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Predictive Power of Situational Factor and Individual Factor on Misreporting Behaviour

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ABSTRACT

The aim of this research is to compare the predictive power of situational factors and individual factors on misreporting behaviour. The experiments were done to 64 undergraduate students divided into four classes. Each class got a different manipulation on situational factors such as superior's authority and social conditions. Both of them were manipulated to determine their effects on misreporting behaviour, while individual factors were measured by DIT to classify moral reasoning level. Participants attended two sessions of the experiment. The first session was conducted to measure the level of student moral reasoning. The second session measured student misreporting behaviour. The analysis was done by comparing error prediction on both factors and t-test Independent sample was used. This research found that situational factors have smaller error prediction than individual factors. It means the situational factor is more powerful predictor than the individual factor. It's imply that organization which wants to reduce misreporting behaviour should focusing deeper to the situational factor than individual factor.

Keywords: Individual Factor, Misreporting Behaviour, Situational Factor
JEL Classifications: D23, C91

1. INTRODUCTION

In 2010, asset misappropriation was a 90% fraud scheme that occurs in the world, while fraudulent financial statements occur <5%. That fact looks different if we look at the median losses. The fraudulent financial statement has more than four million US$ loss, while asset misappropriation median lost only $ 135.000 (ACFE, 2010). In 2012 cases of fraudulent financial statements increased by almost 8% and losses about one trillion US$ (ACFE, 2012). The urgency to prevent fraudulent financial statement behaviour becomes a priority because of the potential losing out of money. The technique to reduce fraudulent financial reporting can be conducted by identifying factors that influence misreporting behaviour. If we successfully identify factors that can influence misreporting behaviour, it can help an individual or organization to reduce misreporting behaviour by focusing on the most influential factor that could reduce misreporting behaviour.

The antecedent of misreporting behaviour classified into individual and situational factors. There are some researchers who found the influence of individual factors (moral reasoning) to ethical behaviour. Liyanarachchi and Newdick (2009) examine moral reasoning as the antecedent of propensity to become the whistle blower. Abdolmohammadi and Sultan (2002), Ponemon and College (1992) discovering an individual that has a different level of moral reasoning, will behave differently when faced with a situation that raises an ethical dilemma. Research on Uddin and Gillett (2002) and Xu and Ziegenfuss (2008) revealed that an individual with high moral reasoning will tend to behave ethically and vice versa. There are two researches that examine the influence of the external factor/situational factor against misreporting behavior. Murphy and Mayhew (2012) examine the influence of superior authority to commit unethical behaviour on misreporting behaviour. Mayhew and Murphy (2008) examine the influence of social conditions against misreporting behaviour.

Some researchers such as Liyanarachchi and Newdick (2009), Abdolmohammadi and Sultan (2002), Uddin and Gillett (2002), Xu and Ziegenfuss (2008) examine the influence of individual factor on unethical behaviour, meanwhile, Mayhew and Murphy (2008), Murphy and Mayhew (2012) examine situational factor on unethical behaviour. The previous studies examine misreporting behaviour with separate antecedent. This research used both factors (individual and situational) to compare their ability in influencing misreporting behaviour. This research aims to examine both of the factors and find out which one is more powerful to predict misreporting behaviour. It is critical because by identifying the factor that could influence on misreporting behaviour, an organization can focus on one of them to prevent misreporting behaviour.

The contribution of this research is the following: First, this study considers two situational factors, the superior authority and social conditions simultaneously which in previous studies were examined separately (research Mayhew and Murphy, 2008; Murphy and Mayhew, 2012). The second contribution is that this study considers the individual factors (moral reasoning) as variables that can affect misreporting behaviour. Moral reasoning is closely related to the individual decisions in situations that expose an ethical dilemma (Ponemon and College, 1992; Xu and Ziegenfuss, 2008). Third, the contribution of this research is to identify and measure the factors of individual and situational that can minimize misreporting behaviour. By identifying the individual and situational conditions that can reduce misreporting behaviour, organizations can minimize misreporting behaviour by combining these two factors. Fourth, this research measures the actual misreporting behaviour, while other finished on the intention to misreporting (research Carpenter and Reimers, 2005; Gillett and Uddin, 2005; and Uddin and Gillett, 2002). This research identify to the final construct from theory of planned behaviour from Ajzen (1991) with considering external factors that could influence people decision.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Interaction between Authority and Social Condition

Situational factor as an antecedent of misreporting behaviour such as superior authority and social condition separately being examined and found influence misreporting behaviour (research Mayhew and Murphy, 2008; Murphy and Mayhew, 2012). The social conditions of public disclosure discovered can reduce misreporting behaviour (Mayhew and Murphy, 2008), while superior authority to misreporting could influence misreporting behaviour (Murphy and Mayhew, 2012). Two situational factors which interact may become a powerful combination to commit misreporting behaviour or can reduce misreporting behaviour. Considering both factors make this research contribute to simulate closer to real condition on an organization. Two previous studies (research Mayhew and Murphy, 2008; Murphy and Mayhew, 2012) examine situational factor separately make the simulation further to the real condition. The interaction of situational factor could

better explain about how superior authority and social conditions influence misreporting behaviour than prior studies that examine both of them separately. Social condition in this research examine the accountability effect on unethical behaviour (Beu and Buckley, 2001). The fear of interpersonal loss of respect (Tittle, 1977) is the reason behind public disclosure could be a better predictor of unethical behaviour. With considering both factors together, it could reduce the GAP between simulation on an experiment with the real situation.

Moreover, it is because the process of an individual decision is a complex phenomenon that cannot be seen in a partial point of view. The first hypothesis based on that argument is:

H_{1a}: The highest misreporting behaviour found on the condition with superior authority to misreporting and private disclosure than other condition.

H_{1b}: The lowest misreporting behaviour found on the condition without superior authority to misreporting and public disclosure than other condition.

2.2. Predictive Power of Situational Factor and Individual Factor

Various researchers examined situational factors (research Day et al., 2011; Mayhew and Murphy, 2008; McCabe et al., 2001; Michaels and Miethe, 1989; Mitchell, 1997; Murphy and Mayhew, 2012) separately with individual factor (research Allmon et al., 2000; Bloodgood et al., 2008; Buchan, 2005; Kaplan et al., 1997; Liyanarachchi and Newdick, 2009; Ponemon and College, 1992; Uddin and Gillett, 2002; Xu and Ziegenfuss, 2008) to predict ethical behaviour. Some researchers tried to consider both of them as the antecedent of ethical behaviour (such as Jones and Kavanagh, 1996; Kisamore et al., 2007) but they ended on intention level. Some of the previous research using Theory of Planned behaviour and Theory action of Research to examine ethical behaviour that develop by Kit and Chang (1998). This research using contigenty model that evaluate ethical behaviour (Cohen and Bernie, 2006). This research also considers situational factor and individual factor by measuring actual behaviour (the fourth stage of Jones and Washington, 1991).

The ability of individual factors and situational factors influence ethical behaviour examined by several researchers (McCabe et al., 2001; Michaels and Miethe, 1989; and Michell, 1997). McCabe and Trevino (1997) and McCabe et al. (2001) found that individual and situational factors could influence cheating behaviour, situational factors have a stronger influence on cheating behaviour. Michaels and Miethe (1989) revealed that situational factors are a better prediction against the cheating behaviour of students in school than individual factors. Mitchell (1997) found that environmental factors can influence stronger than individual behaviour. Mitchell (1997) found that participants that have individual factors of integrity and high ethical consciousness will not effectively influence their ethical decision when surrounding supports to behave unethical. Individuals who follow an order from their superiors to commit fraud described by Davis et al. (2006) as responsibility shifting act to their superior. Responsibility to act fraud committed by individuals assigned to his superiors, because the fraud is a request from his superiors.

The hypothesis of this research was to verify the theory of moral reasoning. This research focuses on individuals who have high levels of moral reasoning. Individuals who have high levels of moral reasoning based on Kohlberg can behave using ethical principles which are a universal value. It is reinforced with several previous studies that verify the link between levels of moral reasoning and ethical behaviour (research Kaplan et al., 1997; Liyanarachchi and Newdick, 2009; Ponemon and College, 1992; Uddin and Gillett, 2002). Relationship between low moral reasoning and ethical behaviour was verified when the individual is on the conditions that support to behave ethics (research Xu and Ziegenfuss, 2008). Xu and Ziegenfuss (2008) found that individuals with lower levels of moral reasoning can behave ethically when there are money incentives. This study aims to verify the relationship between individuals with high moral reasoning to ethical behaviour when they are in a condition that support them to misbehave. Superior authority to commit fraud is a variable that is used to describe a situation that supports the construct of unethical behaviour. Murphy and Mayhew (2012) has found the superior authority to commit fraud is affect misreporting behaviour. This can be explained using a theory developed by Milgram (1974). Obedience theory states that individuals will act ordered by his superiors even though it is not by its principles. Based on this study, it is assumed that individuals with higher levels of moral reasoning would still commit fraud while reporting on conditions that support to behave unethical. Moral reasoning is the variable that constructs individual factor, while superior authority is the variable that constructs situational factor. Based on that argument, we predict that:

H_2: Situational factor is a better predictive factor than individual factor to predict misreporting behaviour.

2.3. Interaction between Individual Factor and Situational Factor

The impact of public disclosure is increasing accountability. People will know each other who do the misreporting with accountability. It leads to reduce the misreporting behaviour because of fear of losing trust from others if they are caught doing misreporting. This social exchange could influence people behaviour (Hoffman et al., (1994). The superior suggestion to misreport can influence the staff to follow the instruction because of responsibility shifting and vice versa. The opposite argument found that people characteristics like Machiavellianism play an important role to predict misreporting behaviour (Murphy, 2012). This research using moral reasoning as one of the psycology characters. The individual who has higher moral reasoning tends not to do misreporting, because it violates their principles. Based on the argument, the authors propose the following hypothesis:

H_3: The situation which is public disclosure, without authority and individual has high moral reasoning found the lowest misreporting behaviour compared to other situations.

3. RESEARCH METHOD

Data collection was done by a laboratory experiment with 2×2 between-subject design. We designed the experiment with minor modification from the Mayhew and Murphy (2008) and Murphy and

Mayhew (2012) experiments to reduce the possibility of an auditor fail to detect misreporting behaviour. Participants are accounting undergraduate students at the University of Jenderal Soedirman Indonesia. The experiment was divided into two sessions; 118 participants attended the first session to measure the level of moral reasoning. Sixty-four participants who were qualified for the reliability test on the first session attended the second session of the experiment. Participants got a brief lecture; then, participants answered a quiz related to the lecture material. Participants got a financial incentive based on the result of the quiz. Participants were checked and reported their incentives on their own. Participants got two manipulations, the authority to misreporting and public disclosure.

Experiments that do not require specific experience and knowledge to solve the experiment task can use the students as a surrogate from a businessman (Nahartyo, 2012). The psychological literature showed that real-world decision-makers have the patterns and characteristics of processing the same information with students (Nahartyo, 2012). This research collecting data from last year university students. Last year university student become participant to reduce the difference gap between university student and new employee.

The dependent variable in this study is misreporting behaviour. Misreporting behaviour measured using nominal and ratio scales. Ratio scales were done by calculating the difference between financial incentives reported by the participants with financial incentives that should have been gained by participants that, we used IDR (Indonesian Rupiah) as the incentives. We named the difference between what participant earned and reported as misreporting score (MS). A nominal scale classifies participants who cheat as one, while honest participant as zero. The second measurement was performed to find out the number of participants who commit fraud; we named it as a number of misreporting behaviour (NMB).

The further gap between reported and earned incentive showed the higher value of participant on misreporting score (MS). The width of the range indicates the level of participant dishonesty; the higher gap between the two showed how audacious participants were cheating in the experiment. The number of misreporting behaviour (NMB) is used to identify and measure the number of participants who are honest (0) and dishonest (1). The independent variables are social conditions and superior authority to misreporting. Social conditions are manipulated by disclosing the names and the behaviour of the participants, while the authority manipulated by asking participants to misreport the incentive.

Participants will be measured the level of moral reasoning using DIT based on post-conventional score (P-score). The form of a

Table 1: Four cell descriptive statistics

Classification treatment	Public disclosure	Not public disclosure
Superior authority	Cell 1 n:16; mean: 19.343,75 SD: 6667,63	Cell 2 n:18; mean: 11.138,89 SD: 6632,81
No authority	Cell 3 n:13; mean: 0 SD: 0	Cell 4 n:17; mean: 205,88 SD: 848,87

short form has a correlation by 0.93 with DIT instrument, which uses six scenarios (Rest, 1986). Even Rest develop the DIT2 to revise moral judgement instrument (Rest et al., 1999) and using neo-kohlbergian approach (Rest et al., 1999), a lot of researcher still using the original instrument. It indicates the form of a short form having the property of being equal to the form of six scenarios (Rest, 1986). Participants classified in the category of low morale and high moral with the manner of using the rule of P-score obtained from Rest (1986). This research using situational factor to identify the contingent factor model on ethical behaviour, one of the factors that could shift people behaviour is situational factors (Cohen and Bennie, 2006).

4. DATA ANALYSIS AND RESULTS

4.1. Statistical Test

Analysis of variance (ANOVA), especially contrast analysis (Kerlinger and Lee, 2000) was used to examine the hypothesis. Compare the misreporting score (MS) between subject to analyse the hypothesis. Tables 1 and 2 show the result of contrast analysis for hypothesis 1a and 1b.

Hypotheses 1a will be supported if misreporting score on cell 2 is the highest compared to other three cells and the score is significantly different than other cells. Based on Table 1, it is showed that it does not meet the first requirement. The mean score on cell two is not the highest compared to other cells. Even though the different hypothesis 1a test finds significance, since it has a P = 0.011, but due to unfulfilled first qualify, then hypothesis 1a is rejected according to the data.

Hypothesis 1b was examined by comparing the misreporting score on cell three with cell one, two and four. Table 1, which is based on descriptive statistics, showed that the mean of cell three is the smallest. Further results of the ANOVA contrast test can be seen in Table 2. Levene test found that the sample has a homogenous variance. The sample that has homogeneous variance can use ANOVA, especially contrast analysis by looking at the P-value in the column does not assume equal variance. Table 2 shows that the P-value score 0.000 on Colom does not assume equal variance. It shows that the cell three had statistically significant differences compared to others. Both terms mean the cell in the form of three lower than other cells and contrast ANOVA test found significantly different, then the hypothesis 1b is verified by the data.

Table 2: ANOVA contrast result

Statistic test	Classification of test	P-value
Levene statistic		0.000
H_{1a} and H_{1b}		
ANOVA H_{1a} (between group)	Cell 2≠cell 1, cell 3 and cell 4	0.000
ANOVA H_{1b} (between group)	Cell 3≠cell 1, cell 2 and cell 4	0.000
Contrast test H_{1a}	Assume equal variance	0.001
	Doesn't assume equal variance	0.011
Contrast test H_{1b}	Assume equal variance	0.000
	Does not assume equal variance	0.000

Hypothesis two was examined by comparing error predictions between individual factor and situational factor on misreporting behaviour. The more error prediction it means, the weaker the factor to predict misreporting behaviour. To examine the prediction power, this research doing two stages of examination for both variables. The first variable is situational factor. We examine situational factor as a powerful variable to predict misreporting behaviour by comparing how it should be happened and what actually happens. Even there are four classes in this research, the first stage is we predict the misreporting score (MS) at cell 2 (condition have misreporting authority and private disclosure) is higher than cell 3 (without misreporting authority and public disclosure). Second, we predict all participants in cell 2 commit misreport, while we predict all participants at cell 3 doesn't commit misreporting. We named number of people who committed misreporting behaviour as number misreporting score (NMB).

There are two stages to measure error predictions on situational factor. First, compare the misreporting score (MS) on cell two and cell three. Second, compare the number of misreporting behaviours between cell two and cell three. There are two steps to compare mean of misreporting score on cell two and cell three. First of all, cell two must have a higher mean than cell three. Secondly, the different misreporting score between cell two and cell three must be statistically significant. Based on Table 1, mean of misreporting score on cell 2 is 11.138.9 IDR and mean cell three is 0 IDR. Then, the independent sample T-test results found that the sample variance is not homogeneous in the Levene test, to examine the significance of a difference, this research using the P-value in the column where equal variance is not assumed. The P-value is the column of assumed equal variance found statistically significant with P = 0000. Implying that we found different misreporting score between cell two and cell three. Because both requirements are fulfilled, it means there is no error prediction on situational factor based on misreporting score (MS). Next, we examine error prediction on situational factor with the number of misreporting behaviour (NMB), we predict that all participants in cell two will commit misreporting, while all participants in cell three will not commit misreporting. The result found that there are two participants in cell 2 who commit misreporting behaviour. Further analyses were carried out by comparing error prediction on individual factor.

Moral reasoning as individual factor was divided into two levels: Low moral reasoning and high moral reasoning. An individual with high moral reasoning was predicted to behave ethically and vice versa. A predictive test against individual factor was conducted by comparing theoretical logic with actual data. Theoretical logic predicted that participant with high moral reasoning would not commit misreporting and vice versa.

The mean of misreporting score at participants with high moral reasoning is 4.454.54 IDR and participants with low moral reasoning is 7.575 IDR. The results of independent sample t-test showed that the two groups have homogeny variance with P-score 0.515 on Levene test. The result of the sample with homogeneity variance can be seen in the equal variance assume column. The results in equal variance columns showed no significant results

with P = 0.275. It shows that though the mean of misreporting score for high moral reasoning is lower than low moral reasoning, the significance distinction showed that the two groups are statistically not different. It implies that participants with different moral reasoning are not different in misreporting behaviour. It implies that moral reasoning as a proxy of individual factor has an error to predict misreporting behaviour.

Error prediction on situational factors has been found on the number of misreporting behaviour (NMB), while the individual factors on misreporting score (MS). We examine the error prediction gradually through misreporting measuring score (MS) then the number of misreporting behaviour (NMB) with a specific purpose. The misreporting score (MS) is an indication of the individual misreporting by considering the willingness an individual to misreport. Ratio scale was used for the identification of the strength of misreporting.

The higher the misreporting score (MS) is, the stronger the commitment is to do misreporting and showed courage to misreport, while the number of misreporting behaviour (NMB) only categorizes participants who commit misreporting (1) and do not commit misreporting (0). NMB does not consider how high participants commit misreporting. We used the degree of error prediction to choose one factor which can predict misreporting behaviour more powerful. A factor which has error prediction on misreporting score (MS) was categorized as a factor that has higher error predictions than a factor which has error prediction in the number of misreporting. Table 3 is a comparison summary of the results and analysis in order to identify and measure the prediction power of individual factor and situational factor.

Based on the Table 3, it was found that individual factor fulfils the first requirement but does not fulfil the second requirement, while situational factor fulfilled the first and second requirement for the correctness predictions on misreporting behaviour based on its misreporting score (MS). Furthermore, error predictions on the number of misreporting (NMB) were identified by comparing requirement and actual data in this research. Based on Table 4, we found 12 error predictions on individual factor, while two error

Table 3: Comparison of error prediction on situational and individual factors

Classification	Mean of misreporting score		Independent sample t-test
	High moral resoning	**Low moral reasoning**	**The P-value**
Actual data (individual factor)	4.454.54 IDR	7.575 IDR	P=0275 (not significant)
Requirement	Mean MS HM<mean MS LM		Significantly different
Conclusion	Fulfilled		Not fulfilled
Classification	**Cell 2**	**Cell 3**	**The P-value**
Actual data (situational factor)	11.138.9 IDR	0 IDR	P=0000 (significant)
Requirement	Mean MS cell two>mean MS cell three		Significantly different
Conclusion	Fulfilled		Fulfilled

Table 4: Conclusion for H_2

Classification	MS (misreporting score)	NMB (number of misreporting behaviour)	Predictive power
Individual factor	Mean fulfilled Different test not fulfilled	12 error prediction	Weak
Situational factor	Mean fulfilled Different test fulfilled	2 error prediction	Strong

Table 5: Descriptive statistics misreporting score (MS) on eight cells

Treatment	Public		Private	
	High moral	**Low moral**	**High moral**	**Low moral**
Authority	Cell 1 n: 5 Mean: 20.100 SD: 8597.96	Cell 2 n: 11 Mean: 19000 SD: 6058.05	Cell 3 n: 4 Mean: 12.250 SD: 4518.48	Cell 4 n: 14 Mean: 10.821.4 SD: 7.234.02
No authority	Cell 5 n: 7 Mean: 0 SD: 0	Cell 6 n: 6 Mean: 0 SD: 0	Cell 7 n: 7 Mean: 0 SD: 0	Cell 8 n: 10 Mean: 350 SD: 1.106.8

Table 6: ANOVA contrast result

Statistic test	Classification of the test	P-value
Levene statistic for H_3		0.000
ANOVA H_3 (between group)	Cell 5≠cell 1, cell 2, cell 3, cell 4, cell 6, cell 7, cell 8	0.000
Contrast test H_3	Assume equal variance	0.000
	Doesn't assume equal variance	0.000

predictions on situational factor. It shows that a situational factor found less error predictions than the individual factor, because the situational factor meets the requirements of misreporting score (MS) and have error predictions on the number of misreporting (NMB) smaller than the individual factor. The individual factor does not fulfil the first requirements on misreporting score (MS) and has error predictions on the number of misreporting (NMB) higher than situational factor. It showed that the data do not support the null hypothesis and showed that situational factors are better predictors than the individual factor.

The hypothesis three predicts that individuals who have higher levels of moral reasoning in a situation that there is no authority to commit fraud, and public social conditions will get the lowest misreporting score (MS) than other conditions. Two requirements that would support the hypothesis: (1) Misreporting score (MS) in cell five had the lowest mean. (2) ANOVA contrast test showed that misreporting score in cell five is significantly different than the other.

Table 5 shows the mean of misreporting score on cell five; six and seven are zero (0). Based on Table 6, Levene's test found that the sample has a variance that is not homogeneous. Samples that have no homogeneous variance can use ANOVA on column "does not assume equal variance." Based on Table 6 it was found that the P-value on the contrast of the column test "does not assume equal variance" is 0.000. It shows that cell five had significant differences compared to other cells. The second requirement is cell five shold be the lowest than the other cells, and it's not proven, but the contrast ANOVA test found significant difference. Hypothesis three was not supported by the data.

5. DISCUSSION, IMPLICATION AND CONCLUSION

The following are some implications of this research. First, this study confirmed the research of Mayhew and Murphy (2008), and Murphy and Mayhew (2012), which separately examine the situational factor consisting of an authority and social conditions. The situational factors in this research are limited to the superior authority to do misreporting behaviour and accountability.

The difference of the results of this research with previous studies becomes essential, because it shows there is an X factor which is not yet identified when manipulation in the form of public disclosure applied in Indonesia. The only difference between experiments in this research with previous research is the sample. Differences in behaviour can be caused by the difference in value held or understood in the area. The difference between regional values which is embraced each other referred to as a national culture. National culture is the value of that which is embraced or conceived by the public at the national level. X factor which is not yet identified strongly assumed as cultural factor differences. Previous studies that take samples in United States have different cultures with a sample of this research which was taken in Indonesia. One cultural difference was categorized by Hofstede, namely individualism and collectivism. As evidence

that the different locations cause the different cultural values were identified by some researchers. Hofstede and Bond (1988) found a country in the United States, Western Europe and Canada have individualistic, while Africa, Asia, and Latin America have collectivist culture.

The alleged participants in this research have collectivism, because the participants do colleague conformity just before committing misreporting. Participants see and ask each other in the class a moment before committing misreporting. Participants did it as a form of agreement and conformity to others. The collectivist culture that predicting occurring shame effects when a participant has known each other's behaviour is not occurring as strong as the participant who had individualistic culture. It is because of the participant feeling to perform the same act and behave following his group. It implies reducing the effects of embarrassment that are expected to appear of the public disclosure policy. It shows that this research is successful to identify no factor x, which needs to be verified further to get empirical evidence on links between pub disclosure and misreporting behaviour.

The implications of this research, namely prove that a factor of situational factor has a better prediction on misreporting behaviour than the individual factor. This really shows the results of this research that is different from previous studies. Variety of studies revealed that moral reasoning could predict unethical behaviour. Researchers such as Liyanarachchi and Newdick (2009); Abdolmohammadi and Sultan (2002); Ponemon and College (1992); Uddin and Gillett (2002); Xu and Ziegenfuss (2008) found that individuals with high moral reasoning tending to behave ethically and vice versa. Research does not consider the situational factor around the individual that can influence his behaviour. This study has been successfully identified that the level of moral reasoning cannot predict unethical behaviour. Error predictions on individual factor appear, because we found some participants who have high moral reasoning still committing unethical behaviour and vice versa. It becomes a contribution of this research that the situational factor could be better to predict unethical behaviour. The situational factor that could better predict support previous research on cheating behaviour that indicate situational is a better predictor (Bernardi, et al., 2004).

The second implication of this research is practical for the organizations. For an organization which wants to reduce or prevent misreporting behaviour should be focused on situational. Situational factor in the form of a superior becomes a critical factor in preventing misreporting behaviour. A superior who behaves ethically will lead inferiors to behave ethically and vice versa. The ability of an organization to minimize misreporting behaviour can focus on the evaluation of a superior as the head of department or organization, because of a superior can represent the whole department or organization.

Some conclusions from this research are: (1) Situational factor can stronger predict misreporting behaviour than individual factor. (2) Sample difference of this research causes the difference in response to public disclosure manipulation. It is because of the differences in on sample culture. (3) Situational factor found can better influence

or predict misreporting behaviour than individual factor. (4) A person with high moral reasoning was found not always behave ethically and vice versa. (5) An organization wanting to minimize misreporting behaviour in their environment must focus more on situational factors which exist in the organization.

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