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Editorial: Unethical Behaviours and Management Controls: Issues and Challenges to Management Accounting

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Despite numerous preventative measures and government interventions (e.g. Securities and Exchange Commission, 2003), business fraud and unethical accounting practices continue to increase. Organisations continue to face issues and challenges regarding unethical behaviours such as corruption, fraud, and/or misreporting among their managers. A global fraud survey by EY (Ernst and Young, 2018, p. 7) acknowledges that "the transformation of business models due to the rapid evolution of digital technology is making the landscape of fraud, bribery, and corruption risk ever more complex." A recent fraud survey conducted by KPMG (KPMG, 2021) acknowledges that "Australian business reporting being more vulnerable to fraud and corruption than they were before the pandemic and there is no indication the risk is subsiding." Unethical behaviour, such as corruption, fraudulent financial reporting, or misreporting by organisations has attracted scholarly attention from accounting researchers and other disciplines (see e.g. Cardinaels & Jia, 2016; Changwony & Paterson, 2019; Chong & Wang, 2019; Everett, Neu & Rahaman, 2007; Ferdiansah, Chong, Wang & Woodliff, 2022; Free and Murphy, 2015; Hunt, Curtis & Rixom, 2022; Jeppesen, 2019; Jia, Lent & Zeng, 2014; Kroos, Schabus & Verbeeten, 2022; Maas & Yin, 2022; Mayhew & Murphy, 2014; Rabl, 2011; Van Vu, Tran, Van Nguyen & Lim, 2018). Understanding how and why unethical behaviours occur and how they can be prevented is an essential managerial issue. This Special Issue aims to provide a research forum for scholars to contribute and/or investigate how an organisation's formal and informal management controls can be used to prevent or control unethical behaviours. Important questions addressed in this special issue are: first, how the management controls on the diversity of management and employees look like, and unethical behaviours in the organisations, and second, what the effects are of these management controls on employees' unethical behaviours.

The three papers in this special issue cover topics of corruption, ethical decision-making, and misreporting. In the first paper, Srirejeki (2023) critically reviews prior studies on culture controls and their effects on mitigating employees' corrupt behaviour. Cultural control, an element of Malmi and Brown's (2008) management control package, is referred to as a means to shape shared norms, beliefs, values, attitudes, and ways of behaving in an organisation. This paper examines three forms of cultural control, namely the codes of conduct, the tone from the top, and behaviour among peers. Srirejeki (2023) finds empirical evidence, on the effectiveness of the use of a code of conduct in preventing corrupt behaviour, but with mixed results. Despite slightly weaker effectiveness, the use of codes of conduct is still regarded as essential to prevent corrupt behaviour in organisations. Srirejeki (2023) also suggests that while adopting codes of conduct, is a step in a positive direction to prevent corrupt behaviour, it is certainly not enough. Managers should therefore consider establishing a supportive ethical climate to complement the use of the codes of conduct. Srirejeki (2023) finds that the "tone from the top" plays an important role, as a cultural control to mitigate corrupt behaviour. The managers' impact on ethical issues is inevitably crucial, but other factors might restrain or sustain its effect. Srirejeki (2023) proposes that top management should embrace ethical values and be seen as ethical role models. Additionally, they should aim to be seen as ethical leaders and communicate their commitment to doing the right thing, which in the long run contributes to an ethical corporate culture. When an ethical culture permeates the organisation, it can assist employees in their actions against corrupt behaviour. Srirejeki (2023) relies on social learning theory (SLT) (Bandura & Walters, 1977) to explain how individuals emulate corrupt behaviour by observing their peers in the workplace. According to the SLT, it is suggested that when peers' corrupt behaviour is rampant, it leads an individual to conclude that corrupt behaviour is the norm of the group and therefore more likely to increase the individual's likelihood of engaging in corrupt behaviour. Srirejeki (2023) suggests that the three cultural controls, namely codes of conduct, the tone from the top, and peers' behaviour can be used to curb corrupt behaviour.

In a second paper, Fitrijati and Sholihin (2023) examine the effect of ethical sensitivity and accountability pressure on ethical decision-making. The study is done through a laboratory experiment and built on a 2x2 between-subject design. The independent variables were: (1) ethical sensitivity (low versus high), and (2) accountability pressure (feedback versus anonymity). Respondents consisted of master's students who enrolled in the Master of Accounting program from two large Indonesian universities. Each subject assumed the role of a professional accountant. The results show that there are significant differences in ethical decision-making between subjects who have high ethical sensitivity and those with low ethical sensitivity. As a consequence, the results suggest that individuals with high ethical sensitivity are more ethical in their decision-making when compared to those with low ethical sensitivity. Furthermore, there are significant differences in ethical decision-making between groups with the accountability pressure of feedback versus anonymity. This result indicates that individuals under high accountability pressure in the form of feedback will be more ethical when compared to those under high accountability pressure in the form of anonymity. Finally, the results show that individuals with high ethical sensitivity who are pressured by feedback accountability are more ethical in decision-making than individuals with low ethical sensitivity who are under the pressure of anonymity.

In the third paper, Ferdiansah (2023) examines the effect of delegation of decision rights, incentive compensation scheme, and trust-in-superior on managerial misreporting. This study employed an online survey method to collect data from 145 U.S. managers. To test the various hypotheses, the PROCESS macro in Statistical Package for the Social Science (SPSS), originally developed by Hayes (2017), was used. The results show that delegation of decision rights affects managers' misreporting behaviour directly and indirectly through the incentive compensation scheme. Relying on agency theory and prior studies (Nagar, 2002; Jensen, 2003; Chong & Wang, 2019;), it is expected that delegation of decision rights provides managers the opportunity to engage in unethical behaviours especially when their compensation is tied to their ability to achieve their target. These managers are more likely to withhold or even falsify their private information to get compensation. Consequently, an incentive compensation scheme would induce managers to engage in misreporting behaviour. The results further show that trust-in-superior negatively moderates the relationship between delegation of decision rights and manager's misreporting. This result suggests that trust-in-superior can be used as informal control to deter managerial misreporting. The practical implication is that senior (top) managers can cultivate employees' trust-in-superior by fostering an environment that is conducive to building trust among members of the organisation through social networking.

Overall, we hope this Special Issue will contribute to increasing awareness of the issues and challenges regarding behaviours such as corruption, ethical decision-making, and misreporting in organisations. Managers and employees are constantly facing ethical dilemmas that call for increased ethical sensitivity and awareness regarding the outcomes that reinforce public trust, integrity, and credibility. Managers in today´s organisations must take a proactive role in order to facilitate activities that can equip and support their employees with a strong ethical awareness to prepare them to successfully meet ethical challenges. Furthermore, managers in organisations need to acknowledge the importance of securing ethical practice in management control, which can foster the attainment of strategic goals and likewise, can strengthen competitive advantages. This special issue concludes the imperative of trust and ethical practices in the management control behaviours in organisations. Since organisations across the world are having demographic diversified workforces, multiple structures, technological transformation, and a wide variety of norms and values, huge challenges exist for top managers in their efforts to create and maintain ethically sound workplaces. Hence, efficient and effective management control systems could contribute to better corporate image, improving group and organisational performance, and attracting and retaining the best human capital available on the job market. We further hope that this Special Issue will serve as a springboard for future research projects on these continuous managerial and organisational challenges.

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