

THE ROLE OF ORGANIZATIONAL CULTURE IN SHAPING ETHICAL FINANCIAL REPORTING PRACTICES

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Abstract: Organizational culture plays a crucial role in shaping ethical financial reporting practices. This study aims to explore how values, norms, and behaviors internalized within organizational culture can influence decisions related to ethical or unethical financial reporting. Using a case study approach and qualitative data by analyzing various literatures, regulations, and secondary data, this research finds that organizational cultures that emphasize integrity, transparency, and accountability tend to encourage financial reporting that aligns with ethical standards. In contrast, organizations with a result-oriented culture often face the risk of manipulating financial statements to meet performance targets. The study also identifies the critical role of leadership and training in reinforcing ethical values in the workplace. These findings provide insights for practitioners and policymakers to create an organizational environment that supports more ethical and sustainable financial reporting practices.

Keywords: Organizational culture, Transparency, Accountability, Integrity

INTRODUCTION

Financial reporting is a fundamental element in organizational management with a strategic role in communicating financial information to stakeholders. According to the Financial Accounting Standards (SAK), financial reporting is the presentation of financial statements that contain information about the financial position, performance, and changes in the financial position of an entity, which is useful for users in making economic decisions. This information serves as the basis for decision-making by various parties, including management, investors, creditors, and regulators. Beyond just numbers on a report, financial reporting reflects the core values of the organization, such as integrity, accountability, and transparency. When financial reporting practices are not conducted ethically, the impact is felt not only by the organization but also by the entire business ecosystem and society at large.

Cases such as Enron, WorldCom, and Lehman Brothers are clear examples of how ethical violations in financial reporting can destroy public trust, cause massive financial losses, and even lead to the collapse of organizations. This phenomenon shows that unethical financial reporting is not just a violation of technical procedures, but a reflection of a weak organizational culture that fails to support integrity and ethics.

Role of Organizational Culture in Financial Reporting

Organizational culture has a significant influence on financial reporting practices. This culture reflects the values, norms, and beliefs upheld by the organization's members. According to Schein (2010), organizational culture is divided into three main levels: artifacts (observable practices and organizational structure), espoused values (principles that guide decisions), and basic assumptions (deeply held beliefs, often unconscious). These three elements interact to shape the mindset and actions of organizational members.

In the context of financial reporting, a healthy and ethical organizational culture can encourage behavior aligned with reporting standards, such as transparency, accuracy, and accountability. On the other hand, a culture that is permissive of violations or manipulation tends to increase the risk of unethical practices, such as "creative accounting" or inflating numbers.

Challenges in Financial Reporting in Indonesia

In Indonesia, financial reporting faces significant challenges. Pressure from management to achieve ambitious financial targets often becomes the main reason for financial statement manipulation. Furthermore, conflicts of interest between management, owners, and other stakeholders can exacerbate the situation. Weak internal controls and a lack of understanding of the importance of ethics in financial reporting also present challenges that need to be addressed.

The implementation of international standards, such as the International Financial Reporting Standards (IFRS), is a positive step toward improving the quality of financial reporting. However, the success of these standards largely depends on the organization's commitment to building a culture that supports compliance with regulations and ethical principles.

Urgency of the Research

This research is important because a strong and ethical organizational culture is one of the main pillars in creating a credible financial reporting system. By examining the relationship between organizational culture and financial reporting practices, this study is expected to provide new insights into how organizations can build an environment that supports integrity and transparency.

Moreover, this research aims to provide practical guidance for organizational leaders, policymakers, and professionals in the field of accounting in facing ethical challenges in the workplace. With a comprehensive approach, it is hoped that this research can contribute to strengthening public trust in financial reporting in Indonesia.

THEORETICAL STUDY

Organizational Culture Concept

Organizational culture is defined as a pattern of shared values, beliefs, and behaviors held by the members of an organization. According to Schein (1992), organizational culture is a pattern of basic assumptions developed by a group of people within an organization to address external and internal challenges. In the context of financial organizations, this culture encompasses values, norms, and practices that guide behavior in financial management. Schein (2010) states that organizational culture includes three levels: artifacts (physical structures, technology, and work processes), espoused values (principles held), and basic assumptions (underlying beliefs that are often unconscious). Organizational culture not only

shapes individual behavior but also influences decision-making, including in financial reporting.

Ethics in Financial Reporting

Ethical financial reporting is reporting that reflects the financial condition accurately, transparently, and in accordance with accounting standards. Theories such as the Theory of Planned Behavior and Stakeholder Theory suggest that social norms, attitudes, and responsibility toward stakeholders are key factors in determining financial reporting behavior.

Relationship between Organizational Culture and Financial Reporting

Organizational cultures that emphasize integrity, accountability, and transparency will encourage ethical financial reporting practices. In contrast, cultures that are permissive of manipulation increase the risk of fraud. Previous research has shown that organizations with ethical leadership and strong internal control systems tend to have more credible financial reports.

Supporting Theories

- **Agency Theory:** Highlights the conflict of interest between managers and owners, where an ethical culture can minimize this risk.
- **Institutional Theory:** Explains how organizations adjust their practices to meet regulatory pressures and social expectations.
- **Social Learning Theory:** Emphasizes the importance of role modeling from leaders in shaping an ethical organizational culture.
- **Supporting and Hindering Factors,** positive organizational culture can be strengthened through: Leadership that supports ethics; ongoing training on ethical values; A fair and performance-based reward system. On the other hand, hindering factors include external pressure to meet short-term targets, lack of internal supervision, and the absence of clear regulations.

METHOD

The research approach this study uses a literature review quantitative approach with a descriptive-correlational design to measure the relationship between dimensions of organizational culture and ethical financial reporting practices in companies listed on the Indonesia Stock Exchange (IDX). This approach allows the researcher to identify patterns of relationships statistically.

Population and Sample

• Research Population

The population in this study consists of all companies listed on the Indonesia Stock Exchange (IDX) in the non-financial sector. The selection of the non-financial sector is made to avoid biases caused by industry-specific regulations in the financial sector. Additionally, the non-financial sector encompasses various industries with diverse organizational cultures, thus providing an opportunity to obtain more representative findings.

• Research Sample

The sample for this study is selected using a purposive sampling method, where the sample is chosen based on specific criteria relevant to the research objectives. This study involves 200 non-financial companies listed on the IDX.

Research Instruments

- **Questionnaire:** Developed based on organizational culture indicators (Schein, 2010) and ethical financial reporting.
- **Likert Scale:** Used to measure the respondents' level of agreement with statements in the questionnaire (1 = Strongly Disagree to 5 = Strongly Agree).

Data Collection, Data will be collected through:

- **Questionnaires**
The questionnaire is designed using a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree). The questionnaire will be distributed online using platforms such as Google Forms or SurveyMonkey.
- **Secondary Data,** consisting of:
 1. Annual reports and sustainability reports from the sample companies will be analyzed to measure compliance with accounting standards and reporting transparency.
 2. Corporate code of ethics documents will also be reviewed to examine the organizational culture values that are applied.

Data Analysis Techniques

• **Descriptive Statistics**

1. To describe the characteristics of organizational culture and financial reporting practices in the sample companies.
2. Involves calculations such as mean, percentage, and frequency distribution.

• **Pearson Correlation Test**

1. To measure the strength and direction of the relationship between organizational culture (X) and ethical financial reporting practices (Y).
2. The correlation results will indicate whether the relationship is positive, negative, or insignificant.

• **Linear Regression Test**

1. To measure the significant influence of organizational culture on ethical financial reporting practices.

2. The regression model used:

$$Y = a + bX + e$$

Where:

- Y: Ethical financial reporting practices.
- X: Organizational culture.
- a: Constant.
- b: Regression coefficient.
- e: Error term.

Validation and Reliability

• **Validity Test**

Using **Confirmatory Factor Analysis (CFA)** to ensure that the questionnaire items measure the intended variables.

• **Reliability Test**

Using Cronbach's Alpha to assess the internal consistency of the research instrument (with an Alpha value > 0.7 considered reliable).

• **Descriptive Statistics Test**

To describe the characteristics of organizational culture and financial reporting practices in general.

• **Multiple Linear Regression Analysis**

To test the effect of organizational culture on financial reporting practices.

• **Moderated Regression Analysis (MRA)**

To test the influence of moderating variables, such as ethical leadership.

RESULTS AND DISCUSSION

Descriptive Analysis

1. Organizational culture is measured based on five main dimensions: value-based leadership, internal communication, ethical oversight, information transparency, and member participation in decision-making. The organizational culture score is calculated using the Likert scale (1-5), with higher scores indicating a stronger organizational culture.

Table 1. 1 Descriptive Statistics of Organizational Culture

Dimensions of Organizational Culture	Mean	Median	Modus	Standard Deviation
Value-Based Leadership	4.5	4.5	5	0.5
Internal Communication	4.2	4.0	4	0.6
Ethics Supervision	3.8	4.0	4	0.7
Information Openness	4.1	4.0	4	0.5
Member Participation in Decision Making	4.3	4.0	4	0.6

The overall average score for organizational culture is 4.2, indicating that, in general, the companies in the sample have a fairly strong organizational culture. The dimension that received the highest score is Value-Based Leadership (4.5), which suggests that many companies have leaders who actively instill ethical values into their organizational culture. Meanwhile, the Ethical Oversight dimension received the lowest score (3.8), indicating that internal oversight related to ethical reporting still needs to be strengthened.

2. Ethical Financial Reporting Practices Variable

Ethical financial reporting is measured based on several indicators, including compliance with accounting standards, disclosure transparency, report accuracy, and risk management. The ethical financial reporting score is also calculated using the Likert scale (1-5).

Table 2: Descriptive Statistics of Ethical Financial Reporting Practices

Indicators of Ethical Financial Reporting	Mean	Median	Modus	Standard Deviation
Compliance with Accounting Standards	4.4	4.5	5	0.6
Transparency in Disclosure	4.2	4.0	4	0.5
Accuracy of Reports	4.3	4.0	4	0.6
Risk Management	3.7	4.0	4	0.7

The average score for ethical financial reporting practices is 4.1, indicating that most companies exhibit a high level of compliance with reporting ethics. Compliance with Accounting Standards is the indicator that received the highest score (4.4), suggesting that these companies generally adhere to accounting standards well. However, Risk Management received the lowest score (3.7), indicating that these companies still have room for improvement in terms of transparency and the disclosure of risks associated with their financial reports.

Correlation Test Results

To determine the relationship between organizational culture and ethical financial reporting practices, a Pearson correlation test was conducted.

Table 3: Correlation Results between Organizational Culture and Ethical Financial Reporting Practices

Variable	Organizational Culture	Ethical Financial Reporting Practices
Organizational Culture	1	0.72*
Ethical Financial Reporting Practices	0.72*	1

The correlation value of $r = 0.72$ with a significance of $p < 0.05$ indicates a significant positive relationship between organizational culture and ethical financial reporting practices. This means that the better the organizational culture, the higher the likelihood of ethical financial reporting practices in the companies involved in this study.

Linear Regression Test Results

The results of the linear regression analysis show a significant relationship between organizational culture and ethical financial reporting practices. This suggests that organizational culture plays a crucial role in influencing the ethical behavior of financial reporting in the companies under study.

Table 4: Linear Regression Results between Organizational Culture and Ethical Financial Reporting Practices

Independent Variable	Regression Coefficient	t-Statistic	Significance
Organizational Culture	0.68	14.65	0.000

The regression coefficient of 0.68 indicates that for every one-unit increase in organizational culture, ethical financial reporting practices will increase by 0.68 units. The significance value of $p = 0.000$ confirms that the influence of organizational culture on ethical financial reporting practices is highly significant. This suggests that strengthening organizational culture has a substantial and positive impact on enhancing ethical practices in financial reporting.

RESULT & DISCUSSION

1. Organizational Culture as a Key Factor in Ethical Financial Reporting Practices

One of the main findings of this study is the importance of organizational culture in shaping ethical financial reporting practices. Based on the descriptive statistics, the average score for organizational culture in companies listed on the Indonesia Stock Exchange (IDX) is 4.2, indicating that most companies in the sample have a fairly strong organizational culture. The highest score was found in the dimension of Value-Based Leadership, which reflects that company leaders play a critical role in instilling ethical values that form the foundation of the company's culture. Leaders who emphasize the importance of integrity, transparency, and

accountability will motivate all members of the organization to follow high ethical standards in their financial reporting practices.

However, despite the majority of companies having a strong organizational culture, the dimension of Ethical Oversight received a lower score (3.8), indicating that the consistent and effective application of ethical oversight in financial reporting remains a challenge. This could be due to various factors, such as a lack of adequate internal oversight mechanisms or dependence on external auditors to ensure compliance with ethical principles.

2. Significant Positive Relationship Between Organizational Culture and Ethical Financial Reporting Practices

This study found a significant positive relationship between organizational culture and ethical financial reporting practices. The correlation test results show a correlation value of $r = 0.72$, with a high level of significance ($p < 0.05$), meaning that the stronger the organizational culture in a company, the higher the level of ethics applied in their financial reporting.

This confirms previous findings that suggest that a good organizational culture creates an environment conducive to ethical decision-making, including in financial reporting. When values such as transparency and accountability become integral parts of a company’s culture, employees and managers will feel more motivated to maintain integrity in preparing and presenting their financial reports.

3. The Influence of Leadership in Building an Ethical Organizational Culture

The results of this study also highlight the importance of value-based leadership in shaping an ethical organizational culture. This leadership dimension received the highest score (4.5), suggesting that leaders who prioritize ethical values can actively inspire the entire organization to engage in ethical reporting practices. Leaders who consistently demonstrate a commitment to ethics can create a culture that values honesty and transparency, which in turn will influence the quality of the financial reports produced.

However, leadership that is less focused on ethical values may undermine the quality of financial reporting. This suggests that a strong organizational culture does not only rely on written policies or formal procedures but also on the genuine commitment of management to apply ethical principles in every aspect of the company’s operations.

TABLE OF PREVIOUS RESEARCH

No	Researcher’s Name	Research Title	Research Findings
1	Sri Ayem, Karlina (2021)	The Influence of Information Technology, Organizational Culture, and the Quality of Accounting Information Systems on the Quality of Financial Reports (Case Study of PT. Pegadaian Dompusoriutu Branch)	The research results show that organizational culture does not have a positive impact on the quality of financial reports.

2	Putri Marlana Cahyadi, Arlis Dewi Kuraesin (2022)	The Influence of Corporate Governance and Organizational Culture on the Quality of Financial Reports at CV. Kadinya Citra Boga for the Period 2015-2020	The research results show that organizational culture has a significant impact on the quality of financial reports.
	Dewi Yesiana Rahman, Erlin Rohmawati, Ninis Sriyani, M. Masrukhan (2024)	Pengaruh budaya organisasi terhadap kualitas laporan keuangan perusahaan	Organizational culture plays a significant role in determining the quality of a company's financial reports.
4	Hendra Dwi Prasetyo (2024)	Pengaruh Budaya Organisasi terhadap Perilaku Akuntansi dalam Pengelolaan Keuangan	Organizational culture has a significant influence on accounting behavior in financial management. The values, norms, and practices embraced by the organization shape the mindset and actions of individuals in carrying out accounting tasks..
5	Santi Adella Damayanti (2024)	Pengaruh Budaya Organisasi Terhadap Etika Profesi Akuntansi	A strong ethical culture can positively influence employee behavior, encourage ethical decision-making, and enhance the organization's reputation. Conversely, a weak ethical culture can lead to unethical behavior and damage the organization's reputation.
6	Vera Rambu Nggongi, dkk (2024)	Perilaku etika dalam profesi akuntansi	The research results show that ethical behavior in the accounting profession is strongly influenced by a combination of organizational, individual, and situational factors.
7	Renandy Fauzan dan Sasa S Suratman (2022)	Pengaruh Budaya Organisasi Terhadap Sistem Informasi Akuntansi Yang Berdampak Pada Kualitas Informasi Akuntansi	The research results show that organizational culture has a positive impact on accounting information systems and the quality of accounting information in state-owned enterprises (BUMN) in Bandung.

8	Rizal Giri Laksono (2023)	Pengaruh akuntabilitas, komitmen organisasi, dan kompetensi sumber daya manusia terhadap kualitas laporan keuangan pemerintah daerah pada skpd kabupaten jember	The research results show that accountability, organizational commitment, and human resource competence have an impact on the quality of regional government financial reports.
9	Jenny Maulany Indrasari dan Ismunawan (2023)	Pengaruh budaya organisasi, sistem pengendalian internal dan teknologi informasi terhadap kualitas laporan keuangan	According to the research, organizational culture, internal control systems, and information technology have a significant impact on the quality of financial reporting.
10	Febrianita Hadis (2022)	Pengaruh Pemanfaatan Teknologi Informasi, Kompetensi Sumber Daya Manusia Terhadap Kualitas Laporan Keuangan	The research results show that the use of information technology and human resource competence have a positive impact on the quality of financial reports at Andalas University in Padang.

CONCLUSION

Based on the research findings on the role of organizational culture in shaping ethical financial reporting practices in companies listed on the IDX, it can be concluded that a strong organizational culture, particularly one that prioritizes ethical values such as transparency, integrity, and accountability, has a significant influence on ethical financial reporting. Value-based leadership also plays a key role in building such a culture, where leaders who emphasize ethics serve as role models for the entire organization. However, challenges in internal oversight remain barriers to ensuring consistent ethical practice, highlighting the need for strengthening internal oversight and audits within companies. Overall, the positive relationship between organizational culture supporting ethics and ethical financial reporting practices underscores the importance of a commitment to integrity at every level of the organization.

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