

## **PERCEIVED PAY ADEQUACY AND ETHICAL COMPLIANCE LEVEL IN NIGERIAN PUBLIC SECTOR ACCOUNTING PRACTICE**

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### **ABSTRACT**

*This study seek to investigate the influence of perceived pay adequacy on ethical compliance levels in the public sector accounting practice in south – south states of Nigeria. The study employed the survey research design and primary data obtained via the use of questionnaire. The study adopted the stratified sampling procedure using the Israel formula in the determination of the sample size. The data were analysed and the results estimated using the descriptive statistics and ordinary least squared regression. Therefore, the study concludes that there is a significant relationship between perception of the accountant and ethical compliance levels. This conclusion mirrors the individualized conclusion of the fraud triangle theoretical espousal. The implication is that beyond sanctions, primarily perception as a behaviour modification tool, finds relevance in explaining work place conduct, which underscores the need for not only concerted but deliberately orchestrated programmes design to positively influence perception. This is further anchored by the reality of the human differential dynamics which inform the narrative in the non-commonality the pattern of interpreting the world around us. Therefore, individualized perception will continue to be relevant in shaping human conduct. The study recommends the need for the deployment of behaviour modification programmes targeted at perception remodelling.*

**Key words:**payadequacy, perception, ethics, compliance, public service practice

### **INTRODUCTION**

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Financial Scandals have continued to rock both privately and publicly owned businesses in the globe. In Nigeria, the situation is not different. The Finance dockets of these businesses are manned by professional accountants who are members of professional bodies and are governed by a code of ethics whose ethical compliance remains a mirage. Unethical business practices harm organizations and economies. Large-scale business failures such as Enron, as well as the more recent corporate failures related to the global financial crisis highlight the consequences of unethical business practices. As capture in the International Ethics Standards Board for Accountants Code (IESBA, 2016), professional accountants, as stewards of transparency and trust, and subject to a professional code of ethics, have a key role to play not only in upholding but in encouraging high level ethical compliances and better decision making within their organizations.

However, since commencement of professional accounting practice underscored by the birth of Professional Association of Accountants of Nigeria in 1960, the reputation of the accounting profession has continued to be dented because of ethical compliance levels. Okike (2004) observed that though the profession has struggled to develop and maintain position of independence and integrity in ensuring high ethical compliance levels, there have been a number of criticisms from various groups who have operational interest in financial reporting including the World Bank and the International monetary fund.

The Nigeria Public Sector has perennially suffered from major corporate and questionable accounting practices at the beginning of the 21<sup>st</sup> century, the reputation and ethical compliances levels of the accounting practitioners has been tarnished, thus affecting considerably the value relevance of accounting estimate reported in financial statements. For example, the World Bank (2010) in its Report of the Observance of Standards and Codes (ROSC) pointed several deficiencies in ethical compliance among accounting practitioners in the Nigerian Public Sector.

In every case of financial scandals recorded in both at the domestic and international levels, culpability has been ascribed to the accounting profession. Criticisms of collusion and criminal negligence have docked the esteemed image of the profession. At the domestic level, Okike (2004) noted that the criticism even became more pronounced due to the spate of corporate failures witnessed especially in the government owned enterprises in the mid -1980 to early 1980s before the deregulation of the Nigeria economy. As emphasized further (Ryan, 2005 and Sanusi, 2010), this criticism found empirical basis in Nigeria as several promising national enterprises initiated on well thought out national development rolling plans owned by the Federal Government of Nigeria have either failed or forced to close shop, occasioned on the prevalence of financial frauds. For example, the Nigeria Airways, Nigeria Telecommunications etc. This is against the backdrop that cases of corporate failure have been attributed amongst other factors to unethical practices of accounting professionals.

This implies that the functions of the accounting professional as it relates to the accuracy and correctness of accounting records amongst others, is pertinent to the sustainability of the public accounting practice in Nigeria and beyond .

However, the professional accounting bodies in the wake these scandals and the negative impact on the image of the professional have initiated concerted efforts towards salvaging their hitherto battered image. To address these concerns and ensure high ethical compliance among professional accountants in Nigeria, Professional Accounting Bodies such

as Institute of Chartered Accountant of Nigeria (ICAN) and Association National Accountant of Nigeria (ANAN) introduced a number of measures including the mandatory continuing professional Education (MCPE) and the issuance ethical codes to its professional members as a commendable effort to equip professional accountants with the requisite capacity desired to address the issue of ethical dilemma and enhance ethical compliance level. Furthermore, the World Bank (2010) also, recommended several measures which should be adopted to improve the ethical compliance levels in the Nigerian public accounting practice. Most of the measures center on the role each key institutions (tertiary, legislative, legal, regulatory) should play in the transformation process.

This current efforts do not any anyway imply that these codes were not in existence prior to the scandals. Also, in response to the scandals new and revised laws and regulations were enacted to implement some of the recommendations of the World Bank in this regard. However it is pertinent to underscore the fact that the lack of enforcement of sanctions and the inordinate quest for wealth maximization are some of the banes of the magnitude and frequency of these scandals, as every professional body frames ethical codes as a mark of distinction to guide members conduct at birth. Also, current efforts in the wake of the scandals have expanded the scope of engagement and extended collaborations with allied stakeholders to enforce compliance.

Rather unfortunately, despite these initiatives, concerns and criticism about low ethical compliance levels of accounting practitioners in the public sector have continued to surface. The situation seems unabated with divergent views among public, corporate management, auditors and government agencies as to the drivers. Be that as it may, the fraud triangle and diamond theories have provided theoretical basis for this human dilemma. However, contingent upon the theory of fraud triangle is the underline denominator the individual personality type. This theory concludes that individual personality type determines the outplay of the fraud causative explanatory tripod.

Therefore, this current study extends this conclusion further by interrogating the association between individual perception and fraudulent conduct within the domain ethical compliance. In other words, to what degree is ethical compliance a function of the individual accountants' perception of pay adequacy? Hence this study investigates perceived pay adequacy and ethical compliance levels in public accounting practice in Nigeria.

## **The Related literature**

### **Concept of Ethics**

Etienne, (2011) defines ethics or morality as matter of good and evil, right and wrong and subscribes to the fact that "we are living today in an ethical wilderness"-meaning a wild, untamed, and unpredictable landscape. Also, Lunenburg, (2012)ethics is about answering Socrates' question, "what ought one to do?"This, said he is a practical question what do I do here and now? What should anyone do in my situation? It is question that is almost impossible to avoid. Meanwhile, Encyclopaedia Britannica (1998)documents that ethics is concerned with what is morally good and bad, right and wrong, and that ethics is the set of moral principles that distinguish what is right from what is wrong.

It is a normative field because it prescribes what one should do or abstain from doing (Encyclopaedia Britannica, 1998).Furthermore the Business Dictionary (2017), defines Code of

Ethics as a written set of guidelines issued by an organization to its workers and management to help them conduct their actions in accordance with its primary values and ethical standards. Continued globalization has increased pressures on the accountancy profession to salvage its public image. It must evolve ways and means of going beyond the domain of its current financial reporting practices, towards providing a more transparent, accountable, credible yet simplified and holistic picture of a firm's overall image. The extant literature however note that growing business and regulatory complexity coupled with intensified global competition and short business cycles could drive up the cost of compliance.

By implication, ethics is function of society's values as to the benchmarking of what is right and wrong. This presupposes relativity in ethical definitions across different ethnic and cultural domains. However, there are certain commonalities or generalities across board. Also, globalization and changing societal context have continued and will continue to define the character and template of ethical benchmarking.

It is predicated on this commonality and generalized benchmarking that confines certain practices as ethical to very limited domains and unethical in the other spheres. It is within this context that while certain behaviour types are considered acceptable in certain domains, they do not enjoy global acceptance, i.e marriage models and concepts of dressing etc. Meanwhile, within the global milieu of benchmarked unethical conduct is the problem of fraud. No wonder all types of structured societies condemn fraud and therefore regard it as unethical.

### **Perception**

Perception plays a crucial role in the ethical decision making process because the process begins with an individual recognition that situation has on an ethical content. The Cambridge dictionary defines perception as a belief or opinion, often held by many people and based on things seem. It could also be viewed as someone ability to notice and understand things that are not obvious to other people. Wittmer, (2000) ethical perception is the relative awareness of ethical dimensions within an ethical situation. However, Blum (1991) opined that ethical perception is a more complex state and he includes in perception not only the way in which people perceived particular situations but also their ability to as patterned ways of thinking, feeling and reacting.

Hunt and Vitells (1986) argued that the perception of an ethical problem is a prerequisite for ethical intentions. They stated that if the individual does not perceive some ethical content in a problem situation; subsequent elements of the model do not come into play. They further classified the influence of the perception of ethical problem into four categories namely cultural environment, organizational environment, industry environment and personal environment. To support Hunts and Vitells theory, Jones 1991 and Singhapakdi and Vitell (1990) argued that there is a significant relationship between the perception of an ethical problem and intentions.

They inferred that one's perception of an ethical problem determined the action which that individual took. On his part Jones (1991) observed that managers will recognise ethical dilemmas or know when ethical issues are present in a critical matter and then there is no need to consider it in an ethically comprehensive manner because individuals would not engage in the ethical decision- making process if they are not aware of the moral aspect of the issue.

The extant literature is clearly indicative of how perception influences the individual's interpretation of the world around him/her and by extension the corresponding or resultant behavioural disposition.

### **The need for ethical compliance programme in public sector**

An ethical compliance programme address fraud and unethical behaviour in a comprehensive fashion beyond a mere code of conduct, it can also provide a statement of ethical principles and the compliance standards as set by the company. The programme is also a means, though not sufficient, of determining if an organization is building ethical and compliance culture as part of corporate governance culture. Bragg and Steven, (2007) any entity that has an ethical compliance programme stands to benefit as it helps the employee to determine the propriety of his /her conduct in the work place and the public interest is protected since people in privileged positions act in line with the principles of right and wrong.

### **Theoretical framework**

The study employs the compliance theory which will serve as the legal foundation of this work. As observed by MacKessy (2010) Adam's bite of forbidden fruit marked the first recorded compliance violation, but not the last. Corporations perpetually struggle to stay compliant with the ever-increasing complexity of laws, rules, and regulations. Markowitz (2008), defined compliance as "being in accordance with established guidelines, specifications, or legislation, or the process of becoming so".

Morkowitz (2008) noted further that compliance (and its organizational structure) is viewed as the relationship that is established by senior management's control of the company's business activities and by the orientation of company employees to this power of senior management.

Compliance theory explains how regulations and power influences compliance decisions. Premised on the compliance theory, Lunenburg (2012), observed organizations can be classified by the type of power they use to direct the behavior of their members and the type of involvement of the participants, and documented that the growth of the United States in the 1950s and 1960s prompted the development of modern management culture and organizational structures. In the same vein MacKessy, (2010) reported that in the 1960s, organizational sociologists such as AmitaiEtzioni began to study and identify management structures and sources of power for compliance controls.

Etzioni (2012) identified normative or identities power, whereby an organization creates compliance by using symbolic images and intrinsic rewards to build loyalty. Although firms with powerful cultures and brand names may employ identities power to a limited degree, it is more commonly linked with universities, not-for-profit corporations, and professional organizations. He also discussed coercive power, in which compliance is established by the use or threat of physical force.

Coercive power pertains to prisons and military units rather than the business environment (MacKessy, 2010). Finally, Etzioni (2012) studied remunerative or utilitarian power, which relates directly to business and is rooted in an organization's control over material resources and extrinsic rewards such as salaries, bonuses, and benefits. In the view of Marshall (1998) today's firms commonly link their performance management processes with

incentive-based performance measurements that in turn establish minimal compliance thresholds for year-end bonus eligibility.

According to MacKessy, (2010) the distinction between compliant actions and unethical business behaviour has become increasingly difficult to distinguish, as reflected in the case of Enron and WorldCom marked the beginning of escalating prosecutions of corporations and individuals for acts that were interpreted as unethical and illegal only after the fact, with the benefit of hindsight. Although the growth of organized labour reduced the role of centralized oversight, the public model for compliance enforcement was predominant until the 1970s. Several events during this period, such as the Watergate scandal and foreign corruption investigations, transferred the responsibility for compliance to private industry. Corporations recognized the need to become increasingly knowledgeable about their sales practices, manufacturing processes, and the overall business conduct of their industries. Usage of this theory in the study will increase understanding of how individual and organizational factors, regulations, power and leadership influence compliance with the Code of ethics. This theory provides adequate information relating to the three objectives of the study (Marshall, 1998).

### **Empirical Review and Hypothesis development**

Gloria and Chinedu (2015) carried out a study on student perception of ethics and its implication for National Development. The study uses students' perception of cheating in an academic situation as a proxy of ethical behaviours of students in public Institutions in Anambra State, Nigeria. The study employed the t-test and ANOVA as data analytical tools. The findings shows among others things an average student sees cheating as dishonestly but not as a very evil among students, furthermore no significant difference was found between the female and the male students though the female students seem to be more ethical.

Ajibolade (2008) carried out a study on accounting students perception of ethical behaviour and found out that beginning students have higher ethical perceptions scores than the final year students. Also, Joseph (2010) examined the effect of ethical codes on ethical perceptions of actions towards stakeholders in the United Kingdom. They mailed to random sample of 10,000 business leaders for the period of 1993-2001. The descriptive statistics was used in this study for the data presentation and analysis of data. The finding shows that that ethical code play non- significant role in ensuring ethical compliances in organizations.

Murtha (2015) analysed the role of individual perceptions and belief systems on ethical compliances in China listed company. The measured the role of perceptions and belief on ethical compliance. The study concludes that the perception of individuals belief plays a crucial role in ensuring ethical compliance, hence management and boards can demonstrate their commitment to compliant and ethical conduct in the organization by training and retraining; they can significantly reduce the risk of illegal or unethical conduct; and they can fulfil their fiduciary obligations to ensure that the organization has an effective compliance and ethics program.

Foster, (2018) examines the relationship between remuneration and dysfunctional behaviour of selected firms in Pakistan stock exchange. The purpose of the study is to investigate the relationship remuneration and dysfunctional behaviour. The variables used for the study includes dysfunctional behaviour been the dependent variable and independent

variable as remuneration with its proxy as bonus, salary The target populations consist of 300 consisting accountants and auditors in the 20 corporate organizations.

The study adopted a stratified sampling design. Where simple random sampling technique was used to identify a sample of 56 employees drawn from all the corporations. Both qualitative and quantitative data were collected using questionnaires and secondary data and the descriptive statistics were used to analyse responses. Findings revealed that remuneration employees significantly reduce dysfunctional behaviour.

On his part Reynolds, (2004) examined the influence of remuneration on the ethical compliance levels Australia, the study provide evidence that financial dependency does not impair auditor independence. An important conclusion was that top management pay and corporate performance are more aligned in companies with outsider-dominated boards and remuneration committees. It is expected that there is a direct relationship between remuneration and the level of compliance with the Code of ethics. In an earlier study, McGuire, (2003) sought to determine how salary, bonus, and long term incentives, as well as the governance aspects of ownership, and institutional ownership impact CSR dimensions of community, employee relations, environment and product, and business practices. One of his key findings was that there exists a direct correlation between governance and ethical business practices.

Skousen (2006) examined the role of the fraud triangle elements in detecting and predicting fraud cases and his findings reveals that financial stability, external pressure, personal financial needs, and financial targets have each presented pressure as the element that may be involved in the category of fraud risk factors. Also, Dellaportas (2013) and Shelton (2014) argued that pressure plays a vital role in increasing the likelihood of fraud occurrence among bank employees.

However, financial pressures may appear different depending on the position of the employee. For example, a cashier may be under personal pressure that is aligned with the motive, whereas the pressure for a manager can be meeting the target as priority compared with financial pressure. This relationship was explained in an earlier work by Vinten (2003), who noted that the CEO of a company may commit fraud by way of earnings management as done in the Enron case.

Given this background we hypothesize that:

***H<sub>1</sub>: Individual perception of pay adequacy does determine ethical compliance levels amongst public sector accounting practitioners in Nigeria.***

## **MATERIALS AND METHODS**

The study utilized the qualitative research method. Thus, the survey research design was adopted. This is in line with the observation of Shuaibu (2010) who noted that a survey research design is the gathering of information for the purpose of understanding and/or predicting some aspect of the population of the study. The questionnaire data gathering template was deployed in obtaining data from a sample of 133 accountants selected from a target population of 200 professional accountants in public sector practice from in the Niger Delta States. The study adopted stratified sampling technique in the determination of the sample size, it is appropriate because the accountants are scattered in the various states of the federation of Nigeria. Also due to the homogeneity of the public service the attributes of the

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target population are considered to be representative of the status of accounting practitioners in the entire public service.

The sample size was calculated using the Israel formula:  $n = N / (1 + N(e)^2)$ .  $n$  = sample size,  $N$  = target population size:  $e$  = confidence level (0.05), thus  $n = 200 / (1 + 200(0.05)^2) = 133$ . The population size being 200 accountants from the Niger Delta States, the sample size was one hundred and thirty-three (133) accountants. The Cronbach's Alpha reliability test in table 3.1 shows for ethical compliance levels and remuneration 0.986 and 0.76 respectively which is very close to (1) the greater the internal consistency and with a score of over 0.7 indicating reliability of the instruments (George and Mallery, 2003). Furthermore the study employed descriptive statistics such as percentages, frequencies, mean and standard deviation for the analysis of the data, while regression analysis was used to establish the relationship between the dependent variable; ethical compliance levels and perceived pay adequacy operationalized on the Statistical Package for Social Sciences (SPSS) version 20.0 template.

### Reliability statistics

Variable	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
Ethical compliance levels	0.986	0.987	5
Perception of accountant in relation to pay adequacy	0.76	0.77	9

**Source:** Authors computation 2019 using SPSS

### Model Specification

The data are to be analyzed using the regression analysis which could be termed to be a statistical technique used to find relationship between variables for the purpose of predicting future values. Using the formula:

$$Y = \alpha_0 + \alpha PPA + \mu \quad (1)$$

This can be written in explicit form as:

$$ECL = \alpha_0 + \alpha PPA + \mu \quad (2)$$

Where:

$Y$  = ethical compliances levels

$PPA$  = perception of accountants/auditors pay adequacy

$\mu$  = Error term.

### A priori expectation of estimates

The main model used in this study is  $ECL = \alpha_0 + PPA\alpha + \mu$  is aimed at the assessing the influence perceived pay adequacy on ethical compliance levels in the public accounting practice in Nigeria In this study a positive impact of the pay adequacy is expected.

## Results, Conclusion and Implications

### Results of Participant Demographic Distribution

Demographics		Frequency	Percentage (%)
<b>Gender</b>	Male	70	52
	Female	63	48
<b>Total</b>		<b>133</b>	<b>100</b>
<b>Age Distribution</b>	20-30	40	30
	31-40	50	38
	41& Above	43	32
<b>Total</b>		<b>133</b>	<b>100</b>
<b>Professional qualification</b>	ANAN	90	68
	ICAN	30	23
	ACA	13	10
<b>Total</b>		<b>133</b>	<b>100</b>
<b>Length of service</b>	0-5 years	30	22
	6-11 years	35	26
	12-17years	50	38
	18years & Above	18	16
	<b>Total</b>		<b>133</b>
<b>Level of Education</b>	Bachelors	105	79
	Masters	23	17
	P.HD	5	4
	Others	0	0
<b>Total</b>		<b>133</b>	<b>100</b>

**Source:** Researchers field survey 2019.

The respondents to the questionnaire were professional Accountants and staff of ministry of finance in the Nigeria Public Sector. All the respondents were professional Accountants Appendix 1 shows the profile of the respondents used on this study. In total 133 questionnaires were distributed and received with a response rate of 100%.This response rate was possible due to the fact at the questionnaire was administered during an annual International Accounting Conference in Abuja.

Of the respondents, 52% were male while 48 %were female. Of the respondents, 32% fell within the highest age bracket of 41 years & above, 30% respondents fell within the lowest age bracket, the modal age bracket turned out to be “31-40 years” with a frequency count of 50 respondents. Also a significant number of respondent 30% have 6-11 years length of service in the ministry of finance, 30% of the respondents have been in service for 0-5 years ,and 36% respondent have been in service for 6-11 years and 18% have been in the ministry for 18 years and above. There are 105 or 78% who are having a Bachelor and 23 or 17% respondent are having master’s degree and next 3% having a PhD. The participants cut across different levels of positions in the public service.

**Table 4.2Presentation of Results of Descriptive Statistics and correlation coefficients**

Variables	Valid N (List wise)	Mean	Std. Dev	Correlation coefficient
Decline in cases of corruption	133	4.29	1.179	0.923
Timely Implementation of budget	133	4.06	1.192	0.789
Accountability	133	4.29	1.091	0.858

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Transparency	133	4.17	1.132	0.815
Perception of pay adequacy	133	4.53	0.926	0.801

**Source:** Researchers computation using SPSS version 20.

**Table 4.3 Result of Regression Analysis**

Variable	Ethical compliance levels	t-stat	Sig
	Standardized coefficient		
Constant		1.598	0.117
Perception of pay adequacy	0.45	2.119	0.036
R <sup>2</sup>	0.903		
R <sup>2</sup> Adj	0.901		
f-test	402.2		

**Source:** Researchers computation using SPSS 2019.

- Dependent Variable: Ethical compliance level
- Predictors: (Constant), Perception of pay adequacy

The adjusted R square for ethical compliance is 90% which denotes that there is goodness of fit in the model specification. T f-statistics shows that the model is rightly specified. The probability of the model being insignificant (prob f-statistic) equals 2.66 and this is less than the test significant level (0.05) which indicates that the model adopted in the study is reliable, as well as significant. From the coefficients of the results, it reveals that the predictor variable coefficient Perception of pay adequacy is 0.45. The positive direction of the result is consistent with extant literature Reynolds, (2004). Probability value is a very competent test of significance (Awoniyi, Aderanti & Taya, 2011). If the probability value is greater than 0.05, it depicts that the relationship is not significant. The decision is to reject null hypothesis and accept the alternate hypothesis. The probability of 0.036 less than 0.05, this means that the p-value is statistical significant and thus the null hypotheses should be rejected, and by implication accountant perception of pay adequacy affects their level of ethical compliance.

Therefore, the study concludes that there is a significant relationship between perception of the accountant and ethical compliance levels. This conclusion mirrors the individualized conclusion of the fraud triangle theoretical espousal. This finds a common thread in the observation of Skousen, (2006) who posited that, there is a direct relationship between financial stability, external pressure, personal financial needs and financial targets as these have capacity to influence individual conduct. The implication is that beyond sanctions, primarily perception as a behaviour modification tool, finds relevance in explaining work place conduct, which underscores the need for not only concerted but deliberately orchestrated programmes design to positively influence perception.

This is further anchored by the reality of the human differential dynamics which informs the narrative in the non-commonality in interpreting the world around us. Therefore, individualized perception will continue to play a significant role in shaping human conduct. No wonder, people who earn the same salaries behave differently under expose to the same work related settings. This simply reaffirms the case for the deployment of behaviour modification

programmes targeted at perception remodelling. If this were not the case then all employees who have access would always commit fraud. If this were to be then no other individual other than the owners of a business can successfully run businesses. Also, human behaviour experts have long established that no two individuals are exactly the same.

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