

INTEGRITY, UNETHICAL BEHAVIOR, AND TENDENCY OF FRAUD

Gugus Irianto

gugusir@ub.ac.id and gugusir@gmail.com

Nurlita Novianti

Kristin Rosalina

Yuki Firmanto

Faculty of Economics & Business, Universitas Brawijaya

ABSTRAK

Tujuan dari penelitian ini adalah untuk menganalisis pengaruh integritas, dan sistem kompensasi terhadap perilaku tidak etis, dan pengaruh perilaku tidak etis terhadap kecenderungan kecurangan keuangan. Sampel yang digunakan dalam penelitian ini adalah staf bagian keuangan, dan pengadaan barang dari suatu lembaga pendidikan tinggi. Hasil penelitian menunjukkan bahwa integritas tidak berpengaruh pada perilaku tidak etis, sementara sistem kompensasi memiliki pengaruh terhadap perilaku tidak etis. Hasil lain menunjukkan bahwa lingkungan yang beretika dapat mendorong keputusan yang dilandasi oleh prinsip-prinsip etika daripada keputusan yang didasarkan pada kepentingan pribadi; atau dengan kata lain tendency kecurangan keuangan dapat dikurangi manakala berada dalam lingkungan yang beretika. Hasil penelitian ini selanjutnya dapat diartikan bahwa sistem yang baik, integritas, dan lingkungan yang beretika adalah faktor penentu perilaku etis seseorang.

Kata kunci: integritas, sistem kompensasi, perilaku tidak etis, kecurangan keuangan

ABSTRACT

The purpose of this research is to analyze the influence of integrity, and compensation systems on unethical behavior, and the influence of unethical behavior on tendency of fraud. The sample used in this research is the staff of financial, and procurement divisions of a higher educational institution. The result of the research indicates that integrity has no influence on unethical behavior, whilst compensation systems have an influence on unethical behavior. The other result shows that ethical environment could drive decision based on ethical principles rather than personal interest. In other words, the tendency of fraud may be reduced by the existence of ethical environment. The results of the study may be further interpreted that appropriate system, integrity, and ethical environment are determinant to ethical behavior.

Keywords: integrity, compensation systems, unethical behavior, financial fraud.

INTRODUCTION

Phenomenon and discussion of unethical behavior and fraud both in public and private sectors have been apparent for years. Irianto (2003), for example, explored and described various issues related to such phenomenon from rationalization, role of independent auditor's in detecting fraud, to the implications to accounting educations. Recently, various cases of fraud which were done by public officials in Indonesia have become the main discussion topic in various media. The facts showed that during 2004

until 2010, there were 147 head of regions in Indonesia involved in corruption cases. Out of 33 provinces in Indonesia, 18 governors and one vice governor trapped in corruption case. While in regional and city level, there are 84 regents, 17 mayors, 86 viceregents, and 19 deputy mayors also involved in corruption. The total loss of the state from corruption cases of several heads of regency for the last five years has reached the approximation number of 4,4 billion rupiahs. Meanwhile, the survey result of national integrity of public officials done by

KPK (Corruption Eradication Commission) on 2009 shows that the integrity level of Indonesia in general is 6,50. This number can be considered low since it is only 0,5 above the minimum integrity standard set by KPK. The number is also much low compare to other country like Korea, which integrity number reaches 9 (KPK, 2009:6).

Based on the data from Corruption Perception Index released by *Transparency International*, until 2009 Indonesia is included in the country with the highest corruption level in the world with only 2,8¹ for the corruption perception index number out of 10 as the highest number (*Transparency International*, 2005). Although financial statement fraud in public sector, which is reflected the frequency of corruption by public officials has been rooted, a comprehensive theoretical and empirical study about it in Indonesia is not that brisk as it has been in other countries.

The phenomenon of unethical behavior is already ingrained in our nation. Unethical behavior has actually been happening since being in the educational environment. Unethical behavior that occurs varies, ranging from the behavior or actions that are unethical (ethical misconduct) until the case against the law. This is what triggers the assertion that unethical behavior in the educational environment is a predictor of unethical behavior in the workplace (Sierles et al., 1980 as cited by Irianto, 2003). Furthermore, concerning the unethical behavior of public officials, which later on leads to fraud action, agency theory espoused by Jensen and Meckling (1976) considered being appropriate in describing the phenomenon. Agency theory is connected to agent integrity toward principal, and intended to solve two problems happened within agency relation. One of them is the

problem appears when the interest or purpose of the principal and agent are in contrary, and when the principal undergoes a difficulty to trace what exactly the agent do. Those two problems appear in agency cannot be separated from the opportunist behavior of the agent which later on will lead to how high is the integrity of an agent toward his responsible to the principal. Integrity of an agent will be questioned when his motive and interest are different with what the principal wants. As a result, in the practice, the agent is not always act according to the principal's interest. In the end, different will, motivation and utility between agent and principal can trigger the possibility of the occurrence of unethical behavior and tendency of fraud in financial statement done by the agent toward the resources owned by the principal.

Brass et al. (1998) stated that unethical behavior is caused by two major factors, which are individual factor and organizational factor. Individual factor, for example, consists of *locus of control* and *cognitive moral development* which lead to *behavior integrity*. While organizational factor consists of organization climate, compensation system, codes of conduct, and prevailing norms. Furthermore, Jensen and Meckling (1976), Brickley and James (1987), and Shivadasani (1993) explain that principal can solve this problem by giving appropriate compensation to the agent, and also paying out monitoring fee. Meanwhile for public sector, empirical proof of correlation between compensation and unethical behavior, also deception in accounting which is reflected in the corrupt behavior of public officials is shown in several researches. Van Rijckeghem and Weder (1997) in their research proved empirically that salary of public officials has negative relation with corruption.

¹ www.ti.or.id "Transparency International Corruption Perceptions Index 2009." January, 1, 2011.

The agency problem can also be happened if the principal has difficulty tracing back what the agent exactly has done. This situation is called information asymmetry. It is also related to the level of the information credibility given by the agent to the principal. To solve agency problems, the management of the company should implement the right accounting principles. People need information credibility (IAI, 2001). Nicholson (1997: 487-489) recorded that action done by the management is influenced by the situation of information asymmetry.

Unethical behavior and tendency of fraud in financial statement is also caused by attitude and moral responsibility of company. A company has a moral and social responsibility (Keraf, 1998: 119), which in operational level is represented by the management. Unethical behavior and tendency of fraud in a company depends on the morality of the management. From the previous elaboration, we can see that unethical behavior and tendency of fraud is a major problem happening in public sector in Indonesia. Considering the issues, this research is done to analyze the influence of integrity and the compensation system on unethical behavior, and the influence of unethical behavior on tendency of fraud.

Problems of the Study

Based on the elaborated background, problems of this study are presented as follow: (1) Does integrity have influence on unethical behavior?; (2) Does compensation system have influence on unethical behavior?; (3) Does unethical behavior have influence on tendency of fraud?

Purposes of the Study

The purposes of this study are as follow: (1) To analyze the influence of integrity on unethical behavior; (2) To analyze the influence of compensation system on unethical behavior; (3) To analyze the influence of unethical behavior on tendency of fraud.

THEORETICAL REVIEW

Principal-Agent Theory

The fundamental tenet of principal-agent theory is the existence of contract between principal and agent (Jensen dan Meckling, 1976; Broadbent et al, 1996). The relation between principal and agent is often called agency relation. Principal as the owner of the resources delegates some of his authorities to the agent to manage the resources owned by the principal. The purpose of this authority delegation is to maximize the profit for the principal. Furthermore, Jensen and Meckling (1976) stated that basically in the attempt to maximize profit, every single person act according to their own interest and so does agent. In carrying out its function, agent does not always act to give the best interests for principal.

The appearance of agency model between principal and agent later on causes the information asymmetry problem between those two parties. The information asymmetry occurs because principal undergoes limitation of controlling mechanism to monitor the performance of the agent and it is worsened by the less transparent and accountable behavior of the agent (Jain, 2001). Furthermore, according to Shah (2007) in Shah (2007), the information asymmetry problem appeared enables agent to act opportunistically in order to fulfill their own needs.

Two forms of agent's opportunistic behavior due to the occurrence of information asymmetry are adverse selection and moral hazard. Adverse selection happens because of the existence of hidden information where principal cannot find out the whole information related to the management of the resources he own. Meanwhile, moral hazard occurs because of hidden action done by agent. In other words, principal cannot find out every important activity done by the agent which is related to the resources owned by the principal (Broadbent et al., 1996). The forms of opportunist behavior caused by infor-

mation asymmetry between principal and agent like these later on will lead agent to do corruption. In this case, corruption means the behavior of agent which is taking advantage of the principal's resources to maximize his own personal prosperity.

In relation to this research, the agency model developed by the principal-agent theory is the appropriate model to describe the phenomenon of unethical behavior and tendency of fraud in financial statement which is caused by opportunistic behavior done by public officials (Jain, 2001), especially education service provider institution like university. Shah (2007) in Shah (2007) stated that in public sector area, what principal means in principal-agent relation model is the community (in this research context, it is identical with university students), while public officials (staff of university) play the role as agent. Public officials as agent are given mandate to manage the resources owned by the principal. The prosperity of principal (specifically university students and generally the community) will greatly depend on the behavior and decision made by public officials as agent to manage the resources entrusted to him (Laswad et al., 2001).

Integrity

Integrity word is derived from Latin word "integrate" which means complete. Other word for complete is without flaw, perfect and without cover. It means that what is in the heart and what is spoken, what is in the mind and what is done is the same. Based on *Wikipedia.com*, integrity is a concept of consistency of actions, values, methods, measures, principles, expectations, and outcomes. In ethics, integrity is regarded as the honesty and truthfulness or accuracy of one's actions. Integrity can be regarded as the opposite of hypocrisy, in that it regards internal consistency as a virtue, and suggests that parties holding

apparently conflicting values should account for the discrepancy or alter their beliefs. Integrity is one of the composer components of public integrity value. There are four constructions used to compose integrity (KPK, 2009):

a. Working Environment

Working environment has potency to support the practice of corruption; working environment in public service sector is not an exception. Based on the facts in the field, the habit of gratification and the involvement of broker will significantly decrease the integrity value. However, the atmosphere/situation of the service environment, the facilities available, and also the presence of meetings outside the procedures are also the factors that will decrease the integrity value.

b. Administration System

The transparency of information and the easiness of service or practicality of SOP and also the utilizing of information technology are the sub-indicators administration system which must be achieved in order to fulfill the integrity standard of public sector.

c. Personal Attitude

The negative personal attitude both of service officers and service users is one of the supporting factors of corruption in public service. There are three important things in assessing personal attitude and the relation with integrity value in this survey, that are fairness of treatment from service officer toward service user, whether there is expectation of gratification from officer and the attitude of service user itself at the time of service process.

d. Corruption Control Measures

The effort level to fight the corruption and complaint point for the service given are the factors that can prevent corruption, thus become one of the aspects valued. The table 1 below will explain about the construction and indicators that will form integrity.

Compensation system

Compensation system is the determinant of the amount of salary standard and other facilities (beside prosperity as basic salary) as the right of employees based on their own interpretation (Thoyibatun, et al., 2009). Employee compensation system plays such a key role because it is at the heart of the employment relationship, being of critical importance to both employees and employers. Appropriate compensation becomes the most important element for the employees' performance and also the success of the organization (Luthans, 1998 as cited by Wilopo, 2006). Hereby is the construction that builds the variable of compensation system which is developed by Gibson, (1997: 182 – 185) (Table2).

Unethical Behavior

Unethical behaviors occur in all areas of society, business, government, education, etc. Unethical behavior is something difficult to understand, which answers depend on the complex interaction between situation and personal characteristic of the doer.

Although it is difficult in accounting context, and the connection with market is often unclear, however, epitomizing behavior needs consideration in order to improve the quality of the decision and reduce the cost related to information and to improve the availability information for the market (Hendriksen (1992) as cited by Wilopo (2006). Refer to the dimension of deviate behavior at work of Wilopo (2006), and Tang *et al.*, (2003) in the research explained about the indicator of deviate or unethical behavior in company. Based on several comprehension of unethical behavior, thus a construction is made as follow (Table 3).

Tendency of Fraud

Fraud is a white-collar crime rife in recent periods. Fraud has become public attention since the accounting scandal of Enron Corp. Basically, fraud can happen anytime, anywhere and by anyone. This is

in accordance with the statement of Albrecht et al (2006) that "just about everyone can be dishonest".

Every human being must have a purpose and needs of each in her life. To achieve the goals or meet their needs, one can use any means, whether honest or dishonest. Therefore, Singleton et al (2006) defines fraud as a strategy to achieve personal or organizational goals and to meet human needs in ways that are not honest.

Besides that, Albrecht et al (2006) explained that fraud is a generic term, and embraces all of the multifarious means which human ingenuity can devise, which are resorted to by one individual, to get an advantage over another by false representation. No definite and invariable rule can be laid down as general proposition in defining fraud, as it includes surprise, trick, cunning, and unfair ways by which another is cheated. The only boundaries defining it are those which limit human knavery.

However, IAI have different statement to definition fraud. IAI (2001) explained accounting fraud as (1) misstatement occurs from a fraud in financial reporting, that is misstatement or deliberate omission of number or disclosure in financial report to deceive the user of financial report and (2) misstatement occurs from incorrect handling toward assets which is related to the stealing of assets of the entity causing financial report presentation which is not suitable with the accounting principles.

This research used the definition of fraud used by IAI (2001) that is misstatement occurs from fraud in accounting reporting such as intentionally omit a number or disclosure in accounting report to deceive the report users. IAI stated, not explicitly, that accounting fraud is a crime.

Tendency of fraud can be done in any forms. The opinion of Wells (2005) as quoted by Kartikasari and Irianto (2009), stated that misstatement in financial report in form of setting up a higher or lower

Table 1
Construction that forms Integrity

Variable	Construction	Indicator
Integrity Potency (KPK,2009)	Working environment	Habit of gratification
		Need of having meetings outside the procedure
		Atmosphere/condition around the service place
	Administration system	Practicability of SOP
		Transparency of Information
		Utilization of technology
	Personal attitude	Fairness in service
		Expectation of officer toward gratification
		Attitude of service user
	Corruption control measures	The effort level to fight the corruption
The mechanism of people complaint		

Table 2
Construction which forms Compensation system

Variable	Construction
Compensation system (Gibson, 1997, Wilopo, 2006)	The type of performance standard used as the determinant foundation of compensation
	The foundation of job promotion
	The socialization of honorarium standard and promotion
	The ethics and physical work standard

assets or profit can be done in several schemes that are (1) fraud in assessment of assets, (2) fictitious income, (3) concealing company liabilities and expenditures, (4) difference in income admission, and (5) fraud in revealing financial report information.

The opinion of Wells above is not far different from Schilit's (1993) statement as quoted by Soselisa and Mukhlisin (2008) which identified seven major categories of *shenaginans* (other term of Accounting Fraud) that are (1) admitting early income, (2) admitting fictitious income, (3) adding up income with one-time gains, (4) diverting current expenditure to the previous or next period, (5) not revealing all liabilities, (6) diverting current income to the next period, and (7) diverting future expen-

ditures to current period. In PSA No. 70 (SA Section 316), it is also explained several kinds of accounting fraud which are done in several forms such as (1) manipulation, falsification, or alteration of accounting record or its supporting documents which is the data source for financial report server, (2) wrong representation in or omission from financial report the significant events, transactions, or information, and (3) incorrect implementation of accounting principles related to amount, classification, way of presentation, or reveals which are done intentionally. Those actions are forms of misstatement which purposes to deceive the user of financial report. Based on several comprehension of tendency of fraud, thus construction is made as follow (Table 4).

Table 3
Construction which forms Unethical Behavior

Variable	Construction
Unethical behavior (IAI,2001, Tang <i>et al.</i> , 2003, Wilopo, 2006)	Abuse of position by leader
	Abuse of power by leader
	No action behavior by leader

DEVELOPMENT OF HYPOTHESIS

The Influence of Integrity and Compensation system on Unethical Behavior

Integrity and compensation system is part of the organization of mutual support. A compensation system that is designed so well if not supported by the integrity of the individual can also hinder the performance of the organization. Integrity is an important element in the operation of an organization. Maesschalck (2004) stated that a person's integrity has influence toward unethical behavior. Beside integrity, compensation system is also an important thing to be observed in order to find out the factors which influence unethical behavior.

Compensation system is still considered a very important part of employee performance and organizational success. This is also supported by Zairi *et al* (2010) which states that when employees are compensated, assessment, and recognition that they deserve more likely to appreciate the organization, or to behave ethically. But different results were found in the study of Dallas (2002) and Tang *et al.*, (2003) this suggests that the addition of compensation to employees tend to increase the sense of greed so that employees will feel "less" and eventually an unethical act. Besides that, in Wilopo (2006) and Thoyibatun *et al* (2010) studies found that compensation system doesn't effect to unethical behavior. Based on the elaboration above, thus hypothesis is formulated as follow:

H₁ : Integrity has influenced on unethical behavior

H₂ : The suitability of compensation system has negative influenced on unethical behavior.

The Influence of Unethical Behavior on Tendency of fraud

Unethical behavior and fraud in fact just a term that describes non-compliance with regulations. But in social life it is said that unethical behavior is not necessarily true fraud. Unethical behavior that violates the law is called a fraud. However, the fact that occurs in the various frauds it always starts from unethical behavior (Dallas, 2002). This is also supported by CIMA (2002) as cited by Wilopo (2006) which states that company with low ethics standard is likely to have high accounting fraud risk. Further in the study of Carpenters and Reimers (2005) also found that unethical behaviors are caused by ourselves, as well as others around us can drive a person to perform acts of fraud. This research was supported in Wilopo (2006) which stated that unethical behavior causes accounting tendency of fraud. Based on the elaboration above, thus the hypothesis can be formulated as follow:

H₃: Unethical behavior has positive influence on tendency of fraud

Type of Research

This research is an explanatory research which means this research explains whether there is or not a causal connection between the variables analyzed through a kind of proposed hypothesis test (Singarimbun and Effendi, 1995). The purpose of this kind of research usually is to try to explain aspects that caused a relation or make sure that there are differences between some variables or even the independency of two

Table 4
Construction which form Tendency of fraud

Variable	Construction
Tendency of fraud (IAI,2001, Wells, 2005, Wilopo, 2006, Thoyibatun, 2010)	Misstatement
	Misimplementation
	Misappropriation of Assets
	Misuse of commodities receipt

factors or more in a situation (Sekaran and Boogie, 2010). According to Jogiyanto (2004) explanatory research is a research which tries to explain the phenomenon that exists. This research will explain the influence of integrity (working environment, administration system, personal attitude, and fraud prevention), compensation system on unethical behavior and tendency of fraud.

RESEARCH METHOD

Population and Sample

Populatin is a compilation of elements which we can use to make several conclusions (Cooper and Emory, 1996:218). Population which is taken in this research is the whole staff or employees working in one of the educational institute in Malang which does the function of public service. The population in this research covers the whole staff in administration department both in faculty and study program. The reason of the choosing of the university sector in this research is based on the main reason that in the previous researches, it was only based on private organization (company) samples which were profit oriented, while university is one of the organization types in public sector which purpose is to give service to community especially in education field. Another reason is that by observing only one type of business, it will prevent the industrial effect factor which can influence the research result. The choosing of location in Malang is based on the consideration that it is close to the researchers' place, and there

is a limitation of time and cost from the researchers' side.

This research is done based on samples. The basic idea in the sampling is that by selecting part of the elements - population element, conclusion about the whole population can be gained (Cooper and Emory, 1996:214). Indriantoro and Supomo (2002) defined sample as a part of element-population element. In determining the number of the samples, it is based on the opinion of Sekaran and Boogie (2010:60) that is the number of sample for correlational research is ≥ 30 or ≤ 500 . Meanwhile, the method of sampling is included in the nonprobability sampling type with judgement sampling method. Judgement sampling method is a method involving choices of subject which have the most strategic place or position which provide the information needed (Sekaran and Boogie, 2010:70). Jogiyanto (2004:79) suggested that judgement sampling method is the method which uses certain consideration or criteria in choosing the samples.

The criteria used in choosing samples are: (1) Administrative staff or employees in a higher educational institution; (2) Having experience in financial and procurement activity.

Data Gathering Method

Data gathering is a standard systematical procedure to gain data needed for the research. Data gathering method used in this research is survey method.

The survey method which is done is collecting data by using questionnaire as data gathering tool. Surveying is asking questions to people and recording the answers to be analyzed (Cooper and Emory, 1996:287). Questionnaire is a technique in gathering data through written questions with written answers (Indriantoro and Supomo, 2002:154).

From the survey method using questionnaire, a data will be derived. This data is called primary data. Primary data is a research data obtained directly from the original source or not from mediator (Indriantoro and Supomo, 2002:146). The primary data in this research is obtained by sending the arranged questionnaire to be answered by the respondents. The researchers spread the questionnaire directly and explain the research in a glance, and also explain the respondents how to fill the questionnaire. The researchers give at least 2 weeks for the respondents to fill in the questionnaire; considering the activities of the respondents, it is not possible for the respondents to fill it in short time. Besides that, the researchers are also contacting by phone to remind the respondents and accelerate the returning of the questionnaire.

Before spreading out the questionnaire to the sample, researchers will do pre-test like: (1) Controlling the questionnaire; putting some items of negative questions in order to get unbiased result from the questionnaire; (2) Discussing the meaning of each indicator with both lecturers and staff

After doing the pre-test, the next step of the researchers is running pilot test. Trial of the pilot test is run in order to find out the validity and reliability of the instrument. Validity trial will be run with minimum amount of 30 questionnaires.

Research Variable and Measurement

This research is using two kinds of variables; that are dependent variable and independent variable. Independent variable is the variable which explains or influences

the other variable (Indriantoro and Supomo, 2002:63). In this research the independent variables are:

1. Integrity (X_1)

Integrity is one of the elements which build the public integrity value. There are four indicators used to build integrity. Those are Working Environment, Administration System, Personal Attitude, and Corruption Control Measures (KPK, 2009)

2. Compensation system (X_2)

Compensation system is the determinant of the number of honorarium standard and other facilities (beside prosperity as basic salary) as the right of the employees based on their own interpretation (Thoyibatun, et al., 2009)

Dependent variable is the variable which is defined or influenced by the independent variable (Indriantoro dan Supomo, 2002:63). In this research, the dependent variable is the unethical behavior (Y_1). Buckley *et al.* (1998) as cited by Wilopo (2006) explained that unethical behavior is something which is very difficult to understand, which answer depends on the complex interaction between situation and the personal characteristic of the doer. The second dependent variable is tendency of fraud (Y_2). Tendency of fraud is intentional misstatement or omission a certain number or disclosure to deceive the user of financial report, and (2) Misstatement occurs from inappropriate treatment toward the assets which is related to thievery of the entity assets causing the presentation of financial report inappropriate with the accounting principles (IAI, 2001). The variable measurement instrument used in a research can be developed by self by the researcher or adopted from the previous research. Research instrument is the instrument used to obtain, to process and to interpret the information gained from the respondents, which is done with the same pattern as done by IAI (2001), Tang, et al (2003), Wilopo (2006), Thoyibatun, et al (2009), and KPK (2009). In this research, the researchers take the

research instrument which validity has been developed and tested by the previous researcher.

Measurement scale is an agreement used as a reference to determine the length of interval in the measurement instrument, so that if the measurement instrument is used, it will produce quantitative data. The scale used in this research is Likert Scale. Likert scale is used to measure attitude, opinion, and perception of a person or community about social phenomenon (Sugiono, 2002:86). In this research, Likert scale is used in independent, dependent and intervening variable. The method of the measurement is by confronting a respondent with a question and later the respondent will be asked to answer the question with: “strongly disagree (STS), disagree (TS), neutral (N), agree (S) strongly

agree (SS).” The answer will be given score from 1 until 5 (Ghozali, 2001:41).

Hypothesis Test

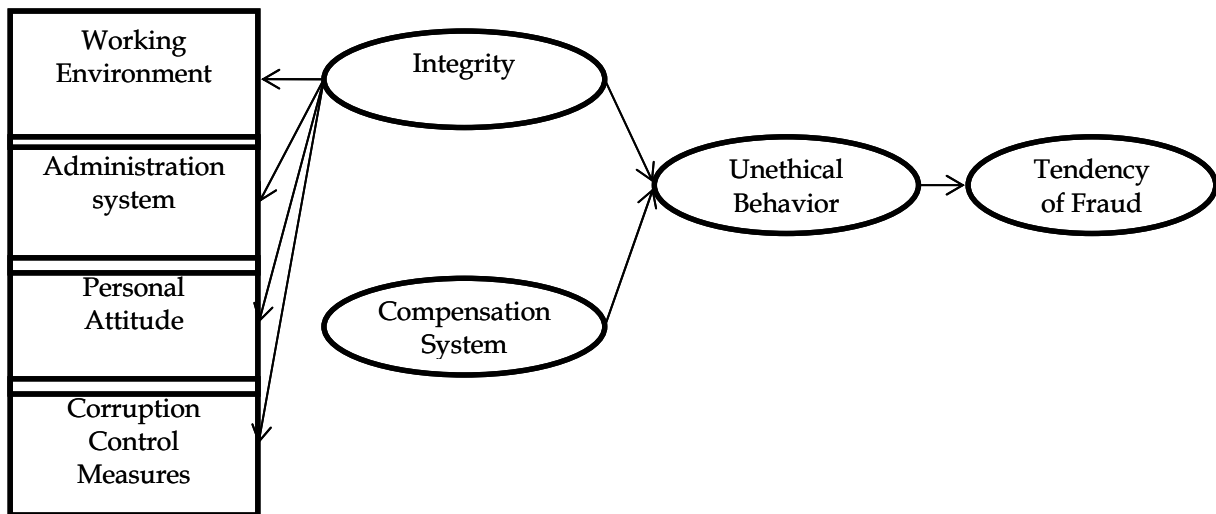
The instrument used in hypothesis test which is formulated in this research is Multiple Linear Regression Method (Ghozali, 2001:149) with the help of SPSS 16. The research model is shown in Picture 1.

To analyze those variables, statistic method with level of significance $\alpha = 0.05$ is used; which means error degree is 5%.

ANALYSIS AND DISCUSSION

Data gathering Result

The respondents used in this research are staff or employees working in one of the educational institutes in Malang which does the function of bureaucracy and public service, and have been chosen according to determined criterias.



Picture 1
Research Model

With equation as follow:

$$UB = \alpha + \beta_1 I + \beta_2 CS + \epsilon$$

$$TF = \alpha + \beta_3 UB + \epsilon$$

Notes:

- UB : Unethical behavior
- TF : Tendency of fraud
- I : Integrity
- CS : compensation system
- E : error

As mentioned in the previous chapter, this research is using survey method, which is spreading questionnaire among the whole staff. The process of data gathering takes approximately one month by spreading the research questionnaire directly.

The number of questionnaire spreaded among the staff is 100 questionnaires. However, the number of questionnaires returned is 82, while 18 questionnaires are not returned. After being checked, 33 questionnaires cannot be used because there are some data which are not completely filled or there are bias in the answers. Therefore, the respond rate in this research is 82% and the questionnaires that can be processed are 49 and it is used as the samples in this research (Table 5).

To find out the overview of the respondents who become the research data, the tables below will give complete explanation based on certain composition. Table 6 below shows the composition of the respondents based on gender.

Table 7 shows the composition of the respondents who become the research object based on last education obtained.

The composition of the respondents who become the research object based on the length of working period is shown in table 8.

Validity and Reliability Test Result

The validity and reliability of the data gathering result from the respondents needs to be tested using validity and reliability test of research instrument.

Table 5
Sample and Respond Rate

Total sample	100
Total unreturned questionair	<u>18</u>
Returned questionair	82
Invalid questionair	<u>33</u>
Valid questionair	49
Respond rate	82 %
Usable respond rate	49 %

Source: Primary data (processed)

Table 6
The composition of the respondents based on gender

No.	Gender	Ammount	Percentage
1.	Men	29	59,18 %
2.	Women	20	40,82 %
		49	100 %

Table 7
The composition of the respondents based on education

No.	Education	Ammount	Percentage
1.	Master	3	6,21 %
2.	Bachelor	23	46,94 %
3.	Diploma	4	8,16 %
4.	Others	19	38,78 %
		49	100 %

Table 8
The composition of the respondents based on the length of working period

No.	Length of working period	Ammount	Percentage
1.	< 1 year	2	4,08 %
2.	1 < x < 3 years	4	8,16 %
3.	> 3 year	43	87,76 %
		49	100 %

Research instrument is stated valid and reliable if the correlation coefficient (r) produces probability value less than 0,05 and Cronbach Alpha more than 0,6.

The table 9 shows the result of the validity and reliability test toward Variable Unethical Behavior (Y₁).

The result of the test on the table above shows all question items produce correlation coefficient (r) with probability less than 0,05 so it can be concluded that all question items are valid. The test also results *Cronbach Alpha*

number for 0,811 (more than 0,6) so that instrument is stated reliable.

The table 10 shows the result of validity and reliability test toward Variable Tendency of fraud (Y₂). The test result on the table 10 shows all question items produce correlation coefficient (r) with probability smaller than 0,05 so it can be concluded that all question items are valid. The test results *Cronbach Alpha* for 0,872 (bigger tahn 0,6) so that the instrument is stated reliable.

Table 9
The result of the validity and reliability test toward Unethical Behavior (Y₁)

Variable	Number	Validity		<i>Cronbach Alpha</i>
		Correlation (r)	Probability (p)	
Y ₁	Y ₁₁	0,731	0,000	0,811
	Y ₁₂	0,842	0,000	
	Y ₁₃	0,797	0,000	
	Y ₁₄	0,618	0,000	
	Y ₁₅	0,809	0,000	

Source: Primary data (processed)

Table 10
The result of validity and reliability test toward Variable Tendency of fraud (Y₂)

Variable	Number	Validity		<i>Cronbach Alpha</i>
		Correlation (r)	Probability (p)	
Y ₂	Y ₂₁	0,379	0,007	0,872
	Y ₂₂	0,523	0,000	
	Y ₂₃	0,756	0,000	

Source: Primary data (processed)

The table 11 below shows the result of the validity and reliability test toward Variable Compensation system (X_1). The result of the test above shows that all question items produce correlation coefficient (r) with probability smaller than 0,05 so it can be concluded that all question items are valid. The test results Cronbach Alpha for 0,819 (bigger than 0,6) so that instrument is stated reliable.

The table 12 shows the result of the validity and reliability test toward Variable Integrity (X_2).

The test result on the table above shows that there are several items which have probability above 0,05 or 0,1. Thus, the researchers take out those question items from the questionair. After it has been taken out, then all question items produce correlation coefficient (r) with probability smaller than 0,05 so that it is concluded that all question items are valid. The reduction of the question numbers in this variable also causes Cronbach Alpha to become 0,767. The test results Cronbach Alpha for 0,767 (bigger than 0,6) so that instrument is stated reliable.

Classical Assumption Test

The hypothesis test is done by using Multiple Linear Regression Test. In test using ordinary least squares/OLS method, best linier unbiased estimator/BLUE is needed from the assessor (Gujarati, 1997:44). A series of tests can be done so that the regression equation which is made can

fulfill this BLUE requirements, that are normality test, multicollinearity test, and heteroscedascity test. Considering there are two regression models in this research, so the classical assumption test is differentiated into two.

Normality Test Result

Gujarati (1997:67) wrote that the classical normal linear regression assumes the normality of data with several reasons, that are: (1) Obtain unbiased prediction model, and also own minimum variants; (2) Obtain consistent model, by increasing the number of the sample to become unlimited, the assessor refers to the real population value.

The purpose of normality test is to examine whether the intervening or residual variable in the regression model has normal distribution because the T-test and F-test assume that the residual number is following the normal distribution (Ghozali, 2001:110). The normality test done toward unstandardized residual number of regression model by using One Sample Kolmogorov-Smirnov Test. Data is categorized to have normal distribution if it produces number of asymptotic significance $> \alpha=5\%$. The result of the test is represented in the table 13.

Tabel 13
The result of One Sample
Kolmogorov-Smirnov Test

Regression Model	Kolmogorov-Smirnov Z
Regression Model I	0,276
Regression Model II	0,440

Tabel 11
The result of the validity and reliability test toward variable compensation system (x_1)

Variable	Number	Validity		Cronbach Alpha
		Correlation (r)	Probability (p)	
X_1	X_{11}	0,705	0,000	0,819
	X_{12}	0,769	0,000	
	X_{13}	0,784	0,000	
	X_{14}	0,781	0,000	
	X_{15}	0,561	0,000	
	X_{16}	0,768	0,000	

Source: Primary data (processed)

Tabel 12
The result of the validity and reliability test toward variable integrity (x₂)

Variable	Number	Validity		Cronbach Alpha
		Correlation (r)	Probability (p)	
X ₂	X ₂₁	-0,061	0,679	0,602
	X ₂₂	-0,131	0,370	
	X ₂₃	0,514	0,000	
	X ₂₄	0,507	0,000	
	X ₂₅	0,582	0,000	
	X ₂₆	0,278	0,053	
	X ₂₇	0,327	0,022	
	X ₂₈	0,225	0,121	
	X ₂₉	0,233	0,108	
	X ₂₁₀	0,500	0,000	
	X ₂₁₁	0,751	0,000	
	X ₂₁₂	0,532	0,000	
	X ₂₁₃	0,587	0,000	
	X ₂₁₄	0,573	0,000	
	X ₂₁₅	-0,075	0,608	
	X ₂₁₆	0,457	0,001	
	X ₂₁₇	0,449	0,001	
	X ₂₁₈	0,384	0,006	

Source: Primary data (processed)

Based on the test result toward residual number, the entire regression model produce Asymptotic Significance number bigger than 0,05. That result shows that the data has normal distribution.

Multicollinearity Test Result

Multicollinearity test is used to examine whether there is a correlation between independent variables. It uses a method to detect the existence of multicollinearity by using VIF (variance inflation factor) number; VIF number smaller than 10 (VIF<10) shows that there is no multicollinearity with other dependent variables. The multicollinearity test is represented in the table 14 below.

Based on the test result on the table above, VIF number in the entire regression model produce numbers smaller than 10.

This result shows that there is no multicollinearity between independent.

Tabel 14
The result of multicollinearity test

No.	Variable	VIF
1.	Regression Model I	
	Integrity (X ₁)	1,571
	Compensation system (X ₂)	1,571
	Regression Model II	
2.	Unethical Behavior (Y ₁)	1,000

Heteroscedasticity Test

This method is used to examine whether there is dissimilarity variants of residual in a regression model from one observation to the others. If there is difference in variants,

thus there is heteroscedasticity. The way to detect whether there is heteroscedasticity or not is by seeing the existence of a certain pattern in the graph scatterplot at around the number of X and Y. t variables.

If there is a certain pattern, so there is heteroscedasticity. Based on the test result toward heteroscedasticity in the entire regression model, it can be seen that there is no certain pattern at the formed graph. Based on the result, it can be concluded that there is no heteroscedasticity in the regression model used.

Hypothesis Test Result

Hypothesis of this research is tested by using Multiple Linear Regression method. Multiple Linear Regression method is used to examine the direct influence of integrity and compensation system on unethical behavior, and unethical behavior on tendency of fraud.

The regression analysis result (F-test) for model I, and II is as follow (Table 15).

Tabel 15
The regression analysis result (F-test)

Model	F	R	R Square	Sig
I	5,546	0,441	0,194	0,007
II	5,829	0,460	0,125	0,003

The regression analysis result (F-test) for model I on the 15 above shows the number of R Square = 0,194. This number shows that variation of unethical behavior (Y₁) which can be explained with regression equation is 19,4%, while the rest for 80,6% can be explained by other variables outside the model. From table 4.11, it can be seen that the value of F_{hitung} of the regression analysis is 5,546 and the value of the alpha significant (probability number) is $0,007 < 0,05$, so integrity variable (X₁), and compensation system (X₂) simultaneously have significant influence on unethical behavior (Y₁). This result shows that the model can be used to predict unethical behavior.

The same thing is also discovered in the model II. The table 4.11 above shows the number of R Square = 0,125. This number shows that the variation of tendency of fraud (Y₂) which can be explained by regression equation is 12,5% while the rest 87,5% can be explained by other variable outside the model. From table 4.11 it can be seen that the value of F_{hitung} the regression analysis is 5,829 and the value of the alpha significant (probability number) is $0,003 < 0,05$, so that unethical behavior variable (Y₁) simultaneously has significant influence on tendency of fraud (Y₂).

This result shows that the model can be used to predict tendency of fraud. This research result is in line with the research result of Carpenter and Reimers (2005), and Wilopo (2006).

Next, t-test is used to test whether the independent variable individually has significant influence toward dependent variable. The t-test result is as follow:

Tabel 4.12
The regression analysis result (T-test)

No.	Variable	UnStandardized Coefficients (Beta)	Sig
Regression			
1.	Model I		
	Integrity (X ₁)	-0,033	0,725
	Compensation system (X ₂)	-0,356	0,019
Regression			
2.	Model II		
	Unethical Behavior (Y ₁)	0,382	0,003

From the table above, it can be explained that:

Hypothesis 1

Hypothesis 1 shows that integrity variable (X₁) has influence on unethical behavior (Y₁). In table 4.12 it can be seen that integrity variable (X₁) has alpha significant number $0,725 > 0,05$, so that integrity (X₁) has no significant influence on unethical behavior (Y₁). Based on the result, therefore Hypothesis 1 is rejected.

Hypothesis 2

Hypothesis 2 shows that compensation system variable (X_2) has negative influence on unethical behavior (Y_1). In table 4.12, it can be seen that compensation variable (X_2) has alpha significant number $0,019 > 0,05$, and beta number $-0,356$, so that compensation system (X_2) has negative influence on unethical behavior (Y_1). Based on the result, therefore Hypothesis 2 is accepted.

Hypothesis 3

Hypothesis 3 shows that unethical behavior variable (Y_1) has influence on tendency of fraud (Y_2). In table 4.12, it can be seen that unethical behavior (Y_1) has alpha significant number $0,003 > 0,05$, and beta number $0,382$, so that unethical behavior (X_1) has positive influence on tendency of fraud (Y_2). Based on the result, therefore Hypothesis 3 is accepted.

Discussion of The Research Result

The Influence of Integrity on Unethical Behavior

Integrity refers to the quality of a person's characteristic which refers to the consistency between acts, values, steps taken, sizes used, principles held, expectation to aim, until the outcome which comes up. Integrity involves honesty and trust as the motivation of every action (Ssonko, 2010). Carter (1996) as referred by Ssonko (2010) stated that integrity needs 3 steps, that are able to see which right and wrong, act according to what it has observed (about the right and wrong), and also stated openly that we have acted according to our understanding of the right and wrong.

When the discussion of integrity is connected with organization environment, what becomes the next problem is the correlation between behavior integrity of each individual in the organization with the implemented system in the organization.

Ssonko (2010) explained that no matter how good a person's behavior and how great the amount of compensation (salary) given to a person, it does not simply reduce the unethical behavior from each individual in the organization if the implemented system is not supporting. We can take what happen in most of governmental institutes (public sector). In case of the accountability of the state owned property, there are several outgoing items which apparently cannot be formally accounted when in fact the outgoing is used for the institute operational activities. This kind of condition later on will lead the related public officials to look for cracks so that they can manage to make the unaccountable outgoing to be accountable formally, even though in the process they have to run through the ways which are considered violating the honesty principles (unethical). Several steps considered to be violating the ethics principles are falsifying expenditure evidence or adding (mark-up) some amount to other outgoing in which it can be accounted for formally. These kinds of problem will bring public officials to ethics dilemma conflict.

Further, What become other subject of debate concerning the relation between integrity and unethical behavior is point of view relativity used to see and justify whether an integrity behavior viewed as an ethical behavior or not. Parry and Proctor-Thomson (2002) elaborated this problem by giving an extreme example that is the actions done by Nazi soldiers led by Adolf Hitler. On one side, the majority of people in the world (or even can be said the whole) consider that the actions done by Nazi soldiers were a form of a very unethical behavior because it was a severe violation toward the principles of Human Rights. On the other side, when it is viewed from the Nazi soldiers' point of view, then they considered their actions as actions which

had integrity values. Those Nazi soldiers believed that what they did was something appropriate with their beliefs, had clear purposes, and the outcome would also give advantages for some communities. These kinds of problem which later on will make the connection between integrity and unethical behavior become something problematic.

The Influence of Compensation system on Unethical Behavior

The result of this research is in line with the previous research done by Luthans (1998), Van Rijckeghem and Weder (1997). However, what needs to be stressed further is that by increasing the salary of public officials it is not simply able to reduce corruption without any improvement in the implemented system. Without any supportive and transparent standard operating procedure (SOP), the salary remuneration policy of public officials cannot optimally reduce unethical behavior from the public officials itself; it even tends to cause inefficiency and ineffectiveness in the use of the state's money.

The opinion above is in line with the research result of Bebchuk and Fried (2003) which stated that unethical behavior is not only influenced by the amount of the compensation (salary) received by agent from the principal, but also, which need to be observed, how the scheme and design of the compensation (salary) is made. It is based on the opinion which stated that the awarding of adequate incentive for agent (manager) is an important thing that can stimulate the performance of agent, create effectiveness in costing, and also can lead to the fulfillment of the purpose (profit) of the principal.

The Influence of Unethical Behavior on Tendency of fraud

The result of this research is in line with the research result of Dallas (2002), Carpenters and Reimers (2005), and also Wilopo (2006). Further, this research result is also reinforced by the experimental

research done by Booth and Schultz (2004) who discovered that a strong influence of ethical environment can reduce manager's behavior in making decision based on his own interest (for example, continuing project, which actually is already failed, only for his own interest to get bonus). In other words, from the research result we can see the connection between environments which upholds the ethics principles with the making decision process of the manager. The strong influence of the ethical environment leads the manager to uphold the ethics principles in every process of making decision. The existence of environment which upholds ethics values can avert opportunistically behavior of a manager under the circumstances of agency problems and direct the manager to uphold the interest of company or organization.

CONCLUSIONS AND SUGGESTIONS

The important findings of this study are that integrity has no influence on unethical behavior, whilst compensation system has influenced toward unethical behavior. Those findings, to some extent, are in line with previous study by Ssonko (2010), although Ssonko believed that unethical behavior could not be reduced without implemented and appropriate systems beyond compensation systems. The second finding of this study is also parallel to the previous study by Luthans (1998), and Van Rijckeghem and Weder (1997). That study indicated the importance of compensation system to reduce unethical behavior. Finally, this research confirmed that ethical environment could drive decision based on ethical principles rather than personal interest. In other words, the tendency of fraud may be reduced by the existence of ethical environment. The overall results of the study may be further interpreted that appropriate system, integrity, and ethical environment are determinant toward ethical behavior.

A survey is being used in this study. Comparable to other survey, bias of the

results of this study may difficult to be avoided. In addition, the value of r square is relatively low, which indicates that different independent variable may need to be used in the future research. Such study may follow the study of Ashkanasy et al. (2003). Researcher believes that different approach to this study may produce different results. Experimental method was used by Booth and Schultz (2004) and produced different results. Other research such as by Brass et al. (1998) which used different model also proved differently. A naturalistic research approach could be exercised to observe in depth phenomena of similar research in the near future.

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