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Interpreting Earnings Management as A Prudential Practice: Evidence from Savings and Loan Cooperative

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ABSTRACT

Earnings management has predominantly been examined in profit-oriented organizations, while its meaning and practice in savings and loan cooperatives remain relatively underexplored. Unlike investor-owned firms, cooperatives are member-oriented organizations in which Surplus of Cooperative Operations (Sisa Hasil Usaha/SHU) functions not only as an indicator of financial performance but also as a mechanism for distributing economic benefits to members. This study aims to understand how earnings management is interpreted and practiced by managers and board members of savings and loan cooperatives, particularly in relation to accounting discretion, members' interests, SHU distribution, and stewardship. The study employs a qualitative approach using a case study design. Data were collected through in-depth interviews with six informants from two savings and loan cooperatives, referred to as Cooperative A and Cooperative B, and analyzed using thematic analysis with the support of NVivo. The findings indicate that earnings management is not necessarily perceived as opportunistic manipulation but may be understood as responsible accounting discretion, particularly in managing member receivables, establishing loan loss provisions, and recognizing revenue. Such discretion is closely associated with stewardship responsibilities, accountability to members, financial prudence, and cooperative sustainability. Differences between the two cooperatives further demonstrate that accounting discretion is shaped by organizational context and considerations regarding SHU distribution and members' welfare. The study recommends strengthening transparency and accountability in cooperative financial reporting and governance to ensure that accounting discretion remains aligned with members' interests, prudent financial management, and long-term cooperative sustainability.

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INTRODUCTION

Earnings management has predominantly been examined within the context of profit-oriented companies that focus on the interests of shareholders and capital markets. In such settings, earnings management is frequently associated with managerial discretion in financial reporting and may be motivated by incentives to influence reported performance, meet contractual or market expectations, or achieve managerial objectives (Healy & Wahlen, 1999; Scott, 2015). Because corporate performance is closely associated with investor interests and capital market considerations, discretionary accounting choices have often been examined through an agency theory perspective, which emphasizes potential conflicts of interest between managers and owners (Jensen & Meckling, 1976).

However, the context of savings and loan cooperatives presents fundamentally different characteristics. Cooperatives are member-based economic organizations in which members simultaneously act as owners and users of cooperative services. Consequently, financial performance has implications not only for organizational sustainability but also for members' economic interests, particularly through the distribution of Surplus of Cooperative Operations (Sisa Hasil Usaha/SHU). Previous empirical research demonstrates that earnings management is also relevant in cooperative organizations.

Almutairi (2021), for example, identified both real activities manipulation and accrual-based earnings management in consumer cooperatives, while Maia et al. (2013) documented income smoothing and earnings management in Brazilian credit unions. In the Indonesian context, Subadriyah et al. (2020) also found that managers of savings and loan cooperatives may engage in earnings management when opportunities arise, including in relation to members' interests. These findings indicate that earnings management in cooperatives represents an empirical phenomenon that warrants further examination, particularly because accounting discretion occurs within an organizational context that prioritizes member welfare rather than shareholder wealth maximization.

In savings and loan cooperatives, ownership and management structures are not clearly separated as they are in corporations. Members simultaneously act as owners and users of cooperative services, while boards and managers serve as stewards entrusted with managing cooperative resources under the authority of the Annual Members' Meeting (AMM). This governance structure emphasizes trust, collective responsibility, and accountability to members, thereby positioning managers not merely as agents but as custodians of members' resources and interests (Davis et al., 1997**;** Bryer, 2011). Such an arrangement suggests that earnings management practices should be examined within their specific organizational and governance context rather than being interpreted solely through the assumptions underlying conventional profit-oriented firms.

Despite this evidence, limited attention has been given to how cooperative managers and board members themselves interpret earnings management practices within this member-oriented governance structure. Existing studies have primarily examined the existence or measurement of earnings management in cooperatives, while less attention has been paid to the meanings attached to accounting discretion by those directly involved in managing cooperative resources. This interpretive gap is particularly important because accounting decisions affecting earnings and surplus may simultaneously influence financial reporting, members' economic interests, and the sustainability of the cooperative.

Accordingly, this study aims to understand how earnings management is interpreted and practiced by managers and board members in savings and loan cooperatives, particularly in relation to accounting discretion, members' interests, surplus distribution, and stewardship. The study addresses the following research question: How do managers and board members of savings and loan cooperatives interpret and practice earnings management in relation to accounting discretion, members' interests, surplus distribution, and stewardship?

Within this framework, discretionary accounting choices—such as managing member receivables, establishing loan loss provisions, and recognizing revenue—may be understood as prudential measures to maintain financial stability and protect members' collective interests. Recent research on savings and loan cooperatives indicates that bad loans, receivables management, and loss provisioning can have implications for financial performance and the sustainability of cooperative operations, including SHU (Nusa et al., 2025; Lado et al., 2025**;** Putri et al., 2026). From a stewardship perspective, such accounting discretion may reflect managers' responsibility to manage financial risks, maintain organizational continuity, and protect members' long-term interests (Davis et al., 1997). Rather than assuming that such discretion represents opportunistic earnings manipulation, this study examines how these practices are understood by those directly involved in cooperative management. This perspective allows earnings management to be interpreted within the institutional values of stewardship, accountability, member welfare, and cooperative sustainability.

Although earnings management in cooperative organizations has practical relevance, its ethical and functional dimensions remain insufficiently explored in the accounting literature. Previous research on Indonesian cooperatives has emphasized the importance of accountability and transparency in financial reporting, particularly in relation to management responsibility and members' trust (Savira & Januarti, 2020**;** Turi &

Muharram, 2023). At the same time, Subadriyah et al. (2020) found that earnings management may occur in Indonesian savings and loan cooperatives, including in relation to members' interests. These findings suggest that accounting discretion in cooperatives should be examined within its specific organizational and governance context rather than interpreted solely through conventional investor-oriented perspectives.

Understanding this issue is important because accounting discretion in cooperatives operates within a member-oriented governance structure. Accounting decisions may affect not only reported financial performance but also surplus distribution and members' economic interests. Exploring the experiences and perspectives of cooperative managers and board members therefore provides context-sensitive insights into how earnings management is understood beyond conventional investor-oriented interpretations. Such an approach can contribute to a more contextual understanding of accounting discretion, stewardship responsibilities, member welfare, and cooperative sustainability.

LITERATURE REVIEW

Earnings management is a multifaceted phenomenon shaped by organizational objectives, governance structures, and stakeholder relationships. Traditional accounting literature has largely examined earnings management within investor-owned firms, where managerial discretion is often interpreted through the lens of agency theory. Agency theory assumes a separation between owners and managers, which may create conflicts of interest and incentives for opportunistic financial reporting (Jensen & Meckling, 1976). While this perspective is relevant to investor-oriented and capital market environments, it may be less adequate for explaining financial reporting behavior in member-based organizations such as cooperatives.

To better capture the cooperative context, this study adopts Stewardship Theory as its primary theoretical lens. Stewardship Theory provides an alternative to the assumptions of agency theory by proposing that managers and organizational actors may be motivated to act as stewards of organizational interests, emphasizing collective goals, trust, responsibility, and the long-term well-being of the organization rather than solely pursuing self-serving objectives (Davis et al., 1997). From this perspective, managerial behavior is understood in relation to organizational commitment, responsibility, and the alignment between managerial actions and organizational objectives.

This perspective is particularly relevant to savings and loan cooperatives because cooperative ownership and governance are fundamentally member-oriented. Members simultaneously function as owners and users of cooperative services, while boards and managers are entrusted with managing cooperative resources on behalf of members. Democratic governance mechanisms, particularly the Annual Members' Meeting (Rapat Anggota Tahunan/RAT), reinforce accountability, collective decision-making, and responsibility toward members. Recent research by Dekrita et al. (2025) describes the RAT as the highest forum within cooperatives, serving as a mechanism for management accountability to members and a venue for strategic decision-making. Consequently, managers' accounting decisions may be shaped not only by financial performance considerations but also by their responsibility to protect members' resources, maintain cooperative continuity, and support collective welfare.

Within this framework, accounting discretion should not automatically be interpreted as opportunistic earnings manipulation. Discretionary accounting choices involving member receivables, loan loss provisions, revenue recognition, and other earnings-related accounts may reflect managerial judgments concerning financial prudence and cooperative sustainability. In a member-oriented organization, such discretion may be understood as part of the steward's responsibility to maintain reliable financial reporting, manage financial risks, and protect members' long-term interests. However, adopting a stewardship perspective does not imply that all forms of earnings management are inherently ethical or beneficial. Rather, Stewardship Theory provides a theoretical lens through which the meaning, motivation, and organizational consequences of accounting discretion can be examined from the perspective of those entrusted with managing cooperative resources.

Accordingly, this study uses Stewardship Theory to interpret whether earnings management practices in savings and loan cooperatives are understood by managers and board members as actions directed toward personal interests or as forms of responsible accounting discretion aimed at maintaining cooperative sustainability, protecting members' collective interests, and supporting fair surplus (SHU) distribution.

This study also draws upon Positive Accounting Theory to provide a complementary explanation of managerial discretion in financial reporting. Positive Accounting Theory provides a framework for understanding and predicting managers' accounting choices by considering economic incentives arising from contractual arrangements and the political process surrounding financial reporting (Watts & Zimmerman, 1986). From this perspective, managerial discretion in accounting choices may reflect incentives associated with contractual arrangements, debt, compensation, and political costs.

In cooperatives, these incentives differ from those typically found in profit-oriented firms because financial performance is related to surplus distribution and service sustainability rather than shareholder wealth maximization. Therefore, Positive Accounting Theory provides a complementary perspective for understanding the potential economic incentives underlying accounting choices, while Stewardship Theory remains the primary interpretive lens for examining how such choices are understood by cooperative managers and board members. Within this context, earnings management practices may reflect not only economic incentives but also considerations of financial prudence, member welfare, and cooperative resilience.

Furthermore, Stakeholder Theory provides a complementary perspective for understanding the broader interests involved in cooperative organizations. Stakeholder Theory emphasizes that organizational decision-making should consider the interests of multiple stakeholders rather than focusing exclusively on shareholders (Freeman, 1984; Freeman et al., 2010). In the cooperative context, these stakeholders may include members, employees, regulators, creditors, and local communities, whose interests may influence organizational objectives and managerial decision-making.

Financial reporting decisions therefore carry broader implications for stakeholders. Earnings management practices, particularly in areas such as loan loss provisioning and revenue recognition, may affect financial stability, surplus distribution, and members' long-term economic interests. In this study, Stakeholder Theory complements Stewardship Theory by highlighting the broader interests and potential consequences associated with accounting decisions, while Stewardship Theory focuses more specifically on the responsibilities and motivations of those entrusted with managing cooperative resources. This complementary perspective enables earnings management to be examined not only in terms of managerial intentions but also in relation to its potential consequences for members and other stakeholders.

The cooperative governance perspective further enriches the theoretical framework by emphasizing democratic control, member participation, collective ownership, and accountability as important characteristics of cooperative organizations (Bryer, 2011). These governance characteristics distinguish cooperatives from conventional investor-owned firms and provide an important institutional context for understanding how managerial discretion and financial reporting decisions are shaped within cooperative organizations.

Because members act as both owners and users of cooperative services, financial reporting practices are expected to support transparency, equity, and trust. The Annual Members' Meeting (Rapat Anggota Tahunan/RAT) serves as a key governance mechanism through which cooperative management is held accountable to members and strategic organizational decisions are collectively considered (Dekrita et al., 2025). The study by Dekrita et al. (2025) specifically emphasizes the role of RAT in strengthening

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transparency, participation, and accountability within cooperative governance. This governance structure provides an institutional context in which accounting discretion may be evaluated not only according to its financial consequences but also according to its implications for members' welfare and cooperative sustainability.

Recent research further emphasizes the importance of receivables management, loss provisioning, and prudential credit management in savings and loan cooperatives. Nusa et al. (2025) found that bad loans affect the financial performance of savings and loan cooperatives, including their Surplus of Cooperative Operations (SHU), while provisions for receivables losses are used to anticipate potential losses arising from bad loans.

Similarly, Lado et al. (2025) examined the relationship between bad debts and the financial performance of a savings and loan cooperative using liquidity, solvency, and profitability indicators. Their findings indicate that bad debts can make cooperative receivables difficult to collect, reduce liquidity, increase financial risk, and contribute to declining profitability and operational sustainability. These findings highlight the importance of credit risk management and accounting judgment in managing member receivables and recognizing potential losses within savings and loan cooperatives.

From an accounting perspective, these conditions are relevant to the exercise of managerial discretion because the assessment of receivables collectability and potential losses requires accounting judgment. Such judgments may influence reported financial performance and, consequently, the level of surplus available for distribution to members. However, whether these accounting choices constitute opportunistic earnings management or responsible financial prudence cannot be determined solely from their financial effects. Their meaning needs to be examined within the organizational context and the perspectives of those responsible for managing cooperative resources.

Taken together, these theoretical and empirical perspectives provide an integrated framework for understanding earnings management in savings and loan cooperatives. Stewardship Theory serves as the primary theoretical lens, emphasizing trust, responsibility, collective interests, and the long-term sustainability of the cooperative. Agency Theory highlights the potential risks of managerial opportunism, while Positive Accounting Theory provides a perspective for understanding the economic incentives that may influence discretionary accounting choices. Stakeholder Theory broadens the analysis by emphasizing the interests of multiple parties affected by financial reporting, while the cooperative governance perspective situates accounting practices within democratic ownership, member participation, and collective accountability.

This integrated framework supports the interpretation of earnings management not merely as opportunistic behavior but as a contextual practice whose meaning may be shaped by stewardship responsibilities, member welfare objectives, accounting discretion, and organizational sustainability. Importantly, the framework does not assume that earnings management in cooperatives is inherently ethical or beneficial. Instead, it provides a basis for examining how managers and board members themselves interpret and justify accounting discretion within the member-oriented institutional context of savings and loan cooperatives.

Previous research has established the relevance of earnings management, financial accountability, governance, and accounting discretion in cooperative organizations. However, limited attention has been given to how cooperative managers and board members themselves interpret and practice earnings management within a member-oriented governance structure. Existing research has largely focused on identifying earnings management, examining financial reporting quality, or assessing governance and accountability mechanisms. Less attention has been devoted to the meanings that managers and board members attach to accounting discretion and how those meanings are connected to members' interests, SHU distribution, stewardship responsibilities, and cooperative sustainability.

This interpretive gap provides the basis for the present study. By examining the experiences and perspectives of managers and board members from two savings and loan cooperatives, this study seeks to understand how earnings management is interpreted and practiced within the specific institutional context of cooperative organizations. The study therefore positions earnings management not simply as a measurable accounting outcome but as an organizational practice whose meaning is constructed through managerial judgment, stewardship responsibilities, member interests, and cooperative governance.

METHODS

This study employs a qualitative approach using a case study design to obtain an in-depth understanding of how earnings management is interpreted and practiced within savings and loan cooperatives. A qualitative approach is appropriate when research seeks to explore meanings, experiences, interpretations, and social processes within their organizational and contextual settings rather than measuring phenomena solely through numerical indicators (Aspers & Corte, 2019; Creswell & Poth, 2018). Qualitative inquiry is particularly relevant when the researcher seeks to understand how participants construct and interpret experiences within specific social and organizational contexts. In this study, the qualitative approach enables the researchers to examine how cooperative managers and board members understand accounting discretion and relate such practices to members' interests, Surplus of Cooperative Operations (Sisa Hasil Usaha/SHU), accountability, and stewardship.

The case study design was selected because the research focuses on earnings management within its specific organizational context, namely savings and loan cooperatives. Case study research enables researchers to investigate a contemporary phenomenon in depth and within its real-life context, particularly when the boundaries between the phenomenon and its context are closely connected (Yin, 2018; Creswell & Poth, 2018). The use of two cooperative cases, referred to as Cooperative A and Cooperative B, enables the study to identify similarities and differences in how earnings management is understood and practiced across different cooperative settings. A multiple-case design also facilitates comparison across cases while maintaining attention to the contextual characteristics of each organization.

Data were collected through in-depth, semi-structured interviews with six informants from two savings and loan cooperatives, referred to as Cooperative A and Cooperative B. Semi-structured interviewing provides flexibility for researchers to explore participants' experiences and interpretations while maintaining sufficient consistency across interviews (Creswell & Poth, 2018). The informants consisted of managers, cooperative chairpersons, and board members who were directly involved in the management, supervision, and financial decision-making processes of their respective cooperatives. To maintain confidentiality and protect the identities of the participants and organizations, the cooperatives and informants were anonymized using codes.

The six informants were identified as AL, CF, and PS from Cooperative A, and FR, SM, and DL from Cooperative B. The informants were selected using purposive sampling based on their involvement and knowledge of cooperative financial management, accounting policies, earnings-related decisions, and member accountability. Purposive sampling is appropriate in qualitative research when participants are intentionally selected because they possess relevant knowledge or experience concerning the phenomenon under investigation (Creswell & Poth, 2018). This selection was therefore intended to obtain information from individuals who could provide direct accounts of how earnings management and accounting discretion were understood and practiced within the cooperatives.

In-depth interviews were used as the primary data collection technique because the study seeks to explore participants' interpretations, experiences, and reasoning concerning earnings management practices. In-depth interviewing allows researchers to obtain

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detailed accounts of participants' perspectives and the meanings they attach to organizational practices, making it appropriate for interpretive qualitative inquiry (Creswell & Poth, 2018). The interview protocol focused on participants' understanding of earnings management, the processes through which earnings-related accounting decisions were made, mechanisms for controlling such practices, the historical occurrence of earnings management, and participants' responses to earnings management within their cooperatives. The interview format allowed participants to elaborate on their experiences and provide contextual explanations of accounting decisions.

The interview data were analyzed using thematic analysis. Thematic analysis provides a flexible qualitative analytical approach for identifying, organizing, interpreting, and reporting patterns of meaning within qualitative data (Braun & Clarke, 2006; Braun & Clarke, 2021; Byrne, 2022). Contemporary methodological literature emphasizes that thematic analysis requires coherence between the research question, theoretical assumptions, coding process, development of themes, interpretation, and presentation of findings (Braun & Clarke, 2021; Byrne, 2022). In this study, thematic analysis was selected because the research seeks to identify patterns in participants' interpretations of earnings management while retaining the contextual meanings of their experiences.

The analysis was conducted through several stages. First, the researchers became familiar with the interview transcripts by reading the data repeatedly and identifying statements relevant to the research question. Second, meaningful statements were coded according to their substantive content. Third, related codes were examined and grouped according to recurring patterns in the participants' accounts. Fourth, the researchers reviewed and refined the emerging themes by comparing patterns across informants and between Cooperative A and Cooperative B. Finally, the themes were defined, interpreted, and related to the research question and theoretical framework. This analytical process followed the principles of thematic analysis, in which coding and theme development are iterative processes involving active researcher engagement with the data (Braun & Clarke, 2021; Byrne, 2022).

The interpretive orientation of the analysis was maintained throughout the process by focusing on the meanings expressed by the informants rather than treating their statements solely as objective descriptions of accounting procedures. This orientation is consistent with qualitative inquiry, which emphasizes the interpretation of meanings and experiences within their social and organizational contexts (Creswell & Poth, 2018; Aspers & Corte, 2019). Accordingly, the researchers did not assume in advance that accounting discretion represented either legitimate prudence or opportunistic manipulation. Instead, these meanings were examined through participants' explanations, experiences, and accounts of earnings management practices within their respective cooperatives. The interpretation therefore remained open to different understandings of accounting discretion that emerged from the empirical data.

NVivo was used as a qualitative data analysis support tool to organize, code, retrieve, and compare interview data. The software facilitated the systematic management of interview transcripts and supported the examination of recurring patterns across informants and between the two cooperative cases. NVivo was used to support data organization, coding, retrieval, and comparison rather than to replace researcher interpretation. Consistent with qualitative research principles, the development and interpretation of themes remained dependent on the researchers' analytical engagement with the data.

To strengthen the credibility and trustworthiness of the findings, the researchers employed several strategies, including triangulation of perspectives, member checking, maintenance of an audit trail, and reflexive consideration during the analytical process. Triangulation was conducted by comparing information obtained from different informants and across the two cooperative cases, allowing the researchers to identify both consistent patterns and differences in participants' interpretations. Such comparison is commonly used in qualitative case study research to strengthen the credibility and contextual understanding of findings (Yin, 2018; Braun & Clarke, 2021). Member checking was used to confirm the accuracy of relevant interpretations with participants, while an audit trail was maintained to document analytical decisions and the development of codes and themes. These practices contribute to the transparency, credibility, and dependability of qualitative research (Korstjens & Moser, 2018; Braun & Clarke, 2021).

Reflexivity was also maintained throughout the research process by critically considering the researchers' assumptions and potential influence on the interpretation of participants' accounts. Reflexivity is an important component of qualitative research because interpretation is shaped by the interaction between researchers, participants, data, and the analytical process (Braun & Clarke, 2021; Byrne, 2022). Accordingly, the researchers continuously examined whether interpretations were adequately grounded in the participants' accounts and avoided imposing an assumption that earnings management was inherently opportunistic or inherently beneficial.

Cross-case comparison between Cooperative A and Cooperative B was particularly important in the analysis. The researchers compared coded statements, emerging themes, and participants' explanations to identify similarities, differences, and contextual meanings. Particular attention was given to statements concerning member receivables, loan loss provisions, revenue recognition, SHU, accountability, and the role of the Annual Members' Meeting (Rapat Anggota Tahunan/RAT). This comparison enabled the researchers to examine how similar accounting practices could be interpreted differently depending on the cooperative's organizational context and orientation toward members.

Finally, the interpretation of the findings was continuously related to the research question and theoretical framework. The analytical process remained grounded in participants' accounts while allowing the researchers to interpret the meaning of earnings management within the institutional context of savings and loan cooperatives. The findings were subsequently interpreted through the primary lens of stewardship theory, complemented by agency theory, Positive Accounting Theory, stakeholder theory, and the cooperative governance perspective. This approach enabled the study to explain not only what accounting practices were described by participants but also how those practices were understood, justified, and experienced within a member-oriented cooperative context.

RESULTS AND DISCUSSION

Earnings Management Practices in Savings and Loan Cooperative A

Before examining the specific accounting practices identified in the field, it is important to consider the organizational context in which earnings management occurs. Unlike investor-oriented firms, savings and loan cooperatives operate within a member-oriented structure in which members simultaneously function as owners and users of cooperative services. Consequently, financial performance has implications not only for organizational continuity but also for members' economic interests, particularly through the distribution of Surplus of Cooperative Operations (Sisa Hasil Usaha/SHU). Within this context, accounting discretion may be connected to considerations of financial prudence, member accountability, and the sustainability of cooperative operations.

In Savings and Loan Cooperative A (KSP A), the findings indicate that earnings management is not primarily understood by informants as an attempt to manipulate reported profit for personal benefit. Instead, accounting discretion is described as a form of adjustment intended to ensure that reported financial information reflects the financial condition of the cooperative and protects members' interests. This interpretation was particularly evident in discussions concerning member receivables and the establishment of allowances for doubtful receivables.

The Manager of KSP A (AL) explained:

"In savings and loan cooperatives, profit conditions are highly influenced by the smoothness of members' installment payments. Therefore, the determination of allowance

for doubtful accounts must truly reflect the actual condition so that the financial statements do not mislead members." (AL)

This statement indicates that the quality of member receivables is perceived as an important determinant of reported financial performance. When members experience difficulties in meeting their repayment obligations, the cooperative faces a higher risk of uncollectible receivables. The recognition of an allowance for doubtful receivables consequently affects reported earnings and, ultimately, the amount of SHU available for distribution. Rather than viewing the reduction in reported earnings as evidence of poor managerial performance, the informant presents the adjustment as a means of ensuring that financial statements remain consistent with the cooperative's actual financial condition.

The finding is consistent with the broader understanding of earnings management as managerial use of judgment in financial reporting, particularly when accounting estimates and recognition decisions affect reported earnings (Healy & Wahlen, 1999). However, the findings from KSP A provide a different contextual interpretation of such discretion. The relevant issue is not merely whether managerial judgment exists, but how that judgment is understood and justified within a member-oriented organization. In KSP A, the justification provided by the informants is closely related to financial prudence and the responsibility to provide information that can be accounted for to members.

The Chairperson of KSP A (CF) further emphasized that accounting-related policies are subject to collective accountability:

"We understand earnings management as a reasonable adjustment in accordance with standards. Our legal basis is the decision of the Annual Members' Meeting, so every profit-related policy must be accountable to members." (CF)

This statement highlights the importance of the Annual Members' Meeting (Rapat Anggota Tahunan/RAT) as a governance mechanism in shaping the legitimacy of accounting decisions. Accounting discretion is not presented as an exclusively managerial decision but as a practice that must be defensible within the cooperative's accountability structure. The finding therefore extends the interpretation of earnings management beyond an individual managerial choice toward an organizational process involving management, the board, and members.

From the perspective of Stewardship Theory, this pattern reflects the possibility that managers and board members perceive their responsibilities in terms of organizational and collective interests rather than solely personal interests. Stewardship Theory emphasizes a view of organizational actors as potentially pro-organizational, collectivist, and trustworthy rather than inherently opportunistic (Davis et al., 1997). In KSP A, this orientation is reflected in the informants' emphasis on protecting members, maintaining the reliability of financial statements, and ensuring accountability through the RAT.

A board member of KSP A (PS) reinforced this interpretation:

"Profit adjustments are made to ensure that financial statements remain fair and can be accounted for in the Annual Members' Meeting. The objective is not merely to pursue profit, but to maintain members' trust." (PS)

The statement demonstrates that the meaning attached to accounting discretion extends beyond the numerical effect on reported earnings. Fairness, accountability, and members' trust are explicitly identified as considerations underlying financial decisions. Thus, the findings suggest that earnings management in KSP A is embedded in a broader process of managing financial risk while maintaining the cooperative's relationship with its members.

Earnings Management Practices in Savings and Loan Cooperative B

The findings from Savings and Loan Cooperative B (KSP B) reveal a similar orientation toward members' interests but demonstrate a somewhat different emphasis in the implementation of accounting and financial policies. Whereas KSP A places stronger emphasis on the prudential recognition of member receivables and allowances for doubtful accounts, KSP B provides more explicit examples concerning the relationship between accounting decisions, service charges, and SHU distribution.

The Manager of KSP B (FR) stated:

"Earnings management is carried out during the preparation of end-of-period financial statements, especially through the assessment of members' receivable quality because it directly affects the amount of SHU." (FR)

This statement confirms that the quality of member receivables is also an important consideration in KSP B. The assessment of receivables is not viewed solely as a technical accounting procedure because its consequences extend to the amount of SHU available to members. Therefore, the accounting treatment of receivables becomes connected to the cooperative's broader objective of balancing financial prudence with members' economic interests.

A more specific example was provided by the Chairperson of KSP B (SM):

"The cooperative applies a loan service fee of 1.5%, of which 1% is recorded as cooperative income, while 0.5% is allocated as members' savings that will later be distributed as SHU. Indirectly, this results in a reduction in service charges, so members are the primary beneficiaries." (SM)

This account illustrates how financial policy can be interpreted by cooperative managers in terms of its distributional consequences for members. From the informant's perspective, the arrangement does not simply concern the amount of income recognized by the cooperative. It is also connected to the economic burden borne by members and the benefits that members may subsequently receive through SHU distribution.

Importantly, the finding should not be interpreted as evidence that the accounting treatment is inherently appropriate or inappropriate. Rather, the empirical significance lies in how the practice is understood by the actors involved. The informant frames the decision as a mechanism for providing economic benefits to members. This interpretation is consistent with the member-oriented character of cooperatives, in which financial decisions may simultaneously affect organizational performance and member welfare.

The board member of KSP B similarly emphasized the accountability dimension:

"Every profit adjustment must have a clear basis and must not harm cooperative members. Our legal foundation is the decision of the Annual Members' Meeting." (DL)

The statement demonstrates that accounting discretion is perceived as legitimate when it has an identifiable basis, does not harm members, and can be justified through the cooperative's governance mechanism. Thus, the findings from KSP B reinforce the importance of accountability and member welfare in shaping how earnings-related decisions are interpreted.

Cross-Case Comparison of Earnings Management Practices

The comparison between KSP A and KSP B reveals both similarities and differences in the interpretation and practice of earnings management. The main similarity is that informants from both cooperatives associate earnings-related accounting decisions with the management of member receivables, financial prudence, SHU, and accountability to members. In both cases, earnings management is not spontaneously described as an attempt to maximize reported profit for individual managerial benefit.

However, the two cases differ in the emphasis placed on particular accounting and financial practices. KSP A demonstrates a stronger emphasis on the prudential recognition of doubtful receivables. The informants in KSP A focus on the need to ensure that allowances reflect the actual condition of members' repayment capacity. The resulting reduction in reported earnings is therefore understood as a consequence of recognizing financial risk rather than as a failure of management.

KSP B, in contrast, provides a more explicit illustration of how financial policies may be connected to SHU and the distribution of economic benefits to members. The discussion of loan service fees indicates that management considers not only the effect of a policy on cooperative income but also its consequences for members. This suggests that similar accounting discretion may acquire different meanings depending on the organizational context and the priorities emphasized by cooperative management.

The cross-case findings therefore indicate that earnings management in savings and loan cooperatives cannot be understood solely by examining whether accounting discretion exists. The meaning of such discretion is shaped by the cooperative's governance structure, member interests, financial conditions, and considerations surrounding SHU distribution. This finding is particularly important because it demonstrates that the same accounting judgment may be interpreted differently depending on the organizational context in which it is exercised.

The cross-case comparison also supports the interpretive orientation of this study. Rather than determining earnings management solely from quantitative changes in reported earnings, the analysis examines how managers and board members explain the reasons, responsibilities, and consequences associated with accounting decisions. This approach makes it possible to identify the meanings attached to accounting discretion by the actors who directly participate in cooperative financial management.

Earnings Management as a Stewardship-Oriented Practice

The findings across both cooperatives indicate that Stewardship Theory provides a particularly relevant lens for understanding the participants' interpretations of earnings management. The informants consistently describe accounting decisions in relation to responsibilities toward the cooperative and its members. Their accounts emphasize financial prudence, accountability, fairness, member trust, and organizational continuity.

Stewardship Theory proposes that organizational actors may be motivated to pursue collective and organizational objectives rather than acting exclusively according to self-serving interests (Davis et al., 1997). The empirical evidence from this study reflects several elements of this perspective. First, managers and board members repeatedly refer to members' welfare when explaining earnings-related decisions. Second, they emphasize that accounting decisions must be accountable to members through the RAT. Third, accounting discretion is associated with maintaining the cooperative's financial stability and continuity rather than simply increasing reported earnings.

This orientation is particularly visible in the statement from CF:

"Earnings management is viewed as part of responsible financial management, not as an attempt to pursue profit alone." (CF)

The statement illustrates how the informant distinguishes financial management from the pursuit of profit as an isolated objective. In a cooperative setting, the financial result has broader implications because it affects both the institution and its members. Consequently, accounting discretion is interpreted within a network of responsibilities rather than solely in terms of managerial incentives.

The findings are therefore consistent with the central proposition of Stewardship Theory that managers may act as stewards whose objectives are aligned with the welfare and continuity of the organization. The empirical evidence also supports the relevance of distinguishing the cooperative context from conventional investor-owned firms. In investor-oriented organizations, earnings management is frequently examined through the possibility of managerial opportunism. In the cooperative cases examined here, informants instead emphasize collective responsibility and accountability to members.

Nevertheless, the findings do not imply that all earnings management practices in cooperatives are necessarily ethical, appropriate, or beneficial. The stewardship interpretation represents the meanings expressed by the participants and provides an explanation of how they justify accounting discretion. Accounting discretion can still generate risks if it is used to conceal financial problems, distort information, or disadvantage members. Therefore, the stewardship perspective should be understood as an interpretive lens rather than as an assumption that cooperative managers are inherently non-opportunistic.

This distinction is important because it allows the study to avoid replacing one predetermined interpretation with another. The purpose of the research is not to prove that earnings management is ethical, but to understand how accounting discretion is interpreted and practiced within the institutional context of savings and loan cooperatives. The findings suggest that stewardship considerations form an important part of that interpretation.

The Relationship between Earnings Management, SHU, and Members' Interests

Another important finding concerns the central role of SHU in shaping the meaning of earnings management within savings and loan cooperatives. Across the interviews, informants connect reported earnings with the amount and distribution of SHU received by members. Consequently, accounting decisions may have consequences that extend beyond financial reporting and directly affect members' economic interests.

In KSP A, the establishment of allowances for doubtful receivables may reduce reported earnings when members' repayment problems increase. Although such a reduction may subsequently affect SHU, the informants perceive the recognition of potential losses as necessary to ensure that the reported financial condition remains realistic. This indicates a tension between short-term surplus distribution and long-term financial prudence.

In KSP B, the relationship between accounting decisions and SHU is expressed through financial policy decisions that the informants perceive as providing benefits to members. The discussion concerning the allocation of part of the service fee to members' savings illustrates how management evaluates financial decisions partly through their distributional consequences.

These findings demonstrate that SHU functions not merely as an accounting outcome but also as an important organizational consideration in managerial decision-making. Accounting discretion may therefore involve a balancing process between maintaining reported financial performance, recognizing potential losses, ensuring sufficient financial resilience, and providing fair economic benefits to members.

From the perspective of Stewardship Theory, this balancing process can be understood as part of the responsibility entrusted to cooperative managers and board members. Their decisions affect resources that ultimately belong collectively to the members. The emphasis placed by informants on accountability through the RAT further indicates that financial decisions are expected to be explainable and defensible to members.

At the same time, the findings highlight the importance of transparency. Because accounting discretion can affect both reported earnings and SHU distribution, members need sufficient information to understand the basis for financial decisions. Without adequate accountability mechanisms, the same discretion that may be justified as prudential management could potentially become a means of concealing financial problems or influencing surplus distribution.

Discussion: Reinterpreting Earnings Management in the Cooperative Context

Taken together, the findings provide evidence that earnings management in savings and loan cooperatives has a meaning that extends beyond the conventional interpretation of opportunistic financial manipulation. The participants' accounts indicate that accounting discretion is embedded within a member-oriented organizational structure in which financial decisions have consequences for both cooperative sustainability and members' welfare.

The findings contribute to the existing literature by showing that the existence of accounting discretion does not by itself explain the meaning of earnings management. The interpretation depends on the purpose attributed to the discretion, the governance mechanisms surrounding the decision, and the consequences for members and the cooperative. In the two cases examined, informants repeatedly linked accounting decisions to financial prudence, accountability, SHU distribution, and member welfare.

This finding also provides an important connection between the empirical evidence and the theoretical framework developed in this study. Agency theory helps explain why managerial discretion can potentially create opportunities for opportunistic behavior. Positive Accounting Theory provides a basis for considering the economic and institutional incentives that may influence accounting choices. Stakeholder theory broadens the analysis by recognizing the interests of parties affected by financial reporting. However, Stewardship Theory provides the most direct interpretive explanation for the emphasis placed by informants on trust, collective responsibility, member welfare, and organizational continuity.

The empirical findings therefore support a contextual interpretation of earnings management in savings and loan cooperatives. Rather than treating earnings management as inherently opportunistic or inherently beneficial, the findings indicate that its meaning is negotiated within the cooperative's institutional environment. Accounting discretion may be understood as prudent stewardship when it is directed toward recognizing financial risks, protecting members' collective interests, maintaining accountability, and sustaining the cooperative. Conversely, the existence of discretion also creates the possibility of opportunistic behavior, making transparency and member accountability essential safeguards.

Overall, the study demonstrates that earnings management in savings and loan cooperatives should be interpreted in relation to the distinctive objectives and governance characteristics of cooperative organizations. The central empirical insight is that managers and board members do not describe accounting discretion solely in terms of increasing reported earnings. Instead, they connect financial decisions with the quality of member receivables, recognition of potential losses, SHU distribution, member trust, accountability through the RAT, and the long-term sustainability of the cooperative. This contextual interpretation expands the discussion of earnings management beyond conventional investor-oriented settings and demonstrates the relevance of stewardship-oriented explanations in member-based organizations.

CONCLUSION

This study aimed to understand how earnings management is interpreted and practiced by managers and board members in savings and loan cooperatives, particularly in relation to accounting discretion, members' interests, SHU distribution, and stewardship. Based on the findings from two savings and loan cooperatives, earnings management is not interpreted solely as an attempt to manipulate reported financial performance. Instead, accounting discretion is understood within the broader organizational responsibilities associated with financial prudence, accountability, members' welfare, and cooperative sustainability.

The findings demonstrate that accounting discretion in both cooperatives is particularly evident in the management of member receivables, the establishment of loan loss provisions, and financial decisions affecting SHU. In Cooperative A, accounting adjustments are primarily associated with the need to recognize the actual quality of member receivables and potential losses. The reduction in reported earnings resulting from increased loss provisions is therefore understood by informants as a consequence of prudent financial management rather than simply as an indication of poor managerial performance. In Cooperative B, accounting discretion is more explicitly connected to financial policies affecting service charges and SHU distribution, with informants emphasizing the economic benefits received by members. These differences demonstrate that earnings management practices are shaped by the specific organizational and

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financial circumstances of each cooperative.

The cross-case findings further indicate that the meaning of earnings management is strongly influenced by the member-oriented governance structure of savings and loan cooperatives. Because members simultaneously function as owners and users of cooperative services, accounting decisions have consequences not only for reported financial performance but also for members' economic interests and the distribution of SHU. The Annual Members' Meeting (Rapat Anggota Tahunan/RAT) also plays an important role as a mechanism of accountability through which financial policies and managerial decisions can be justified to members. Thus, accounting discretion in cooperatives operates within a governance environment characterized by collective ownership, member accountability, and organizational continuity.

The findings provide support for the use of Stewardship Theory as the primary theoretical lens for interpreting earnings management in cooperative organizations. Managers and board members in the two cases frequently described their accounting decisions in terms of responsibility toward members, protection of cooperative resources, financial prudence, and long-term organizational sustainability. This suggests that managerial discretion may be exercised with a stewardship orientation rather than being driven exclusively by individual self-interest. However, the findings do not imply that earnings management in cooperatives is inherently ethical or beneficial. Instead, the study demonstrates that its meaning is contextual and depends on how accounting discretion is exercised, justified, and controlled within the cooperative governance structure.

Theoretically, this study contributes to the earnings management literature by extending the discussion beyond conventional investor-oriented organizations. Previous interpretations of earnings management have frequently emphasized managerial opportunism and conflicts between managers and owners. The present findings demonstrate that in member-based organizations, the meaning of accounting discretion may also be shaped by collective objectives, member welfare, accountability, and stewardship responsibilities. The study therefore highlights the importance of considering organizational context when interpreting earnings management practices.

Practically, the findings suggest that cooperative governance should not seek to eliminate managerial accounting discretion entirely, because judgment may be necessary for prudent recognition of credit risk, receivables quality, and potential losses. Instead, governance mechanisms should ensure that such discretion is supported by clear accounting policies, adequate documentation, transparent reporting, and accountability to members through the RAT. Cooperative managers and boards should ensure that decisions affecting reported earnings and SHU can be explained on the basis of financial prudence and members' collective interests. Regulators and auditors may also benefit from considering the distinctive member-oriented characteristics of cooperatives when evaluating accounting discretion and financial reporting practices.

Overall, this study concludes that earnings management in savings and loan cooperatives should be understood as a contextual accounting practice whose meaning cannot be determined solely from its effect on reported earnings. Its interpretation is shaped by the interaction between accounting discretion, financial risk, SHU distribution, member welfare, governance mechanisms, and stewardship responsibilities. By examining the experiences and perspectives of managers and board members, this study provides a more nuanced understanding of earnings management within cooperative organizations and demonstrates how accounting practices may simultaneously serve financial, organizational, and member-oriented objectives.

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