Research Article

Overinvestment on Social Responsibility Programs: An Ethical Judgment of Managers

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Abstract.
This study analyzed managers' ethical judgments against excessive investment in social care programs. The equity theory was used to develop the egocentric concept of self-management, which predicted that individual managers with different compensation schemes and levels of long-term goals would make other ethical decisions in the corporate social care programs. The research had an experimental design, which found that managers underpay schemes that discourage pay schemes that do not provide managers with incentives to over-invest in social care programs; some consider that excessive spending in social activities is unethical. A compensation payment scheme encourages managers to overspend on social activities. Our study found that a manager with long-term goals perceives overspending as bad for the company or unethical. So, we concluded that economic incentives or compensation and an individual's long-term goals impact ethical decisions. The results of our review highlighted the importance of designing appropriate payment schemes for managers because such schemes encourage investment decisions and managers' ethical judgments. In addition, the results also identified the importance of considering individual factors, especially the long-term goal of managers.

Keywords: Managers' Ethical Judgments, Long-term Orientation, Overinvestment, Social Care Programs

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1. Introduction

The practice of corporate social responsibility is often carried out to the surrounding community, which is marked by an increase in the amount of investment or allocation of resources owned by the company in these CSR activities [1]. The company views the expenditure on CSR as an investment that is expected to bring economic benefits to the company both in the short and long term. This is in line with the views of various experts who say that the company's activities in community social activities are an attempt by the company to "buy reputation" and seek to attract public sympathy [2]. So far, companies that do good or are involved in social activities are considered as companies that have a good reputation [3]. Various studies related to social responsibility so far have focused

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more on the impact of CSR on the reputation and value of companies such as several studies, for example, [3], [4], [5].

Recent research related to social responsibility found that many managers have overinvested in the activities of organizing corporate social dates ([6], [7], [8]), in various behavioral and financial literature mentioning that a person's decision managers to overspend or overinvest in CSR activities are often opportunistic, meaning they are more concerned with the interests of their self-image, as evidenced by various studies such as [9], and [10]. Another problem related to social responsibility, [11], also stated that there is a manager's motivation to improve his reputation or self-image by overspending or investing in socially responsible activities. so that a manager is considered to have a good reputation in the eyes of the public and the eyes of shareholders.

Many researchers in the field of behavioral accounting have found that compensation schemes are one of the important variables in encouraging a manager to overinvest, [5] and [7]. So far, only research by [12] examines compensation in the ethical assessment of a manager or staff in budgeting policies, while for investment spending in the CSR sector, not much has been done. Concerning social norms, [12] stated that compensation has an important role in the social life of the organization so that subordinates are considered to be involved in various kinds of organizational ethical decisions, especially in creating budget gaps, but in the context of budget gaps it is considered an unethical action when compared to staff who have a compensation scheme with the preparation relatively honest budget.

We created a different design with the research of [12] on how to look at compensation schemes, in having an impact on managers' ethical decisions on overinvestment. We state that compensation can create or encourage egocentric managers in making investment spending. Our view differs from that of [12] which is more directed to the argument of the egocentric concept of managers, but we predict that compensation will create an egocentric habit in the ethical decision-making process and it is inversely proportional to the concept of Equity (Equity theory). We suspect that managers who engage in unethical actions will take the opportunity to benefit themselves and think that these actions are natural for them so that they perceive that these actions are ethical.

Our study has the main objective of analyzing the judgment of a manager in making ethical or unethical judgments on overinvestment in the manager's previous investment spending decisions. We hope that this study contributes to the theory on compensation and the long-term goals of a manager that can influence his ethical judgment, whether it is considered ethical or unethical this manager's previous decision. Then for practical contributions, it will be more useful for companies about the importance of making a compensation design that directs the behavior of managers and develops a long-term consideration that leads to individual factors in the decision to select new managers.

2. Theory Framework and Hypotheses

2.1. Equity Theory and Egocentric Perspective

The equity theory mainly discusses fairness in the allocation of resources of an organization or company. According to the equity theory, every individual who contributes to the organization where they work or belong should be repaid with appropriate rewards so that the individual gets the appropriate satisfaction. On the other hand, individuals who get inappropriate results will result in annoyance, stress, hatred, and disrupt human psychology [13]. Although ideally, the equity theory states that the reward received by an individual must be following the services they provide, there are still many managers who act selfishly, many managers are more likely to get greater results than the services they provide [14]., [15] and they consider it natural [16]. In other words, justice according to each individual is different depending on the egocentric of each. Egocentric bias is a deviation in considering justice, which tends to benefit the individual himself [17], so that individuals with egocentric bias will act outside the limits of justice, with their egocentric concept they tend to make decisions that are more profitable for themselves and will make biased judgments for others, especially the previous manager's decisions are ethical or unethical, so that his assessment will become commonplace anyway [18].

Next, as managers will be measured based on bonuses or compensation generated due to the existence of such compensation payment schemes or profit targets and overinvestment-hindering pay schemes managers whose performance is not directly linked to bonuses or profit targets, so have a different assessment with the company. These different relationships will affect the manager's ethical assessment of the previous manager's overinvestment in CSR activities so that the following hypotheses can be formulated:

H1. Managers are more likely to judge it as unethical to overinvest in CSR activities with overinvestment-hindering pay schemes when compared to managers with overinvestment-inducing pay schemes.

In addition to organizational factors, some researchers also suggest using individual factors in making ethical decisions, especially managers' ethical decisions about CSR investments ([11]; Martinez & Jaeger, 2016). Various reviews of [19] & [20] suggest for future research use individual factors other than those they have used that may be used as variables in individual ethical decisions. As a first step, we use a long-term orientation variable that we cite from Research of [21] which has not been widely used as a variable that affects managers' ethical decisions, especially individual ethical decisions. Then long-term goals are linked linearly with cultural values and habits in an organization, their impact on managers' ethical decisions.

Long-term orientation has an important role for individuals because individuals will consider everything with careful thought and consideration. [22] and [23] provide valid evidence on the long-term orientation in strengthening the correlation of investment in CSR activities and its relationship with firm value and firm performance in new businesses. It has been realized that the long-term goals of corporate will have a good impact in recognizing the activities and benefits of socially responsible activities.

The tendency of managers who have a long-term orientation will certainly support all social responsibility activities because they feel responsible for the development of the community around the company. Then, managers who have a long-term orientation believe that social responsibility will provide benefits for managerial problems, including conflicts of interest with the community and other stakeholders [22]. Then, managers with a long-term orientation will judge that overinvestment in CSR activities is an unethical act because it sacrifices the interests of the company and shareholders, so the hypothesis can be formulated as follows:

H2. Managers who view excessive investment in social responsibility as unethical if they hold high long-term goals are more likely than managers with no long-term goals.

3. Methods

3.1. Sample and Participant

We used an experimental design for hypothesis testing. Postgraduate students were used as participants as many as 150 people but 5 of them did not pass the manipulation test and 3 students could not answer and fill out the demographic form completely so it could not be used. Then when grouping into groups of participants with high and low long-term goals, 8 students have the same score as the median, the participant is discarded and excluded from the sample test. So that the last sample that was screened was only 89 people as participants. We use postgraduate students who are pursuing Masters in Accounting and Masters in Management at the Faculty of Economics and Business, Universitas Brawijaya Indonesia. Students with business and accounting backgrounds were chosen because this department has received a lot of information on investment and managerial policies, both those who have worked and those who have not.

3.2. Experimental Procedures and Tasks

Participants were asked to take on the role of a new manager in a company so that this experimental design depicts what happened. This experimental design uses two groups, a group of managers who are given an overinvestment-inducing pay scheme and a group of managers who are given an overinvestment-hindering pay scheme so that later there will be differences in the comparison test between the two. The scenario given as described above is that informants or participants are given information about CSR investment expenditures in the previous year. Then participants were given to assess whether or not the old manager's decision was ethical. Some of the response options that Participants must choose by answering the following questions: "In your opinion, is this action considered unethical if a manager overspends on corporate social responsibility activities," on a scale of 5 (1: strongly disagree; 5: strongly agree). This kind of measurement has been widely used by previous researchers, including Hobson et al., (2011), Kaplan, (2001).

The scenarios prepared were developed by the research team themselves by involving several practitioners and company managers who have experience in spending in the CSR field. As a pilot project, this scenario has also been tested on undergraduate students and several experts, to test its validity and reliability. The trial was carried out to ensure that this scenario could indeed be well understood by the participants and could be applied to the experimental steps.

3.3. Variables and Measurement

Behavioral variables are used in this research. Many behavioral accounting studies can prove that an increase in company profits has a positive impact on increasing cash compensation, but not for compensation in the form of equity. Among other things, research: ([24]; [25]). The results of this study indicate that cash compensation given to managers is closely related to the achievement of company performance. Variable compensation schemes are manipulated into 2 types, namely overinvestment-inducing pay schemes and overinvestment-hindering pay schemes. Participants who are given an overinvestment-inducing pay scheme will receive a performance-based compensation scheme, which directly relates the company's performance (company profits) to the economic benefits (compensation) that will flow to them. Participants in this compensation scheme will be given a basic salary and allowances according to their position or position.

Manipulation checks are carried out by providing one question item to be responded to by participants using a scale of 5 (1: strongly disagree; 5: strongly agree). Participants were asked to respond to the statement: “The amount allocated for social responsibility will affect the amount of compensation you will receive.” Check this manipulation to ensure that the participant understands the scenario and can feel the treatment given to him.

We developed a long-term goal variable using references from previous research of [26]. Many previous studies have relied on the [27] scale to measure an individual's long-term goals. However, the use of the [27] scale at the individual level has been heavily criticized because the Hofstede (1980) scale uses an aggregate measure, which is inappropriate if applied to the individual level. With the Bearden et al. (2006), long-term goals or orientation was measured using 8 instruments with a scale of 5 (1: strongly disagree; 5: strongly agree), with Cronbach's alpha value of 0.902. Cronbach's alpha value of 0.902 indicates that the long-term orientation variable has fairly high reliability [28].

4. Results and Discussion

4.1. Statistical Test

The hypothesis was tested using a t-test for independent samples with a one-tailed test. The test is done by comparing the average score of respondents' answers between groups of participants. This test aims to examine differences in ethical judgment between groups of participants with different compensation schemes and groups of participants with different levels of long-term orientation.

4.2. Descriptive Statistics

The majority of participants were men (57.2%) and students who were studying in the Master of Science in Accounting program (54.2%). Table 1 shows the mean and standard deviation and the participants, for each group of participants.

Table 1: Descriptive Statistics.

Long-Term Orientation	Compensation Scheme		Total
	Over investment Inducing	Overinvestment Hindering	
High	Group 1 n=23 Y = 2.67 _ O y = 1.11	Group 3 n=23 Y = 3.42 _ O y = 1.21	High OJP Group n=46 Y = 2.98 _ O y = 2.23
Low	Group 2 n=22 Y = 2.00 _ O y = 0.67	Group 4 n=21 Y = 2.65 _ O y = 1.11	Low OJP Group n=43 Y = 2.45 _ O y = 1.16
Total	Group Inducing n=45 Y = 2.45 _ O y = 0.87	Group Hindering n=44 Y = 3.12 _ O y = 2.15	

A total of 45 people received an overinvestment-inducing scheme and 44 people received an overinvestment-hindering scheme. Participants who have high long-term goals are 46 people and those who have long-term goals with the low category are 43 people. The mean (standard deviation) for every single group respectively is 2.45 (SD=0.87) for the group receiving the overinvestment-inducing scheme; 3.12 (SD=2.15) for the scheme of the overinvestment-hindering group; 2.98 (SD=2.23) for the high long-term orientation group; and 2.45 (SD=1.16) for the low long-term goals part. These results indicate that participants given the overinvestment-hindering scheme are more likely to view excessive investment in social responsibility as unethical compared to participants given the scheme of overinvestment-inducing. These results also show that participants who have a high long-term orientation are more likely to view excessive investment in social responsibility as unethical compared to participants with long-term goals and with a low category.

4.3. Hypotheses Testing

Table 2 below present various statistical results, especially the test of the average difference between compensation schemes and long-term goal orientation.

Table 2: Results of the Test of Mean Differences between Groups (One-tailed Test).

Panel	SE	t-statistic	Sig.*	t-table	df	Kesimpulan
Inducing pay scheme vs hindering pay scheme	0.342	4.236	0.003	2.277	87	H1 supported
OJP High vs OJP Low	0.327	4.546	0.012	2.277	87	H2 supported

*Significance value for the two-tailed test

Panel (A) shows that managers with different compensation schemes show significant differences in their assessment of overinvestment in social care programs of corporate. Compared to managers who received the schemes of overinvestment-inducing, managers with the schemes of overinvestment-hindering tended to view excessive investment in CSR as unethical (Y = 3.12 > Y = 2.45; t-stat 4.236 > t-table 2.277). From panel (B) it is known that managers who have long-term goals with a high category differ significantly from managers with long-term orientation with a low category in assessing the ethicality of over-investing in social responsibility. Managers who have long-term goals with a high category are more likely to view excessive investment in social care programs as unethical than managers with long-term orientation with a low category (Y = 2.98 > Y = 2.45; t-stat 4.546 > t-table 2.272).

The results of this study found that managers with compensation schemes that provide opportunities for managers to make excessive investments in social responsibility will judge these actions as ethical actions (less unethical). On the other hand, managers with compensation schemes that do not trigger managers to overinvest in social responsibility will view overinvesting in social responsibility as more unethical. In addition to compensation schemes, this study also examines the role of individual factors, namely the long-term goals of managers, in influencing managers' ethical decisions. We suggest that managers who have long-term goals with a high category will view excessive investment in social responsibility as being more unethical than managers who have long-term goals with a low category.

Our current study succeeded in showing a significant difference in ethical judgment between groups of managers with different schemes of compensation and with different levels of long-term goals. We show that managers with schemes that are overinvestment-inducing are more likely to view excessive investment in social care programs as less unethical. These results support the idea put forward in this study that compensation schemes can create egocentric biases that will affect managers' perceptions of fairness, which in turn influence managers' ethical decisions to overinvest in social responsibility. Compensation schemes that provide economic benefits to managers will have an impact on the behavior of overspending on social responsibility programs because it will provide benefits and incentives both material and non-material to managers and the impact makes managers slam themselves. In other words, managers who are given a compensation scheme will overspend and consider it an unethical act. However, managers who do not have incentives to spend excessive spending on social activities will consider the actions of managers who overspend as unethical actions.

We also succeeded in proving that managers with a high long-term orientation are more likely to judge excessive investment in social responsibility as more unethical, while managers with a low long-term orientation tend to judge otherwise. These results support the arguments of ethical decision-making theories which say that individuals with different individual factors will have different ethical judgment [29]. These results also support the results of previous research which showed that individuals with a high long-term orientation will show high ethical values as well ([30]; [31]). On the other hand, we have shown that managers with clear long-term goals tend to view excessive spending on social responsibility programs as unethical, but managers with lower long-term goals tend to judge when an opposite argument is an ethical act. These results provide support for the theory of ethical decision-making, which states that someone with different individual levels will certainly have different judgments [29]. These results also support the previous research states that an individual's long-term goals have valued better ethical values in other corporate governance ([30]; [31]).

5. Conclusions

Our study has shown that testing the organizational factors of compensation schemes and individual factors, namely long-term orientation, has succeeded in influencing managers' ethical decisions which are associated with cases of overspending or overinvestment in community social responsibility activities. We use equity-theory and egocentric which examines how the individual influence of a manager who is supported by a compensation scheme with ethical or unethical judgment treatment on the behavior of previous managers. The results show that managers with compensation schemes that do not trigger managers to over-invest will judge that these actions are unethical. Individual factors, the long-term orientation of managers in making ethical decisions, suspect that managers who have a long-term goal perceive excessive spending behavior as an unethical action, compared to managers who have a low long-term goals orientation.

The implication that emerges from the results is that companies are required to design a good and correct compensation scheme because good compensation can influence managers in making investment decisions and evaluating ethical or unethical decisions on managers' decisions in an organization. Individual factors are quite important factors resulting from our study, especially the long-term orientation of a manager when adopting compensation schemes that have been prepared by various previous researchers. Using the role of compensation schemes and long-term orientation is very good for companies to use in Ethical or Unethical assessments in assessing the behavior of the next manager.

We realize that several limitations can motivate future researchers, *first*, the size of the overinvestment in research is measured by the amount of investment that results from the decisions of opportunistic managers, not overinvesting by the existence of regulation or caused by certain industries may be required to allocate funds in percentage terms which is more than 2%. So that the next researcher must be careful in determining and measuring this overinvestment variable, which may have to be related to the applicable rules. *Second*, there is still a lack of research related to ethical or unethical assessments for managers, so future researchers should explore more similar and relevant research related to managers' ethical assessments like this.

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