



**INFLUENCE OF PERSONAL FACTORS ON ETHICAL
JUDGMENT OF FUTURE ACCOUNTANTS IN
MALAYSIA**

BY

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ABSTRACT

Ethical conduct has been recognised as a pivotal element in the accounting profession, because it may encourage good conduct by accountants when making decisions. This research sought to identify the influence of personal factors on ethical judgement of future accountants in Malaysia. There are three research objectives for this study: (1) to investigate the influence of ethical ideology on ethical judgement of accounting students, (2) to investigate the influence of personal values on ethical judgement: and (3) to explore the influence of emotional intelligence on ethical judgement. The respondents of the study were undergraduate accounting students from three public universities, International Islamic University, Universiti of Kebangsaan Malaysia and the University of Malaya. A survey questionnaire comprised of instruments about ethical ideology, personal values, emotional intelligence and ethical judgment was distributed. A total of 205 responses were received and were redeemed as usable. In order to achieve the research objectives, a multiple regression was performed. The findings indicate that idealism, self-transcendence and social components are positive influences. On the contrary, the study discovered that relativism, self-enhancement, and personal components influence ethical judgment negatively. This study fills the research gap as research on personal factors on ethical judgement of future accountants is very few and scarce. In addition, it is expected that this study will initiate future research on the ethics of future accountants as well as provide a better understanding of the factors that can contribute to better ethical judgment by future accountants in Malaysia. It will give insight into the various parties on how to enhance ethical judgment among future accountants, which ultimately will improve the credibility of the accounting profession.

ملخص البحث

يعتبر السلوك الأخلاقي عنصر محوري في مهنة المحاسبة، لأنه قد يحدّ المحاسبين على حسن التصرف عند اتخاذ القرارات. هذا البحث يسعى إلى تحديد تأثير العوامل الشخصية على الحكم الأخلاقي للمحاسبين المستقبليين في ماليزيا. وهناك ثلاثة أهداف لهذه الدراسة (1) التحقيق في تأثير الأيديولوجية الأخلاقية على الحكم الأخلاقي لطلاب المحاسبة؛ (2) التحقيق في تأثير القيم الشخصية على الحكم الأخلاقي؛ (3) استكشاف تأثير الذكاء العاطفي على الحكم الأخلاقي. وكان من بين المشاركين في الدراسة طلاب المحاسبة الجامعية من ثلاث جامعات حكومية وهي الجامعة الإسلامية العالمية، وجامعة Kebangsaan الماليزية وجامعة Malaya. باستخدام استبيانة استقصائية تتضمن أدوات في الأيديولوجية الأخلاقية والقيم الشخصية والذكاء العاطفي والحكم الأخلاقي. وتمّ تلقي 205 استبيانة واستخدامها. ومن أجل تحقيق أهداف البحث، تمّ تنفيذ الإنحدار المتعدد. وأشارت النتائج إلى أن التأثير الإيجابي الكبير كان للمثالية، و تعزيز الذات، والمكونات الإجتماعية. وفي المقابل، اكتشفت الدراسة أن النسبية، وتعزيز الذات، والمكونات الشخصية لهم تأثير سلبي كبير على الحكم الأخلاقي. وتساهم هذه الدراسة في سد الفجوة البحثية المتمثلة في قلة وندرة البحوث التي تتناول تأثير العوامل الشخصية على الحكم الأخلاقي للمحاسبين المستقبليين. وبالإضافة إلى ذلك، من المتوقع أن يبدأ البحث مستقبلاً على اخلاقيات المحاسبين المستقبليين، فضلاً عن توفير فهم أفضل للعوامل التي يمكن أن تُسهم بقدر أكبر في الحكم الأخلاقي بين المحاسبين الماليزيين في المستقبل. وهذا سوف يعطي رؤى لمختلف الأطراف لتعزيز الحكم الأخلاقي بين المحاسبين المستقبليين، مما يؤدي في نهاية المطاف إلى تحسين مصداقية مهنة المحاسبة في المستقبل.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Accounting.

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DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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This dissertation is dedicated to my beloved parents, my loving husband, and my son

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CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

This chapter provides an overview of the present study on the influence of personal factors on ethical judgment. Section 1.1 offers a background of the study, which is followed by the problem statement in section 1.2. Section 1.3 provides the motivation for the study. Sections 1.4 and 1.5 address the research objectives and research questions, and the significance of the study, respectively. Finally, section 1.6 provides the organization of this dissertation.

1.1 BACKGROUND OF THE STUDY

In recent years, significant attention has been directed to the role of ethics in the corporate world. The globalisation and diversification of accounting services, combined with market competition and high profile corporate collapses such as HIH Insurance and OneTel in Australia, Enron, WorldCom and Global Crossing in the United States; Parmalat in Europe; the Bank Bumiputra and Pan-Electric Fiascos in Malaysia, and the spectacular collapse of the international accounting firm of Arthur Andersen (Jackling et al., 2007) have drawn attention to the accounting profession on its ethical standards (Ponemon, 1995; Ashkanasy & Windsor, 1997; Armstrong et al., 2003; Leung & Cooper, 2005; Jackling et al., 2007). These collapses have led to the loss of credibility and public trust in the accounting profession.

Since accountants contribute significantly to the economic growth of the nation, they are responsible for safeguarding public interest and to ensure the good

management of public and private finance. As the former president of the Association of Chartered Certified Accountant (ACCA) Malaysia, Datuk Mohd Nasir Ahmed emphasizes good management of public and private finances (Mohamed Saat et al., 2012). “Accountants play a pivotal role in driving the growth of the economy and assume a ‘gate-keeper’ function to ensure effective running of the financial ecosystem” (Gradmalaysia.com 2013, Ismail 2015).

According to Stanga and Turpen (1991, p 740, see also Lehmann, 1988) “accountants have special obligations to behave ethically because of the considerable trust that investors and creditors place in them”. However, the question arises whether the value system of accounting professionals is strong enough to withstand client and economic pressure that potentially compromises their professional judgment. Something more is needed in terms of accounting ethics (Armstrong et al., 2003). Professional and educational institutions have responded by calling for more ethics education in the accounting curriculum. Since then there have been greater involvement of educational institutions to ensure more that ethical future accountants are produced (Jackling et al., 2007). Future accountants are the present accounting students who will have to uphold this responsibility held in the near future. Hence, the future of the accounting profession depends on the ethical standards of accounting students currently enrolled in the university.

Personal factors such as ethical ideology, personal values, and emotional intelligence are important factors that can influence the ethical judgment of individuals. Lan et al. (2009) opined that the way individuals behave is shaped by their personal values. Individuals' values drive them to act ethically or unethically in pursuit of their goals. The likelihood that individuals will behave unethically depends

to some extent on the personal values motivating them to evaluate their actions. More importantly, the significance of personal factors has been highlighted in a number of ethical decision-making models, such as in Ferrell and Gresham (1985), Hunt and Vitell (1986), Trevino (1986), Rest (1986), and Jones (1991). In the light of above, the present study to investigate the influence of personal factors on the ethical judgment of future accountants in Malaysian public universities.

1.2 PROBLEM STATEMENT

Recent high-profile corporate ethical scandals involving accountants such as Enron, WorldCom, and Arthur Anderson have, to some extent, damaged the reputation of the accounting profession. In the context of Malaysia, the reputation of the accounting profession has been badly tarnished by reported scandals such as 1Malaysia Development Berhad, Port Klang Free Zone, Malaysian Airline, Bank Negara Forex, Deposit taking Co-operative, Bumiputra Bank and Pan-Electric Industries cases (Shiong 2006; Bakar et al., 2010; Mohamad & Muhamad 2011). There are also cases including Johari Abas and Anor and David Low See Keat and Orsants where accountants were sued by their clients (Adam et al., 2003). Further, it was reported that Malaysia is experiencing an increasing number of cases of white collar crime that accountants failed to detect (Mahfuzah et al., 1996). Although these scandals are committed by accountants who are already part of the profession, Ho et al. (2006) argued that the universities should play an important role in solving the ethical issues that are currently pervading the accounting profession by making sure that universities are producing future accountants that are more ethical.

In ensuring more ethical future accountants, the universities are currently facing important challenges as accounting and ethics education researchers have

reported that the issue of academic integrity among accounting students in terms of cheating, plagiarism and other deceptive unethical behaviours is alarming (Smith et al., 2007; Salleh, 2011; Ismail, Yussof, 2016). Ismail and Yussof, (2016) have claimed that 3 percent to 6.5 percent of the accounting students from a public university in Malaysia claimed that they were involved in cheating activities during their study. The reputation of the accounting profession and the increasing of instances of academic dishonesty among accounting students that reflects the questionable ethical standard of future accountants are the key problem that leads to the current study.

1.3 MOTIVATION FOR THE STUDY

There are three factors that motivate the researcher to undertake this present study on the personal factors influencing future accountants' ethical judgement. These are the gap in the literature, the need to apply theory and the need to consider the influence of moral philosophies.

Firstly, prior studies on ethics have given very little attention to students' ethical judgment, specifically the impact of individual personal factors on ethical judgment. Hence the present study attempts to identify the influence of personal factors on ethical judgement of future accountants. This study may help to fill the literature gap.

Secondly, this study presents the theoretical evidence from prominent ethical decision-making theories used in ethics research, such as Ferrell and Gresham (1985), Hunt and Vitell (1986), Trevino (1986), Rest, (1986), where the role of personal factors in ethical decision-making are explicitly recognized and supported. Thus, this study may provide further, empirical evidence on the influence of personal factors on ethical judgment.

Thirdly, the potential influence of moral philosophies of idealism and relativism, personal values and emotional intelligence in ethical decision-making has been recognized in both the social psychology and organizational behavior literature. However, few studies have provided support for the effects of personal factors on the ethical judgment in business or organizational contexts (e.g. Akaah & Lund, 1994; Finegan, 1994). There have been relatively few studies on values in the accounting literature, and most extant studies have been limited to the assessment of value preferences, with no attempt to relate these preferences to ethical judgments (e.g. Wilson et al., 1998; Giacominio & Akers, 1998). Hence the present study attempts to focus on the personal factors with ethical judgment.

1.4 RESEARCH OBJECTIVES AND RESEARCH QUESTIONS

Generally, the objective of this study is to investigate the various personal factors that influence the ethical judgment of future accountants in Malaysia. Specifically, there are three research objectives, as follows:

RO1: To investigate the influence of ethical ideology on the ethical judgment of future accountant.

RO2: To investigate the influence of personal values on ethical judgment.

RO3: To explore the influence of emotional intelligence on ethical judgment.

To achieve the research objectives, the following research questions will be answered:

RQ1: Does ethical ideology influence the ethical judgment of future accountant?

RQ2: Do personal values influence the ethical judgment of future accountant?

RQ3: Does emotional intelligence influence the ethical judgment of future accountant?

1.5 SIGNIFICANCE OF THE STUDY

The study is significant in a number of ways. Firstly, there were few prior studies pertaining to ethical judgment among future accountants. This study may help to contribute to the existing literature on students' ethical judgment, particularly, in the context of developing countries, such as Malaysia. Thus, it is hoped that this study will fill the gap in the literature of ethics research on future accountants, which may certainly contribute to the sparse literature on ethical judgement in this region.

Secondly, this study uses final year accounting students as the respondents; hence the findings may assist accounting practitioners and employers in understanding the ethical judgment of their prospective employees since employers will then be able to set their future expectations of recruitment and selection strategies. Similarly, identifying the moral potentiality of the future business leaders may help to determine future training needs of their employees.

Thirdly, this study may provide a better understanding of the ethical decision-making ability of the undergraduate accounting students who are about to start their accounting career. This may help the accounting researchers to focus on a comparative study using accountants who are practically working in the field. Also, this study provides a platform to elaborate ethics research in social science in general, such as on students from other disciplines, including economics, finance, and business.

1.6 ORGANIZATION OF THE STUDY

This study has been organized into six chapters. Chapter 1 provides an overview of the research. It comprises the background of this research, problem statements, and motivations of the study, research objective and significance of the study. Chapter 2 reviews the prior literature on ethical judgment. It outlines a review of prior studies on the relationship between ethical judgments, followed by the relationship of other variables selected as ethical ideology, personal values, and emotional intelligence, and then prior studies on Malaysian context. The chapter concludes by identifying the gap in the literature. Chapter 3 presents the theoretical framework underlying the study and lists hypotheses developed based on prior literature. Chapter 4 discusses the research method applied in the study. The discussion includes an explanation of the sample selection, data collection method, research design, pilot test and statistical analyses. Chapter 5 focuses on the analysis of the research findings through the use of Statistical Package for Social Science (SPSS), presenting all relevant tables and diagrams, and also providing a thorough discussion of the demographic findings. Chapter 6 consists of the conclusion of the study, implications of the findings, limitations, and contributions of the present research, concluding with recommendations for the potential future studies.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter reviews the literature related to the present study. It consists of four sections. Section 2.1 provides a general explanation of ethical judgment, section 2.2 outlines the prior studies on factors influencing ethical judgment, and with regard to ethical ideology, personal values, and emotional intelligence respectively. Section 2.3 reviews Malaysian prior studies on ethics. Finally, section 2.4 concludes the chapter by identifying the literature gap and summarizing the chapter.

2.1 DEFINITION OF ETHICS AND ETHICAL JUDGEMENT

Ethics is defined as the systematic study of conduct based on moral principles, reflective choices, and standards of right and wrong conduct (Wheelwright, 1959). Gandz and Hays (1988) suggest that ethics reflect the moral significance of human action. Also, ethics focuses on the disciplines that study standards of conduct, such as philosophy, theology, law, psychology, or sociology, one may also consider as a method, procedure, or perspective for deciding how to act and for analysing complex problems and issues (Resnik 2011). More importantly, business ethics is not a separate moral standard, but the study of how the business environment poses its own unique challenges for the moral person who acts as an agent of the business (Velasques, 1998). Ethics consist of procedures and norms that control the behavior of the individual or society at large. It differentiates between standards of right (ethical) as acceptable and standards of wrong (unethical) as unacceptable.

Ethical decision-making or ethical judgment is about evaluating the extent to which an action is right or wrong. According to Rest (1986), an ability to recognize and correctly evaluate ethical dilemmas in decision situations is a necessary prerequisite to good ethical decisions. Hunt and Vitell (1986, p. 763) define ethical judgments as “the belief that a particular alternative is the most ethical alternative”.

Based on the above discussion, while ethics are about the standard of right and wrong conduct, ethical judgment is about the evaluation of whether the conduct is right or wrong. As the present study examines factors influencing the ethical judgment of future accountant. Hence, the subsequent section reviews the relevant literature on determinants of ethical judgment or ethical decision.

2.2 PRIOR STUDIES ON FACTORS INFLUENCING ETHICAL JUDGEMENTS

Prior studies on ethical judgment have examined various antecedents such as organizational factors, situational factors, and individual factors. Among the measures, organizational and situational include management influence (Hayibor & Wasieleski, 2009; Mencl & May, 2009; Ho, 2010), ethical culture (Hwang et al., 2008), codes of ethics within the organization (McKinney et al., 2010), ethics training (Herington & Weaven, 2008; Zhang et al., 2009), rewards and sanctions within the organizational structure (Watson & Berkley, 2008; Watson et al., 2009), organization size (Marta et al., 2008), organizational culture and climate (Moberg & Caldwell, 2007) and decision style (Groves et al., 2008).

In terms of individual factors, demographic variables such as gender (McCullough & Faught, 2005; Eweje & Brunton, 2010), age (Chan & Leung 2006; Su, 2006; Eweje & Brunton., 2010) education and work experience (McCullough &

Faught, 2005; Eweje & Brunton 2010), nationality (Sims, 2009), religion and spirituality (Vitell et al., 2009), locus of control (Street & Street, 2006), personality factors such as attitude (Buchan, 2005), self-efficacy (Flannery & May., 2000) and cynicism (Andersson & Bateman, 1997) cognitive, moral development (Herington&Weaven, 2008; Reynolds, 2006), moral philosophy and value orientation (Groves et al., 2008) have been studied by various researchers. As the present study focuses on determining the influence of ethical ideology, personal value and, emotional intelligence on the ethical judgment of future accountants, the subsequent subsections review the literature specifically on these factors.

2.2.1 Ethical Ideology and Ethical Judgment

Individual moral philosophy or ethical ideology is “a system of ethics used to make a moral judgment, which offers guidelines for judging and resolving behaviour that may be ethically questionable” (Henle et al., 2005). It is the set of beliefs, attitudes, and values may provide individuals with a framework within which to consider ethical dilemmas. As ethical ideologies may offer guidance to individuals to make judgement about ethical issues (Forsyth & Nye, 1990).

Individual differences in ethical ideology are believed to play a key role in ethical decision-making. Current theoretical views maintain that an individual’s ethical ideology influences ethical judgments of business practices (Ferrell & Gresham, 1985; Forsyth, 1992; Hunt & Vitell, 1986; Stead et al., 1990). An abundant literature has examined the impact of ethical ideology on ethical judgment. However, a review of the literature reveals somewhat mixed results. Some studies contend that ethical ideology is the stronger influential factor in explaining the ethical judgment of individuals (Arrington & Reckers, 1985; Barnett, Bass & Brown, 1994; Barnett et al.,

1996; Bass et al., 1998; Douglas et al., 2001; Callanan et al., 2010; Ghazali & Ismail., 2013). Specifically, some studies found that highly idealistic individuals tend to judge an unethical matter more strictly than relativistic individuals (Forsyth, 1980, 1981, 1985; Jones, 1991; Douglas et al., 2001; Greenfield et al., 2008). Some studies have found a weaker relation to ethical ideology (Forsyth & Berger, 1982; and Forsyth & Nye., 1990).

Barnett, Bass, and Brown (1994) were among the first researchers to examine the influence of ideology on ethical judgments in a business context. In their initial study, where 166 participants were selected from business classes at a medium-sized, Southern University, the researchers found that the ethical judgments of individuals regarding business-related issues varied as a function of their ethical ideology. Overall differences in ethical judgment based on ethical ideology were assessed using multivariate analysis of variance (MANOVA). Results suggested that ethical ideology is a stronger influential factor in explaining the ethical judgment of individuals when the situation is more unethical. Interestingly, idealism was significantly related to ethical judgments in twenty-one of twenty-six vignettes used in the research, whereas relativism was not related to ethical judgments in any of the vignettes employed.

Barnett et al. (1996) examined relationships between religiosity, idealism, relativism, and ethical judgments and intentions to report peer wrongdoing. The structural equation model tested in this investigation revealed that idealism was positively related and relativism negatively related to ethical judgments of peer wrongdoing, although the effects of relativism were comparatively weak. Also, religiosity was negatively correlated with a subjects' perspective on relativism, suggesting that a strong commitment to religious belief is associated with a belief in universal moral principles.

Jones (1991) and Douglas et al. (2001) suggested that ethical orientation is highly correlated to ethical judgments in intense (low) moral conditions for Certified Public Accountants (CPAs). This suggests that ethical ideology can influence ethical decisions depending on the severity of the ethical dilemma. Differences in the characteristics of specific judgment tasks apparently result in the different decision processes.

Prior evidence suggests that highly idealistic individuals, who believe that it is possible to avoid harm to others if the morally right action is undertaken, tend to judge unethical matters more strictly (Forsyth, 1980, 1981, 1985). For example, a study by Greenfield et al. (2008) showed that more idealistic individuals judge questionable actions more negatively in the context of tax evasion, earnings management, and auditing tasks. By using a sample of 375 Senior-level business students from one Mid-Atlantic University and two Mid-Atlantic Liberal Arts Colleges in the U.S, the study results demonstrated a significant relationship between an individual's ethical orientation and decision-making, in which ethical orientation was described as a continuum with relativism at one end and idealism at the other. This is in agreement with the findings by Arrington and Reckers (1985), Douglas et al. (2001), and Barnett et al. (1994). Bass et al. (1998) supported this result, finding significant differences in ethical judgments due to ethical ideology only in the scenario judged most unethical.

In contrast, research indicates that highly relativistic individuals judge ethically ambiguous actions more leniently than non-relativists. Because relativists believe that the morality of an action depends in large part on the specifics of a given situation and individuals involved, they are probably less likely to judge other individual actions harshly. A study by Kleiser et al. (2003) examines sales managers' ideological orientations, with absolutists (high idealism/low relativism) dominating