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Exploration of the Implications of the Spiritual and Islamic Akhlaq Paradigm on Earnings Management

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ABSTRACT

This study explores the implications of the Islamic spiritual paradigm and akhlaq on earnings management practices. Grounded in the values of *shiddiq* (truthfulness), *amanah* (trust), *adl* (justice), and *maslahah* (public interest), the research highlights how Islamic principles serve as a normative framework for ethical financial reporting. Using a descriptive qualitative method through library research, the study analyzes secondary sources, including academic journals, Qur'anic verses, and hadiths, to understand how spiritual values discourage earnings manipulation. Findings show that both accrual-based and real earnings management contradict Islamic teachings by distorting financial information and violating the trust of stakeholders. The concepts of *hisab* (accountability) and *niyah* (intention) provide internal moral controls, encouraging transparency and honesty in financial practices. Furthermore, the application of *maqasid syariah*, particularly *hifz al-maal* (protection of wealth), strengthens ethical awareness and promotes organizational conduct aligned with justice and sustainability. This study contributes to the literature by offering an Islamic ethical lens on earnings management, advocating for a culture of professionalism rooted in spiritual consciousness and moral responsibility.

Keywords: Islamic Spirituality, Akhlaq, Earnings Management.

JEL Code: M41, M14, Z12

I. Introduction

Transparency and accountability in financial reporting are fundamental pillars in maintaining the trust of stakeholders, including shareholders, creditors, investors, and other interested parties. Accurate, honest, and transparent financial statements serve as crucial instruments in facilitating credible and reliable economic decision-making (Obaidat, 2007; Sabrun et al., 2018). However, in practice, such transparency is often compromised by the widespread phenomenon of earnings management across various business sectors. Earnings management is typically executed through two main methods: accrual-based earnings management such as accelerating revenue recognition or deferring expenses and real earnings management, which involves altering operational activities, such as cutting R&D expenses or offering excessive sales

discounts to boost short-term profits (Barber & Hollie, 2020) (Gao et al., 2017) (Kothari et al., 2016) (Li et al., 2016) (Roychowdhury, 2006). In this context, the spiritual paradigm and Islamic akhlaq (Islamic ethics) offer a holistic approach that emphasizes truthfulness (shiddiq), trustworthiness (amanah), justice ('adl), and public interest (maslahah) as foundational principles in financial reporting practices. The principle of maqasid syariah, especially hifdzul maal (protection of wealth), is highly relevant as a normative basis to prevent the distortion of financial information (Wang et al., 2025; Güney, 2024) (Mukhlisin, 2021) (Zakaria et al., 2025). These values establish a strong internal moral framework within management, guided by good intentions (niyyah) and an awareness of spiritual accountability (hisab) to Allah SWT, rather than mere regulatory compliance (Mukhlisin & Akbar, 2021). A study by Abdul Halim et al (2020) reveals that companies led by management who embrace Islamic akhlaq values tend to avoid earnings management practices, particularly in the context of sukuk issuance (Abdul Halim et al., 2020). Furthermore, Hakimi and Taktak (2022) argue that Islamic accounting should not solely rely on technical standards but must be contextualized through ethical principles (akhlaq) in muamalah (economic transactions).

II. Literature Review and Hypothesis Development

2.1. Concept of Earnings Management

Earnings management refers to the efforts made by a company's management to influence financial statements by exploiting the flexibility allowed in accounting standards (Irmawati & Diana, 2016). This practice often harms users of financial statements by creating an illusion of positive performance that does not reflect the company's economic reality, thereby increasing information asymmetry between management as the agent and stakeholders as the principal (Dokas et al., 2025).

a. Accrual-Based Earnings Management (AEM)

AEM involves the manipulation of accrual items that do not directly affect the company's cash flows, such as accelerating revenue recognition or deferring expense recognition to beautify the company's income statement in the short term (Kafa & Almasri, 2024). This practice is commonly employed in specific situations such as cross-border mergers and acquisitions, which can increase the risk of transaction failure due to heightened information asymmetry between the involved parties.

b. Real Earnings Management (REM)

REM refers to the manipulation of actual operational activities that directly impact a company's cash flows. Examples of REM include cutting research and development (R&D) expenses, offering excessive sales discounts, or postponing capital expenditures to meet desired earnings targets (Tulcanaza-Prieto & Lee, 2022). According to the study by Tulcanaza-Prieto and Lee (2022), REM has a significantly negative impact on firm value, especially under conditions of weak corporate governance.

Both practices have generally been proven to reduce the quality of reported earnings, ultimately decreasing stakeholders' trust in the company's financial statements (Intara et al., 2024) (Le, 2025). Therefore, an approach grounded in Islamic ethics and spirituality is critically important to address the moral and ethical dilemmas arising from earnings management practices by promoting a business environment that is honest, transparent, and morally accountable to Allah SWT, the environment, and stakeholders (Alsaadi et al., 2017).

2.2. Islamic Akhlaq in the Context of Earnings Management

Islamic Akhlaq offers a normative and holistic solution to prevent earnings management practices by instilling moral principles in business activities. The fundamental values of Islamic Akhlaq relevant to this issue include:

a. Shiddiq (Truthfulness)

Truthfulness is a core value in Islam that strictly prohibits any form of deceit or manipulation. The Prophet Muhammad SAW stated:

"Whoever cheats us is not one of us" (Hadith narrated by Muslim).

Earnings manipulation contradicts this principle of truthfulness, as it creates misleading information. The aforementioned hadith underlines that manipulative behavior, including earnings management, is not a trait of a responsible Muslim. Truthfulness (shiddiq) is a foundation value of akhlaq that must be upheld by management in the preparation of financial statements.

b. Amanah (Trust and Responsibility)

Management holds the amanah (trust) to safeguard the confidence of stakeholders by presenting transparent and accurate financial statements.

c. 'Adl (Justice)

The principle of justice in Islam emphasizes transparency and impartial treatment (Jaradat & Oudat, 2025). Manipulating financial statements creates injustice

d. Maslahah (Public Interest)

Earnings management practices contradict the principle of public interest, as they harm those who rely on financial statements for decision-making. Akhlaq Islam provides a moral framework that can shape strong internal controls within individuals, encouraging management to act in accordance with ethical values when making decisions 1) (Wardayati et al., 2022).

2.3. The Islamic Spiritual Paradigm and Moral Control

The Islamic spiritual paradigm emphasizes a balance between material pursuits and moral values in economic activities. In the context of earnings management, spirituality functions as a moral control mechanism that shapes managerial behavior (Ali et al., 2013; Abdul Rahman, 2012). Several relevant Islamic spiritual concepts include:

a. Niyah (Intention)

A sincere intention (niyyah) is the fundamental basis for economic decision-making. According to Al-Ghazali, a pure intention leads to righteous actions that are oriented toward the common good. In the context of earnings management, *niyyah* encourages managers to present financial statements that are honest and accurate (Kamla, 2009).

b. Hisab (Accountability)

The concept of *hisab* emphasizes that every action will be held accountable before Allah SWT. This belief fosters a strong sense of moral accountability in financial reporting and discourages manipulative practices. When management internalizes the concept of *hisab*, they are more likely to prioritize transparency, fairness, and integrity in preparing financial statements, recognizing that their work is not merely a legal or regulatory task, but a moral obligation with eternal implications (Haniffa & Hudaib, 2007).

c. Tazkiyah an-Nafs (Purification of the Soul)

Tazkiyah an-nafs focuses on the purification of the soul and the control of ego-driven desires (nafs al-ammarah) that often lead to unethical behavior. Through spiritual purification, individuals are guided to develop professional ethics rooted in integrity and morality (Syed Ehsan Ullah Agha & Ruslan Sabirzyanov, 2015).

d. Maqasid al-Shariah (Objectives of Islamic Law)

The principle of maqasid al-shariah emphasizes the protection of wealth (hifz al-mal) as one of the essential objectives of Islamic law (Al-ayubi, 2021; Azmin Shompa et al., 2024). Financial statement manipulation contradicts this principle, as it harms the financial interests and rights of stakeholders. Thus, the Islamic spiritual paradigm not only provides normative ethical control but also fosters a transcendental moral consciousness in economic decision-making.

III. Research Method

This study employs a descriptive qualitative approach using library research as the primary strategy to explore the implications of the Islamic spiritual paradigm and ethics on earnings management practices. The focus of this method is to collect, analyze, and interpret relevant secondary data to understand the phenomenon of earnings management from the perspective of Islamic spirituality and Islamic Akhlaq paradigms. This approach enhances both theoretical understanding and normative practices that underlie spiritual values in the prevention and mitigation of earnings management.

IV. Result and Discussion

4.1. The Spiritual and Islamic Akhlaq Paradigm in Viewing Earnings Management Practices

The spiritual and Islamic *akhlaq* paradigm regards earnings management as an act that contradicts the principles of honesty (*shiddiq*) and trustworthiness (*amanah*). In Islam, honesty is a fundamental value in all economic activities, including the presentation of financial statements (Rizka & Sawarjuwono, 2023) (Agustin et al., 2024). The Prophet Muhammad emphasized this in a well-known hadith: “*Whoever cheats us is not one of us.*” (Hadith narrated by Muslim, Sahih Muslim, Book 1, Hadith 164 / 101; classified as sahih). Both accrual-based and real earnings management result in the presentation of financial information that does not reflect the company’s true economic reality. According to Kazemian et al. (2018), earnings manipulation creates information asymmetry between management and stakeholders. (Roychowdhury, 2006) research found that real earnings management is commonly executed by cutting operational costs or boosting revenue through aggressive discounting. These practices create biased financial information and lower the quality of financial reporting. This evidence supports the view that earnings management undermines the principle of transparency, which is embedded in Islamic *akhlaq*, particularly the values of *shiddiq* and *amanah*.

4.2. Implications of Spiritual and Islamic Akhlaq Principles in Preventing Earnings Management

The principle of *Maqasid* Shariah, or the objectives of Islamic law, provides a strong ethical foundation for preventing earnings manipulation in the business context (Azmin Shompa et al., 2024) (Al-ayubi, 2021). This concept focuses on the preservation of five essential elements: religion, life, intellect, lineage, and wealth. When applied to earnings management, these principles encourage transparent and accountable financial reporting practices, as well as actions that serve the greater benefit of society (Hashem, 2023). Earnings manipulation is often conducted to enhance the perceived performance of a company for the benefit of shareholders. However, according to Yaakub and Buang (2024), an understanding of *Maqasid* Shariah reinforces the argument that business activities must be conducted with consideration for the broader public interest (*maslahah*). In this context, earnings manipulation, which harms stakeholders both economically and socially, clearly contradicts the spirit of *maqasid*, which advocates for justice and overall societal well-being (Azmin Shompa et al., 2024; Güney, 2024; Mukhlisin, 2021). In this regard, the application of *maqasid* shariah in preventing earnings manipulation motivates companies to act with integrity, practice fairness, and consider the collective interests of all stakeholders. This aligns with the ultimate objective of *maqasid*, which is to

achieve justice and societal well-being (Wardiwiyono, 2020), and transforms business from merely a profit-generating entity into a vehicle for creating greater *maslahah* for humanity. The concept of *maqasid shariah* emphasizes the protection of wealth (*hifdzul maal*) and public interest (*maslahah*). According to Rusmin et al. (2024), earnings manipulation harms stakeholders by distorting financial information that should support sound decision-making. In Islam, the preservation of wealth is a core priority to uphold economic balance and justice.

4.3. The Implications of Islamic Spirituality on Moral Control

Spiritual principles in Islam, such as *hisab* (accountability) and *niyyah* (pure intention), serve as internal control mechanisms that help prevent earnings management. The principles of Islamic *akhlaq* have significant implications for preventing earnings management. Core values such as *shiddiq* (honesty) emphasize the need for transparency and accuracy in presenting financial information. In the context of financial reporting, this principle affirms that financial statements must reflect the true economic reality of a company without manipulation or distortion. Honesty is an *amanah* (trust) that must be fulfilled by all individuals, especially management entrusted by stakeholders. The Qur'an explicitly forbids any concealment or distortion of truth, as stated in Surah Al-Baqarah (2:42). In relation to earnings management, manipulated financial statements violate this principle because they create information asymmetry between management (agent) and stakeholders (principal), ultimately damaging the trust of shareholders, investors, creditors, and other interested parties. Honest financial reporting discourages opportunistic behavior that only benefits a select few. The Prophet Muhammad SAW said: "Whoever cheats us is not one of us." (Hadith reported by Muslim, Sahih Muslim, Book 1, Hadith 164 / 101). This hadith provides a clear moral guideline that manipulative practices such as earnings management cannot be justified ethically or spiritually in Islam. According to Gassama et al. (2021), applying Islamic *akhlaq* principles in accounting not only helps prevent ethical lapses within the profession but also serves as a means of delivering better service quality and increasing customer satisfaction. This shows that business honesty in financial reporting is a manifestation of Islamic values, ensuring that reporting is conducted accurately and responsibly. Ridwansyah et al. (2023) highlighted the relationship between Islamic work ethics and a positive work culture, where honesty and integrity contribute to greater employee dedication and productivity. Therefore, the application of principles such as honesty and moral responsibility can help prevent opportunistic behavior in management and ensure that organizational goals remain collective and not merely beneficial to a privileged few.

4.4. Integrating the Spiritual and Islamic Akhlaq Paradigm to Shape an Organizational Culture Based on Morality, Transparency, and Professionalism

Integrating the Principles of *Maqasid* Shariah as a Holistic Solution, the Islamic spiritual paradigm offers a clear framework through the *Maqasid* Shariah (objectives of Islamic law), particularly the principle of *hifz al-maal* (preservation of wealth). Earnings management is often used to meet market expectations and to portray a more favorable image of the company to investors. However, this practice contradicts the spirit of *hifz al-maal*, which emphasizes honesty and accountability in financial reporting. According to a study by Septiani et al. (2023), the impact of Shariah-based corporate governance on earnings management reveals that a lack of transparency in financial reports can lead to manipulation, ultimately harming stakeholders. This highlights the importance of ethical and transparent wealth management not only for regulatory compliance but also for maintaining public trust in business entities. Therefore, the application of *hifz al-maal* in accounting practices and financial reporting contributes to enhancing transparency and accountability. Research by Petra and Basir (2019) supports this notion, showing that institutions that prioritize ethical principles in their reporting tend to demonstrate better and more sustainable financial performance. This finding applies across various sectors, where the application of *hifz al-maal* principles helps prevent misconduct and fosters the development of more ethical business environments. In conclusion, the

application of *hifz al-maal* aligns with the broader goals of *Maqasid* Shariah, ensuring that economic activities are conducted in a just and responsible manner. Through the implementation of this principle, organizations can protect their integrity, strengthen stakeholder trust, and prevent earnings manipulation practices that could harm all parties involved.

4.5. Developing an Organizational Culture Based on Islamic Akhlaq

Preventing earnings management can be achieved through the development of an organizational culture rooted in spiritual values and Islamic *akhlaq*. These values should be internalized both in individual behavior and organizational policies. One key aspect is the emphasis on transparency and accountability, as highlighted in the Qur'an, Surah Al-Ma'idah (5:8). A relevant reference is the study by Rothman and Coyle (2018), which discusses the stages of the soul according to Islamic teachings. They describe *nafs al-ammarah* as the stage where individuals are most prone to wrongdoing. Understanding this concept helps individuals and leaders recognize harmful impulses and develop towards *nafs al-mutma'innah*, a tranquil soul content with doing good. Furthermore, Dalimunthe (2023) emphasizes the importance of Islamic religious education in strengthening spiritual and moral values essential for character formation and for preventing negative behaviors like greed. In the modern context, value-oriented education helps individuals establish a strong moral foundation to face societal challenges and temptations. This shows that proper religious education produces individuals who are not only academically capable but also spiritually grounded. Through professional ethics development and the cultivation of Islamic-based professional *akhlaq*, management can be guided to act with integrity and moral responsibility. Akhter and Azad (2023) found that countries with higher levels of religiosity tend to have better quality accounting practices.

4.6. Building Organizational Culture Through Policy and Leadership

Integrating the Islamic spiritual paradigm into organizational culture can be realized through value-based spiritual leadership. Leaders who uphold the principles of *shiddiq* (honesty), *amanah* (trustworthiness), and 'adl (justice) serve as role models in shaping a healthy and professional organizational environment. Akhter and Azad (2023) found that leadership grounded in spirituality positively influences financial reporting transparency. Through ethical training and the incorporation of Islamic *akhlaq*, organizations can hold regular training programs to instill spiritual and moral values as part of human resource development. The study by Akhter and Azad (2023) confirms that the religious values held by leaders significantly affect organizational behavior, particularly in financial reporting. They state: "*Religious values and beliefs have a pervasive influence on individual conduct... banks located in countries with high religiosity are less likely to manage their reported earnings.*" (Akhter & Azad, 2023, China Journal of Accounting Research) This finding aligns with Islamic teachings, where religious values in leadership promote honesty and moral responsibility, consistent with the saying of the Prophet Muhammad SAW: "*Whoever cheats us is not one of us.*" (Hadith narrated by Muslim, No. 101). This verse underscores that honest and transparent reporting is a form of Amanah, a moral and spiritual obligation. Therefore, building an organizational culture based on spiritual leadership and Islamic *akhlaq* training not only promotes a professional working environment but also fosters individuals who are conscious of both vertical accountability to God and horizontal responsibility to stakeholders (Mahdavihou & Khotanlou, 2012).

V. Conclusion

The spiritual and Islamic *akhlaq* paradigm offers an effective solution for preventing the widespread practice of earnings management in companies. Earnings manipulation, whether through accrual-based or real earnings management, is fundamentally inconsistent with core Islamic values such as *shiddiq* (honesty), *amanah* (trustworthiness), and 'adl (justice). Islamic *akhlaq* views transparency and accountability in financial

reporting as a form of amanah that must be upheld for the benefit of stakeholders, as emphasized in Surah An-Nisa (4:58) and the Prophet Muhammad's SAW hadith forbidding deceit. Moreover, key Islamic spiritual principles such as hisab (accountability) and niyyah (pure intention) serve as internal moral control mechanisms that encourage individuals to act honestly and responsibly. The concept of maqasid shariah, particularly hifdhul maal (protection of wealth), also provides a strong foundation for preventing manipulative practices that harm others. By integrating these spiritual and ethical values, organizations can cultivate a culture grounded in morality, transparency, and professionalism, thereby establishing a governance system aligned with shariah principles. This comprehensive approach not only addresses the challenges of earnings management but also fosters ethical, accountable, and stakeholder-oriented organizations—ones that uphold long-term well-being and accept accountability to both the environment and to Allah SWT, the Sovereign of the universe.

The findings of this study have significant theoretical implications for the development of Islamic accounting and ethical governance frameworks by positioning the Islamic spiritual paradigm and akhlaq as central to understanding and mitigating earnings management. Traditionally examined through agency theory and positive accounting theory, earnings management is recontextualized here through the lens of Islamic moral economy, emphasizing niyyah (intention), hisab (spiritual accountability), and maqasid shariah (objectives of Islamic law). These principles introduce a transcendental dimension of accountability beyond legal compliance, promoting moral consciousness and ethical responsibility toward Allah SWT. The managerial implications of this study emphasize the importance of integrating Islamic values such as shiddiq (honesty), amanah (trust), and hisab (accountability) into financial reporting practices. Managers are encouraged to uphold transparency and avoid earnings manipulation by aligning decisions with maqasid shariah, particularly hifz al-maal (protection of wealth). Organizations should implement ethics-based training and foster leadership rooted in spiritual accountability to build a trustworthy and morally responsible corporate culture.

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