

# The Influence of Code of Ethics and Business Ethics Understanding on Corruption

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## Abstract

This study aims to examine the effect code of ethics of professional accountants and business ethics understanding on corruption. This research uses structural equation modeling with partial least square approach. The sample were 263 accounting students in North Jakarta. Hypotheses were tested using the bootstrap resampling method. Furthermore, data validity was tested using outer loadings. The goodness of fit was tested using the composite reliability and cross loadings. The result showed that the understanding of accounting profession ethics and understanding of business ethics significantly affect student's commitment to avoid corruption.

**Keywords:** Ethics, Business, Corruption

## Introduction

Since 1995 Transparency International has published the Corruption Perception Index (CPI) which ranks countries in the world based on the public perception on corruption. The position of Indonesia in the last eight years is low. In 2014, Indonesia Corruption Perception Index was 32. The score is same with 2012 and 2013. Nevertheless, Indonesia's rank increases from position 118 in 2012 to 107 in 2014 as the following table:

Table 1: Indonesia Corruption Perception Index

No	Year	Corruption Perception Index	Rank
1	2007	23	144
2	2008	26	130
3	2009	28	111
4	2010	28	110
5	2011	30	100
6	2012	32	118
7	2013	32	114
8	2014	32	107

Source: [cpi.transparency.org](http://cpi.transparency.org)

The ethic is important key for law enforcement. Ethics consist of trustworthiness and responsibility (Showalter, 2009). Trustworthiness has the main attributes such as honesty, integrity, consistency, and loyalty. Integrity and honesty is shown by compliance with the law and avoid stealing, cheating, and other types of deception. Responsibility has attributes such as accountability, doing for the best, and self control. According to Duska (2003), ethics is an important factor for wise business practice.

Previous studies about corruption have conducted by Goddess (2002). His research shows that corruption have negative impact on economic growth, domestic investment, and foreign direct investment in member countries of ASEAN. Mauro (1997) stated that corruption has negative impacts such as: 1) weakening investment, (2) reducing economic growth (2) bad organization structure because right person in the wrong place. 3) bad allocation of loans and grants. Based on illustration above, this research aims to observe and examine the Influence of code of ethics and business ethics understanding on corruption

## Literature Review and Hypotheses

### 2.1. Utilitarian Theory

Utilitarian theory states that every people should struggle to maximize benefits and minimize negative impact (Duska 2003). Bertens (2000) classifies utilitarisme into two types, (1) act utilitarianism, actions that provide benefits to majority of people, and (2) rule utilitarianism, action which consistent with moral rules and accepted by society.

Based on this theory, students who are studying accounting should understand professional ethics and business ethics. For that, they have commitment to avoid corruption in the future. Corruptions begin from weakness of moral commitment.

According to Hasbulah (2011), there are five types of corruption: corruption by need, corruption by the gate, corruption by lead, corruption by the read, and corruption by meat. For corruption by need, there are three prevention: leader should give paragon to subordinate, increasing employee awareness (self-consciousness), and increasing employee welfare. For corruption by the gate, institution must create a system to minimize the chance

for corruption. For prevention and control of corruption by the lead, institution should focused on the fit and proper test (FPT).

For corruption by read, institution should educate employee to create self-firmness. For corruption by meat, government should eradicate this corruption by death sentence. This punishment will be effective for reducing corruptor.

The Indonesian government also eradicates corruption through Corruption Eradication Commission. Consistent with UU No. 30 of 2002 on the Corruption Eradication Commission, functions and duties of the commission such as, coordination with authorized institutions to eradicate corruption, supervise authorized institutions to eradicate corruption, prevention, investigation, and prosecution of corruption, and monitoring to government.

## **2.2. Understanding of Accounting Profession Ethics and Avoid Corruption**

Profession must has a high moral commitment which is expressed in a regulation for professional guidance. This regulation (rule) must be reference for conduct. For that, every professional must act up to ethics regulation (Widaryanti, 2007). Agoes (1996) stated that each profession who provide services should have a code of conduct (moral principles). Without ethics, the accounting profession will not be trusted because the main duties of accountant is reporting financial information for business decision-making.

The users of financial accounting perceived that accountants have high integrity and competence (Abdullah and Halim, 2002). The interested parties in accounting profesion ethic is public accountant and accounting students. Professional ethics is characteristic of a profession that distinguishes it from other professions that regulate behavior of its members (Boynton and Kell, 2008). The code of ethics consists of four principles (Keraf, 1998). The principles are responsibility, fairness, autonomy, moral integrity. Brooks (2000) states that there are four situations which accountant must be professional. The situations are the role of accountants, public expectations, the ethical values vs. accounting techniques, and ethical behavior in the provision of audit services.

Windsor and Ashkanasy (1995) revealed that the assimilation of beliefs and values of the organization becomes definition of the profession's commitment that compromise the integrity and independence of auditors. Research of Suhakim (2010) concluded that the commitment of the profession and ethical awareness influences auditor behavior. Hunt et.al (1989) states that organization's ethics is important component of organization culture and interactively forms ethical orientation of individuals within the organization.

Utami (2007) proved that locus of control and professional commitment influences behavior of public accounting, experience has no effect on behavior. Budi Basuki and Hendaryatno (2007) found that positive relationship between the internal auditor's professional commitment and ethical decision making. Jeffrey and Weatherholt (1996) examined the relationship between professional commitment, understanding of ethics, and attitude of obedience to the rule. The results show that accountants with a strong professional commitment behavior are more observant to rules than accountant with low professional commitment.

For that, the student who understanding of professional ethics is expected to posses strong commitment for avoiding corruption. Based on above explanation, first hypothesis stated that understanding of professional ethics of accountants significantly influences accounting student commitment to avoid corruption.

## **2.3. Understanding of Business Ethics and Avoid Corruption**

Business practice could be an ethical if supported by political-economic system (Keraf, 1998). Create a business as an ethical practice require ethical principles for good business. Muslich (1998) defines business ethics as knowledge about the ideal manner for managing businesses with attention to the norms and morality. Brooks (2000) states that there are four situations which business ethics should be maintained. Beside that, Hunt et al (1989) also states that the organization's ethics level depends on organizational understanding of how organizations solve ethical problems. Hidayat (2010) stated that the locust of control and self-efficacy influence auditor. According to Khomsiyah and Indriantoro (1998) every person have concept about personal ethical philosophy which determine their perception of ethical issues. Schein (1985) stated corporate ethical value as guide to adapt external and internal of organization. Good understanding of business ethics course will encourage the achievement of a good professional commitment. Based on this explanation, the second hypothesis stated that understanding of business ethics affect significantly on corruption.

## **III. RESEARCH METHODS**

### **3.1. Population and Sample**

The study population was all accounting students in undergraduate level from universities in North Jakarta. There are three universities in North Jakarta, Universitas 17 Agustus 1945 Jakarta, Universitas Bunda Mulia and Institute Bisnis dan Informatika Kwik Kian Gie. According to forlap Dikti data until October 2015, population is about 2,138 students, which consists of 148 students of the Universitas 17 Agustus 1945 Jakarta, 1,149 students

of Universitas Bunda Mulia, and 841 students of Institute of Bisnis dan Informatika Kwik Kian Gie. Purposive sampling method is used for respondents sampling. The criteria for sampling is student who already take auditing course.

### 3.2. Operational Variables

Operational variables are an explanation of definition and measurement indicator of variables. The following definitions and indicators of variables:

- a. The dependent variable: accounting student commitment to avoid corruption. Commitment is a strong intention to do something. Indicators to measure this variable are indicators which used by Hasbullah (2011). The indicators are corruption by need, corruption by the gate, corruption by lead, corruption by the read, and corruption by meat.
- b. The first independent variable is understanding of accounting profession ethics. Ethics of the accounting profession is a commitment to behave ethically. Ethics usually expressed in rule for guidance in profession group. Indicators to measure are derived from theory which proposed by Brooks (2000), which states that there are four situations; role of accountants, public expectations, the ethical values vs. accounting techniques, and ethical behavior in the provision of audit services.
- c. The second independent variable is understanding of business ethics. Business ethics is knowledge about ideal behavior in managing businesses. Indicators for measuring this variable using a theoretical approach by Brooks (2000), which states that there are four situations where business ethics should be maintained. Those are business environment should not influence ethical behavior, ethical interdependence between business and society, concern for ethical business conduct, and developments in business ethics.

### 3.3. Analysis Method

Analysis Metode for this research is Structural Equation Modeling with Partial Least Square approach. Before testing the hypothesis, the data is tested the validity using confirmatory factor analysis method. Furthermore, the data reliability tested by composite reliability and cross loadings (Ghozali, 2006). At last, hypothesis tested using the output inner weight of partial least square.

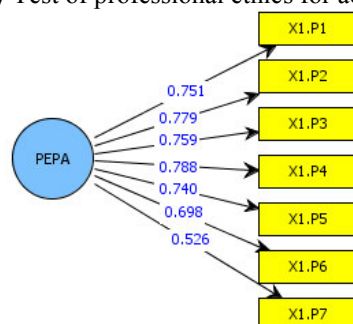
## IV. Research result

This study used sample of 263 respondents. Questionnaires were distributed 400 questionnaires. Questionnaires 275 questionnaires were returned, and total of incomplete questioner answer are 12 questionnaires. For that, the questionnaire can be processed is 263. Analysis of Structural Equation Modeling approach Partial Least Square (PLS) through some steps: (1) test of validity using outer loadings, (2) test of goodness of fit using the composite reliability and cross loadings, and (3) test of hypothesis using the inner weights (structural model).

### 4.1. Test of Validity

Outer loadings (measurement model) or are used to test the convergent validity unidimensionalis of each construct. According to Chin (1998), when the value of the indicator loading factor greater than or equal to 0.5, the indicator is valid.

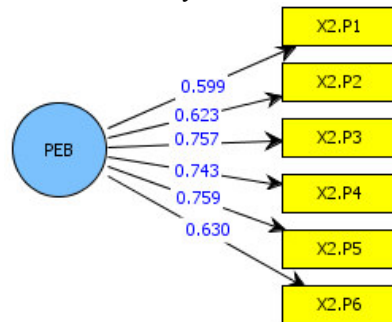
Figure 1. Validity Test of professional ethics for accountants (PEPA)



Source: PLS Smart Result, 2015

Based on result of validity test above, all of the value of loading factor on understanding of professional ethics for accountants (PEPA) variable was > 0.5. For that, all of the indicator variable is valid.

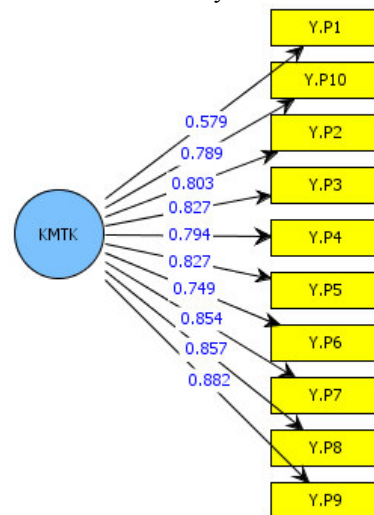
Figure 2:  
Validity Test PEB



Source: PLS Smart Result, 2015

Based on result of validity test above, all of the value of the indicator loading factor for understanding of business ethics (PEB) variable was  $> 0.5$ . It means that all of the indicator is valid.

Figure 3:  
Test Validity KMTK



Source: PLS Smart Result, 2015

Based on results above, all of the indicator value has loading factor  $> 0.5$ . For that, indicators of student's commitment to not corruption (KMTK) variable are valid.

#### 4.2. Composite Reliability

Data reliability test performed by composite reliability with the following results: Chin (1998) state that "The unidimensional of the block of variables may be assessed using the composite reliability (should be  $> 0.7$ )".

Table 1: Results of Composite Reliability

	Composite Reliability
PEPA	0.884
PEB	0.843
KMTK	0.946

Source: PLS Smart Result, 2015

Composite Reliability test results are 0.70. It can be concluded that the data of accounting profession ethics understanding, understanding of business ethics, and a commitment to avoid corruption is reliable and can be used to test the hypothesis.

#### 4.3. Cross Loadings

According to Ghozali (2006), Cross Loadings is part of the goodness of fit which aims to test the quality of the data, where the correlation value of each variable with the indicator must be greater than the variable correlation

with indicators of other variables. Note the following results:

Table 2: Results of Cross Loadings

	PEPA	PEB	KMTK
X1.P1	<b>0.751</b>	0.443	0.532
X1.P2	<b>0.779</b>	0.544	0.545
X1.P3	<b>0.759</b>	0.430	0.539
X1.P4	<b>0.788</b>	0.402	0.451
X1.P5	<b>0.740</b>	0.494	0.486
X1.P6	<b>0.698</b>	0.386	0.417
X1.P7	<b>0.526</b>	0.498	0.433
X2.P1	0.487	<b>0.599</b>	0.485
X2.P2	0.422	<b>0.623</b>	0.393
X2.P3	0.530	<b>0.757</b>	0.557
X2.P4	0.453	<b>0.743</b>	0.526
X2.P5	0.529	<b>0.759</b>	0.543
X2.P6	0.478	<b>0.630</b>	0.445
Y.P1	0.452	0.464	<b>0.579</b>
Y.P10	0.566	0.469	<b>0.789</b>
Y.P2	0.556	0.507	<b>0.803</b>
Y.P3	0.614	0.588	<b>0.827</b>
Y.P4	0.572	0.532	<b>0.794</b>
Y.P5	0.464	0.500	<b>0.827</b>
Y.P6	0.536	0.493	<b>0.749</b>
Y.P7	0.554	0.490	<b>0.854</b>
Y.P8	0.491	0.469	<b>0.857</b>
Y.P9	0.525	0.499	<b>0.882</b>

Source: PLS Smart Result, 2015

Based on table above, PEPA (first exogenous variables) and its seven indicators has greater correlation than correlation to the PEB and KMTK. The correlation of indicator to its variable is always greater than cross loadings with other variables. This suggests that the research data is fit and meets the criteria to be used to test the hypothesis.

#### 4.4. Hypothesis testing

Hypothesis is tested using the inner weights (structural model) which computed using PLS. The results of computation as described below:

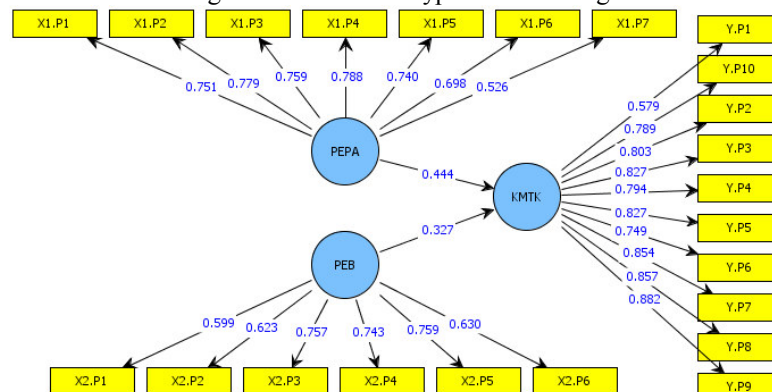
Table 3: Result for Inner Weight

	original sample estimate	mean of subsamples	Standard deviation	T-Statistic
PEPA -> KMTK	0.444	0.455	0.084	5.299
PEB -> KMTK	0.327	0.325	0.090	3.635

Source: PLS Smart Result, 2015

The model of research and results of hypothesis is presented below:

Figure 4: Results of Hypothesis Testing



Source: PLS Smart Result, 2015

#### The First Hypothesis Testing

The first hypothesis is understanding of professional ethics of accountants significantly influence accounting

student commitment to avoid corruption. If the t statistic in the table above  $> 1.96$ , hypothesis is accepted. The result showed that the understanding of the accounting profession ethics has significant effect on the student's commitment to avoid corruption because t statistic  $5.299 > 1.96$ .

Based on figure 5, Coefficient PEPA on KMTK is 0.444. It means that increase of understanding of the ethics of the accounting profession will increase student's commitment to avoid corruption. Results of this study will enrich result of previous research such as Windsor and Ashkanasy (1995), Suhakim (2010), Hunt et.al (1989) which states that the value of the organization's ethics is an important component in the culture of the organization which form ethical orientation of individuals within the organization. Result of research of Utami (2007), Budi Basuki, and Hendaryatno (2007), Jeffrey and Weatherholt (1996) indicates that accountant who has high commitment of ethics will act up to rules.

### The Second Hypothesis Testing

The second hypothesis stated that understanding of business ethics significantly influence commitment of accounting students to avoid corruption. The result showed that the understanding of business ethics significantly affect student's commitment to avoid corruption because t statistic  $3.635 > 1.96$ . Based on figure 5, coefficient PEB on KMTK is 0.327. It means that if understanding of business ethics increase 1 point, student's commitment to avoid corruption will increase 0.327 point. The result of study supports previous research which stated that corporate ethical value as a standards that guide internal and external adaptation organization.(Hidayat, 2010; Khomsiyah and Indriantoro, 1998; Schein, 1985).

### 4.5. Coefficient of Determination

The coefficient of determination (R-Square) is level of independent variables (exogenous) in explaining the dependent variable (endogenous). In this study, dependent variable is student's commitment to avoid corruption. The independent variables (exogenous) are an understanding of the accounting profession ethics and understanding of business ethics. Results of R-Square is presented below.

Table 4: Results of R-Square

	R-square
PEPA	
PEB	
KMTK	0.482

Source: PLS Smart Result, 2015

The test results showed that the ability of understanding the variable accounting profession ethics and understanding of business ethics in explaining the student's commitment to no corruption is 0,482 or 48.2%, which means that the chances of other variables in explaining the variable student's commitment to no corruption is 51.8%.

### 4.6. Discussion of Results

Results of the study showed that the accounting profession ethics understanding and business ethics understanding significantly affect student's commitment to avoid corruption. This study indicates that ethic based education is important thing in corruption prevention. For that, ethics education should be compulsory subject in all education level.

The education of ethics is not enough, the students should have high commitment act up to rule of profession. Duska (2003) argued that ethics only exist at the level of concepts and difficult to implement in real world. This is in line with the opinion of De Maria (2006), which develops concepts of brother secret, sister silence, sibling conspiracies for explaining corruption in organization.

Understanding of ethics is not enough for prevention corruption if environment doesn't support the prevention. Quah (1982) states that enforcement of anti-corruption should be supported by government. For that, eradication of corruption needs collaboration of institutions. Finally, further research on anti-corruption and the government's commitment still widely open.

### V. Conclusion

The conclusion of research is the answer for the problem questions that has been stated previously. The first conclusion is understanding of the accounting profession ethics significantly affect student's commitment to avoid corruption. It means that understanding of accounting profession ethics plays important to prevent and avoid corruption. For that, lecturers and professors should teach ethics to their students. The second conclusion is understanding of business ethics also significantly influence the student's commitment to avoid corruption. It can be concluded that Utilitarianism theory supported by this study.

The main limitation of this study is sample selection. The students are not in corrupt environment, so that

their commitment to avoid corruption is untested. Future studies should use practitioners stay in corrupt environment, so that their commitment to avoid corruption is tested. Other research opportunities is on topic of anti-corruption institutions and government's support to prevent corruption.

Another limitation of this study is only three universities in North Jakarta. Further Research should conducted in many university. In addition, future should use qualitative research. Finally, we can see the effect of exogenous variables on endogenous variables more detail.

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