

**THE INFLUENCE OF ORGANIZATIONAL ETHICAL CLIMATE, RELIGIOSITY AND
KNOWLEDGE OF ETHICS ON ETHICAL JUDGMENTS**



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PENGHARGAAN

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4. REPORT

4.1 EXECUTIVE SUMMARY

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, Southern Bank and Technology Resources Berhad. The fact that these scandals are becoming more frequent these days has spurred interest in studies of ethics to investigate the underlying factors of ethical judgments. Though there may be many factors which can affect ethical judgments, this study focused on three, namely organizational ethical climate, religiosity and knowledge of ethics. Three hypothesized relationships were tested using a sample of 260 UiTM Kelantan accounting students. The results derived from the regression analyses indicated that only knowledge of ethics and religiosity are strongly associated with ethical judgments. The findings of this study provide insights on the importance of knowledge of ethics and religiosity in enhancing ethical judgments.

Keywords:

Ethical judgments, Organizational ethical climate, Religiosity, Knowledge of ethics, Accounting students

4.2 INTRODUCTION

The primary duty of the accounting profession is to offer fiduciary services to the society (International Federation of Accountants, 2005). The fiduciary services create 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 (Brook and Dunn, 2008). The relationship is so fundamental, that professionals have been expected to make personal sacrifices, if the welfare of their client or the public is at stake. However, recent developments on financial scandals involving companies around the world, including Malaysia, had frustrated the public. Among the well-known examples would be 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 serves the society well. 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 lead to calls to reform the profession.

What causes the financial scandals? Many believe that to be a good professional accountant, mastery of accounting and/or auditing techniques are vital. 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 about the appropriate use of the techniques or the disclosure related to it (Brooks