

# Moral Obligation and Punishment Alert: An Empirical Study of Accounting Undergraduate Behavior When Personal Interest Is Involved

<sup>\*1</sup>Mohd Rizuan Abdul Kadir, <sup>2</sup>Amanuddin Shamsuddin,  
<sup>3</sup>Juwahir Kayan, & <sup>4</sup>Rashidi Abbas

<sup>1,2</sup>Department of Accounting, College of Business Management and Accounting  
Universiti Tenaga Nasional, Muadzam Shah Campus, Malaysia  
E-mail: MRizuan@uniten.edu.my, Amanuddin@uniten.edu.my

<sup>3</sup>Center for the Promotion of Knowledge and Languages Learning, Universiti Malaysia Sabah, Malaysia  
E-mail: juwahirk@ums.edu.my

<sup>4</sup>Centre for Modern Languages and Human Sciences, Universiti Malaysia Pahang, Malaysia  
E-mail: rashidi@ump.edu.my

## ABSTRACT

As a result too many major accounting failures, critics of accounting are likely to interpret this failure as a clear signal of the inability of the profession to maintain their discipline. An extensive research investigating ethical behaviour among practicing and prospective accountants and auditors has been made. This includes studies on accounting undergraduate as it is necessary to ensure they are on the right track to meet the business world. The purpose of this study is to investigate the effect of three variables, desire of outcome, punishment alert and moral obligation, on ethical decision making. We gave four scenarios to the students and asked them to rank the significance of the variables to their decision. Primary data were collected by self-administrated questionnaire involving a sample of 110 undergraduate accounting students'. From the result, we found that desired of outcome and moral obligation played significant role in explaining ethical decision making.

**Keywords:** Accounting education, Moral obligation, Punishment, Ethics

## INTRODUCTION

Accounting can be defined as the measurement, statement or provision of assurance about financial information primarily used by managers, investors, authorities and other decision makers to make resource allocation decisions within companies, organizations, and public agencies. It is also widely referred as the "language of business".

Financial accounting is one branch of accounting. Financial Reporting Standard (FRS) 1 *Presentation of Financial Statements*, states that 'Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of general purpose financial statement is to provide information about the financial position of an entity that is useful to a wide range of users in making economic decisions.'

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\* Corresponding author.

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Practitioners of accountancy are known as accountants. Accountants bear a huge responsibility to ensure information provided to users shows a true and fair view of the entity. Accountants are required to maintain a high level of ethical behaviour. AIPCA (2002) stresses that accountants must maintain a high level of integrity and objectivity. In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate their judgment to others.

### **Accounting and Misleading**

Accounting scandals involving the collapse of large corporate firms have brought about questions of adequacy of ethics among accountants. Wikipedia (2008) defined accounting scandal as an intention of misleading by entrusted accountants because of self interest. Such misstatement involves misdirecting information, overstating revenues, understating expenses, overstating the value of corporate assets and underreporting the existence of liabilities.

Among the famous accounting scandal is Enron accounting fraud, involving Arthur Andersen, which made the accounting profession receive much undesirable negative attention (Molyneaux, 2004). Liyanarachchi (2005), argued that, consequently to major accounting failure, critics of accounting are likely to construe this failure as a clear signal of the inability of the profession to maintain control over its discipline. O'Leary and Pangemanan (2007) argued that accounting failure affects the profession itself by placing ethics and ethical behaviour on a new level of importance.

Alleyne et al. (2006) stated that accounting failure concern has led to extensive research investigating ethical behaviour among practicing and prospective accountants and auditors. In particular, tertiary accounting students are the future practitioners in the field and it is therefore necessary that they are exposed to sound ethical training.

### **Accounting Undergraduate and Ethical Decision Making**

According to Ludlum and Moskaloinov (2005), the attitudes which students have currently could be translated into behaviours they will have in the business world in the future. Bonevac (1996), stated that ethical decision making concern is the process by which individuals use information to make decisions concerning what they believe to be right or wrong.

Jones (1991) defined ethical decision as a decision that is both legal and morally acceptable to the larger community, whereas unethical decision is the other way round, illegal or morally unacceptable to the larger community. Normally the decisions made are based on learning and experiences one has been exposed to.

According to Harris (1998), decision making is the study of identifying and choosing alternatives based on the values and preferences of the decision maker. Making a decision implies that there are alternative choices to be considered, and in such a case we want not only to identify as many of these alternatives as possible but to choose the one that best fits with our goals, desires, lifestyle, values, and so on.

In this study, we examined the accounting undergraduate behaviour toward ethical decision when personal interest occurs. We give scenarios with a few alternatives to the students together with consequences on each decision they made. The students were asked to rank the significance of outcome when there is a self interest involved. They were also asked to rank how significant adherence to moral obligation and enforcement of punishment will effect their decision. Their decision might either be ethical decision or unethical decision.

## Significance of the Study

This paper was designed to identify the ethical decision making by accounting undergraduate students. Since these students are our future accountants, their way of ethical decision making is very important as it can be used to prepare them to be a good accountant in future. This finding hopefully can be used by our universities as a guideline in preparing accounting undergraduates before their entering the working world.

This study is divided into five sections. Section one is an introduction to the study. Section two discusses a review of previous research relevant ethical and moral behaviour. Section three highlights the methodology used in our research. Section four present the study findings and section five elaborates our conclusions and suggestions for future research.

## LITERATURE REVIEW

According to Gurley et.al. (2007), much research on ethical behaviour has taken the perspective of increasing moral development, raising sensitivity to ethical issues, and improving moral judgement; but much less attention has been paid to the impact that punishment and prosecution has on moral motivation.

The majority of the early research on ethics was based on Kohlberg's model of Cognitive Moral Development. Kohlberg (1969), described three levels of moral development; pre-conventional level - judge the morality of an action by its direct consequences, conventional level – judge the morality of actions by comparing these actions to societal views and expectations, and the post-conventional level - realization that individuals are separate entities from society now becomes salient and one's own perspective should be viewed before the society's.

Abdolmohammadi and Ajzen (1985) claimed that, the Defining Issues Test (DIT) is the instrument most commonly used to measure the level of moral development of research subject. The *DIT* uses a likert-like scale to give quantitative rankings to moral dilemmas.

According to theory of planned behaviour introduced by Ajzen (1985), intentions are key to explaining behaviour and are shaped by attitude toward the behaviour, subject norms and perceived control over behaviour. Attitude toward performing the behaviour is a function of belief that performing the behaviour will lead to certain consequences and the individual's evaluation of those consequences. The more positive consequences, the more favorable attitude toward the behaviour will be.

Rest (1986) developed a four-component model of ethical reasoning which consists of; moral awareness which is recognized in the situation, making moral judgment by determining whether morally right or wrong, developing a moral intention by deciding the choice of action and implementing moral intention by engaging the behaviour. According to this model, moral intention is influenced by moral motivation, the centre of why people choose not to be in ethical.

Jones' (1991), introduced the concept of moral intensity, stressed the importance of the characteristics of the issue concerning ethical decision-making. He identified six attributes that influence an individual in making decision on ethical issue: magnitude of the consequences is the effect of harms done to others; social consensus is acceptable social agreement; probability of effect is the effect of the act; temporal immediacy is the length of time of consequences, proximity is the feeling of nearness with affected parties; and concentration of affect is an inverse function of the number of people affected by an act of given magnitude.

A few researchers have studied and tested Jones' model. Singhapakdi et al (1996), supported that all six components of moral intensity were significantly related to ethical perceptions and behavioral

intentions of marketers. Singer and Singer (1997), found that magnitude of consequences and social consensus had significant effects on ethical perceptions. May and Pauli (2002), also found that magnitude of consequences is one of the most significant dimensions of moral intensity in influencing ethical decision making.

McMahon and Harvey (2006) claimed that moral intensity consisted of three characteristics, that are, magnitude of consequences, proximity and social consensus, rather than the six proposed by Jones. Watley and May (2004), found that both magnitude of consequences and probability of effect have stood out in ethical analysis.

Based on the literature, we conclude that, the decision making will involve a series of alternative and the magnitude of consequences will be the determinant of the decision. We will continue the research on magnitude of consequences but in different perspective. Our research investigates ethical decision making when personal interest is involved. Thus, personal interest is one of the consequences and we put punishment as other consequences. The same perspective was used by Gurley et.al. (2007).

As for punishment, the literature shows that ethical decision is effected if there is punishment imposed. According to economics crime theory introduced by Becker's (1968), the crime is committed only if the gain from the crime is more than the expected punishment, with expected punishment being the probability of detection and punishment times a monetary sanction.

Levitt (1997) supports the theory by arguing that changes in expected punishment are the most fundamental predictor for influencing criminal behaviour in the economic approach. Horvath and Kolomaznikova (2003) claimed that gains from crime and income, probability and size of punishment, and attitudes towards risk are the main variables influencing the result of individual behaviour.

## **RESEARCH METHODOLOGY**

### **Hypothesis Development**

The purpose of this study is to investigate the impact of three variables; desire of outcome, punishment alert and moral obligation, on ethical decision making when there is a personal interest involved.

Ajzen (1985), in the theory of planned behaviour claimed that, intentions are key to explaining behaviour and are shaped by attitude toward the behaviour, subject norms and perceived control over behaviour. According to this theory, the more positive consequences, the more favorable attitude toward the behaviour will be. We labeled intention as desire of outcome in this study.

However, Gurley et.al. (2007) claimed that, moral values had the greatest impact on participants' choices of the ethical options. Their finding demonstrates that people do not operate solely from their personal interest point of view, but moral obligation takes precedence. On the other hand, based on theory of economics crime, Becker's (1968) suggests that punishment can deter crime and is directed to ethical behaviour. From the finding, we label moral values as moral obligation and punishment which can deter crime as punishment alert.

Based on the review of the literature, we have come out with the following hypothesis.

- Hypothesis 1a: Desired of outcome is inversely related to ethical behavior
- Hypothesis 1b: Punishment alert is directly related to ethical behavior
- Hypothesis 1c: Moral obligation is directly related to ethical behavior
- Hypothesis 2a: The desired of outcome is significant factor in explaining the ethical decision making

- Hypothesis 2b: The Punishment alert is significant factor in explaining the ethical decision making
- Hypothesis 2c: The Moral obligation is significant factor in explaining the ethical decision making

## Research Design

The scenarios in this paper were taken from Gurley et.al. (2007). They took the scenarios from two sources, Lockheed Martin Corporation and Bateman and Snell's management textbooks. The original scenarios given are six and tests for reliability have been conducted.

For the purpose of this study, we choose only four scenarios which were already used by Gurley et.al. (2007). We altered the scenarios to meet local environment. In each scenario, we highlight the interest involved and its punishment waiting. The scenarios are reviewed and tested for content validity by asking our colleagues who teach ethics, management and law. The scenarios were then sent to an English lecturer to be rephrased to meet our students' English level of understanding.

The first and second scenario were related to self needed, third scenario related to best friend and fourth scenario related to family. In each scenario, we give four alternative of action. Two alternatives represent ethical decision and another two alternatives represent unethical decision.

Primary data are collected by self-administrated questionnaire involving a sample of 110 undergraduate accounting students. We used a five-point scale to rank the variable from 'Not a factor' = 1 to 'very significant factor' = 5. The scenarios were combined to determine the overall contribution that the variables had in explaining the variance in the ethical score, which was calculated based on the option the participants chose for each scenario. The combination of the four scenarios resulted in 440 data points.

## RESULT AND FINDINGS

This finding is based on 110 students. From Table 1 it shows that the highest percentage on age is below 22 which is 56.4 percent. 63.3 percent of the students are female and Malay students represent 67.3 percent. 63.3 percent of the students obtained their CGPA more than 3.00. On parent income, 54.5 percent of students claimed their parents income below RM5,000. There is also quite equal distribution of place origin which is between 28 percent and 21 percent throughout Malaysia. The majority of the students come from town area represented by 83.6 percent and rural area only 16.4 percent.

**Table 1.** Profile of Respondents

		No. of Students	Percentage
<b>Age</b>	Below 22	62	56.4%
	22 - 24	43	39.1%
	Above 24	5	4.5%
<b>Sex</b>	Male	40	36.4%
	Female	70	63.6%
<b>Race</b>	Malay	74	67.3%
	Chinese	8	7.3%
	Indian	25	22.7%
	Others	3	2.7%
<b>CGPA</b>	Below 2.00	1	.9%
	2.00 - 2.49	13	11.8%
	2.50 - 2.99	27	24.5%
	3.00 - 3.49	43	39.1%
	3.50 above	26	23.6%

<b>Parent Income</b>	less than RM5,000	60	54.5%
	5,001 – 8,000	28	25.5%
	8,001 – 10,000	22	20.0%
<b>Origin</b>	North M'sia	27	24.5%
	South M'sia	24	21.8%
	East M'sia	31	28.2%
	West M'sia	28	25.5%
<b>Area Origin</b>	Town	92	83.6%
	Rural	18	16.4%

### Reliability Test

The reliability test has been employed by using Cronbach Alpha. The test shows that all the variables measured are valid. It is shown in Table 2 where all factors have coefficient value 7 above the required level of 0.7 as suggested by Nunnally (1978).

**Table 2.** Reliability Analysis Statistics

<b>Factors</b>	<b>Cronbach's Alpha</b>
Desire of Outcome	0.781
Punishment Alert	0.720
Moral Obligation	0.743

Table 3 shows the result of ethical decision and unethical decision made by accounting undergraduates'. From the scenario, it shows that more than 60 percent will act ethically when personal interest involves self need. When the decision involves best friend 45.5 percent will act ethically. When the decision involves family, 49.1 percent will act ethically. From the result, we can infer that students put their best friend in the first place when making a decision, followed by family and themselves. However, since the result only shows either ethical or unethical, the reason why they choose best friend in the first place is unknown. This might be due to the different level of severity of punishment in each scenario, teens' behaviour who appreciates friends more than others, or other reason which needs further study.

**Table 3.** Ethical Decision

	<b>ETHIC</b>		<b>UNETHIC</b>	
	Frequency	Percent	Frequency	Percent
<b>Scenario 1</b>	71	65.5%	39	34.6%
<b>Scenario 2</b>	69	62.7%	41	37.3%
<b>Scenario 3</b>	50	45.5%	60	54.5%
<b>Scenario 4</b>	54	49.1%	56	50.9%

To test the hypotheses 1, we used Spearman's Rho correlations. The results for all the variables are shown below in Table 4.

**Table 4.** Correlations

	<b>Decision</b>	<b>Desire</b>	<b>Punish</b>	<b>Moral</b>
Ethical Decision	1.000	.094	-.190(*)	.279(*)
Desire of Outcome	.094	1.000	.375(*)	.175(*)
Punishment Alert	-.190(*)	.375(*)	1.000	.609(*)
Moral Obligation	.279(*)	.175(*)	.609(*)	1.000

\* Correlation is significant at the .05 level (1-tailed).

For the first hypothesis, 1a; Desired of outcome is inversely related to ethical behavior, the result shows that there is no significant relationship between ethical decision and desire of outcome. An unexpected result also was shown for hypothesis 1b; Punishment alert is directly related to ethical

behavior. This hypothesis is not supported. However, for the third hypothesis, 1c; Moral obligation is directly related to ethical behavior, the result supported the hypothesis.

To test the hypotheses 2, we run multiple regression tests. The results for all the variables are shown below in Table 5.

**Table 5.** Linear Regression

	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	6.501	.548	11.873	.000
Desire of Outcome	5.929E-02	.031	1.939	.055
Punishment Alert	-5.005E-02	.032	-1.545	.125
Moral Obligation	6.261E-02	.031	2.023	.046

Dependent Variable: Ethical decision

From the table we found that only moral obligation shows a significant value at  $F(3,106) = 4.711$ ;  $p < 0.05$ . This indicates that the result only supported hypothesis 2c, not hypothesis 2a and hypothesis 2b. The higher moral obligation, the more ethical decision behavior will be. This concludes that, moral obligation is the factor in determining ethical decision making. The result was consistent with Gurley et.al. (2007).

### Limitation of the Finding

All the information gathered for this study was obtained from UNITEN accounting undergraduate students' in Muadzam Shah Campus, Pahang. Therefore, the sample is limited to one particular university and does not represent the university population in Malaysia. The students are also aware that they were participating in ethics research. Even though the students were asked to act actually what they will do, but the decision can still be bias.

### CONCLUSION

The purpose of this study was to investigate the effect of three variables; desired of outcome, punishment alert and moral obligation, had on ethical decision making. The most significant fact revealed by this study is, what the most influential factors related to ethical decision making are.

We found surprising result that desired of outcome is not a significant factor in explaining moral decision. Furthermore, we also found that punishment alert is inversely related to ethical decision and also a not significant factor in explaining ethical decision making. This means people are neither aware about their desire nor bothered about punishment in making ethical decision. This result was not consistent with other researchers (Becker, 1968; Levitt, 1997; Gurley et.al.2007). One plausible interpretation of this finding is that, people perceive moral obligation as a significant factor in making their decision.

The most encouraging finding in this study is that moral obligation is a major influence played in ethical decision making. The major finding reveals that people do not act solely for self interest to earn something or be ethical because of punishment behind the unethical behaviour. Rather, people act ethically because it is their obligation to do so. This might demonstrate that how religions, learning experiences and cultures shape our behaviour toward the right ethical thinking.

However, there is more in this area that needs further research. Future studies might find out on why students put their interest for best friend at the first place, followed by family and themselves. A study also can be conducted on the degree of self interest that might make people behave unethically.

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