

**ANALYZING THE INFLUENCE OF INTERNAL CONTROL SYSTEM AGAINST  
ETHICAL BEHAVIOR OF EMPLOYEE  
(Case Study on PT. Japfa Comfeed, Tbk)**

**By:**

Riswan Pramono

**Supervisor:**

Prof. Dr. Unti Ludigdo, Ak.

**SUMMARY**

**Keywords: Internal Control, Ethical behavior, employee behavior, company behavior**

The Purpose of this study is to analyze and explain the effect of Internal control system in company on the effect of the employee ethical behavior. The researcher is motivated to do a study on the company internal control system is because the control of the company internal control are really effected on the employee behavior because the internal control are as the control of the company in doing proper ethics in the workplace or vise versa if the internal control are bad also will makes the employee easier to do unethical thing. The samples of this research are PT. Japfa Comfeed Indonesia. Tbk. Writer analyze how the internal control of this company well implement by the employee and how the ethical of the employee doing their works.

This research is explanatory research, which is research that explains the causal relationships between variables through hypothesis testing and simple linear regression analysis to measure the effect of Internal Control on ethical behaviors. Simple regression analysis is used to determine whether Internal control which is the independent variable are able to measure the Ethical behavior as the dependent variable.

Based on Simple linear regression analysis, simultaneously, all independent variables significantly affect Ethical Behavior. But partially, because of the big areas of ethical behavior

internal control only affecting not all of the employee ethics. There are probably some other variables that can effecting ethical behavior.

## **I. INTRODUCTION**

In the operation of the company, company uses all of the resources from economic, natural resources and also human resources and all of the resources must be synergize and need to be controlled the usage and the works to give maximum profit and benefits to the company. That's why how internal control really needed in the company and also need a serious handling because it is involving human resources (Krismiaji, 2002). So that is a must that if a company to have control and plan or grand design of how to run the company also how to control all of the resources they had especially the human resources because it closely related with their ethical as human being and also as employee in a company to obedient to the regulation of the company made as the internal control.

Internal control in a company is very important to detect and to avoid accounting fraud tendency in here also to prevent a bad thing by detecting something that is deviate from the standard ethical behavior as an employee in a company, also its use to secure the company assets (Biegelman, 2006). Apart from that, internal control also has to provide clear financial statement for internal or external parties that need the information. Therefore, the objective of internal control is how the company can make financial statement that are proper for every user and reflect the reality.

Internal control of company also help management to control and supervise the operational activities of the company because good internal control is a key of effective company management (Mekarsari, 2010) and a good internal control system also reflect the existence of good managerial in a company (Triyuwono, 2000). then management with the

existence of internal control can evaluate and can decide how the company can be steer into the goal to achieve and also management can do some corrective decision to increase the effectively of the company work. That's why internal control in a company takes an important control in the run of the company to achieve their goal and objective.

Unethical behavior is a deviation of ethical behavior of employee in the workplace from the lower level to even the highest that can't be classified as good thing, and in contrary with ethical behavior that is obey by people to get respect and good performance by other. People trying to satisfy their need by cheat and such other thing that is ethically not right the thing such as Fraud, corruption and manipulation are can be classified as unethical behavior, then it is really relate to the standard of ethical behavior that should be implement by the employee in a certain company. And also speaking as the research take place in Indonesia I put some tendency why there is still lots of unethical behavior cases in Indonesia from the previous research by Tillman (1988) and Wijayanto (2009) that can be conclude that how the mentality of Indonesian people some of them still doing corruption, fraud and such other unethical behavior since 2300 years ago so that is already ingrained in Indonesian people.

That's why this research want to classified the effect of internal control against ethical behavior of an employee in the company which is how does internal control effect on how the employee behave because with lots of deviation on the ethical issues in the company now days and also how the employee works on their work environment.

## **1.2 Research Question**

It is useful to know how the implementation of accounting in the company, that can be figure out is the implementation of accounting and reporting is already good enough or not so that the possibility of fraud and also unethical behavior of the people can also be

considered. From the all introduction and the expected contribution that can be considered for the research questions is : **Does internal control compliance influence the ethical behavior in a company ?**

Scope of research and limitation of this research is in case study in some company in here I chose to do research in PT. Japfa Comfeed Indonesia, Tbk. to do the research how is the internal control and also how the compliance of the employer about the control that is make by the company to their works can be limited. Also I will check if the internal control of the company is already good and can control the employee well and also measuring how the company employee's ethical behavior in work environment.

### **1.3 Benefits of Research**

The study is expected to provide inputs to the parties that requires the following:

- a) As an alternative to a more comprehensive Internal control measurement in assessing the compliance of the employer in the ethical and tendency of unethical behavior in workplace
- b) The study is expected to enrich the literature and consideration for those who conduct research related management performance

### **1.4 Motivation of research**

This study is intended to explore the perceptions of accounting implementer, preparer of accountability reports, and the parties involved in the use of budget to analyze the effects of internal control against employee ethical behavior on an object, for this study in a company. And all the research is useful for the company or also the government area in their sector or for the reader to know how the internal control of the company affecting the ethically of people and the tendency of people inside the company of doing irregularities

works and also bad thing for their own welfare but then the truth its loss for the company itself. Then the company after the study can reflect their internal control to reduce the weakness and irregularities of internal control and make it better. It is useful to know how the implementation of accounting in the company, that can be figure out is the implementation of accounting and reporting is already good enough or not so that the possibility of fraud and also deviation of employee ethical behavior among of the people can also be considered.

## **II. LITERATURE REVIEW AND HYPOTESIS DEVELOPMENT**

### **2.1 Ethical Behavior Definition**

Can be analogical that standard of right or wrong good or bad is basically from how the faith of the people based on their trust in God and also their regulation in every religion also how people valuing their life and how they gonna make their image to just fulfill their desire or how to also giving something to society or at least an image that we are not harm other people. It is then really hard to define which one is ethical or not. In the book from Suseno (1997) told that Verne E. Henderson (1982: 37-47) told that also Ethic is a set of principles prescribing a behavior code that is explain what is good and right or bad and wrong; it may even outline of moral duties and obligation generally. But then in the same books Verne E Henderson also told that this definition is far too static if it compares with the business environment today because the principles is not included the business growth and also how the conflict of interest that appearing and also the changing of cultural values in people. For an individual to exhibit ethical behavior, the mechanism must have adequate provisions to ensure that there is no victimization of employees who follow this procedure. It also suggested that companies should take measures to ensure that this right of access is communicated to all employees through means of internal circulars.

The employment and other personnel policies of the company shall contain provisions protecting it from unfair termination and other unfair prejudicial employment practice (Oseni & Abubakar Idris, 2011). Ethical issues arise when our perception of what constitutes human welfare receives or requires classification. More specifically, ethical issues arise when laws or legal precedents are either unclear or at variance with shifting cultural values (Henderson, 1982). Otherwise ethical behavior respects the dignity, diversity and rights of individuals and groups of people (Sheila Banks and friends).

Nwakpa (2010) sees ethical behavior as a good or expected type of conduct, which is a desired moral type of behavior or legal behavior from a professional. Unethical behavior can simply mean unacceptable behavior.

### **2.1.1 Ethical Principle**

In the development of the theory ethics is proven give a big impact in social life. And according to Joshepson (1994) the ethical principles are:

1. Honesty. Said the truth, honesty, not cheating, not stealing, and so on.
2. Integrity. Principles, respect, courageous, brave, strongly opinionated, not two faced
3. Promise keeping. Reliable, committed to commitment
4. Fidelity. Loyally to family, friend, working environment and nation, in context professionalism is secure the ability of stay still independence in decide something to avoid bad thing and conflict of interest.
5. Fairness. Fair and open minded, brave to admit a wrong decision, tolerance to difference.
6. Caring to others. Friendly and empathy, giving to other, not descend and hardening.
7. Responsible citizen. Obey to the law, using democratic right and social responsible.

8. Pursuit of excellence. Pursuit of perfection in every way, diligent, committed, maximizing the ability, maintain the level of competence.
9. Accountability. Responsible for every decision and consequence of it

## **2.2 Internal Control**

Internal control which is the system that is a part of accounting information system itself in a company which controlling the system in the whole company. So before we discuss about internal control writer would like to discuss from the generally of accounting information system.

### **2.2.1 Accounting Information System**

Information system is based on Bodnar and Hopwood (2004) is something that is goes to usage of computing technology which can change data to get a resulted in more usage information. Information systems help the users to get and use information in the process of making decision. But then based on Wilkinson et al (2000) information system is a work conceptual which is the available resources is coordinated to change input (data) to be output (information) to help the company reach the goal.

### **2.2.2 Internal control system**

Internal control system hold a very significant role in company organization to plan, coordinate, and controlling the activities that is done by the company to reach the goal. Mulyadi (2001) said that:

Internal control system is include organizational structure, method and coordinated measurement to secure organization assets, check the reliability and accuracy of accounting data, encourage the efficiency and encourage company regulation.

Also Wijiraharjo (2007) said that:

Internal control can secure the assets of the company from stealing, fraud, manipulation or putting the assets on the place that is not belong to that assets.

To runs and operate well internal control need a clear segregation of duties in organization. Each function should have their supervisory so that every employee can concentrate on their duties so there is none of the function is unhandled.

### **2.2.3 Internal control system limitation**

A system in the company whether is really good or the best in the world is always has the limitation inside it and also it always has their own weakness in each different system. Internal control system limitation or weakness then can be use by the certain personnel to get their own wealth. To be understand that internal control system is not effectively give absolute assurance about the company goal will always be reached. For example internal control system cannot change the people or manager which is bad or have indication to have unethical behavior to good person or manager that also already left the unethical behavior because of the system, but then the usage of internal control system is to provide clear information about the company condition for then can be considerate by the management to make the company can runs better in the proper ways.

According to Mulyadi (2008), limitations of internal control structure are:

1. Mistaken in consideration

It is often that manager and company personnel mistaken in considerate the business decision that they take, because of lack of information, time and other pressure.

2. Interference



Interference in the control that already stated maybe happen because human resource department make a mistaken in understanding and realizing regulation, order or making mistakes because of negligence, lack of attention or fatigue

### 3. Collusion

Collusion is a cooperation that built by one or more people to not to obey the internal control, for the purpose to get their own wealth and doing fraud against company assets for their own benefits.

### 4. Management negligence

Management with the responsibilities to make decision that with them can neglect the regulation or procedures which already stated for personal benefits or gain, providing financial report which over and not accountable and reliable.

## **2.3 Influence of Internal Control Compliance on Ethical Behavior**

Internal controls are business practices that generally can reduce the risk of unethical behavior like theft or mitigate the cost of unethical choices. Internal controls are established procedures that limit what employees can do or the impact of their actions. From previous researched that already proven that these internal controls are really affected to controlling employee ethical behavior. Otherwise, internal control based on business policies and the rules of business regulation in the business. For example the theft of petty cash is unethical and a violation of social rules. Limiting who has access to petty cash is an internal control to minimize loss due to unethical behavior (Willithe, 2011). Organizations need to demonstrate the expected behavior in the more clearly forms through the internal control system and instill the understanding to every individual in the organization that their activities will be compared to the standard (Beu and Buckley, 2001). If internal control is implemented

effectively, ethical values will be integrated with the behavior of members of the organization so that the appearance of unwanted behavior (not ethical) can be compressed (D'Aquila, 2001).

Internal control is a process that can assure the reliability of financial reporting because internal control describes a set of rules or principles that guide the action of members of the organization in order to cultivate the habit of ethical behavior (Schminke, 2001; Boynton et al., 2002). Implementer of internal control, forms a particular work pattern, which affects the employee's decision style (Sims and Keon, 1999; Touby, 1994). So that is also really relate to the condition of which the employee behavior is form a bad behavior or good behavior is depend on the chance and the quality of the internal control system to control the resources.

Internal control is really affected in the company objective and also how to improve employee works. Company makes design of internal control and all of the regulation inside the company is to control and manages the employee behavior that the effect is to change the condition if the employee behavior is unethical. Then the regulation that is product of internal control is use to limit the move of employee who have the tendency to do bad thing that basically because of their bad ethical behavior (Leitch, 2008). Managing ethics in the workplace involves identifying and putting priority to values that guide behaviors in the organization and establishing associated policies and procedures that ensure that expected behaviors are achieved (Mc Namara, 1999).

When employees know they are being watched or will likely be caught, they are less likely to engage in unethical behavior. By implementing internal controls like audits, inventory checks and personnel monitoring, the risk of fraud and other unethical behavior is

diminished. Implementing internal controls like anonymous reporting of unethical behavior or reporting to an ethics office instead of a supervisor also helps protect the company from wrongdoing or do cheating in their works in recognizing an assets or making the statement (Harrer, 2007).

## 2.4 Schematic Diagram of Conceptual Model

Conceptual model that already explained above can be illustrated into schematic diagram like in the picture 2.2 to help visualize the relationship in the theoretical frameworks (Sekaran & Bougie, 2010).

**The conceptual framework of this research is presented on the figure below:**

**Picture 2.2**



## 2.5 Hypothesis Development

According to the theoretic frameworks that already explained above, then writer formulate the hypothesis as follows:

H<sub>0</sub>: Internal Control not significantly affecting ethical behavior

H<sub>a</sub>: Internal Control significantly affecting ethical behavior

H<sub>1</sub>: The objective of Internal Control Compliance is positively affecting ethical behavior.

H<sub>2</sub>: The objective of Internal Control Compliance is negatively affecting ethical behavior.

## III. RESEARCH METHODOLOGY

### 3.1 Type of Research

This research is Quantitative research and this research is using *hypothetical deductive*, is the scientific method that is popularize by an Austrian philosopher, Karl Popper, that giving approach that useful and systematical in solving basic problems and managerial (Sekaran, 2010).

### **3.2 Research Object**

Accordance with the goal of the research and then it can be focusing on the research question, and also will be make it easier to the researcher to do the research more directional and well successful. This research object of this research is the internal control of PT. Japfa Comfeed Indonesia, Tbk. that is also one of big poultry feed company and manufacture and relate the internal control of this company to the behavior of the employee in the company itself.

Because of the size of company and large business that are done by the company there is no wonder if there are always an indication of the unethical behavior so this research is trying to proven about how the internal control of this company is really complied by the employee and the effect of it in the behavioral of the employee. This research will observant the behavioral of the employee from questionnaire to find the goal and the target of this research.

### **3.3 Population and Sample**

Population is a whole group of people, some event or something that become researcher attention to investigate (Sekaran, 2010). In this research who become the population is the whole employee in the Finance and accounting division of PT. Japfa Comfeed Indonesia, Tbk. This Research using *simple random sampling* or also called *unrestricted probability sampling*.

### **3.4 Types of Data Research**

Based on the source, data that is used in this research are divided into two, there are primary and secondary data.

### **3.5. Independent Variable**

Independent variable is the variable that influencing dependent variable if it positively or negatively. For every increasing from independent variable, will be an increasing or decreasing in dependent variable (Sekaran, 2010). In this research there are two variable that are independent variable which influencing dependent variable.

### **3.6 Dependent Variable**

Dependent Variable is the variable that become center of attention of the researcher (Sekaran, 2010). Dependent variable in this research is the unethical behavior

### **3.6 Variable measurement**

These two variables that are used by researcher measure with a number of statement items that is align with the elements description that already putted in the table 3.1. These statements are made in order using Likert scale that are designed for testing how strong is the respondent agree or disagree with the statement given in the scale from 1 until 5.

#### **3.6.1 Hypothesis Testing**

In testing the hypothesis in this research, researcher using simple linier regression analysis. This testing is used to measure the influence of independent variable to dependent variable and predicted dependent variable using independent variable.

With using simple linier regression testing, then the hypothesis above can be made into empirical model as follow:

$$Y = \alpha + \beta_1 X_1 + \epsilon$$

Where:

$Y$  = Ethical behavior

$\alpha$  = Constanta (intercept)

$\beta_1$  = Regression Coefficient

$X_1$  = Internal Control

$\epsilon$  = Error Term/disturbance error

### **3.6.2 Instrument Measurement Testing**

According to Sekaran, et al (2010), usage of better instrument will ensure the accuracy in result and at the end will be increasing the scientific quality from the research. To measure the Goodness of measure there are need to be tested again with Validity and Reliability testing.

### **3.6.3 Classic Assumption Testing**

Before hypothesis testing is done with simple linier regression, some of assumption need to be followed so then the regression model that is resulted can be said properly right. Some of classic assumption that is done is Normality Testing.

## **IV. Results and Discussion**

This research has been proven that there is any positive significant effect from the existence of internal control to the increasing of ethical behavior of employee in the company. From this research resulted that the effect of internal control is positively affected to the employee ethics. The result of that is like for every improvement of internal control will also affected on the employee ethical behavior in the workplace and that also already proven by the previous research from Siti Toyibatun (2007). Based on statistical result of this research that can be known that internal control is affecting ethical behavior. But then,

because of the large areas of ethical behavior the effect of internal control is only about 13,7% from all of other variables that are probably effecting ethical behavior of employee in a workplace.

According to analysis result about the relation between two variables that are Internal Control and Ethical behavior of employee in PT. Japfa Comfeed Indonesia, Tbk. then it may be conclude that analysis findings shows that variable of internal control significantly influence the amount of employee to be ethically behave in the workplace and the variables under the internal control can significantly affect the ethical behavior of the employee in PT. Japfa Comfeed Indonesia, Tbk. So then the analysis resulted that every internal control that applicable in the company will effect on how the employee behave.