

# The Determinant Factors for Ethical Judgments

*Maheran Zakaria\**

*Junaidah Hanim Ahmad*

*Nazmi Mohamed Zin*

*Universiti Teknologi MARA, Kelantan*

*\*Email: maher835@kelantan.uitm.edu.my*

## ABSTRACT

*The public has been dismayed and angered by the catastrophic collapse of giant corporations throughout the world such as Enron, Xerox, WorldCom, Parmalat, Tyco and Barings Bank, which resulted from a succession of financial scandals. Such unfortunate scandals have also happened in Malaysia, such as those involving Transmile Group, Perwaja and Southern Bank. The fact that these scandals are becoming more frequent these days has spurred interest in studies of ethics. In addition, the public always associate these unethical scandals with unethical judgments. In light of this issue, the objective of this study is to examine the determinant factors for ethical judgments. Three hypothesized relationships were tested using the samples of 260 Universiti Teknologi MARA Kelantan Accounting students. The results derived from the regression analyses concluded that knowledge of ethics and religiosity are strongly associated with ethical judgments. However, organizational ethical climate does not have any relationship with ethical judgments. The empirical results provide an insight for higher learning institutions in cultivating future accountants' ethical judgments towards nurturing a fully ethical society.*

**Keywords:** *organizational ethical culture, religiosity, knowledge of ethics, ethical judgments*

## Introduction

The primary duty of accounting profession is to offer fiduciary services to the society (International Federation of Accountants, 2005). These

fiduciary services create the fiduciary relationship between the accounting profession and the society in which the society has to trust or rely upon the judgment and expertise of the professionals (Brooks & Dunn, 2008). The relationship is so fundamental, that professionals have been expected to make personal sacrifices, if the welfare of their clients or the public is at stake. However, recent development on financial scandals involving companies around the world, including Malaysia, had frustrated the public. Among the well-known examples are Barings Bank, Enron, Arthur Andersen, WorldCom, as well as Transmile, Megan Media and PKFZ in Malaysia. The increasing number of financial fiascos around the world has somehow made the public aware that accounting professionals no longer serve the society. Rather, the emphasis appears to have shifted toward the accountants' and auditors' own interest (Patterson, 1994). All these accusations have adversely affected the reputation of the accounting profession; the public lost their trust and confidence that leads call to reform the profession.

What causes the financial scandals? Many believe that to be a good professional accountant, one needs to master the accounting and auditing techniques. However, relatively few financial scandals are actually caused by methodological errors in the application of the techniques. Most are actually caused by errors in judgment on the appropriate use of the techniques or the disclosure related to it (Brooks & Dunn, 2008). Though some of these errors in judgment may be due to misinterpretation of the problem, many others are the result of lack of attention on the ethical values (Brooks & Dunn, 2008). Reading the facts of the financial scandals cases carefully, one would find that many of them actually stemmed from lack of integrity such as conflicts of interest, bribery and neglect of fiduciary duties.

The scandals have brought attention to the role of higher learning institutions. Can the institutions play a role in moulding the students or future accountants to become ethical persons once they graduate? This is because ethical behaviour of students is likely to be carried over to the workplace in the future (Malone, 2006). While many would say that ethical values, which lead to ethical judgments should be taught and instilled at an early age (supposedly at home), many higher learning institutions as well as professional bodies have taken steps to incorporate modules on ethics in their curriculum. Making an ethical judgment is very important to everyone. It is extremely so in professions such as accounting, because accountants and auditors are supposed to put the interest of the public

above others, including their own interests. In order to restore the public confidence in the profession, it is vital that future accountants are able to make ethical judgments. Thus, factors affecting ethical judgments among accounting students need to be identified.

Ethical judgments are judgments by which an individual, who is facing an ethical dilemma, evaluates the ethical problems, consider alternatives and choose the ones that best solve the problem to attain the most beneficial outcomes (Fang, 2006). The philosophers have studied varieties of standards and business ethicists have built the appropriate standards in their work. For example, the General Theory of Marketing Ethics (Hunt & Vitell, 1993; 1986) posits that individual's personalities, religiosity, professional and industry environment as well as organizational ethical culture influence the formation for ethical judgments.

Organizational ethical culture is conceptualised as the perceptions of members on the extent of their organization's commitment in relation to the establishment and enforcement of rules and procedures confined to ethical issues towards their employees and management Victor and Cullen (1988). Ampofo (2004) opined that organizational ethical culture is the subset of organizational ethical norms that deals with codes of ethics, ethical enforcement, disciplinary committees and ethical philosophies of its internal stakeholders. Fang (2006) added that organizational ethical culture will build up ethical perceptions and these perceptions will indirectly help organizational members to more likely form ethical judgments. The organization that strives to create an ethical culture in its company should not only have the code of conduct, but should also ensure that it is followed by enforcing the code in the form of authority (Doughlas et al., 2001; Jones, 1991; Finn et al., 1988; Trevino, 1986).

Religiosity is conceptualised as the degree of which an individual is considered religious. Religiosity is also believed to have an impact on ethical judgments and behaviour (Engel et al., 1995). Knowledge of ethics refers to the level of knowledge grasped by professional members regarding ethical standards issued by a professional body (Zeigenfuss & Martinson, 2002). These ethical standards of professional's code of ethics are issued to govern members' ethical behaviour and judgments (Steven et al., 2003; Moizer, 1995). In addition, these ethical standards would also enhance the public's confidence on the profession

Previous studies have proven several factors that significantly affect ethical judgments such as organizational ethical culture (Zakaria et al., 2009; Aw, 2006; Marta, 1999; Patterson, 1994), religiosity (Rashid &

Ibrahim (2008) Lindridge, 2005; Marta, 1999) and knowledge of ethics (Zakaria et al., 2009; Steven et al., 2003; Zeigenfuss & Martinson, 2002). In addition, as believed by many, future leaders are developed in today's classrooms (Malone, 2006). As such, this study intends to investigate these factors using accounting students who are expected to be future accounting professionals.

With regard to this, the study aims to examine the followings. First, is to examine the relationship between organizational ethical culture and ethical judgments. Second, it aims to examine the relationship between religiosity and ethical judgments and third, is to examine the relationship between knowledge of ethics and ethical judgments.

## **Methodology**

### **Sample and Data Collection**

The study uses a self administered survey in which data were collected via research instruments completed by respondents. The research instruments comprise a cover letter and a research booklet. The booklet includes questions on the measurement of four variables namely organizational ethical culture, religiosity, knowledge of ethics and ethical judgments.

The research instruments were randomly distributed to 260 accounting students of University Teknologi MARA Kelantan (UiTM) branch. Students were given two weeks to complete the questions. After the specified period, approximately 244 useable research instruments were returned and analyzed, representing a response rate of 93.7 percent. 70 respondents were considered as late response because their research instruments were received 2 weeks after the due date. A comparison of responses from the early and late respondents suggests that non-response bias was not an issue in this study. In order to increase the internal validity, participants were advised not to discuss and answer the questions together with their colleagues. They were also assured of the confidentiality of their response for this study.

## **Operationalisation of Variables**

The study examines one dependent variable (ethical judgments) and three independent variables (knowledge of ethics, religiosity and organizational ethical culture).

Ethical judgments are measured by 7 ethical scenarios faced by students which were adopted from Zakaria et al., (2005). Participants were required to state their degree of agreement with the action described in the scenarios on a 7-point Likert scale (from 1 = strongly disagree to 7 = strongly agree). Each score from the scenario would be added and divided by the total number of scenarios to derive the mean value. A high score indicates that the participant is more likely to form ethical judgments (participant perceives the situation is unethical). On the other hand, a low score indicates that the participant is less likely to form ethical judgments (participant perceives the situation as ethical).

Organizational ethical culture is measured using an instrument developed by Hunt and Vitell (1986). The instrument contains 9 questions concerning the perception of the top management and peers' ethical behaviour and the management commitment in developing a sound ethical culture. Participants are requested to give their response on a 7-point Likert scale ranging from "strongly disagree" (1) to "strongly agree" (7). The scores are averaged to obtain the mean value.

Religiosity is measured based on the instrument developed by Marta (1999) on a 7-point Likert scale ranging from "strongly disagree" (1) to "strongly agree" (7). According to Marta (1999) the scale is universal and has been tested on various religions in the US such as Christian, Buddhist, Jews, Muslim and Hinduism. The scores are averaged to obtain the mean value. A high score indicates that a participant is high in religiosity, whilst a low score indicates that a participant is low in religiosity.

Knowledge of ethics is assessed based on the respondents' understanding of Malaysian Institute of Accountants (MIA) By-Laws on professional code of ethics. The participants were required to indicate their understandings of nine scenarios that included fees, method of practice, advertising, competence and due care, loans granted to clients, commission, referrals, changes on professional appointment, and confidentiality. The instruments were adopted from Zakaria et al. (2010). The scores are averaged to obtain the mean value. A high score indicates that the participant has a high level of knowledge of MIA By-Laws on professional code of ethics. On the other hand, a low score indicates that the participant

has a low level of knowledge of ethics. The instruments were pre-tested to fifteen accounting students. After receiving comments, suggestions and evaluation from them, the instruments were amended and improved.

## **Hypotheses Development**

### **Organizational Ethical Culture and Ethical Judgments**

Previous studies have found that organizational ethical culture has significantly influenced ethical judgments (Zakaria et al., 2009; Aw, 2006; Marta, 1999; Patterson, 1994). Hence, it is expected that members who perceive their organization practices a sound ethical culture are more likely to form ethical judgments. Therefore, the following hypothesis is proposed:

H<sub>1</sub>: Organizational ethical culture is positively related to ethical judgments

### **Religiosity and Ethical Judgments**

Many studies indicate a positive relationship between religiosity and ethical judgments. For example Rashid & Ibrahim (2008) found that religiosity is positively related to ethical judgments of students in public institutions of higher learning. Likewise, King and Crowther (2004) found that there is a relationship between religiosity and spirituality with individual's behaviour and judgments. In addition, Marta (1999) found that religious respondents are more likely to form ethical judgments. Therefore, it is expected that those who obtained higher religiosity score are more likely to form ethical judgments. As such, the following hypothesis is developed.

H<sub>2</sub>: Religiosity is positively related to ethical judgments

### **Knowledge of Ethics and Ethical Judgments**

Most of the professional bodies have their own ethical standards. This is to ensure that members know the dos and don'ts in dealing with their job matters. Moreover, ethical standard also provides guidelines of how members are expected to behave and form judgments according to the professional requirements (Gunz et al., 2002). It is expected that those who possess high level of ethical knowledge are more likely to form ethical judgments. As such, the following hypothesis is formulated.

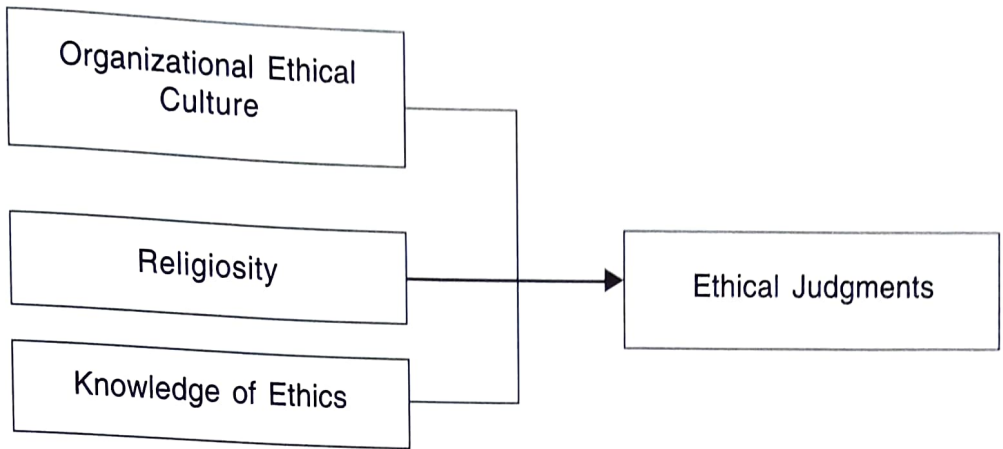


Figure 1: Research Framework

H<sub>3</sub>: Knowledge of ethics is positively related to ethical judgments

## Results and Discussion

### Demographic Profile of Respondents

The demographic profiles of respondents in this study are reported in Table 1. Based on the table, participants consist of 38 (15.6%) males and 206 (84.4%) females. Only 1 respondent (0.4%) consists of Bumiputera with Christianity as the religion while the rest are Muslim Malays. In terms of education, 42 (17.2%) are SPM holders, 7 (2.9%) are STPM holders and the remaining 195 (79.9%) are diploma holders. A total of 108 respondents (44.3%) admitted that they had encountered some form of unethical situations during their studies while the rest 136 (55.7%) had not.

### Descriptive Statistics

Table 2 represents the descriptive statistics of the variables under study. The mean values of ethical judgments, organizational ethical culture, religiosity and knowledge of ethics are 2.72, 5.85, 2.21 and 2.36 respectively. Meanwhile, the standard deviations of ethical judgments, organizational ethical culture, religiosity and knowledge of ethics are 1.63, 1.17, 1.41 and 1.35 respectively.

Table 1: Demographic Profile

No	Item	Frequency	Percentage
1	Gender	38	15.60
	Male	206	84.40
2	Female	243	99.6
	Race	1	.40
3	Malay	243	99.6
	Bumiputra - Penan	1	.40
4	Religion	243	99.6
	Muslim	1	.40
5	Christianity	42	17.20
	Highest level of education	7	2.90
6	SPM	195	79.90
	STPM	195	79.90
7	Diploma	108	44.30
	Have encountered unethical situations	136	55.70
8	Yes	136	55.70
	No		

Notes: N = 244

Table 2: Descriptive Statistics

Variables	Mean	Percentage	Standard Deviation
Ethical judgments	2.72	38.86	1.63
Religiosity	5.85	83.55	1.17
Organizational ethical culture	2.21	31.57	1.41
Knowledge of ethics	2.36	33.71	1.35

Notes: N = 244

The mean values of the four variables are obtained by averaging the respective scores of question items. Meanwhile, the percentage is obtained when the mean values are divided by the maximum score (7) and multiplied by 100. Based on the percentage, the respondents are categorized into three levels that are low, average and high. A score of less than 33.3% is categorized as low. Scores between 33.4% and 66.7% are categorized as average, while a score of more than 66.8% is categorized as high. Overall, the majority of the respondents obtained an average level of ethical judgments, high level of religiosity and a low level of organizational ethical culture and knowledge of ethics.



## Correlation Analysis

Table 3 depicts the analysis of Pearson correlation between variables. The results show that there are positive bivariate relationships between organizational ethical culture, religiosity and knowledge of ethics and ethical judgments. The table also shows that the relationships among independent variables are relatively low which indicate that the multicollinearity issue is not the main concern here.

Table 3: Correlation Analysis

Variables	(1)	(2)	(3)	(4)
1 Ethical judgments	1.00			
2 Organizational ethical culture	.016	1.00		
3 Religiosity	.41**	.04	1.00	
4 Knowledge of ethics	.17**	.08	.06	1.00

\*\*  $p < .01$  (2-tailed), \*  $p < .05$  (2-tailed)

\*. Correlation is significant at the 0.05 level (2-tailed).

## Hypotheses Testing

The hypotheses of the study have been tested by using the regression analysis. The ethical judgments are regressed against organizational ethical culture, religiosity and knowledge of ethics. The results of the regression analysis are depicted in Table 4.

Table 4: Results of Regression Analysis

Predictors	Std. B
Ethical judgments	
Organizational ethical culture	.016
Religiosity	.197**
Knowledge of ethics	.321**
$R^2$	.48
Adjusted $R^2$	.32
$R^2$ change	.48
F-value	3.034**
F-change	3.034

Note: \*\*  $p < .01$ , \*  $p < .05$

In adding the three model variables, the  $R^2$  increases to .48 indicating that the three variables namely organizational ethical climate, religiosity and knowledge of ethics contribute an additional 32.0% to the variance of ethical judgments. The F-change (3.034) is also significant ( $p < .01$ ). Of the three variables, religiosity and knowledge of ethics are found to be positively and significantly related to ethical judgments. Organizational ethical climate has no relationship with ethical judgments. The results therefore, provide support for  $H_2$  and  $H_3$  only.

## **Discussion, Implications and Limitations**

The objective of this study is to examine the influence of organizational ethical culture, religiosity and knowledge of ethics on ethical judgments among UiTM Kelantan Branch accounting students. The statistical results indicate that two out of three hypotheses are supported. The findings therefore, are consistent with past studies (Zakaria et al., 2010; Zakaria et al., 2009; Rashid & Ibrahim, 2008; Marta, 1999). From the results, it can be concluded that having high knowledge in MIA By-Laws on professional code of ethics increases the formation of ethical judgments. Likewise, high level of religiosity also increases the formation of ethical judgments.

However, the results indicate that organizational ethical culture is not related to ethical judgments,  $H_1$  is not supported. One possible explanation for the lack of a relationship between organizational ethical culture and ethical judgments is that the respondents who are the students have no working experience. They may not be able to see the organization's commitment in relation to the establishment and enforcement of rules and procedures to ethical issues. As they have no working experience, they have lack of knowledge in the organizational ethical culture and this would not influence them in the formation of ethical judgments.

The findings from this study offer both theoretical and practical implications. In terms of theory, the results demonstrate that having high knowledge of ethics and high level of religiosity increase the formation of ethical judgments. As such, modules and courses on ethics should be incorporated in the accounting curriculum and students should also be taught of case study analyses. In addition, the curriculum should also include the teaching on religion which could help to enhance ethical judgments among the Accounting students.

The present study has several limitations that may potentially influence the interpretation of the results. These limitations should be considered when interpreting the results or when applying the method of this study in other research settings. The first limitation noted is that respondents were required to form judgments based on limited information provided in the scenarios. However, in the real working environments, respondents would normally require additional information. It is suggested that future studies involve an in-depth interview besides including more ethical scenarios.

Second, the study employs a cross-sectional approach which limits the respondents' views and opinions. It would be better for the study to adopt a longitudinal approach, whereby the respondents are required to respond to the questions at the entry level and after completion of their studies. Researchers should consider this approach in their future studies.

Third, this study focuses on UiTM Kelantan Accounting students alone. The findings obtained may not be generalized to other samples across the industries such as banking and public services, and regions such as Kuala Lumpur and Johor. The same research however, could be replicated using different samples in other industries and regions.

## **Conclusion**

From the findings, it can be concluded that religiosity and knowledge of ethics contribute significantly towards ethical judgments. It is hoped that the findings of this study would help the institutions of higher learning and educators to inculcate religious and ethics values in academic curriculum and their teachings. The academic curriculum must not only equip the students with the technical competency; it should also guide them to make ethical judgments. Enhancing ethical judgment skills among the students is a challenge to educators in order to produce accountants equipped with integrity and thus regain the public trust on the professions.

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