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Uncovering the Ethical Dilemma of Creative Accounting Practices in Micro Enterprises from the Perspective of Internal Stakeholders

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Abstract: The practice of creative accounting in micro enterprises is often an adaptive strategy to maintain business continuity in the midst of economic pressures and limited resources, but this practice also raises significant ethical dilemmas from the perspective of governance and financial statement integrity. This research aims to uncover the ethical dilemmas faced by internal stakeholders including business owners, financial staff, and operational managers in understanding and responding to creative accounting practices in the micro business environment. Using a qualitative approach with exploratory case studies, data was collected through in-depth interviews with six informants from three micro-enterprises in the West Java region who were selected purposively. Data analysis was carried out with thematic methods to identify thought patterns, ethical justifications, and internal decision-making dynamics. The results show that creative accounting practices are often seen as pragmatic solutions to access funding, meet fiscal targets, or maintain a business's reputation, even though it is realized that it has the potential to violate the principles of honesty and accountability. Internal stakeholders face tensions between business interests and professional ethical values, which are influenced by financial literacy levels, external pressures, and organizational culture. The conclusion of this study emphasizes the importance of strengthening ethical awareness and internal governance in micro enterprises as a contribution to the development of more responsible accounting practices, as well as as the basis for the formulation of assistance and education policies for micro business actors.

Keywords: Creative Accounting, Ethical Dilemmas, Micro Enterprises, Internal Stakeholders.

INTRODUCTION

The practice of creative accounting is increasingly becoming a concern in the global financial world because of its ability to obscure the true financial condition of an entity without having to explicitly violate legal regulations (Abed et al., 2022). Creative accounting refers to the use of financial reporting techniques that are still within the limits of legality, but often

violate ethical principles and mislead financial reporting users (Mansour & Spătariu, 2024). In recent years, this phenomenon has not only been found in large companies, but has also begun to penetrate the Micro, Small, and Medium Enterprises (MSMEs) sector, especially in developing countries that have weaknesses in supervisory systems and low ethical awareness (David & Alaye, n.d.).

In Indonesia, MSMEs play an important role in national economic development, contributing around 60.3% to the Gross Domestic Product (GDP) and absorbing more than 97% of the workforce (Kurniadi et al., 2024). However, many MSMEs do not have access to professional accounting services and still operate informally with a limited understanding of formal accounting and ethical standards. As a result, creative accounting practices such as accelerating revenue recognition, delaying expense logging, or cash flow engineering can occur not only as a survival strategy, but also due to a lack of technical and ethical understanding (Tekbaş, 2022).

A report from the Association of Certified Fraud Examiners shows that 42% of financial statement fraud cases globally occur in the small business sector (Douglas, 2024). This fact reinforces the urgency to trace ethical vulnerabilities in MSME accounting practices, especially among micro-enterprises that tend to be weak in internal control structures and governance. Nevertheless, most of the research that exists still focuses on large companies and public companies, with a technical or regulatory approach. Studies by (Adejumo & Ogburie, 2025), for example, place more emphasis on manipulative methods in financial reporting, but have not yet fully captured the ethical dilemmas felt by internal actors in small companies.

In contrast, studies of creative accounting practices in the context of micro-enterprises are still very limited, and the perspectives of internal stakeholders such as business owners, managers, and financial staff are often overlooked. In fact, they are the main decision-makers in the financial reporting process and often face pressures between business needs and adherence to ethical values (Tariq, 2024).

This research aims to uncover how creative accounting practices are run, understood, and justified by internal stakeholders in micro enterprises in Indonesia This research explores the motivations, behavior patterns, and ethical awareness levels of internal actors responsible for financial reporting. By focusing on the direct experiences of business actors, this study provides a deeper understanding of how ethical dilemmas are faced in everyday accounting practices at the micro business level.

Theoretically, this research contributes to the development of the discourse on accounting ethics by expanding its scope in the context of micro-enterprises that are still rarely explored. From a practical perspective, the findings in this study are expected to serve as a reference for policymakers, accounting professional associations, and training institutions in designing more effective ethics-based interventions to improve the integrity and compliance of financial reporting in the micro business sector. In the end, this research supports efforts to realize more transparent, honest, and ethical-based financial reporting practices at the basic level of the national economy.

METHODS

Types and Approaches to Research

This research uses a qualitative approach with an exploratory case study design (Ellis & Hart, 2023) to delve deeply into the creative accounting practices that occur in the micro business environment and the accompanying ethical dilemmas from the perspective of internal stakeholders. This approach is considered the most appropriate because it is able to provide a contextual understanding of complex phenomena that cannot be quantitatively measured, as well as reach the normative aspects, values, and personal perceptions of business actors.

Population and Sampling Techniques

The research population includes all micro business actors in the trade and service sector in the West Java region, Indonesia. The sampling technique was carried out by purposive non-probability sampling with inclusion criteria: (1) micro businesses that have recorded internal financial statements for at least the last two years; (2) have an internal organizational structure that includes owners, financial staff, and/or operational managers; and (3) willing to participate in in-depth interviews. Based on these criteria, three micro business units were selected, each involving two main informants (owners and financial staff or operational managers), so that the total number of informants was six.

Data Collection Techniques and Instruments

Data was collected through semi-structured in-depth interviews designed to explore informants' perceptions, experiences, and ethical considerations of the creative accounting practices being carried out. The interview guide was developed based on the principles of accounting ethics from the International Code of Ethics for Professional Accountants (Osagioduwa & Ogbonmwan, 2022), especially related to the values of honesty, objectivity, and professional responsibility. In addition to interviews, internal financial report documentation and observation of the micro business work environment were also carried out on a limited basis to strengthen the data.

Data Validity and Reliability

To ensure the validity and validity of the data, the researcher applied the triangulation technique of sources and methods (Bans-Akutey & Tiimub, 2021), namely by comparing data from interviews, documentation, and observations. Validation is also carried out through the member checking technique, which is confirming the summary of the results of the interview to the informant to ensure the accuracy of the researcher's interpretation of their statements. Credibility is strengthened by including the social and cultural context of each venture.

Research Procedure

The research procedure begins with the identification and initial approach to potential participants through a network of local micro-business communities. After obtaining approval for participation, the researcher scheduled an interview session and data collection at their respective business locations. All interviews were recorded with the consent of the informant, then transcribed verbatim. The researcher maintained the confidentiality of the respondents' identities by using alphanumeric codes.

Data Analysis Techniques

The data was analyzed using reflective thematic analysis, with stages of open coding, categorization, and theme synthesis to uncover thought patterns, ethical justifications, and internal decision-making dynamics related to creative accounting practices (Qaissi, 2024). The analysis process is supported by the use of NVivo 14 software to facilitate data organization and improve accuracy in qualitative data interpretation (Allsop et al., 2022). The focus of the analysis is directed at the interaction between ethical values, business interests, and structural pressures faced by micro business actors.

RESULTS AND DISCUSSION

The results of this research were obtained through in-depth interviews with six informants from three micro enterprises in the trade and service sector in West Java. The informants consist of business owners, financial staff, and operational managers who are actively involved in the internal financial reporting process. The main findings were analyzed

thematically and produced three dominant themes: (1) Justification of Creative Accounting Practices, (2) Tension of Ethical Values and Business Interests, and (3) Literacy Limitations and Influence of Organizational Culture.

1. Justification of Creative Accounting Practices

Almost all informants in this study openly admitted that creative accounting practices, especially in the form of manipulation of income and expense recording time, have become part of routine strategies carried out for pragmatic purposes. One of the most common forms is the acceleration of the recognition of income or receivables, especially ahead of the application of loans to local financial institutions such as savings and loan cooperatives or people's credit banks.

Micro business actors generally do not view this action as a form of violation, but rather as a reasonable adaptation to a system that is considered "too strict" and not fully relevant to the real conditions of micro businesses. Some informants even consider that flexibility in reporting is a kind of "small business fairness", as long as it does not cause losses for other parties. As expressed by one of the following business owners:

> *"Usually, if you want to apply for a loan, we make a neat report first. We sometimes record sales at the beginning, from January to December, so that it looks stable and good. If not, it will be difficult to get funds."* (PU-01, June 12, 2025 interview)

This strategy is often carried out consciously and planned, involving not only business owners but also financial staff in charge of compiling reports. In some cases, the recording of operational expenses is also deliberately delayed for a while so that the profit margin is seen to be larger in the monthly or quarterly reports that will be reported to outside parties. One finance staff expressed something similar, but with an emphasis on pressure from business owners:

> *"Sometimes the boss asks that the cost not be included this month, he said so that it does not look minus. I can only do that because that's what I do. I've been working here for a long time, I know what that means."* (SF-03, June 19, 2025 interview)

From these quotes, it can be seen that creative accounting practices are not only carried out for technical reasons, but also in response to the need to demonstrate better financial performance for the sake of external interests. In many cases, the perpetrators realize that the reported data does not reflect real conditions, but still feel "forced" due to working capital demands and the expectations of third parties such as cooperatives, partners, or potential investors.

Furthermore, the justification for this practice is often built on past experience, where honest recording is actually considered to hinder access to funding sources. This shows a systemic imbalance between the operational reality of micro businesses and the expectations of the formal financial system that demands "ideal" financial statements even though they are not accompanied by adequate coaching.

Thus, the justification for creative accounting practices in this context reflects more structural adaptation than an intent to deceive. However, this still contains significant ethical dilemmas, especially when financial statements are used to make economic decisions by other parties.

2. Ethical Tensions and Business Interests

The study found that internal stakeholders, particularly finance staff and operational managers, are often in a dilemma when asked to modify financial statements to support business sustainability. The tension between professional ethical values and the pressure to meet business expectations becomes a real dynamic in daily practice. The informants are aware that manipulative actions such as delaying the recording of expenses or inflating the value of revenue indirectly violate the principles of transparency and honesty. However, they also feel bound by loyalty to business owners and the economic needs of the business itself. One of the finance staff described the dilemma quite clearly:

> *"I know it's not in accordance with the rules, but sometimes if it's not done like that, we can't continue our business. The owner also believes in me, so I don't feel good if I refuse. Sometimes I feel guilty too."* (SF-02, June 14, 2024 interview)

These informants illustrate that despite full awareness of the ethical inconsistencies of the practices being carried out, structural and psychological pressures—both from within the organization and from market needs—drive them to follow the business owner's demands. In many cases, long-lasting, personal working relationships reinforce the awkwardness to refuse. One of the operational managers even admitted that he had been a mediator between the owner and the financial staff in deciding the extent to which financial reporting would be adjusted. He explains:

> *"The owner said, don't be too honest, later investors will withdraw. But the finance staff was confused, afraid of being blamed. I'm the one who is the mediator, and I finally find a middle ground. It's a bit of a cliché, but it's a bit of a cliché."* (MO-01, June 17, 2024 interview)

This quote confirms the existence of systemic pressures in micro-businesses that not only come from business owners, but also from external expectations such as potential investors, funders, or creditors. In this case, micro-entrepreneurs are in a vulnerable position, where the choice to be fully ethical can be at risk to the survival of the business. It appears that the ethical conflicts faced not only have an impact on the professional aspect, but also on the psychological condition of the individual. They feel trapped between having to live up to ethical values and socio-economic pressures in an uncertain work environment.

Thus, the tension between ethics and business interests in creative accounting practices in micro enterprises is not just a technical issue, but reflects a structural dilemma rooted in power relations, economic limitations, and an organizational culture that is permissive to value compromise. This condition emphasizes the importance of interventions based on ethics education, the development of internal reporting systems, and regulatory support that not only punish, but also empower micro business actors to remain ethically viable.

3. Literacy Limitations and the Influence of Organizational Culture

The results of the study show that the limitation of accounting literacy and the weak understanding of the principles of reporting ethics are crucial factors that encourage creative accounting practices in micro enterprises. Most of the informants admitted that they had never received formal accounting training, either from educational institutions or professional training institutions. Their knowledge of financial reporting is either self-taught or inherited informally from the previous business founder.

This has a direct impact on the quality of the reporting that is prepared, where the figures in the financial statements are more often interpreted as administrative representations, rather

than as a reflection of the actual financial condition. In this context, reporting is treated as a flexible document, which can be "customized" to fit external needs such as credit filings or tax reports. One business owner said that he never really understood the importance of the principle of transparency in financial statements:

> *"I don't know what to note, I used to learn business from my parents, the important thing is to have a record of income and expenses. If the number is not good, yes, adjust it a little, as long as it makes sense."* (PU-02, June 13, 2024 interview)

This quote reflects a general pattern among micro-business actors, where the accuracy of financial statements is not a top priority. In fact, in some cases, reports are only compiled if requested by an outside party, such as a bank or cooperative. When the request comes, business actors tend to enlist the help of staff or third parties to create a "feature-worthy" report.

This condition is exacerbated by an organizational culture that is permissive towards manipulative practices. The absence of an internal audit system or strict supervision causes reporting practices to be highly subjective. In many cases, there is no separation of functions between the parties who record transactions, compile reports, and make decisions all by the same person or in a limited circle, which allows for bias or deviations to occur without a correction mechanism. One of the operations managers stated that there were no standard standards in reporting and that the culture within his organization was used to "loosening" the rules:

> *"There are no standard rules here regarding recording. Usually if the report needs to be fast, yes, we do it simply. The culture is also relaxed, the important thing is that the boss is happy and looks profitable."* (MO-02, June 22, 2024 interview)

From these findings, it can be concluded that the limitations of financial literacy are not only individual, but also internalized in the organizational mindset. Financial reporting is not seen as part of accountability, but as an administrative instrument that can be adjusted according to context and needs. When values such as honesty, objectivity, and professional responsibility are not understood and not taught, then manipulative practices will be considered natural and even part of the organization's culture (Nguyen et al., 2022).

This situation shows the importance of a coaching approach that focuses not only on technical reporting, but also on the development of a values-based organizational culture. Interventions from government agencies, business associations, and educational institutions need to be directed to improve the understanding of accounting ethics in a practical and contextual manner for micro business actors so that they are able to build a more responsible reporting system.

Table 1. Summary of Thematic Findings

Main Theme	Sub-Theme	Brief Explanation
The Importance of Creative Accounting	- Adaptation to formal systems - Funding strategy	The practice is considered reasonable as long as it is not detrimental; done to increase access to capital
Ethical & Business Tensions	- Financial staff dilemma - Pressure of business owners	There is a conflict between professionalism and loyalty to business
Organizational Literacy & Culture	- Lack of accounting training - Permissive culture	Financial reporting is not ethical-based, but flexible and situational

Discussion

The findings of this study reveal that creative accounting practices in micro enterprises are not solely a form of fraud, but are often positioned as adaptive strategies to survive in the midst of economic pressures, limited resources, and limited access to formal financial services. This confirms the argument of (Oreshkova, 2023), that creative accounting is not always based on manipulative intentions, but rather uses gray space in accounting standards to achieve subjective goals, such as maintaining cash flow, maintaining reputation, or simply gaining the trust of lenders.

However, in the context of micro enterprises in Indonesia, this flexibility cannot be separated from the weak internal supervision system and low accounting literacy, both among business owners and financial staff (Silaen & Tulig, 2023). Some informants openly stated that they did not understand the difference between accrual-based and cash-based recordings, even considering financial statements as mere formalities. This reinforces the finding that financial reporting plays more of a role as a tool to adjust business narratives to appear "healthy", rather than to reflect actual conditions.

From an ethical point of view, these practices present a complex dilemma. Many decisions are made not based on universal principles, but on local norms and situational needs, as described in the theory of moral relativism (N Reiss, 2025). For example, business owners consider the change of financial statements as an 'emergency' measure to maintain business continuity, even if it means sacrificing the principles of transparency and accountability that are the cornerstones of the accounting profession's ethics (Zhang, 2024). In this context, honesty becomes relative and negotiable depending on the urgency of the external conditions the venture faces.

Furthermore, the results of this study also show that there is tension between business owners and financial staff who are the main actors in the reporting process. This tension reflects an asymmetrical power relationship in which finance staff, while understanding that the act of modifying numbers is a form of ethical violation, often have no room to refuse the owner's orders. Close personal and professional relationships reinforce the dominant position of the owner, making reporting decisions more influenced by business interests than by the principles of professionalism (Dorasamy, 2023).

The practice of accelerating revenue recognition, delaying the recording of burdens, or obscuring asset estimates has also been found in various international studies such as García-Sánchez et al. (2022), which states that micro-entrepreneurs often use these practices as a form of response to fiscal pressures and limited access to capital. However, this study makes an additional contribution by revealing how these practices are colored by the cultural context and internal structures that are typical of micro-enterprises in Indonesia.

Organizational culture factors also strengthen this practice. In most cases, there is a mindset that "outsmarting" a report is not a form of moral violation, but a business strategy. This view is in line with the results of (Adejumo & Ogburie, 2025) research, which shows that many small business actors do not see financial statements as ethical documents, but rather as an administrative instrument that can be adjusted. This culture is exacerbated by the absence of an adequate internal supervisory system and the absence of professional ethics training for financial staff and business owners (Musah et al., 2025).

The limitations of this study lie in the geographical scope that is still limited to one province and the relatively small number of informants. Therefore, follow-up research with a combined quantitative-qualitative approach and broader regional coverage is strongly recommended to strengthen the validity of the findings and explore the variation in practices across different social and economic contexts.

Practically, the results of this study emphasize the importance of preparing a financial literacy education program that not only emphasizes the technical aspects of record-keeping,

but also instills awareness of the importance of reporting ethics. This effort should involve various parties such as government agencies, professional associations, non-governmental organizations, and higher education institutions that can play a role in designing a contextual and applicable training curriculum. In addition, it is necessary to develop micro accounting guidelines that are friendly to the conditions of micro business actors but still uphold the principles of integrity and accountability, so that micro businesses can grow sustainably and responsibly in the broader economic ecosystem.

CONCLUSION

This study reveals that creative accounting practices in micro enterprises are not solely driven by manipulative intentions, but are adaptive strategies that arise from external pressures, limited access to formal funding, and low accounting literacy. Internal stakeholders, such as finance staff and operational managers, are often under ethical strain when faced with reporting demands that are not fully in line with accountability principles. The power imbalance between owners and staff, as well as weak internal oversight systems, reinforces an organizational culture that is permissive towards reporting flexibility.

From these findings, the existence of creative accounting practices in micro enterprises reflects the failure of the system in equipping business actors with an adequate understanding of accounting ethics, as well as the lack of assistance in financial governance. Therefore, efforts to increase accounting literacy, strengthen professional ethics, and establish a proportionate internal supervisory system are important in building more responsible and integrity financial reporting practices in the micro business sector.

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