Earnings Management Ethics: Stakeholders' Perceptions

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Introduction

The recent corporate scandals highlighted the incidence of unethical practices conducted by business organizations (Cacioppe et al., 2008). These unethical practices that are referred to in the literature as creative accounting include earnings management, and have, according to Beaudoin et al. (2013), been the cause of the collapse of some high-profile companies and reduced confidence in financial reporting.

Earnings management has been described by Nelson et al. (2002) as “non-neutral financial reporting” in which managers are deliberately altering the reported income to achieve some private gain. It has been also described as a “slippery slope that would lead to fraudulent financial reporting” (Ortega and Grant, 2003, p. 51). Abdelghany (2005) characterises earnings management as “minor accounting gimmicks becoming more and more aggressive until they create material misstatement in the financial statements” (p. 1002). The exercise of earnings management may potentially lead to adverse consequences; according to Loomis (1999), earnings management may entail a legal penalty.

Beaudoin et al. (2013) acknowledge the conflict of views regarding the acceptability of earnings management. They indicate that some scholars view it as an unethical practice that lead to negative consequences, it is also suggested by others as an inherent result of the financial reporting process and that is does not affect the usefulness of accounting information

Recent accounting scandals have raised the issue of earnings management ethics. Although earnings management could arguably be performed in a legal and lawful way, it remains an ethical issue in the financial reporting context (Abdelghany, 2005).

Geiger and Smith (2010) argue that not all earnings management practices lead to inappropriate financial reporting, therefore, it is important to investigate the acceptability of earnings management from different perspectives, they added that:

> "… the evaluation of perceptions regarding earnings management behavior is a vital concern for business reporting worldwide. To the extent that perceptions lead to the practice of earnings management, an examination of these perceptions is particularly germane to the evaluation of the financial reporting climate in our growing international business community, and is of direct concern regarding the comparability of reported financial information across countries. Accordingly, it is critically important to examine the perceptions of individuals from different countries in an attempt to evaluate the climate for earnings management that may exist" (Geiger and Smith, 2010, p. 21).

Elias (2004) has concluded that despite the belief that earnings management practices are widespread however there is no agreement within the accounting profession regarding its ethical acceptability. In the same vein, Abdelghany (2005) suggests that although earnings management behaviour “does not explicitly violate accounting rules, it is an ethically questionable practice” (p. 1002).

The literature documents considerable research on the acceptability or otherwise of earnings management practices to different stakeholders. The following section discusses what is meant by ethics in general and what it means particularly in the business context. Then, related literature that focuses on the ethics of earnings management activities will be addressed.

Business Ethics

Business ethics has become an important issue in the current business world and is attracting a great deal of attention from the business community as well as researchers (Rashid and Ibrahim, 2008). Atakan et al. (2008) suggest that it becomes so essential to focus on the ethical values and perceptions of the involved parties due to the ethical violations that have arisen recently. They have also noticed that business practitioners have been frequently faced with ethical matters in their work place. Tseng et al. (2009)

pointed out that in order for a business to be ethical it “requires that the organization or individual behaves in accordance with the carefully thought-out rules of moral philosophy” (p. 587). Valentine and Fleischman (2008) emphasized that attention to ethics as well as corporate social responsibility is a vital issue in light of the fact that business values are declining due to recent scandals. It has also been confirmed that the corporate scandals that recently took place have indicated that unethical and immoral practices that have been conducted by business organizations may impose substantial consequences for their stakeholders (Cacioppe et al. 2008). For instance, Enron and Arthur Andersen created chaos in the business world when their unethical practices became reported in the media (Rashid and Ibrahim, 2008). In the wake of the Arthur Andersen collapse, accountants became aware that the unethical behaviour of some individuals may have an adverse consequence for the entire profession. The accounting profession has to be able to maintain the perception of high ethical standards in order for it to be able to accomplish its fundamental function which is providing accounting information users with reliable accounting information. As capital markets’ efficiency is contingent on accounting information users' confidence in this information is vital. Moreover, agency theory also suggests that the auditor's ethical behaviour is crucial in the process of financial reporting (Felton et al., 2008). According to Priest (2002, cited in Elias, 2004) failure of corporate ethics can be attributed to unethical earnings management. Elias (2004) suggests that recent organization collapses have powered the ethical argument toward the earnings management behaviour. Any organization that is operating within a society is considered to be a social organization as long as it serves this society and is rewarded for its services, Preston (2001, cited in Yong, 2008) suggested that a business has an obligation “to contribute towards society as part of its social responsibility” as long as it operates in and benefits from this society. De George (1990) considers business as a social enterprise and that its mandate and limits have been set by society; although business's limits are usually moral, they normally take the form of written law.

According to De George (1990) ethics can be defined as:

> "A systematic attempt to make sense of our individual and social moral experience, in such a way as to determine the rules that ought to govern human conduct, the values worth pursuing, and the character traits deserving development in life. Ethics concerns itself with human conduct, taken here to mean human activity that is done knowingly and, to a large extent, willingly" (De George, 1990, p. 14).

Rushton (2002, cited in Lopez-Gamero et al. 2008) defined ethics as “the application of moral principles in making choices between right and wrong courses of action” he added “business ethics is the application of those moral principles in making business decisions”. (p. 701).

Morality, according to De George (1990) refers to:

> "…practices and activities that are considered importantly right and wrong; the rules that govern those activities; and the values that are embedded, fostered, pursued by those activities and practices" (De George, 1990).

Fisher and Lovell (2003) in distinguishing between ethics and morality consider ethics as about doing good and that it deals with the good life for humanity, while morality is considered as not doing harm and it is a concern for justice. Based on categories of bad, good, legal and illegal, they set forth four combinations to judge the rightness of actions that are; (a) actions that are good and legal but not a legal obligation; (b) actions that are wrong and illegal; (c) actions that legal but bad; and finally, (d) actions that are good but illegal. Earnings management (in the UK interpretation of the term as discussed above) as a practice obviously lies under section (c), earnings management is legal but it has bad consequences for some stakeholders.

According to Geiger et al. (2006) an ethical issue in the context of financial reporting takes place in almost every month and they added that, evaluating the ethical behaviour in the financial reporting field is a critical issue in business practice.

Earnings management has been regarded as one of the controversial and significant areas in the accounting literature and might be "the most important ethical issue facing the accounting profession "(Merchant and Rockness, 1994, p. 92). As stated earlier in this chapter earnings management is considered to be wide spread and according to Geiger et al. (2006) every accountant and every corporation has faced management temptation to manage the reported earnings. Companies can face continuous pressure to produce a steady growth of earnings which can eventually result in forceful managers being tempted to intervene in the financial reporting process. Furthermore, the practice of earnings management which arguably seeks to mask the true financial position of a company, in addition hides significant information that investors need to know (Loomis, 1999, cited in Elias, 2004) Levitt (1998, p. 16) considers earnings management as "accounting hocus-pocus where financial reality is hidden from investors".

Literature review

Several studies have been conducted to examine the perceptions of different stakeholders regarding the ethical acceptability of earnings management practices. According to Giacomino et al. (2006) little attention was paid to the morality of earnings management until the work of Bruns and Merchant that was published in an issue of Management

Accounting in 1990. In their study Bruns and Merchant (1990) surveyed the readers of the Harvard Business Review asking for their perceptions about the acceptability of earnings management practices through a questionnaire consisted of 13 earnings management situations that the authors had observed either directly or indirectly. Since that time, research has been conducted using the same questionnaire in order to investigate the perceptions of the ethics of earnings management.

Bruns and Merchant (1990) surveyed a total of 649 managers. That questionnaire contained 13 earnings management situations which the authors had observed either directly or indirectly, these situations were all legal and consistent with GAAP with minor ones that not consistent with GAAP. All situations involved earning management actions. Bruns and Merchant described their results as “scary” and noticed that if a practice is not clearly banned or deviated slightly from the rules it is considered as ethical irrespective of who is affected by the practice or “the information that flows from it”.

Merchant and Rockness (1994) have carried out research to assess the perceived morality of earnings management practices in a sample of general managers, staff managers, operating-unit controllers and internal auditors using a modified version of the questionnaire of 13 earnings management activities that was used by Bruns and Merchant (1990). Their results reveal that accounting manipulations were judged more “harshly” than operating manipulation regardless of whether accounting manipulations were consistent with GAAP or not. Also the direction of earnings management practice (i.e. increase or decrease in reported profit) was not important as respondents showed no significant difference between the two directions. In addition, results showed that larger earnings management actions were rated as being significantly less acceptable than smaller actions. The period of effect was also found to matter; respondents rated year-end actions as significantly less acceptable than quarter-end actions. Another study which examined how financial statements users' judge the ethics of earnings management actions was conducted by Kaplan (2001) who considered his research as an extension of that of Merchant and Rockness (1994). The latter ascertained the views of various organizational members, while the former consulted those outside the organization because "managers, companies, and policy makers" should be concerned about how external parties perceive the ethics of earnings management activities. Therefore, the sample consisted of Master in Business Administration (MBA) students taking evening classes, (evening MBA students, according to Kaplan, are older and have large work experience in comparison to day MBA students). The study involved an experiment in which participants were given three scenarios describing earnings management by a general manager of a large division in different publicly owned corporations. The scenarios were developed and adopted from Bruns and Merchant (1990). The participants were randomly allocated into one of two user classes being shareholders and non-shareholders; also participants were randomly assigned to two subgroups depending upon the explanation supplied above the intent behind the earnings management; these were based on individual benefit and company benefit. The results showed that shareholders assess earnings management as being less unethical when it was intended for company benefit but that intent did not affect the ethical assessment of non-shareholders. Similarly, Clikeman et al. (2001) examined the perceptions of accounting students from the US and five Asian countries using the method developed by Bruns and Merchant (1990) and they found that students object most strongly to earnings management activity that involves accounting manipulation and increased reported income. Also their findings showed that students were less critical of earnings management when the manipulation was small or was committed in order to help the company to survive.

Elias (2002) tested the relationship between personal moral philosophies (i.e. idealism and relativism), ethics as well as social responsibility, and the ethical judgment of earnings management practices. His sample consisted of accountants in public practice and industry, accounting faculty and students. The questionnaire of Merchant (1989) was adopted in this study. The results showed that all respondents viewed operating earnings management as a questionable practice at worst, while accounting manipulations were viewed as “slight to serious” ethical breaches. The results revealed a positive relationship between an individual’s idealism and his/her perception of earnings management ethics, and a negative relationship between relativism and the ethical perception of earnings management.

In another study, Elias (2004) investigated the relationship between corporate ethical values and earnings management, using a sample of Certified Public Accountants (CPAs) in public accounting, industry and academia to test whether accountants who are employed in different organizations (possibly with different ethical values) will perceive earnings management practices differently. The Bruns and Merchant questionnaire was used to determine the perceptions of respondents. His results showed a positive relationship between perceptions of corporate ethical values and perceptions of earnings management though accountants employed in high (low) ethical values organizations perceived earnings management practices as unethical (ethical). Also the results revealed that “CPAs in industry were significantly less likely than those in public accounting and academia to perceive high ethical values in their organizations” (p. 92).

Al-Hayale and Lan (2005) examined the attitudes of managers and external auditors regarding the ethical acceptability of earnings management. To determine the acceptability of earnings management practices by both managers and external auditors, a questionnaire survey was employed; this questionnaire was partially based on the instrument of Bruns and Merchant (1990). Their results highlighted that auditors perceived earnings management practices to be less ethical than managers. No difference was found between male and female auditors towards the ethics of earnings management actions.

Geiger et al. (2006) investigated the influence of national culture on perceptions about the acceptability of earnings management within eight countries; they drew on Hofstede’s work (1980, 1991, and 2001) where he classified cultural dimensions into: (a) individualism/ collectivism, (b) power distance, (c) masculinity/ femininity, and (d) uncertainty avoidance. They also drew on the questionnaire of Bruns and Merchant (1990). Their results suggested that middle individualism countries perceived earning management as being more unacceptable than low and high individualism countries. Individuals from high power distance countries viewed operational earnings management less favourably than those from low power distance cultures. Individuals from high masculinity countries perceived earnings management less favourably than low masculinity cultures and there was no relationship between the last cultural factor and earnings management activities as results did not find any support for either a positive or a negative relationship between uncertainty and individuals’ perceptions of earnings management techniques.

Giacomino et al. (2006) undertook a comparison study. They examined the perceptions of undergraduate business students and business managers about the ethics of specific earnings management practices and compared their results with those of Bruns and Merchant (1990) to check if there were any differences after 15 years. They used the questionnaire of Bruns and Merchant (1990) as their research instrument. Their results suggested that females judged earnings management actions as being less ethical than males; undergraduate students had a stricter position toward earnings management activities than business managers, and accounting majors tended to perceive earnings management practices less favourably than other majors.

The ethics of earnings management have been also examined from the view point of students and professionals by Grasso et al. (2009). They investigated the perceptions of students and professionals after the passage of the Sarbanes-Oxley Act of 2002 (SOX). They found out that both students and professionals perceived earnings management as being more questionable and less ethical when comparing the year after to the year before SOX. Their findings also revealed that the perceived ethics of earnings management has been affected by the accounting scandals which had occurred.

Jooste (2013) conducted a survey to examine the perceptions of students and business managers about the morality of earnings management. The survey objective was to determine if there was any difference between students’ and business managers’ views of the ethics of earnings management. Her survey instrument was the same questionnaire that was used in the Giacomino et al. (2006) who benefited from the questionnaire of Bruns and Merchant (1990). The results suggested a conflict of view between students and business managers; students tended to judge the practices more ethical than business managers. Also the results showed that earnings management tended to be judged differently by male and female. Males tended to view earnings management practices less favourably than females.

Johnson et al. (2012) investigated the earnings management perceptions of managers using a different method from that mentioned above. In their study they investigated the managers' perceptions in an experimental setting, based on descriptions of some actual events within a company. They developed a scenario of four earnings management practices. Their findings suggested that managers would engage in earnings management when the consequences for the company were favourable.

Research methods and methodology

This paper explores the perceptions of Libyan Commercial Banks (LCBs) stakeholders in respect to earnings management ethicalness. Its findings are based on two stages; interviews and questionnaire survey. During the first stage, 28 stakeholders' views were sought in respect of earnings management ethics. Stakeholders' information is listed in Table 1. The paper seeks to answer whether earnings management is perceived as an ethical, they were asked:

1- How do you perceive the practice in terms of business ethics?

The interview question was originally constructed in English and then translated into Arabic. While not translated by a formal agency the translation in Arabic was tested by seeking views of a number of speakers of both Arabic and English who also had academic and/or practical knowledge of financial reporting

Twenty eight interviews were conducted with various stakeholders in order to elicit their perceptions about the acceptability of earnings management. These interviews were conducted in the two main cities of Libya: Benghazi and Tripoli, the capital. The first 20 interviews took place in the period Jun-Aug of 2011 in the city of Benghazi at a time when the capital had not been liberated[1]. The remaining eight were conducted in Tripoli in June 2012. In this study the interviews were conducted 'face to face' with all respondents. The interviewees were selected on the basis that they possessed the knowledge and the experience necessary that was relevant to contribute to the research objectives. At the beginning, interview appointments were arranged through telephone calls made to existing contacts[2]. In a number of cases interviewees were also able to recommend other key persons that could be interviewed to gain more insightful information. Interviewees were sought from four groups (see Table 1) namely: Preparers (PR); Auditors (AD); Regulators (RG); and Users (US). Some interviewees hold more than one position; for example, PR5 is a bank chairman, external auditor and academic.

Table 1: Interviewee Groups

Group	Position		Qualification	Country	Location
Preparers	PR1	Chairman	Msc	USA	Commercial bank
	PR2	Head of Correspondent Banking Office	Msc	Libya	Commercial bank
	PR3	Member of BoD	PhD	USA	Commercial bank
	PR4	Head of Accounting Dept.	BSc	Libya	Commercial bank
	PR5	Chairman	PhD	UK	Commercial bank
	PR6	Head of Accounts Preparing Dept.	BSc	Libya	Commercial bank
	PR7	Head of Accounts Preparing Dept.	BSc	Libyan	Commercial bank
	PR8	Head of Correspondent Banking	BSc	Libya	Commercial bank
	PR9	Vice Manager of Eastern	Primary	Libya	Commercial bank

[1] On 15th Feb, 2011, uprising events started in Benghazi and spread out to all the other cities in Libya; this revolution concluded with a declaration ending the dictatorship era on 23rd October 2011 (BBC, 2012a and b).

[2] The researcher benefited from being an external auditor in Libya.

		Branches Management	School		
	PR10	Head of Finance and Control	Msc	Libya	Commercial bank
	PR11	Head of Financial Management	BSc	Libya	Commercial bank
	PR12	Assistant Manager of Accounting Dept.	Diploma	Libya	Commercial bank
Auditors	**AD1**	Auditor	BSc	Libya	Audit firm
	AD2	Auditor	Msc	USA	Audit firm
	AD3	Senior Partner	PhD	UK	Audit firm
	AD4	Managing Partner	BSc	Libya	Audit firm
Regulators	**RG1**	Chief of Benghazi Branch	Msc	USA	LAAA
	RG2	Inspector of commercial banks	BSc	Libya	CBL
	RG3	Inspector of commercial banks	Msc	Libya	CBL
	RG4	Banking Exchange Control Dept.	BSc	Libya	CBL
	RG5	Governor Deputy of CBL (Benghazi branch)	Msc	Libya	CBL
	RG6	Vice General Manager	BSc	Libya	Tax Authority
	RG7	Head of Listing and Follow-up Dept.	BSc	Libya	LSM
	RG8	Head of Internal Audit	BSc	Libya	LSM
	RG9	Manager of Surveillance & Follow-up Risks Dept.	Msc	Libya	LSM
	RG10	Legal Consultant	BSc	Libya	Commercial bank
Users	**US1**	Lecturer	PhD	UK	Benghazi Uni.
	US2	Lecturer	PhD	UK	Benghazi Uni.

Key: PR= Preparer, RG= Regulator, AD= Auditor, US= Users. BoD= Board of Directors, LAAA= the Libyan Accountants and Auditors Association, CBL= Central Bank of Libya, and LSM= Libyan Stock Market.

All the interviews were recorded with the pre-permission of the interviewees. The interview recordings were later transcribed and translated into English.

Research results

Interview findings

This part of the interviews, (Table 2) sought to explore the interviewees' views about the ethics and acceptability of earnings management practices. Replies vary between respondents. Table 2 summarises interviewees' perceptions about the ethics of earnings management practices where a "yes" answer reflects the interviewee's perception that earnings management practice is ethical and acceptable, and a “no” answer means that the interviewee considers earnings management practices are neither ethical nor acceptable.

The overall result suggests that there is as reported in Table 2, a disagreement between Preparers and other stakeholder groups. Although one might expect a preparer to justify the practice of earnings management, given the fact that motivations exist for them to manage earnings, it was expected that other groups would perceive that earnings management was unethical practice. Accounting information should be given in a way that is not biased so that one can say that it has been fairly presented to the accountees. If accounting information unbiasedly presented and was accepted by other groups other than preparers it would have a serious effect to the accountability mechanism. The acceptance of such behaviour may adversely affect many stakeholders’ interests and reflect a serious threat to the accounting system whose main objective according to Ijiri (1983), is to provide fair accounting information. The accounting information, under the accountability framework, has to be, inter alia, objective which may not be the case when earnings management occurs and is perceived as an ethical practice.

Table 2: The Ethics of Earnings Management Practices

Interviewee	Q11: Is earnings management ethical?	Aggregate
PR1	Yes	8 preparers (67%) believed that earnings management practices are ethical
PR2	Yes	
PR3	Yes	
PR4	Yes	
PR5	Yes	
PR6	Yes	
PR7	No	
PR8	No	
PR9	No	
PR10	Yes	
PR11	No	
PR12	Yes	
AD1	Yes	Surprisingly, only 1 auditor (25%) believe that earnings management is unethical practice
AD2	No	
AD3	Yes	
AD4	Yes	
RG1	No	7 regulators (70%) think that earnings management is unethical practice
RG2	Yes	
RG3	Yes	
RG4	No	

RG5	No	
RG6	Yes	
RG7	No	
RG8	No	
RG9	No	
RG10	No	
US1	No	2 users (100%) consider earnings management practices unethical
US2	No	
The overall percentage that view earnings management as ethical is 50%, the other half view it as unethical		

Note: this table represents the interviewees' perception regarding the acceptable and ethicalness of earnings management practices.

A significant portion took the view that if earnings management was implemented within accounting standards and regulation then it is viewed as ethical, otherwise not. PR4 expressed the following view:

> "As long as [it is] within regulations and rules it is ethical".

PR3 gave a similar reply, he stated:

> "If implanted within GAAP[3] and the law then it is ethical".

Also, earnings management, it was felt, could be justified due to the nature of human beings. RG3 commented:

> "I consider it ethical; it is human nature always to try to maximise their benefits".

Consistently, AD3 expects the occurrence of earnings management and mentioned that there is no "pure accounting". He also outlined some factors that may push managers towards earnings management. His statement was:

> "In fact, we always say that social environments or practices e.g. accounting is unlike chemistry or physics where 1+1=2. Accounting and management are affected by the economic, political, social and cultural environments so no way there will be pure accounting or pure management. During the last seven years I have been fully involved in audit with managements that suffered from a lot of things; bored staff, weak staff, old debts with the state, laws and regulations that are complicated and unclear, lack of skilled staff, unjustified tightening by the CBL, unethical and severe competition with other banks. Management operating in such an environment like that one cannot say it is ethical or not. Managers try to fix what can be fixed in favour of the bank and deal with real problems and ask the auditor to understand the situation when the CBL issues a new regulation and asks

[3] Although there are no local accounting standards, the term GAAP is widely used to refer to US GAAP. The accounting system education, as reported in Chapter 2, is American oriented.

> for it to be applied in one year giving no room to study and understand it. This puts the auditor in an embarrassing situation as he will be considered neither not cooperating nor forgiving if he insisted on the application of the new regulation. I don't accept a bank to be collapsed as a consequence for applying regulation so you have to accept. Life is not static and people work in very tough circumstances and suffer the old regime legacy. It is not acceptable but you find a justification for it at least some times with a condition that the practice is in the best interest of the company. According to my experience managers try to save what can be saved".

Also it was suggested that earnings management could be justified just like tax planning. AD4's statement was as follows:

> "You remind me of tax planning and tax evasion. Sometimes I view management as being forced to do it in the light of unusual circumstances. A company may have a high profile in an unusual year so this trend is unusual given that the real value of the firm won't be accurately determined unless in case of liquidation. Accounting standards depend on discretion in some cases and this enables the manager to act in some circumstances for example in Libya the old tax law was not permitting the recognition of bad debts. I remember a bank that was not allowed to include bad debts in their accounts and resulted in a net profits total of 80% of revenues and of course this was not real. It is acceptable in the light of unusual conditions to maintain the going concern. Being extreme in everything leads to break down. Another example, a bank has issued a guarantee letter of 400m LD for one company that later failed; if I insisted to make the provision of 400m LD the bank will collapse because their capital was only about 400m LD so you have to give some room to the other (manager)".

On the other hand, other interviewees completely refuse to accept that earnings management is appropriate. RG1 for example stated:

> "Earnings manipulation in general is unethical".

RG8 indicated that a company should be attached to its principles. The following statement was offered:

> "Of course [it is] unethical, every institution is supposed to have principles, policy and a general overview (plan) that it works to achieve with the basic rule being that not achieving any target at the expense of a principal".

Within an accountability framework, bank managers have to act in an ethical manner. Therefore providing biased information (i.e. when earnings management is practiced) could reveal that bank managers are not accountable. The interview findings for this question identify what appears to be a really serious problem when 50% of interviewees perceive that earnings management is ethical; it could lead to acceptance of such practices.

Questionnaire results

The second empirical method used by this paper was a questionnaire survey. The questionnaire was designed to be answered by all stakeholders which, for the analysis process, were categorized into four groups: Preparers, Auditors, Regulators, and Users, see Table 3.

Table 3: The Returned Questionnaires

Respondent Groups	Returned Questionnaires	Response Rate
Preparers	27	48%
Auditors	27	50%
Regulators	20	64%
Users	28	54%
Total	**102**	**53%**

The total proportions of each individual group (Preparers, Auditors, Regulators, and Users) are 26.5%, 26.5%, 19.6%, and 27.5% respectively; most are male (90 out of 102 or 88.2%). Twenty eight (27.5%) are professionally qualified, mainly being members of the Libyan Accountants and Auditors Association (LAAA) (24 or 23.5%). Ninety (88.2%) of the respondents have an academic qualification higher than a Diploma which suggests a good basic knowledge of financial issues. Most importantly, 78 (76.5%) of the respondents have indicated that they have banking experience which again gives a reasonable level of assurance as regards to obtaining informed views about Libyan commercial banks (LCBs).

Once the responses were coded into an Excel spreadsheet, the data was transferred to the SPSS statistical package for analysis. This study focuses on different stakeholders' perceptions regarding the role of the external auditor in relate to earnings management practices in Libyan Commercial Banks; for this purpose, most questions were designed based on five-point Likert scale.

Therefore, non-parametric tests were employed in this study, in particular the Kruskal-Wallis (KW) and Mann-Whitney (MW) tests. The KW test is used to identify whether any significant difference exists among the perceptions of the groups; if so, a MW test is carried out to determine which pairs of groups show significantly different perceptions. For further illustration, descriptive statistics, means and standard deviations[4], were also calculated to provide more insightful pictures of the perceptions.

As previously reported, the majority of the questions were based on 5-point Likert scales ranging from (1) strongly disagree (SD) to (5) strongly agree (SA). The findings discussion will be restricted only to those which have p-values of 0.05 or under.

These questions sought to explore the respondents' agreement or disagreement regarding the acceptability of earnings management practices. Respondents were asked how they perceived the nature of ethical practice at first. Then they were asked how they viewed the exercise of earnings management when applied within the law and GAAP limits before being asked to indicate whether earnings management is an unethical practice. The responses as well as the KW p values are presented in Table 4 (Panel A).

Table 4: Stakeholders' Perceptions about the Ethics of Earnings Management
Panel A: K-W test

Q	Statement	N	Mean	SD	Group Means				K-W P-value
					PR	AD	RG	US	
1	Ethical behaviour mean complying with law	97	3.71	.912	3.71	3.77	3.84	3.57	.946
2	Ethical behaviour mean thinking about the impact of one's decisions on others	96	3.80	.776	3.63	3.96	3.58	3.96	.157
3	Earnings management is ethical if practiced within the law	96	3.30	1.007	3.22	3.23	3.32	3.43	.880
4	Earnings management is ethical if practiced within the GAAP	98	3.30	1.017	3.28	3.35	3.21	3.32	.950
5	Earnings management affects others' interests	97	3.80	.745	3.78	3.81	3.74	3.86	.958
6	Earnings management is an unethical practice	95	3.07	.959	3.17	3.00	2.95	3.15	.831

Note: This table shows the mean and standard deviation (SD) for all respondents regarding questions about earnings management ethicalness. It also provides the mean for each group and the p-value for the Kruskal-

[4] Means and standard deviations are, strictly speaking, not appropriate as measures of ordinal data, but their use is widespread and they arguably have reasonable information content subject to assumptions made about the intervals in the ordinal data.

Wallis (K-W) test. Groups are defined as; preparers (PR), auditors (AD), regulators (RG), and users (US) for each question. Bold figure indicates significance at the 5% level.
A 5-point Likert scale was used in these questions. It ranged from 1= "Strongly disagree" to 5= "Strongly agree".

The overall averages of the mean responses indicate a slight agreement with all questions which was partially unexpected given the sensitivity of the moral questions being covered. In particular, one would expect a higher agreement from some stakeholders e.g. the Users group, about whether earnings management aas an unethical practice. The responses indicate that ethical behaviour implies consistency with the law and consideration of the effect of decisions on others, with means of 3.71 and 3.80 respectively. This was followed by the agreement of stakeholder groups that earnings management would be ethical if practiced within the law and GAAP (the average mean scores were 3.30 for both questions). Also, earnings management was, on average, agreed by stakeholders to have an impact on other people's interests by being given a mean score of 3.80. And finally, whether earnings management is perceived as ethical or not, the overall mean score of 3.07 reveals that all stakeholders groups consider that, on balance, and narrowly, earnings management is considered an unethical practice. Although, this result is expected, given the sensitivity of such moral questions, it was only slightly over the mid-point which means a very mild level of agreement with this question. Also this result is inconsistent with earlier findings; stakeholder groups agreed, on balance, that behaving ethically means to comply with law and consider others' interest when making decisions. In particular, they agreed, on average, that earnings management could be regarded as ethical if it was implemented within the law and GAAP. Moreover, stakeholder groups, on balance, acknowledge that earnings management practices have an influence on the interests of others. All the above results are inconsistent with the last one, as it is expected to see a relatively wide agreement that earnings management is perceived as unethical practice. However, this result is, to large extent, consistent with interview findings reported earlier (Table 2) which refer to 50% of interviewees indicating that earnings management is an ethical practice. The individually responded questionnaires (Appendices 7.3, 7.4, 7.5, and 7.6)[5] refer to responses almost equally spread on both sides of agreement. For example, the notable unexpected result that the Regulators group, on balance, disagreed that earnings management is an unacceptable practice; their responses to this statement were 6 disagreements and 5 agreements. The position of Regulators in terms of LCBs' financial reporting, as scrutiny, may lead to a presumption that earnings management is viewed as unethical practice by LCBs' managers. On the other hand, the (on balance) disagreement by the Preparers group, which may be expected due to their position in the financial reporting process, should also be viewed with their individual responses questionnaire in mind; their responses turned out as only 4 disagreements, one of which showed a strong disagreement and 7 agreements, two of which showed strongly agreements.

As discussed earlier, the ethics of earnings management as perceived by interviewees revealed mix findings. Only 50% of interviewees perceived earnings management practices as unethical. Although questionnaire respondents, on balance, showed an agreement that earnings management ethics is a bit questionable, it was only given a mean score of 3.07 that is slightly over the mid-point. This would really refer to a serious problem of the accountability system of LCBs. Since such behaviour is expected to be reviewed as unethical by a large extent of stakeholders as it does seriously affect the quality of financial reporting. Therefore, there is a need to raise the awareness of stakeholders to such issues, and questionnaire respondents apparently agree with the notion that some stakeholders (preparers, auditors, and investors) may lack the knowledge of such issues.

Table 4 (Panel A) reveals no significant differences in perceptions between the stakeholders groups according to the Kruskal Wallis test. The next test was to identify if any significant

[5] Do we need to mention that? And therefore, insert these tables at the end?

difference may occur between any two pairs. Six MW tests were performed and the results are shown in Panel B.

Table 4: Stakeholders' Perceptions about the Ethics of Earnings Management
Panel B: M-W test

Q	Statement	K-W P-values	M-W p-values					
			PR-AD	PR-RG	PR-US	AD-RG	AD-US	RG-US
1	Ethical behaviour mean complying with law	.946	.778	.671	.859	.874	.712	.639
2	Ethical behaviour mean thinking about the impact of one's decisions on others	.157	.118	.955	.142	.092	.825	.111
3	Earnings management is ethical if practiced within the law	.880	.813	.662	.447	.812	.597	.821
4	Earnings management is ethical if practiced within the GAAP	.950	.683	.971	.816	.577	.962	.684
5	Earnings management affects others' interests	.958	.912	.906	.710	.800	.798	.620
6	Earnings management is an unethical practice	.831	.475	.409	.839	.919	.685	.603

Note: This table shows the p-values produced by M-W test between the different groups regarding questions about earnings management ethicalness. Groups are defined as; preparers (PR), auditors (AD), regulators (RG), and users (US) for each question. Bold figure indicates significance at the 5% level.
A 5-point Likert scale was used in these questions. It ranged from 1= "Strongly disagree" to 5= "Strongly agree".

The results shown in Table 4 (Panel B) reveal no significant differences between any two pairs.

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