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THE 8<sup>th</sup> UITMCJ  
ACADEMIC CONFERENCE

Globalisation and Dynamics  
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# **CD PROCEEDING**

## **ACCON 08**

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**Terbitan:**

**BPJIA UiTM Cawangan Johor**

**2012**

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## **CD Proceeding for ACCON 08**

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### 1. Proceeding

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## **EMPLOYEES' PERSPECTIVE OF ETHICS**

A Paper Presented at the 8<sup>th</sup> Academic Conference 2012

*Organized by*

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### **Abstract**

The increasing number of companies' collapses, due to corporate fraud or misconduct, has triggered the need to understand why this happened. One of the major contributors to these activities is poor ethical values among company's employees. Therefore, it is important for companies to have a proper and effective code of conduct and ethics program in order to prevent corporate fraud. The aim of this study is to determine the perception and understanding of employees towards companies' code of conduct and ethics program. Questionnaires were distributed to a sample of companies in the Klang Valley which asked on the perception of employees towards companies' code of conduct and ethics program. The results indicates that majority of companies surveyed are having this program available at their companies. It is also found out that majority of the employees understand about these two programs; understand the importance of having these two program for the companies and the managers pay serious attention to the ethics program. Nevertheless, a small percentage of respondents did not understand and still not clear with the code and ethics programs. As a conclusion, this study found out that companies do have sufficient ethics standards and ethics program. However, there is room of improvement particularly in making sure that employees fully understand the ethics standards and ethics program. This implies that companies need to have training and seminars to ensure their employees understand these. Therefore, future study should look into the ethics standards and ethics program itself to ensure it has been carried out effectively.

**Keywords:** ethics, corporate fraud, descriptive, questionnaire, employees, perception.

## 1.0 INTRODUCTION

The issue of fraud has been much debated since the earliest of time. It seems to be a never ending story in dealing with human behaviour for deciding what's right and what's wrong. Ethical values play an important role in every decision making process. Unethical values would surely lead to unethical decision or action which eventually could lead to fraud. The recent years have seen this problem becoming a pandemic that destroy people's lives, business and economy as a whole. For example, a survey conducted by KPMG (2009) on integrity has found that: (1) the prevalence of misconduct remains high with nearly 74 percent or three out of four employees reported that they have personally observed or have firsthand knowledge of wrongdoing within their organization (this result is consistent with the result in 2005 and 2000 survey), (2) the nature of observed misconduct remains serious with nearly half of the employees that is 46 percent reported that what they have observed could cause 'a significant loss of public trust if discovered'. The banking and finance industry has shown the highest increased, (3) pressures, incentives, inadequate resources and job uncertainty continue to be the major drivers of fraud and misconduct. Respondents reported that managers and employees feel pressured to do whatever it takes to meet business target (59 percent); they believe they will be rewarded for results not the means used to achieve them (52 percent); they lack resources to get their jobs done without cutting corners (50 percent); and they fear losing their jobs if they do not meet targets (49 percent), and (4) while whistle-blower mechanisms are gaining traction, there remains a risk that boards and senior management may not hear from employees about fraud and misconduct risks until it is too late.

Therefore, it is important for us to investigate the integrity and ethical values of Malaysian companies. Determining the perception of company's code of conduct and ethical guidelines/programs, it is hoped to highlight any weaknesses or strengths in the companies' system from the perspective of those who are directly practising it (the employees) and further hope to be able to reduce fraud risk if not to prevent it from happening.



The main objective of this study is to understand the perception of employees towards the ethical guidelines or code of conduct in the companies that they are working with. Specifically, this study attempt to answer the following research objectives:

- i. To examine the respondents' knowledge on company's code of conduct
- ii. To examine the respondents' knowledge of company's ethics programme

## **2.0 LITERATURE REVIEW**

### **2.1 Fraud**

Fraud can be classified into two major groups that are misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Going further, KPMG (2006) breaks financial fraud into the following categories: (1) Fraudulent Financial Statement reporting – most fraudulent financial reporting schemes involve earnings management, arising from improper revenue recognition and overstatement of assets or understatement of liabilities, (2) misappropriation of assets – this category involves external and internal schemes such as embezzlement, payroll fraud, external theft, procurement fraud, royalty fraud and counterfeiting, (3) expenditures and liabilities (avoided or incurred) for improper purposes – this category refers to commercial and public bribery, tax fraud, wages abuse, falsifying compliance data provided by regulators, as well as other improper payment schemes, (4) fraudulently obtained revenue and assets– such as over-billing customers, deceptive sales practices, accelerated revenue or bogus revenue, and (5) other misconduct – such as conflicts of interest, insider trading, discrimination, theft of competitor trade secrets, antitrust practices and environmental violations.

There are many ways for committing fraud, revenues recognition and misstatement are the most common techniques used (Beasley et al., 1999). The Kessler (2001) survey indicates the problem or issue of fraud is haunting companies and forensic accountants. Squires (2003) states that economic crime and fraud do not show a clear or obvious signal and

therefore forensic accountants have to look beyond all the figures to see the truth. Brief et al. (1996) conducted a study on chief financial officers and the pressure to shift expenses between periods for income smoothing and found out that 87percent of the respondents are willing to do so. According to Zahra et al. (2007) fraud are deliberate actions of management at any level to deceive, con, swindle or cheat investors of stakeholders.

The motivation to commit fraud is due to the three elements that are common to all fraud; a perceived pressure, a perceived opportunity and some way to rationalize the fraud as acceptable and consistent with one's personal ethics. Part of the pressure that caused people to commit fraud are financial needs frustration with work or the desire to challenge to beat the system. In the presence of the opportunity to commit fraud especially in the absence or weak control system and the ability to regard it as ethical, fraud can easily be committed. Past research indicate the important of management's commitment to integrity and ethical values to external auditors (Apostolou et al. 2001; Beaulieu 2001; Cohen and Hanno, 2000). Murphy (1989) found that larger firm appeared to have more awareness of ethical behaviour in only certain issues. Brief et al. (1996), D'Aquila (1998), Dunn (2003) studied the relationship between organizational culture and ethics conclude that it is important to have an organizational culture that deter unethical behaviour.

PricewaterhouseCoopers (2007) survey indicates two types of causes to trigger fraud that are individual and corporate causes. Individual causes are the perpetrators' personal reasons for committing fraud that is the incentive and ability to rationalise their actions to themselves. Corporate causes are the organizational reasons that allowed fraud to occur that is their levels of control and the ethical culture of the organization. This is further simplified in Table 1.

**Table 1: Individual and corporate causes for committing fraud**

| Individual causes:  | Corporate causes:  |
|---|--|
| <ul style="list-style-type: none"> <li>• Financial incentives (greed)</li> <li>• Low temptation threshold</li> <li>• Lack of awareness of wrongdoing</li> <li>• Expensive lifestyle</li> <li>• Denial to financial consequences</li> <li>• Career disappointment</li> <li>• Potential redundancy</li> </ul> | <ul style="list-style-type: none"> <li>• Low commitment to brand</li> <li>• Insufficient control</li> <li>• Able to use authority to override control</li> <li>• Too great staff anonymity</li> <li>• High company target</li> <li>• Corporate ethics unclear</li> </ul> |

## 2.2 Ethics

Ethics can be defined as a set of moral principles or values (Arens et al., 2007). Ethics is one's personal believe of what is right and what is wrong (Garrett and Klonoski, 1990) and it often refers to the generally accepted behaviour or norm (Griffin, 1998). Farrell and Fraedrich (1994) states that ethics is the study and philosophy of human conduct that emphasis on what is right and what is wrong.

There is no clear definition of a good ethical behaviour and it has become more challenging in recent years as businesses are more diversified and going international. Nevertheless, there is a need to have clear guidelines in organization to ensure a uniform understanding of ethical behaviour. Ruin (2001) indicates that it is important to have a sustainable ethical management and to achieve this organization need to have these five elements: (1) clear corporate culture that encourages responsible behaviour, (2) specific policy guidance on difficult issues, (3) developing managerial awareness and competence through ethics training, (4) top management commitment to nurture the corporate culture, and (5) staff support to assist line managers on an internal consulting basis.

Trevino et al. (1999) carried a study on the effectiveness of organization's ethical programs in the United States stated the combination of formal and informal elements in ethical culture that would guide employee thought and action includes: (1) ethical leadership by executives and supervisor, (2) reward systems to incorporate ethical considerations, (3) perceived fairness, fair treatment of employees, (4) open discussion of ethics in the organization, (5) authority structure that emphasizes an employee's accountability and responsibility to question his or her own actions and an obligation to question authority when something seems wrong, (6) organizational focus that communicates care for employees and the community, rather than self-interest, (7) official policies and procedures (code of ethics, practice, conduct), (8) supporting offices (e.g. ethics officer, ombudsperson), and (9) supporting structures (e.g. telephone hotline, whistle-blower, protection, code sign-off, training etc).

Murphy (1989) states that an effective code is the embodiment of an organization's values that represent the major organizational structure in which to implement ethical policy and to signal and communicate behavioural expectations and culture as well as to provide strategic and legal positioning for the organization.

### **3.0 RESEARCH METHODOLOGY**

#### **3.1 Sample and sample size**

A convenient random sampling method was used in obtaining the data. One thousand questionnaires were distributed to 20 public companies within the Klang Valley. The reason for having a large number of respondents is due to the low response rate for this method. This study did not attempt to analyze any particular industry as the objective is to assess the ethical practices amongst companies in Malaysia. However, the types of companies selected for this study are public companies as public companies is subject to public scrutiny; therefore ethics is presumably an important aspect for the company.

Even though it is said that mailing method is free from interviewer biasness, the problem of slow in response and low rate of respondents often occurred. Therefore, we decided not to mail the questionnaire but personally distribute and collect it. A follow up was made to the representatives to determine whether there is any more questionnaires that has been answered. Bailey (1982) concluded that at least one follow up will receive a response rate of about 20 percent higher than no follow up at all. The reason for distributing and collecting the questionnaires personally is to ensure a higher response rate. Only 200 questionnaires were collected and out of the 200 questionnaires, 142 questionnaires were useable.

### 3.2 Data and data analysis

The questionnaire consists of three sections. Section A requires the respondents to answer general questions on personal information and company's background and followed by section B that anticipated on the respondents' knowledge on company's code of conduct. Code of conduct would be the company's statement or rules and regulation or framework made with respect to any ethical conduct or issues. As ethics is an important tools in ensuring a proper conduct of employees, for company that has a set of code of conduct should also has a proper ethics program. Ethics programs and guidelines would be such as ethics talk, courses, training, workshop, discussion or forum conducted for the employees from time to time to increase their ethical standard and understanding. Next is Section C that asked the respondents to rate their knowledge and perception on company's ethics program and guidelines.

### 3.3 Non-respond bias test

A low response rate might give rise to a problem of non-response bias that might in turn cause the data to be unreliable or invalid. In this study, the response received is not considered low; therefore a non-response bias test is not applicable. In addition, Oppenheim (1966, p364) suggested that one practical way to detect non-response bias is to compare the answers to the questionnaire given by early respondent with those of late respondents.

Relating this statement to our study reveals that there is a clear non respondent because the questionnaire was administered in one day by hand collection. Furthermore, issues of homogenous respondent will not arise because the pre survey is not conducted. These three arguments suggest that non-response bias test is not incorporated in the research results as far as the users are concerned.

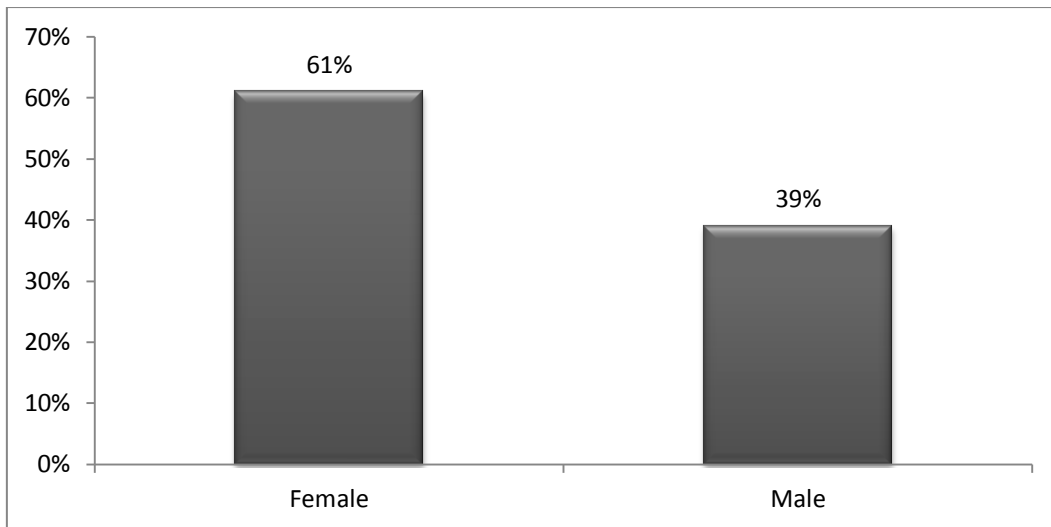
Objective number one of this study will be met by the result from section B of the questionnaire and objective number two will be met by the results from section C.

#### **4.0 FINDINGS AND DISCUSSION**

The main objective of the study is to examine the perceptions of employees regarding the company's code of conduct and ethical guidelines and program. A descriptive analysis was conducted Section A, B and C in order to see the frequencies of occurrence of the phenomena. The average score of a set of figures were obtained.

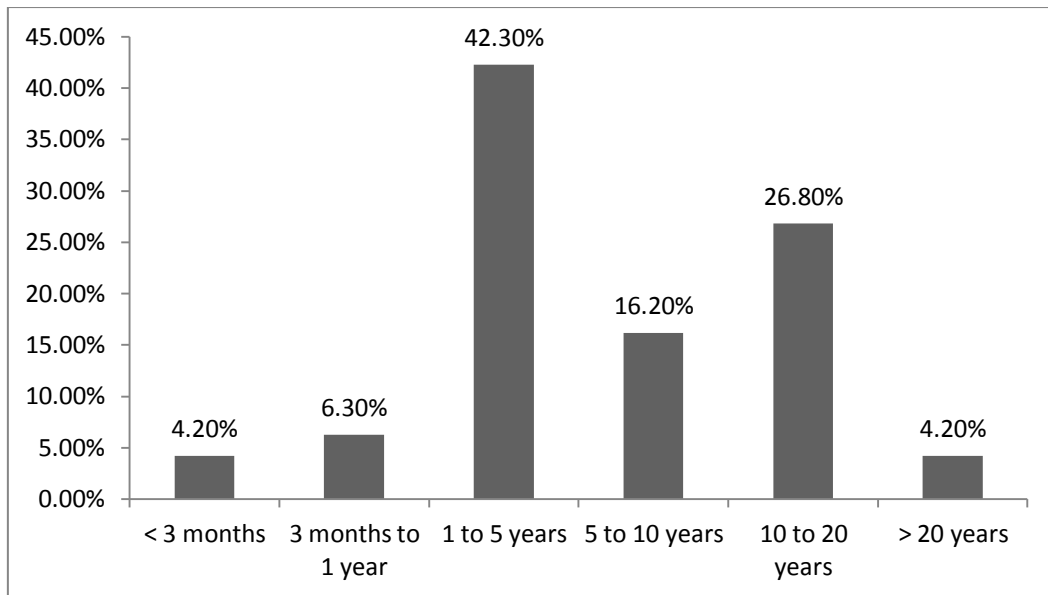
##### **4.1 Descriptive Analysis for Section A**

Figure 1 shows the respondents' gender distribution. Out of the 142 respondents, 61 percent were female and the remaining was their counterpart. Even though according to the Malaysian survey of population in the year 2000 and 2010, the number of working males is more than females, the distribution is not known. Therefore, one possible explanation that could be offered for this result is the number of female employees is more than males in the studied sample.



**Figure 1: Respondent's Gender**

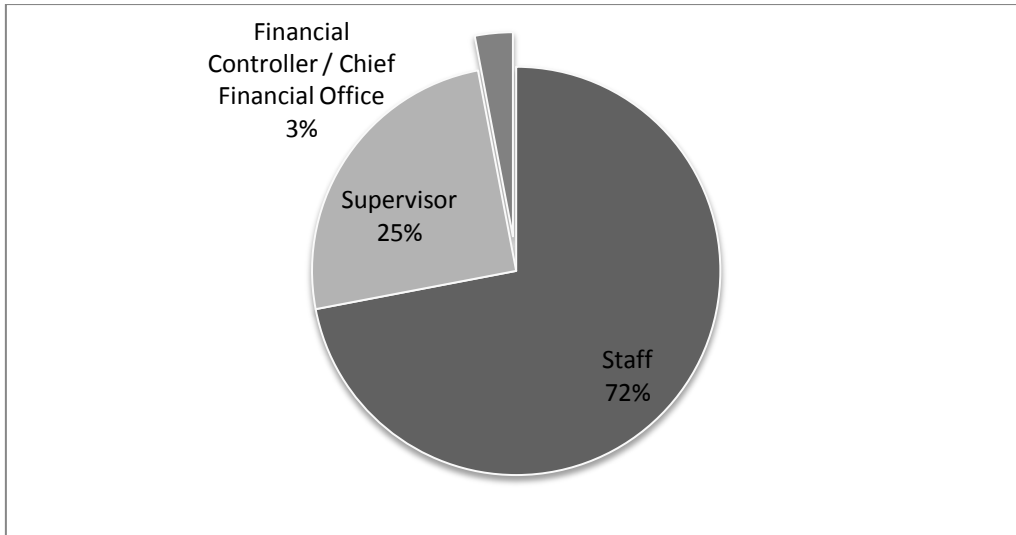
As shown in Figure 2, most of the respondents that is 42.3 percent have worked with the organization between one to five years followed by 26.8 percent who worked between 10 to 20 years. The result shows that most companies have employees that have worked between one to five years and 10 to 20 years. One reason for this is because when employees start to work they would normally stay in the organization between one to five years to gain as much experience as they could and after that if they would like to enhance their career or not happy with their current position, they find other jobs in other companies. However, for those that are comfortable working with the current company they would normally stay for a long time which can be seen in the results of 26.8 percent that worked for 10 to 20 years. The result further indicates that about 16 percent employed by the company between five to ten years, approximately six percent between three months to a year and roughly 4.2 percent for less than three months and also more than 20 years.



**Figure 2: Respondent's Duration of Service**

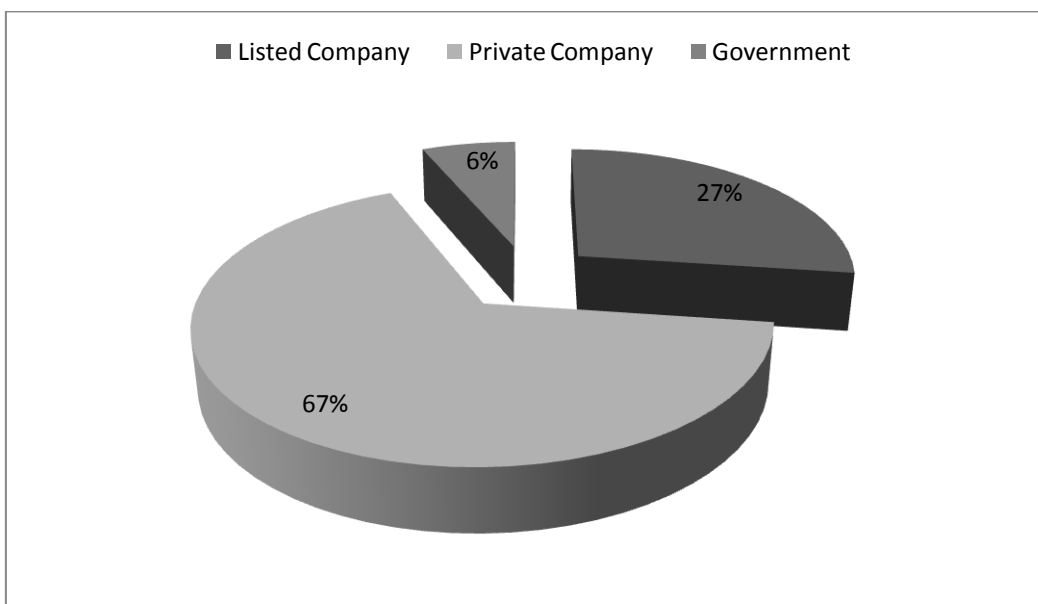
The respondents' position with the company was divided into three categories that are staff, supervisor and financial controller. A large percentage of 72.3 percent were from staff, followed by 24.8 percent from supervisors and the remaining was the financial controller. Figure 3 shows a better description of the respondent's position with the company. This is not a surprising figure as the hierarchy in a company is larger based as compared to the peak of the pyramid of an organization structure which is the number of managers and supervisors is lower than employees or subordinates. Therefore, the result for the distributions of respondents in terms of the position or job status in the organization is consistent with the nature of organizational hierarchy.





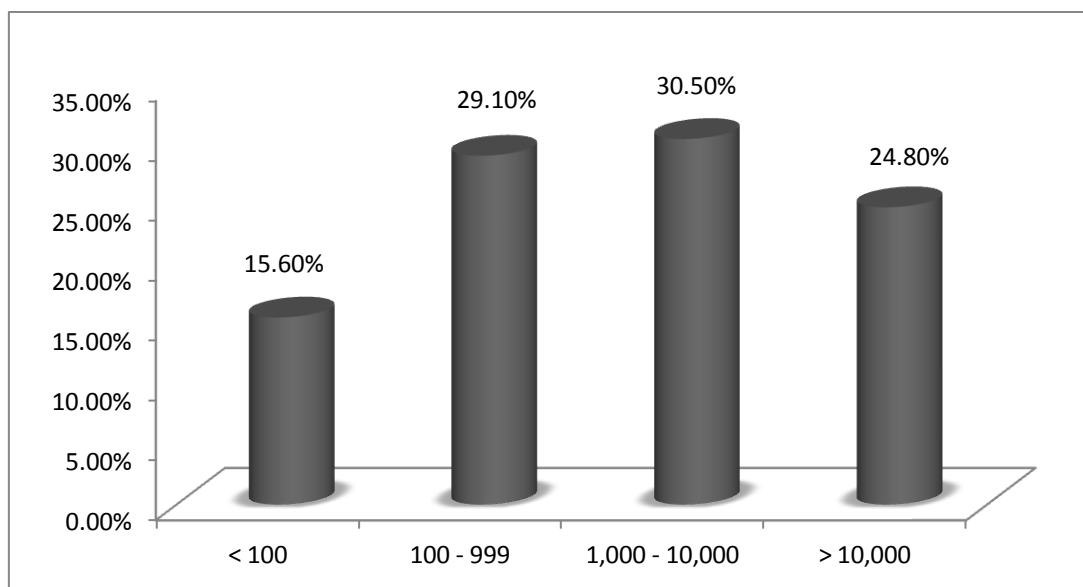
**Figure 3: Respondent's Position/post**

Figure 4 divided company's type into three: 27.1 percent was from listed companies, 66.7 percent private companies and only a fraction of 6.2 percent from the government offices. Even though the distribution of questionnaires has taken into account the fairness of distributing the questionnaire among the three groups, it is fairly difficult to get a balance figure of response from the organizations/companies.



**Figure 4: Types of organizations/ownership**

The majority of the companies have about 1000 to 10,000 employees (30.5 percent). Not fallen far behind, 29.1 percent has 100 to 999 employees followed by 24.8 percent of the respondents who have more than 10,000 employees and the residual of 15.6 percent has less than 100 employees. As the main objective of this study is to analyze employees' perception of company/organization's code of conduct and ethics programme, it is therefore appropriate to have different types of companies in terms of its nature, size, types of ownership and number of employees.



**Figure 5: Number of employees in a company/organization**

#### 4.2 Descriptive Analysis for Section B

The questionnaire asked the respondent if there is any code or other policies regarding ethics acceptable in the working practice and only 6.6 percent of the respondents answered no. The majority of 93.4 percent answered yes. Having 93.4 percent of respondents saying 'YES' means that majority of the companies/organization have a code of conduct or ethics program. This is a positive sign of the level or awareness in Malaysian companies/organization regarding to ethics is quite high. The respondents who answered yes have to answer the following questions that are question 1A and 1B.

For question 1A: 'Does the code of conduct address important issues employees could face?', only 36.2 percent of the respondents indicate that the code of conduct address all the important issues faced by employees which means the code of conduct is consistent with what the employees need and they understood it. In other words, it is a good and effective code. 48.2 percent of the respondents said that their code of conduct addresses almost all the important issues, which can be considered as an appropriate code with a little room for improvement. For those respondents that answered 'some', 'few' and 'no' which totalled up to 9.2 percent means either they do not understand the code of conduct or they represent a number of companies/organization that do not have a proper and clear code of conduct. It is therefore very important for each company/organization to know the perception of their employees with respect to the company/organization's code of conduct.

For the next question, that is question 1B: "are you required to periodically acknowledge in writing your understanding to the code of conduct or other policies?", only 57.5 percent of the respondents answered 'YES' and the remaining of the respondent answered 'NO'. Having a code of conduct is meaningless if it is not being understood by all companies employees as well as not been executed properly. So, it is better to have or to know employees' understanding on the code from time to time which at the same time will serve as a reminder to the employees when they have to report their level of understanding for that matter.

The respondents who answered "no" to question 1 will proceed directly to question 2 that is 'It is clear what behaviour is considered acceptable in your organization?' Only 28.1 percent of the respondents indicate that despite of not having a code or policies regarding the acceptable working ethics, their company/organization have a clear indication of acceptable behaviour relating to their job and 54.5 percent indicates that it is mostly clear. This may be due to the talks or advice given by the supervisor to each individual that work for the

company. Almost 10 percent indicate that it is somewhat clear, which may indicate that they have been given information regarding the acceptable working ethics. About five percent and 2.5 percent of the respondents indicate it is mostly unclear and very unclear respectively. This could mean either no information is given to them regarding the working ethics or they did not understand the information given with respect to working ethics.

Question 3 to 7 required the respondent to answer using the 5-point Likert scales of severity as listed in Table 2.

**Table 2: The statements for C3 to C7**

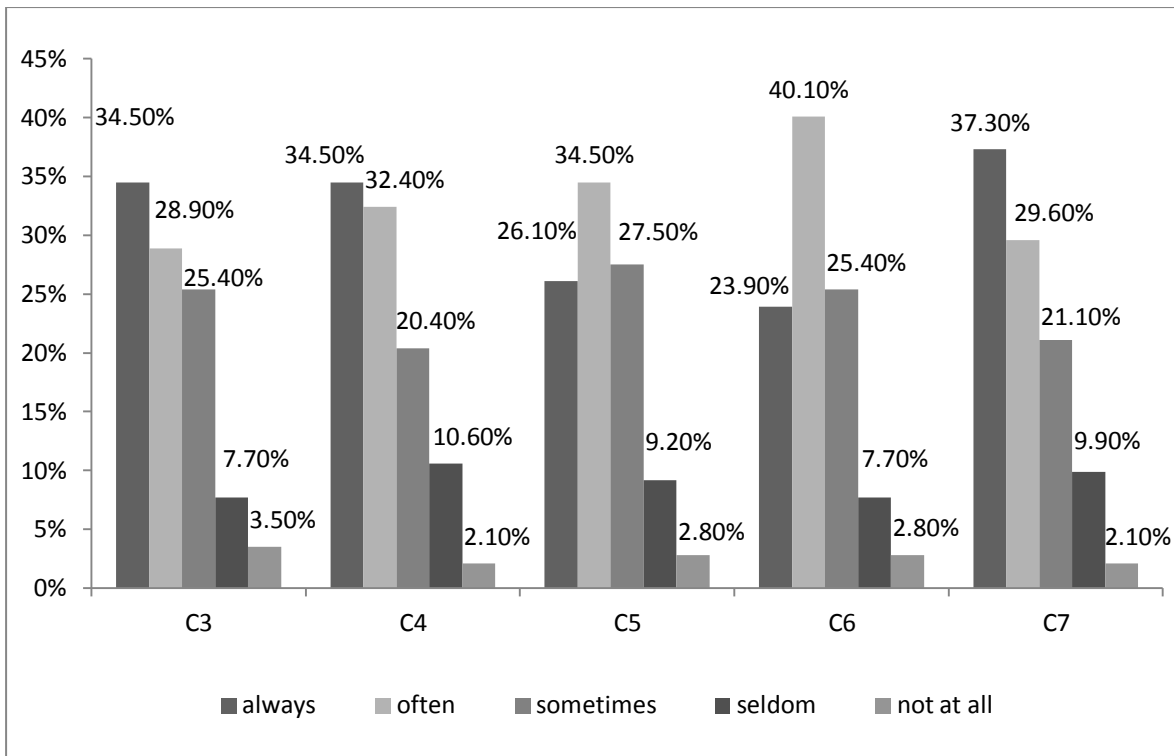
|    |  |
|----|--|
| C3 | Your organization provides guidance about what you should do if you encounter unethical behaviour. |
| C4 | The management culture emphasizes the importance of integrity and ethical behaviour.               |
| C5 | The management verbally communicate expectations of high ethical standards.                        |
| C6 | The individual(s) to whom you report reinforce management's expectations of ethical standards.     |
| C7 | The management expect you to pay attention to ethical issues when dealing with others.             |

The response for each of the above statement is illustrated in Figure 6. As these five statements are grouped together, the discussion on the results has also been combined to give a clearer picture.

Figure 6 illustrates the answers respondents have chosen for the five statements in this section. Statements C3, C4 and C7 have almost the same kind of responds patterns. On the other hand, statements C5 and C6, the respondents chose often to be the mostly practiced in their organizations. Only a small percentage between 2 percent to 4 percent

chose the option not at all for all the five statements given. From the results it shows that most companies provides guidance on what should be done if the employee encounter unethical behaviour either the company/organization always provide or often provide guidance to the employees. However there are respondents that indicates that they 'sometimes', 'seldom' and 'not at all' receive guidance on what they should do when they encounter unethical behaviour that total up to almost 30 percent. Companies should always provide guidance to their employees with respect to ethical issues, as this is important in ensuring the consistency of action throughout the companies. The results for C4 and C7 is consistent with the response for C3 which means that management pay serious attention ethical behaviour and expect the employees to follow it through this was shown in a higher percentage for those that responded 'always' and 'often' for both statements (C4 and C7).

For statement C5 and C6, the results are almost similar. This means that employees are aware that management which represents the companies are expecting a high ethical standard and those who are responsible carry out their duty seriously. This is shown by the high percentage of respondent that indicates 'always' and 'often' for statement C5 and C6. This shows that managers emphasize on ethics and they see it through, which means managers '*walk the talk*'. Thus these results indicate that employees do have sufficient understanding on the companies'/organizations' code of conduct which means objectives number one has been met.



**Figure 6: Respondent's Responds for Statements C3 – C7**

#### 4.1.3 Descriptive Analysis for Section C

This section starts with question 8: 'Does your organization/company have an ethics programme?' and for those that answered 'YES' they have to continue answering nine to 11. For those that answered 'NO' will proceed directly to section D. Out of the 142 respondents, 71.5 percent answered yes, 26.3 percent answered no and only about two percent did not answer this question. This section requires the respondents to indicate their level of familiarity toward the companies' ethics programme and the purpose of the programme as listed in Table 3.

**Table 3: The next nine statements for Section C**

|      |   |
|------|---|
| C9   | Level of familiarity with your organization's ethics program.         |
| C10a | To prevent violations of ethics program.                              |
| C10b | To educate employees regarding the ethics standards expected of them. |
| C10c | To ensure and strengthen the public's trust in the organization.      |

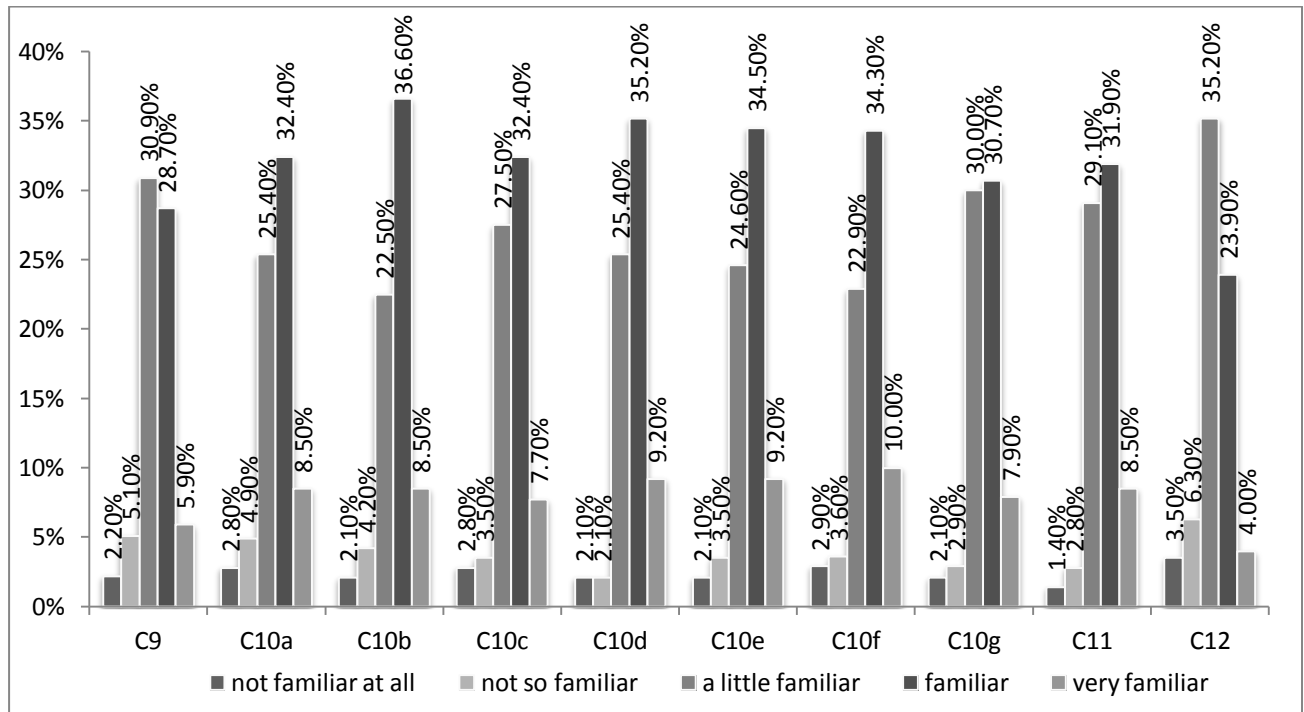
|      |   |
|------|---|
| C10d | To detect unethical behaviour.  |
| C10e | To discipline or prosecute violators.   |
| C10f | To ensure fair and impartial treatment of the public outside organization in their dealing with the organization. |
| C10g | To answer employee questions of ethics.   |
| C11  | Level of familiarity with the rules of ethical conduct of employees.  |
| C12  | Our ethics programme is too complex to be useful.   |

Figure 7 shows the responds from the respondents who have chosen to answer yes and/or skipped the previous question. A good number of the respondents chose the middle region of the options between a little familiar and familiar. Only a small numbers of respondents chose the not familiar at all and not so familiar. The remaining chose very familiar. The other respondents who answered no in the previous question proceeded to the next section. Similarly with the respondents who answered yes to the previous question.

For statement C9, majority of the respondents indicate that they are familiar with their company/organization's ethics programme, which is a good indicator that employees are familiar with ethics programme. Statement C10a to C10g explore on the level of employees' familiarity on the purpose the ethics programme from educating to discipline ethics violators. The results show a similar pattern for all the seven statements which means that employees are familiar with the purpose of company/organization's ethics program. Results for statement C11 states that majority of the respondents are familiar with the rules of ethics for employees. Some majority of 35 per cent of the respondents were a little bit familiar with statement C12.

Overall result for section C indicates that majority of the employees are familiar with company/organization's ethics programme. Thus, these results indicate that employees do

understand and are familiar with the ethics programmes and the purpose of having it and with this, the second objective has been met.



**Figure 7: Respondent's Responds for Statements C9 to C12**

## 5.0 CONCLUSION

This study determined the perception and understanding of employees towards companies/organizations code of conduct and ethics program. The results imply that majority of companies surveyed do have code of conduct and ethics programme. It is also found out that majority of the employees understand the code of conduct and ethics programme and the overall attitude towards ethics is very good. However, there are still a small percentage of respondents that did not understand or not clear with the code and ethics program. This is an alarming result that could lead to corporate fraud or misconduct. Companies should have conduct training and seminars in order to ensure their staffs understand their ethics and standard program. Therefore, future research can be carried out to determine whether the content of ethics and standard program is sufficient to prevent fraud or misconduct in companies.



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