predict economic upcoming events, as well as to measure performance of management.³

Earning statement is needed by all the users of information, including the investors and creditors because of the earning and cash flows of the past period can then be predicted for the earnings and cash flow in the future,⁴ so that it can predict the return on capital that has been invested in the company.

Seeing the importance of financial statements about the company's earnings, the system of rules in the financial statement called Generally Accepted Accounting Principles (GAAP) is established which will uniform the financial reporting process on every business entity in a country.

In business practices, the company's manager knows clearly about the actual earning of the company, while investors, creditors and other outside parties generally only pay attention to earnings information presented by the company, so managers could know more information internally and the prospect of the company. This gives the chance of occurrence of earning management practices which are undertaken by an enterprise.

Since a concern regarding the use of ethics on earning management, a few opinions and research journal found, that discusses the validity of the practice of the company

² Ahmed Riahi Belkaoui is a professor of accounting at the University of Illinois at Chicago. He was born on December 1, 1943 in Zanghouan, Tunisia. His research interests include the theory of accounting and international aspects of financial reporting. He has published 30 books, including *Multinational and International Accounting* (The Dryden Press) and more than 80 articles and reviews. See: http://www.researchgate.net/profile/Ahmed_Riahi-Belkoui

³ RR. Sri Handayani and Agustono Dwi Rachadi, *Pengaruh Ukuran Perusahaan Terhadap Manajemen Laba*, Jurnal Bisnis and Akuntansi, Vol. 11, No. 1, p. 36

⁴ Budi S. Purnomo and Puji Pratiwi, *Pengaruh Earning Power terhadap Praktek Manajemen Laba (Earning Manajemen) (Suatu Kasus Pada Perusahaan Go Public Sektor Manufaktur)*, Jurnal Media Ekonomi, Vol. 14, No. 1, 2009, p. 2

reports. In generally, earning management occurs when managers choose reporting methods and estimates that do not accurately reflect their firms underlying economics.⁵

Earning management becomes a complicated issue but many go public companies have applied it. Some examples of earning management are Toshiba Corporation⁶ that amounted the earning to 151.8 billion yen or around Rp 15.85 trillion since year 2008,⁷ resulting in the company being required compensation amounted to 16.7 billion yen or equivalent 162.3 million u.s. dollars due to losses they suffered.⁸ Another example is the pharmaceutical corporations which are State-owned PT Indofarma (Persero) Tbk.,⁹ which suffered losses of up to Rp 17.36 billion in 2016 compared to earnings of \$6.56 billion in 2015,¹⁰ the other case, PT. Great River International Tbk.,¹¹ losers of 11.298 billion in 2003.¹²

⁵ Leonie Jooste, *A Comparison of Ethical Perceptions of Earning Management Practices*, Sajems NS, Vol. 14, No. 4, 2011, p. 434

⁶ Toshiba Corporation is an High electronics company based in Tokyo, Japan. Toshiba is the world's largest electronics company. Toshiba's current production is artificial. Toshiba-made semiconductors belong to the ranks of the 20 largest with sales of semiconductors. In the year 2009 Thosiba is the world's fifth largest computer, under the Hewlett-Packard (HP) of the United States, Dell of the U.S., Acer of Taiwan, and Apple. See <http://wikipedia.org>. Chief Executive Officer (CEO) Thosiba Corp, Hisao Tanaka and other senior officials resigned because Thosiba proven involved Japan's largest accounting scandal. A team of independent investigators found that Tanaka found knowing that manipulate the Financials reports Toshiba value reached 1.2 billion US Dollar during the last few years (2015) see <http://www.bisnis.liputan6.com> by Ifsan Lukmannul Judge on July 22, 2015, at 18:00 GMT

⁷ Harry Andrian Simbolon, Toshiba Accounting Scandal: Runtuhnya Etika Bangsa Jepang Yang Sangat Diagungkan itu, Articiel Akuntansi Terapan For Better Business Practices, downloaded from <http://www.akuntansiterapan.com/>, accessed on September 10, 2017

⁸ Aprillia Eka, *Skandal Akuntansi Goyang Merek Toshiba*, Articiel Kompas.com, downloaded from <http://www.ekonomi.kompas.com/>, accessed on October 13, 2016, Time 20.00 WIB

⁹ PT Indofarma Tbk. established in 1918 in the Central Hospital of Netherlands colonial rule (now Bekasi). the year 1942 had ruled by the Government of Japan, and then again taken over by the Government of Indonesia in 1950 through the Departement health. In the year 1996 changed into PT Indofarma (persero) and started the distribution and the drug trade in the year 2000. PT Indofarma as State-owned enterprises (SOEs) engaged in the industry continue to evolve until it has 34 branches in the year to December 31, 2016. The goal established PT indofarma is providing goods or services that are of high quality and helpless strong competitiveness in the field of pharmaceuticals, Diagnostics, health equipment by maximizing utilization of resources are owned by the company. See: <https://indofarma.id/sejarah/>

¹⁰ Yodie Hardiyani, *2016, Indofarma (INAF) Rugi Rp 17,36 Miliar*, Articiel Finansial, downloaded from <http://www.financial.bisnis.com>

¹¹ PT Great River International is a company in the manufacture and distribution of clothing. The company was founded in 1976 and based in Jakarta. See <http://www.emis.com> this company is a company leading the convection in Indonesia that includes the production, distribution and retail. Its distribution spans the data of the country and abroad, its export reaches 20 countries. The production capacity reaches 44 million

If it refers to the notion of earning management, there are several different arguments about the law implementation. On one hand, the earning management is not a form of earning manipulation practice, as long as it is still in the common corridors of Generally Acceptable Accounting Principles (GAAP). As for the other opposite party, earning management generally enshrined the motivation to gain personal earning from the manager.¹³

By observing the controversy regarding the practice of earning management and to assess the magnitude of the effect by the companies that practice management earning, so this study aims to review the earning management seen from the perspective of Islamic business ethics.

Islamic business ethics governs things that are good or bad, fair or unfair, forbidden or not or whether human behavior in business activities all within the scope of the individual or organization that is based on the teachings of Islam.¹⁴ The ethics of Islam will bring peace, justice and honesty in terms of doing business.

This research will be analyzed further in the assessment of earning management in view of Islamic business ethics by using qualitative methods by retrieving source from books, journals, documents, articles, newspapers and the Result of the 9th Conference of the IFSB Organization held in Dubai. The fundamental difference of this research with earlier studies is the using of Islamic business ethics version of the Islamic Financial Services Board (IFSB) 09, with the title of the Islamic business ethics review toward earning management on the Islamic financial service board (IFSB) 09 version.

In this study, the method used by researchers is the type of library research and sourced from secondary data which conclude of internal data sources, and external data

pieces every year. In the year of 2003 Bapepam found indications of inflating the sales accounts, accounts receivable and assets to hundreds of billion dollars on the financial report of the Great River. See <http://www.scribd.com>

¹² Wahyudi Fahmi, *Bapepam Limpahkan Berkas Great River Awal Juni*, Articul Beta Tempo, downloaded from <http://www.bisnis.tempo.com/>, accessed on Monday, May 21, 2007, Time 17.10 WIB

¹³ Riduwan, *Etika and Perilaku Koruptif dalam Praktik Manajemen Laba*, Jurnal Akuntansi and Auditing Indonesia, Vol. 14, No. 2, 2010, p. 3

¹⁴ Ahmad Yusuf and Badarudin Latif, *Manajemen Laba dalam Tinjauan Etika Bisnis Islam*, p. 3

sources. Internal data sources in this study is the result of the Conference documentation entered into the Organization of the Islamic Financial Services Board (IFSB) concerning the applicable principles in business. The required data in the research thesis are qualitative textual by leaning on the proportion-scientific proportion expressed by the Islamic Financial Services Board, IFSB 09. External data sources in this study comes from a variety of journals, articles and newspapers, website, etc. The data that has been collected is analyzed to be drawn the conclusion. The writer uses deductive method and also analysis descriptive comparative method.

EARNING MANAGEMENT

Since the exposure of Levitt about earning management, several studies and arguments springing up commenting on the role of ethics in the practice of the company. The exposure of some researchers found similarities and complementarity. Some opinions about the sense of earning management, including:

According to the National Association of Certified Fraud Examiners (ACFE),¹⁵ earning management called as fraud when companies provide materially misstated information. For example, the company was charged with stashing earning in reserve account in good years and then tapping them in later years to mask actual showing earning.¹⁶ ACFE give definition of earning management, bellow:

“Earning management is a report on the facts and the data material accounting firms which deliberately misleading information, so that blame was used in making the consideration, will eventually cause people who read it will be replaced or change an opinion or decision.”¹⁷

Fischer and Rosenzweig expose the earning management as effort done manager by changing the financial report of the company so that it does not comply with the

¹⁵ The National Association of Certified Fraud Examiners (ACFE) is an organization of professional Fraud Examiners (fraud) that was officially established in 1988. Its activities include publishing the information of fraud, along with the tools and practice. ACFE is the world's largest non-fraud that provides training and education non-fraud, with more than 80,000 members. See: <http://www.acfe.com>

¹⁶ Stephen, Pervaiz, Michael, *Earnings Management When Does Juggling The Numbers Become Fraud*, accessed <https://www.acfe.com/article> on Februari 2000

¹⁷ Sri Sulistyanto, *Manajemen Laba Teori and Model Empiris*, (Jakarta : Grasindo, 2008), p. 1

requirements. The effort can be done by raising or lowering the profits of companies in a certain period. They provided a more precise accounting definition as:

*“Earning management is the action of manager to improve (decrease) profit reported present from a unit which is the responsibility of managers without associated with increased economic profitability (decrease) long term.”*¹⁸

Schipper provide a more critical opinion that earning management:

*“Earning management as a deliberate intervention in the process of reporting external with the intent to get some personal benefit.”*¹⁹

Healy and Wahlen argue that:

*“Earning management is the process which managers have to use their judgement in financial reporting and in structuring transaction desires to mislead the stakeholders or affect the results of contractual with their owner about the underlying economic performance of the company.”*²⁰

In General, earning management was the act committed by the Manager of the company in the form of misinformation about the company's accounting report, but remained on a generally accepted accounting corridor in order to mislead stakeholders in taking a decision.

There are four motivations for a company to conduct the practice of management. Four motivations are: capital market motivation, Initial Public Offerings (IPO) motivation, and motivation of the contractual regulations.

a) The motivation of capital market

The development of the capital market in the world is languid economy at this time. This development is the development of human orientation in the business world that no longer lean on banking or non-banks, but many person have switched attention to the capital market now.

¹⁸ Rafik Z. Elias, *The Impact of Corporate Ethic Values on Perceptions of Earning Management*, *Managerial Auditing Journal*, Vol. 19, No. 1, 2004, p. 85

¹⁹ Ahmad Yusuf and Badarudin Latif, *Manajemen Laba Dalam Tinjauan Etika Bisnis Islam*, p. 6

²⁰ Messod D. Beneish, *Earning Management: A Perspective*, *Managerial Finance*, Vol. 27, No. 12, 2001, p. 4

b) The Initial Public Offerings (IPO)

Initial Public Offerings (IPO) is the first time private stocks are offered to the public. Private enterprise means the entire ownership of the company is wholly owned by a family or a particular group, so that the private companies are often referred to as a family company.²¹ Full rights owned by the company owners fully responsible to make up revenue and risks faced by the company.

c) Motivation of contractual

There is separation between ownership and management of a company. The purpose of this separation is so that the company can be employed by people who have special skills in the field, while the owner (stakeholder) oversees and controls without the need to operationalize the company directly. It is also known as the problem of agency. Triggers of conflict from the problems of this company is the development of agency which further strained relations with other parties. An example of a conflict is a conflict of interest between managers with potential investors, the Manager with the lender, as well as Manager with the regulators.²²

Profound knowledge about the information regarding the company utilized by managers in seeking personal gain from the relationship established with the other parties. Managers tend to cater to the needs and personal gain, not even in a relationship of mutual benefit with other parties. This has resulted in information being communicated to the other party not being shown the State of the company. Then this incorrect information will result in the company's source of funding allocation errors, which should be obtained by other parties thus enjoyed by the company or even personal.²³

d) Motivation of regulation

The company maintained relationships will be increasingly extends to up to the Government. Problems that occur between the company and the Government agency is

²¹ Sri Sulistyanto, *Manajemen Laba Teori and Model Empiris*, p. 69

²² Sri Sulistyanto, *Manajemen Laba Teori and Model Empiris*, p. 86-87

²³ Sri Sulistyanto, *Manajemen Laba Teori and Model Empiris*, p. 88

when one party does not exercise the obligations accordingly. On the relationship between the company and the Government is the company's obligation to pay the tax that predestination according to the calculation of profit.

Forms management profit according to Scott are as follows:²⁴

a) Taking a Bath

Taking a bath is a manager who increase in extreme or decrease in the company's earnings on an extreme period compared to the previous period. This can be detected when the reorganization included the turnover of CEOs with're reporting losses in large numbers. This kind of action is expected to bring in large profits in the future by way of acknowledging the existence of costs payable in the coming period as well as the existence of a loss in the period, but the consequences, the company will remove some of the assets of the company. This is supported by research conducted by Healy on profit management with bonus plan hypothesis with a pattern of taking a bath. He proved that the management is carried out by profit motivation to prosperity via private accounting policy rather than through a decision operation.²⁵

b) Income Minimization

This can be done by lowering the profit period runs from the real profitability. Income minimization is done at the time of the company is experiencing a high level of profitability in order to avoid the political attention. In practice income minimization can be done by way of elimination over capital goods and intangible assets, the imposition of spending R&D, etc. The research about earning management with the pattern of income hypothesis with political cost minimization proven management earnings tend to make adjustments to income decreasing when the company in the antitrust investigation.²⁶

c) Income Maximization

²⁴ Scoot in the book Creative Accounting in Indah Muliasari dkk, *Manajemen Laba Dalam Sudut Pandang Etika Bisnis Islam*, Jurnal Akuntansi and Keuangan Islam 2, No. 2, 2014, p. 157

²⁵ Dewi Saptantinah Puji Astuti, *Review Penelitian Tentang Earnings Management Terhadap Kinerja Perusahaan*, Jurnal Akuntansi and Sistem Teknologi Informasi, Vol. 7, No. 1, 2009, p. 41

²⁶ *Ibid*, p. 41

Income maximization is the pattern of earnings management that carried out by means of increase of profit in the period runs be greater than actual profits. In practice this can be done by way of speeding up the recording of revenues, expenses and delay the move costs for other periods. Income maximization has the purpose to report net income of high to grab a large bonus. This pattern usually done by the companies who wish to violate Covenants on debt.

d) Income Smoothing

The management pattern of earnings by reporting a profit for the company's stable of period to period. It is intended to let companies seen stable and not at high risk, then the Manager of the company is intentionally lower or raise profit from running. It is also done to reduce fluctuation of the company managers profit is too large because investors generally prefer a stable profit. According to Wolk, there are three ways that can be done to build on smoothing, among others the time of the transaction, the choice of the allocation method or procedure and classification smooting between operating and non-operating income.²⁷

e) Timing of Revenue and Expenses Recognition

This pattern is done the way managers with specific policy making regarding the timing of a transaction, e.g. by making the recognition premature over revenues.

Techniques in Earning Management

According to Ayres, there are several techniques that can be done in practice management company profits.²⁸ Among them the following:

- a) Accrual Management
- b) The application of the mandatory Accounting Wisdom (Does of Mandatory Accounting Changes)
- c) Change in Accounting on a voluntary basis (Voluntary Accounting Changes)

²⁷ *Ibid*, p. 41

²⁸ Ayres in Budi S. Purnomo, *Pengaruh Earning Power Terhadap Praktek Manajemen Laba (Earning Management) (Suatu Kasus Pada Perusahaan Go Public Sektor Manufaktur)*, Jurnal Media Ekonomi, Vol. 14, No. 1, 2009, p. 5

IFSB

Islamic Financial Services Board (IFSB) is an international institution which aims to formulate the financial infrastructure of Islam and Islamic financial instruments standard.²⁹ IFSB was founded on November 3, 2002, with headquarter in Kuala Lumpur, Malaysia. Islamic Financial Services Board (IFSB) is an institution that focuses its activities as an international standard setting in the field of Islamic finance and oversight arrangements especially doing the standard of prudence and transparency for the international Islamic finance institutions include banking, capital markets, and insurance.³⁰

The goal established Islamic Financial Services Board (IFSB) was actively carrying out dissemination and educational program of banking and finance that had been obtained through workshops and seminars to various countries in order to obtain input from the authority and industry about best practices as well as possible refinements to the program and the standards of the Islamic Financial Services Board (IFSB).

Islamic Financial Services Board (IFSB) composed of 189 members, which contained the International Monetary Fund (IMF), the World Bank, the Bank for International Settlement (BIS), the Islamic Development Bank (IDB), the Asian Development Bank (ADB) and 119 authority as well as market participants in the financial industry who came from 45 countries. As for the activities carried out by the Islamic Financial Services Board (IFSB), among others, the annual meeting, council meeting and seminar international.

Islamic Financial Services Board (IFSB) has set seven principle concerning guidelines on business conduct.³¹ They are:

a) The principle of Honesty and fairness

The creation of honesty and fairness in all business circles is the highest standard aspired to by the IFSB. Islamic Financial Institutions (IIFS) or Islamic financial institutions

²⁹ Lia Estika S, *Islamic Financial Service Board (IFSB)*, Artikel Kompasiana Beyond Blogging, in the site <http://www.kompasiana.com/>, accessed on 8 Juni 2016, at 22.40

³⁰ *Ibid*

³¹ Jane Clayton, *Islamic Finance Corporate Governance Briefing*, Norton Rose Fulbright, Dubai, accessed on February 2009

must treat all persons who cooperate in the company or its shareholders fairly, besides trying to be honest and integrate with all parties get in touch with him.

IIFs or Sharia financial institutions are not allowed either because the element of deliberate action or negligence to release information that could potentially create a perverse stakeholders and market participants or otherwise manipulate the price. These include make market, the giving of incorrect information, as well as price-fixing in relation to other market participants.

IIFs is also not allowed to release information that could potentially mislead shareholders or from market adherence to Shari'a laws in doing business, whether in the form of goods and services or for the issuance of Sukuk are involved.³²

b) The principle of care and diligence

Islamic Financial Institutions (IIFS) should pay attention to the values of care, skill, and diligence in their dealings with all categories of investors. IIFS is expected to be able to do a proper evaluation of the risks associated with investment activities, as well as doing it with a process approved by the Shariah and in accordance with Shariah asset portfolio.³³

IIFS will conduct an examination of the associated care and perseverance in all company operations, including in the way in offering a product, as well as provide financing by remaining mindful of compliance with Islamic jurisprudence, and also thoroughness in research and risk management.

This principle requires the IIFS to act with prudence and diligence and care in the interest of stakeholders. In conventional institutions may only be one category of equity investors as shareholders to managed the obligation fiduisa.³⁴ While in Islam, there are two main categories of investor, namely shareholders and investment account holders (IAH), if

³² The results of the 9th Conference of the IFSB in Dubai.

³³ Jane Clayton, *Islamic Finance Corporate Governance Briefing*, Norton Rose Fulbright, Dubai, accessed on February 2009

³⁴ Fiduisa is a transfer of the possession of an object on the basis of trust provided that ownership rights are transferred objects remain in the mastery of the owner of the object. Guarantee of fiduisa this may take the form of physical objects or intangible objects and the objects do not move especially buildings that cannot be burdened and dependents the right to remain in the mastery of the giver fiduisa. This is usually used for paying off debt. That gives precedence to the position of peneriathe receiant of the fiduisa against other creditors.

in the takaful i.e. the stakeholders. IIFS need to be careful in keeping and caring for these items. Then the IIFS should provide an appropriate place to prevent from not maintained these items from carelessness.

IIFS was asked to perform due diligence³⁵ in placing funds from investors and participants of takaful, in extending financing facilities, in accepting the risk of takaful and in other activities that have a risk.

c) The principle of the ability

Islamic Financial Institutions (IIFS) should ensure that the Manager, the staff, and its representatives can execute her work are competent. In particular that the parties must have an understanding of the rules and principles of the Shariah and accordingly this principle should be maintained.

This principle requires that the Editorial Board, senior managers, staff and Board of Trustees (such as the staff of the IIFS) to be able to perform the tasks they are competent. Capabilities required must include an understanding of the rules and principles of Sharia which became a liability for their duties. For the Editorial Board and the senior manager should be able to apply the "Fit and Proper Test".³⁶ The ability of design-related products, sell and distribute products or competencies required to run enterprises the activities of the IIFS, such as risk management, asset, and liquidity management of underwriting risks in Takaful and the placement and management of the Fund.

d) The principle of information about clients

Islamic Financial Institutions (IIFS) should know the "customer" to ensure its business and investors know the purpose of whatever kinds of financing in accordance with Islamic principles. IIFS need to ascertain the nature and circumstances of the client, to offer

³⁵ Due Diligence or in the Indonesian Language called due diligence is a term used for performance assessment investigate a person or company from an activity to meet standard. This due diligence terms can also be used in the assessment of the activities of the obedience of the law, but usually more commonly used in the investigation of voluntary.

³⁶ Fit and Proper Test is an assessment of ability and propriety or the results of the process evaluation at regular intervals or at any time if deemed necessary by Bank Indonesia against the integrity of the controlling shareholder, as well as the integrity and competence of the Executive Board and executive officers in managing operational activity of the Bank.

products that are best suited to their needs, as well as to offer to finance over Islamic projects.

The principle of "know your customer (KYC)" popular among banking and companies that have a particular relevance in the context of avoidance of money laundering and transaction that is intended to finance the Organization of criminal or terrorist. Get to know the customer is also required so that is not the case of miss-selling. Hence, the IIFS need its business customers as well as know any purpose of financing the appropriate Jurisprudence.

IIFS should measure the needs of their clients to ensure that the products and services they offer are able to fulfill their needs. Among the ways that can be used to gauge client needs is by questionnaire or interview as well as with written records about them. The questionnaire then was signed by the client, the records regarding the summary of the results of the interviews ever signed by the client.

e) The principle of information to clients

The process of making the report must be transparent and fair. This principle with regard to the first principle (honesty and Justice). Islamic Financial Institutions (IIFS) must protect investors by providing potential investors the right and clear information about the products, services, rights, obligations, as well as the risk of involving clients, so as to reflect the nature of the product and services offered. This requirement also applies to the adherence to Islamic jurisprudence.

The legislation governing the protection of clients and investors are already common and provide enough influence to investors and also consumers. For example, the seller is responsible for defects that are not visible to customers, or provide a "cooling of the period".³⁷

Another example to achieve justice through a business transparent seen from the perspective of Shariah is in contract *murobahah* must be a valid contract in which the seller must disclose original cost (capital, including discount, will be accepted) and margin or the

³⁷ The principle of "Cooling of Period" is that customers enter into a commitment not to tie into a binding contract after a certain period of time elapsed and the customer has not shown the returns.

advantage is received. Transparency must also be done on *tafakul* i.e. on commissions and agency fees.

f) The principles of the conflict of interest and duty

As far as possible Islamic Financial Institutions (IIFS) should avoid situations that create a conflict. If the conflict is unavoidable then the situation should be managed to ensure that stakeholders are fair and conflicts can be handled in a transparent and open. This principle recognizes that a conflict of interest can be managed with proper management so that it can ensure stakeholders can give fair treatment to all people involved in the company. This conflict of interest could occur in the management of the funds requires appropriate management so that it can reach the honesty and justice as in principle 1.

g) The principle of Shariah compliance

With regard to compliance, the IIFS is required to comply with the all legal requirements and regulations in order to meet the criteria of good business conduct. Islamic Financial Institutions (IIFS) should adopt and enforce Islamic system of Government in order to monitor the operations of Islamic Financial Institutions (IIFS) accordingly. IIFS also should be able to employ highly competent employees to strict Islamic law and has an adequate level of authority in accordance with the laws, regulations, and requirements of the Shariah so the key policies in management can be applied in effective in practice.

IIFS must also implement standard IFSB on a system of Government in accordance with the Sharia, as well as to ensure that it can be placed on the mechanisms and procedures for effective Sharia compliance. IIFS should be aware of the obligations will be Sharia in their business activities, including on social responsibility in its business activities.

The Earning management of Islamic business ethics reviewed toward Islamic Financial Services Board (IFSB) 09 version.

Islam has built a concept thought to have considered all aspects of life. That's what distinguishes between Islam and the West. Islam teaches unity relationship between man and his creator (*mu'amalah ma'a Allah*), the relationship between man and man (*mu'amalah ma'a An-nas*), as well as other humans with their surroundings. Unity of relationships that are both at stake this is referred to as the earthly aspect of life balance or here after.³⁸

The life of a Muslim is entirely has been governed by the Shariah i.e. provision of Allah in the revelation that has been published in the form of the Quran, and the Sunnah also was delivered by Messenger. All steps of the life of a Muslim must be bound to him. Including the question of the many business and *mu'amalah* discussed in the Quran and As-sunnah. As in the following propositions:

*“It is He who made the night for you so that you may rest him and made the day brightly lit so that you may look for the grace of Allah. Surely in this, there are signs of the power of Allah to those who hear.”*³⁹

In the context of some companies or business entities, profit is often understood as the whole process of production which have deep logic, so often time the companies are trying to get as many advantages with an outlay the company's minimum. As a result of various efforts made to get the target, despite the impact of the losses must provide to the other party. Even some employers understand that business is business, regardless of ethical values.⁴⁰

Having regard to the competition in the business world coupled with an increasingly critical consumer value, then a much needed ethical business practices.⁴¹ Ethics can bring

³⁸ Johan Arifin, *Dialektika Etika Islam dan Etika Barat Dalam Dunia Bisnis*, Jurnal Millah, p. 176

³⁹ Quran surah Yunus: 67

⁴⁰ Muhamad, *Kesatuan Bisnis dan Etika dalam al-Quran: (Upaya Membangun Kerangka Bisnis Syariah)*, Jurnal Tsaqofah, Vol. 9, No. 1, 2013, p. 51

⁴¹ A business is an activity muamalah, first abandoning ethics, overtaken by the political sphere, and last is the sex. A healthy business is a business based on ethical values. Then a muslim business person should be a strong business ethics framework so that it can deliver to the business activity comfortable and blessing. Look at Muhamad, *Kesatuan Bisnis dan Etika dalam al-Quran: (Upaya Membangun Kerangka Bisnis Syariah)*, Jurnal Tsaqofah, Vol. 9, No. 1, 2013, p. 50

humans in actualizing the best of himself, because of ethics will increase the value of a business entity that is done by the man himself, so did the company.

The companies that implement its business efforts on ethics will improve employee motivation, besides the company led to earning that much, the results obtained also with the good road. Without the use of ethics, the company will be out of control, justifies all means to reach a targeted goal.⁴²

In the Islamic religion, business and ethics are walking side by side and could not be separated, because business in the orientation not only focused on the mundane, but income investment efforts also to hereafter with the aim throughout its activities on the basis of compliance to Allah. Then business and moral rule in Islam will run itself with confidence will benefit from Allah.⁴³

In Islam, there are economic theories of distributive law or also referred to as a religiously-based or divine command theory. It discusses the theory that values ethics, good or bad, right or wrong it is dictated by the Scriptures. The Scriptures was made a guideline in determining ethical, because one of the goals of the religion itself is the establishment of morals or ethics for his followers.⁴⁴

The values of the Islamic business ethics embodied in Islamic economic philosophy has several points,⁴⁵ among them: First, namely *Tauhid*. The unity that is the fulfillment of the basic agreement (*Amanah*) between Allah and man, where the human plays as a servants of Allah (Allah's Caliph) in the face of the Earth who will carry out the works in accordance with the Shari'a.⁴⁶ The value of this unity will have an impact on any human

⁴² Sri Nawatmi, *Etika Bisnis Dalam Perspektif Islam*, Fokus Ekonomi (FE), Vol. 9, No. 1, 2010, p. 51

⁴³ Marzuki and Badarudin, *Manajemen Laba dalam Tinjauan Etika Bisnis Islam*, Jurnal Dinamika Ekonomi & Bisnis, Vol.7, No. 1, 2010, p. 17

⁴⁴ Hasan Mukhibad, *Dampak Pendidikan Etika Bisnis dan Pendidikan Ekonomi Syariah Terhadap Etika Bisnis*, Jurnal Dinamika Akuntansi, Vol. 6, No. 2, 2014, p. 122

⁴⁵ Aris Baidowi, *Etika Bisnis Perspektif Islam*, Jurnal Hukum Islam (JHI) Volume 9, No. 2, 2011, p. 242

⁴⁶ Rudy Haryanto, *Environmental-Balance Scoecard dan Etika Bisnis Islam (Suatu Sintesis Manajemen Strategi Dalam Persaingan Global)*, Al-Ihkam, Vol. VI, No.1, 2011, p. 73

behavior, because of a Muslim who has a high unity in his heart will have the confidence that his prayer, devotion, her life, and her death only fixed to Allah Almighty.

In the teaching of the Islamic religion, working not only to be an obligation to achieve results that meet the requirements but a religious obligation that is where there is a close relationship between faith and charity. In other words, the job done without charity will be futile and not worth, so any contrary, faith is not realized in the form of real deeds will only be a meaningless formula. In the Quran commands for working a lot mentioned and in the context of the talks showed the importance of a productive job.⁴⁷

Based on the confidence to the Islamic Death, not just religion but there is alignment between the world and the hereafter, worship, and *muamalah*, *aqidah* and *syariah*, which entirely interdependent. Man as the Caliph in the Earth has set out ample opportunity in increasing prosperity and human welfare in the Earth with the creation of natural for the benefit of mankind.⁴⁸

Islamic Financial Services Board (IFSB) as international institutions in charge of formulating the financial infrastructure of Islam and Islamic financial instruments standards has set seven principle concerning guidelines on business conduct.⁴⁹ Those principles include:

1. The principle of Honesty and fairness

Islamic Financial Institutions (IIFS) or Islamic financial institutions must treat all shareholders fairly and even tried to be honest and integrate with all of the parties associated with it. On this first principle of financy institutions are not allowed to make reports of potentially on a perversion of the shareholders and the other market participants. Misleading reports include falsification of the market, the creation of wrong information, price-fixing with relation to other market participants. IFSB else appealed to the entire institution financy to provide policies to whistle-blowers or business fraud perpetrators of

⁴⁷ Syafiq dan Achmad, *Relevansi Ajaran Agama Dalam Aktivitas Ekonomi (Studi Komparatif Antara Ajaran Islam dan Kapitalisme)*, p. 21

⁴⁸ *Ibid*

⁴⁹ Jane Clayton, *Islamic Finance Corporate Governance Briefing*, Norton Rose Fulbright, Dubai, accessed on february 2009

reporters so they granted justice when found abuses in the course of business. Then the principle of honesty and justice is becoming the most important purpose of the ethical principles of doing business.⁵⁰

As the first principle in doing business at the 9th Conference of the IFSB, postulates that discuss honesty and fairness in any business is found in the Quran or Hadith. Among them:

وَفِي أَمْوَالِهِمْ حَقٌّ لِّلسَّائِلِ وَالْمَحْرُومِ
وَ

*"And in their property was a portion due to him who begs and to him who is denied (good)."*⁵¹

But when the compared between the management of profit with the first principle in the IFSB 09 this then will be found the glaring discrepancy between the two. Earnings management in practice, a Manager is truly changing the enterprise information with a variety of motives, it is contrary to the first principles of the IFSB 09.

2. The principle of care and diligence

Islamic Financial Institutions (IFIs) should pay attention to the values of care, skill, and diligence in their dealings with all categories of investors. IFI is expected to be able to do a proper evaluation of the risks associated with investment activities, as well as doing it with a process approved by the Shariah and in accordance with Shariah asset portfolio. IIFS should perform all related inspection the company's operations, including the procedure in case of supply of goods, delivery financing-financing in accordance with Islamic jurisprudence. Then, in this case, the IIFS should be careful in acting, in keeping an eye on, and in keeping the whole company's operations under the control of the Regent powers. In Islam, there are two categories of investors, namely shareholders and account holders of the investment. In order to keep the IIFS to and caring for goods or assets already invested.⁵²

⁵⁰ The results of the 9th Conference of the IFSB in Dubai

⁵¹ Quran *surah Ad-Dzariyat*: 19

⁵² The results of the 9th Conference of the IFSB in Dubai

The example of the Muslim Prophet to whom for a creditor or person who gives the loan to others must be generous and friendly so as not to hurt the person who borrowed it. In addition, a creditor or person requesting loans to others also should give back his debts to the lender at the time agreed upon in a way that is polite and grateful. In the Quran explained the provisions of the debtor:

وَإِنْ كَانَ ذُو عُسْرَةٍ فَنَظِرَةٌ إِلَىٰ مَيْسَرَةٍ وَأَنْ تَصَدَّقُوا خَيْرٌ لَّكُمْ إِنْ كُنْتُمْ تَعْلَمُونَ

“And if (the debtor) is in straitness, then let there be postponement until (he is in) ease; and that you remit (it) as alms is better for you, if you knew.”⁵³

3. The principle of the ability

Islamic Financial Institutions (IIFS) should ensure that the Manager, the staff and its representatives can doing her work are competent. In particular that the parties must have an appropriate understanding of Sharia and this principle should be maintained. In the Quran has explained:

وَأَعِدُّوا لَهُمْ مَا اسْتَطَعْتُمْ مِنْ قُوَّةٍ وَمِنْ رِبَابِ الْإِيلِ ت. رَهْبُونَ بِهِ عَدُوٌّ لِلَّهِ وَعَدُوٌّكُمْ
وَأَخْرَيْنَ مِنْ دُونِهِ لَ تَعْلَمُوهُمُ اللَّهُ يَعْلَمُ ُ مَا وَمَا تُتُوا مِنْ فِي سَبِيلِ اللَّهِ يُوَفِّ
إِلَيْكُمْ وَأَنْتُمْ لَ تَظْلَمُونَ

“And prepare against them what force you can and horses tied at the frontier, to frighten thereby the enemy of Allah and your enemy and others besides them, whom you do not know (but) Allah knows them; and whatever thing you will spend in Allah’s way, it will be paid back to you fully and you shall not be dealt with unjustly.”

On the earnings management practices, there are managers who find out more in-depth information about companies from most other parties, so more managers master the

⁵³ Quran surah Al-Baqarah: 280

problem companies. Conditions of this kind gives the opportunity to the Manager to set the profit into profit in such a way that compliance with that target. This results in the possibility of the information conveyed is not appropriate.

4. The principle of information about clients

Islamic Financial Institutions (IIFS) should know the "customer" to ensure that its business and investors know the goal of any sort of financing in accordance with Islamic principles.

One of the unethical business practices that are common in modern business is the Act of exploitation. This exploitation is incompatible with the duties of man as the Caliph in the face of the Earth. As explained in evidence:

“Do not prevent traders to buy and sell transactions (before arriving in the market.” (Narrated by Al-Bukhari and Muslim 2150 1515).

Exploitation is also commonly done by exploiting the ignorance of some people about the condition of the market. For example, new traders who brought trade goods brought directly from the place of production to the huge market in urban areas. Then traders who had long been a big market selling in that request that the seller delivers the goods to him all for sale in the market on his behalf. Thus the old sellers will get the commodity item with great numbers but with lower prices compared to the market price, so that old salesman earns a larger income. Islam forbids intermediary intervention involving the exploitation of goods by exploiting the ignorance of some parties to the market price. This kind of behavior is an action *dzalim* are wont to do in the time of ignorance, but the Prophet had prohibits this action.⁵⁴

In the Hadith, the Apostle forbade acts of exploitation of the goods as described above with the title (*qat'u thaariq*), as follows:

“City Dweller should not sell the goods of a desert dweller.” (Narrated by Al-Bukhari, no.: 2006)

5. The principle of information to clients

⁵⁴ The results of the 9th Conference of the IFSB in Dubai

The process of the reporting must be transparent and fair. Islamic Financial Institutions (IIFS) must protect investors by providing potential investors by providing him the right information so that it can reflect the nature of the products and services offered. Islamic finance is guided by certain norms that take care of the interests of all parties to the transaction. In Quran explained:

وَقَالَ الَّذِينَ لَ يَ عْلَمُونَ لَوْلَ يُكْمِنَ آلَهُ أَوْ تُبَيِّنَا ءَا يَةَ " كَذَلِكَ قَالَ الَّذِينَ مِن قَبْلِهِ مِثْلَ قَوْلِهِ تَشَ
بَاتُ قُلُوبُهُمْ قَدْ بَيَّنَّا لَكُمُ الْآيَاتِ لَوْمَ يَوْمُونَ

*"And prepare against them what force you can and horses tied at the frontier, to frighten thereby the enemy of Allah and your enemy and others besides them, whom you do not know (but) Allah knows them; and whatever thing you will spend in Allah's way, it will be paid back to you fully and you shall not be dealt with unjustly."*⁵⁵

6. The principles of the conflict of interest and duty

As far as possible, Islamic Financial Institutions (IIFS) should avoid situations that create a conflict. If the conflict is unavoidable then the situation should be managed to ensure that stakeholder be fair and conflicts can be handled in a transparent and open. In the Quran it is mentioned:

يٰٓأَيُّهَا الَّذِينَ ءَامَنُوا كُونُوا قَوِّمِينَ بِالنِّسْبِ دُءَا لِّ وَلَوْ عَلَيَّ أَسْخُمُ أَوْ الْوَالِدِينَ
وَ الْقُرَّ « بَيْنَ إِنْ يَكُنْ غَنِيًّا أَوْ « قِيًّا فَالْأَوَّلُ يَدُ « فَلَا تَتَّبِعُوا الْوَلِيَّ أَنْ تَعْدِلُ « وَأِنْ تَلَوَّا
أَوْ تَعْرَضُوا فَإِنَّ آلَهُ كَانَ يَاتِ عَمَلُونَ خَبِيًّا

⁵⁵ Quran surah Al-Baqarah: 188

“O you who believe! be maintainers of justice, bearer of witness of Allah’s sake, though it may be against your own selves or (your) parents or near relatives; if he be rich or poor, Allah is nearer to them both in compassion; therefore do not follow (your) low desires, lest you deviate; and if you swerve or turn aside, then surely Allah is aware of what you do.”⁵⁶

7. Principles of Sharia according

Islamic Financial Institutions (IIFS) should adopt and enforce Islamic system of Government in order to monitor the operations of Islamic Financial Institutions (IIFS) accordingly. In the Quran described:

وَأَرْسَلْنَا إِلَيْكَ الْكِتَابَ بِالْحَقِّ مُصَدِّقًا لِمَا بَيْنَ يَدَيْهِ مِنَ الْكِتَابِ وَمُهَيِّمًا عَلَيْهِ فَاحْكُم بَيْنَ

بَيْنَنَا وَمَنْ لَنَا بِآيَاتِنَا أَلَّا نَزَلْنَا عَلَيْكَ الْقُرْآنَ وَتَتَّبِعَ أَهْوَاءَهُمْ عَمَّا جَاءَكَ مِنَ الْآيَاتِ لِكُلِّ جَعَلْنَا مِنْكُمْ رِجْعَةً

وَمِنْ أُمَّةٍ أُولُوا آيَاتِنَا لَعَلَّكُمْ أَتُونَ الْوَحْدَةَ وَلَكِنْ لِيَبْأُولُكُمْ فِي مَا آتَيْنَاكُمْ فَاسْتَبُوا

آيَاتِنَا تِلْكَ آيَاتُ مَرْجِعِكُمْ جَاءَ فَيُنَبِّئُكُمْ يَا كُنتُمْ فِيهِ تَلْوِينًا

“And We have revealed to you the Book with the truth, verifying what is before it of the Book and a guardian over it, therefore judge between them by what Allah has revealed, and do not follow their low desires (to turn away) from the truth that has come to you; for every one of you did We appoint a law and a way, and if Allah had pleased He would have made you (all) a single people, but that He might try you in what He gave you, therefore strive with one another to hasten to virtuous deeds; to Allah is your return, of all (of you), so He will let you know that in which you differed;”⁵⁷

⁵⁶ Quran surah An-Nisa: 135

⁵⁷ Quran surah Al-Maidah: 48

Information of the company made with the earning management can mislead party user information than required an audit qualified and professional, and does not violate the Sharia. An audit report that professionals can enhance the trust of the users of the information.

CONCLUSION

Based on the research that has been described in previous chapters, researchers can infer some conclusions, including the following:

There is a difference between a practitioner and theorist in respect of management practices. Some look that earning management is included in the act of manipulation and some others don't include earning management as manipulation action. Information regarding the company's financial statements effect company report user as investors, stakeholders, government, etc. Earning management actions that are carried out by a manager making the report is irrelevant. This has resulted the users of financial information misjudged about the company's performance, which ultimately is wrong in taking decisions which should be given to the company. This is contrary to the Islamic business ethics which put the principle of honesty on the first level in the business. Although management earnings made by a manager can give an advantage while Manager as well as for the company, but this advantage will not last long. Once meneger gives wrong information regarding the company's financial report, companies will manipulate in other aspects. When the auditor exam the report, the company will reveal manipulation . In the end, companies will experience the devastation. Reviewing a large number of risks and losses will be experienced, management is not in accordance with Islamic business ethics. The main Orientations in doing business in Islam is not only limited to worldly advantage but more than, namely the advantaged life hereafter. So the main basis of a Muslim running a business is a form of worship for God. In addition, the Muslim also will share to his brother with the religious obligatory, infaq, alms and endowments of the sustenance which Allah has given to him. Whereas in practice earning management there are motives of a Manager in taking personal benefit by utilizing the managfinancial statements. The IFSB as

international institutions that formulate the infrastructure of Islamic finance and Islamic financial instruments standards has formulated 7 principles in doing business for a muslim. Once observed, the principles have been formulated that IFSB is incompatible with earning management practice.

BIBLIOGRAPHY

Al- Quran *al-kareem*

Arifin Johan, *Dialektika Etika Islam dan Etika Barat Dalam Dunia Bisnis*, Jurnal Millah, p. 176

Baidowi Aris, *Etika Bisnis Perspektif Islam*, Jurnal Hukum Islam (JHI) Volume 9, No. 2, 2011

Beneish Messod D., *Earning Management: A Perspective*, Managerial Finance, Vol.27, No. 12, 2001

Clayton Jane, *Islamic Finance Corporate Governance Briefing*, Norton Rose Fulbright, Dubai, accessed on February 2009

Elias Rafik Z., *The Impact of Corporate Ethic Values on Perceptions of Earning Management*, Managerial Auditing Journal, Vol. 19, No. 1, 2004

Handayani RR. Sri and Rachadi Agustono Dwi, *Pengaruh Ukuran Perusahaan Terhadap Manajemen Laba*, Jurnal Bisnis and Akuntansi, Vol. 11, No. 1

Haryanto Rudy, *Environmental-Balance Scoecard dan Etika Bisnis Islam (Suatu Sintesis Manajemen Strategi Dalam Persaingan Global)*, Al-Ihkam, Vol. VI, No.1, 2011

Jooste Leonie, *A Comparison of Ethical Perceptions of Earning Management Practices*, Sajems NS, Vol. 14, No. 4, 2011

Marzuki and Badarudin, *Manajemen Laba dalam Tinjauan Etika Bisnis Islam*, Jurnal Dinamika Ekonomi & Bisnis, Vol.7, No. 1, 2010

Muhamad, *Kesatuan Bisnis dan Etika dalam al-Quran: (Upaya Membangun Kerangka Bisnis Syariah)*, Jurnal Tsaqofah, Vol. 9, No. 1, 2013

Mukhibad Hasan, *Dampak Pendidikan Etika Bisnis dan Pendidikan Ekonomi Syariah Terhadap Etika Bisnis*, Jurnal Dinamika Akuntansi, Vol. 6, No. 2, 2014

Muliasari Indah, *Manajemen Laba Dalam Sudut Pandang Etika Bisnis Islam*, Jurnal Akuntansi and Keuangan Islam 2, No. 2, 2014

Nawatmi Sri, *Etika Bisnis Dalam Perspektif Islam*, Fokus Ekonomi (FE), Vol. 9, No. 1, 2010

Riduwan, *Etika and Perilaku Koruptif dalam Praktik Manajemen Laba*, Jurnal Akuntansi dan Auditing Indonesia, Vol. 14, No. 2, 2010

S. Purnomo Budi and Pratiwi Puji, *Pengaruh Earning Power terhadap Praktek Manajemen Laba (Earning Manajemen) (Suatu Kasus Pada Perusahaan Go Public Sektor Manufaktur)*, Jurnal Media Ekonomi, Vol. 14, No. 1, 2009

Saptantinah Puji Astuti Dewi, *Review Penelitian Tentang Earnings Management Terhadap Kinerja Perusahaan*, Jurnal Akuntansi and Sistem Teknologi Informasi, Vol. 7, No. 1, 2009

Syafiq and Achmad, *Relevansi Ajaran Agama Dalam Aktivitas Ekonomi (Studi Komparatif Antara Ajaran Islam dan Kapitalisme*

Sulistiyanto Sri, *Manajemen Laba Teori and Model Empiris*, (Jakarta : Grasindo, 2008)

The results of the 9th Conference of the IFSB in Dubai.

Yusuf Ahmad and Latif Badarudin, *Manajemen Laba dalam Tinjauan Etika Bisnis Islam*

<http://wikipedia.org>

<http://www.acfe.com>

<http://www.akuntansiterapan.com>

<http://www.bisnis.liputan6.com>

<http://www.bisnis.tempo.com>

<http://www.ekonomi.kompas.com>

<http://www.emis.com>

<http://www.financial.bisnis.com>

<http://www.kompasiana.com/>

http://www.researchgate.net/profile/Ahmed_Riahi-Belkoui

<http://www.scribd.com>

<https://indofarma.id/sejarah>

<https://www.acfe.com/article>