

The Impact of Organizational, Individual and Social Influence Characteristics on Auditors' Ethical Judgements

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ABSTRACT

The public expects auditors to be honest, independent, objective, and always put the interests of the public ahead of their own. However, the sheer number of unethical incidences have been reported involving the auditors worldwide, and Malaysia is not spared either from these predicaments. The incidences have eroded the public trust in the auditing profession. Many accuse the auditors of being unethical in their actions, eager to enrich themselves instead of protecting the public's interest. Indeed, a study is needed to resolve this issue and thus enhance ethical judgements among the auditors. The issue has motivated the researcher to look for factors related to ethical judgements among the auditors. Applying Hunt and Vitell's theory and Theory of Planned Behaviour, the objectives of this study are to examine the ethical judgments in relation to organizational ethical climate, ethical sensitivity, and social influence. The researcher proposes five hypotheses to be tested to answer the research objectives. Data will be collected from professional accountants working with audit firms in Malaysia. Also, data will be analyzed with SPSS 27 and PLS-SEM version 3. Hence, ethical judgements are expected to reduce the unethical incidence and thus lead the nation to integrity and a better economy.

Keywords: Auditors, Organizational Ethical Climate, Ethical Sensitivity, Social Influence, Ethical Judgements.

INTRODUCTION

Ethics is the code of moral principles and values that regulate one's conduct and views concerning to what is ethically right or wrong (Aaker, 1989). These principles and value create a person's way of life which eventually influence the person's perceptions and how they form judgments. An ethical judgement is both legally and morally acceptable to many stakeholders. Indeed, those who embrace high moral and ethical values will be sensitive to ethical issues and thus, they will be more likely to form ethical judgments and exhibit good deeds in their behaviour (Nkyabonaki, 2019).

Indeed, the public demands that all professions, including accountants, to be ethical in performing their duties to the organisations they serve and all stakeholders who have entrusted them. Auditors therefore have a difficult role to play (Mohamad Adam, Maisarah & Ainun, 2002), they must not only serve their clients, but also the public and all stakeholders of

those whose interests must be protected. Therefore, the most significant attributes of professional auditors are to be fair, impartial and independent.

Auditors, as professionals, are members of professional bodies and must abide by the ethical rules and standards set forth by these bodies. International Federation of Accountants (IFAC) is the professional body that regulates the accounting profession globally. IFAC has set and issued the code of ethical conduct to be followed by professional accountants. Malaysia is one of member countries of IFAC and therefore has adapted the IFAC code of ethical conduct in its Malaysia Institute of Accountant (MIA By-Law) with some amendments tailored to local context. The code emphasized on the responsibility and duties of professional accountants and auditors are not solely to meet the expectations of clients or employers, but also to protect the general public.

However, the financial malfeasances ensued in Enron, WorldCom and Tyco had led the public to question the role of an auditor, namely Arthur Anderson, in protecting stakeholders' interests. The accusation was that the auditor was more likely to protect the management of his client instead of the investing parties and other stakeholders. Indeed, the incidents had ruined not only organisations and economies but also the image of the profession. The public were enraged and their trust towards the auditors eroded and eventually the auditors were blamed for being unethical, putting themselves and clients ahead of the public. The incidents had led to the demise of Arthur Anderson by the US Securities Exchange Commission (SEC). The SEC is the body that governs the accounting professions in the US. As a result, the world accounting landscape had changed from the Big 5 to the Big 4.

The theory of Hunt and Vitell emphasises individual and organizational factors but does not stress on social factors. Theory of Planned Behavior on the other hand focuses on individual and social factors. Integrating both theories would provide a comprehensive model of ethical judgement. Therefore, emulating Hunt and Vitell's theory, Theory of Planned Behavior and prior studies (Bicen & Gudigantala, 2019; Brady & Gougoumanova, 2011; Bregman et al., 2015; Chang and Chou, 2018; Hassan et al., 2022; Ismail et al., 2016; Jiang et al., 2021; Pan & Sparks, 2012; Prihatingtias, 2017; Ren et al., 2020; Zakaria et al., 2021; Zakaria et al., 2009), the study attempts to extend those prior studies by examine the relationship of organizational ethical climate, ethical sensitivity, and social influence with ethical judgements. The study also aims to examine the influence of ethical sensitivity in the

relationship between the organizational ethical climate and ethical judgments.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Hunt and Vitell Theory

Theory of Hunt and Vitell is applicable to the issue of ethical judgments (Zakaria et al., 2009), as it predicts how people will approach situations with ethical dilemmas (Russell, 2019). The idea concentrates on four different environments: cultural, industrial, organizational, and individual (Abdullah et al., 2014; Hassan et al., 2022; Haron et al., 2015; Ismail et al., 2016; Zakaria et al., 2021).

Theory of Planned Behavior

This theory explains how individuals derive an intention to commit either ethical or unethical behaviour. According to this model, the intention to commit behaviour is equalled to judgments (Torres, 2001). Also, the model states that there are three factors that influence individuals' intention, namely attitude for behaviour, perceived behavioral control and social influence.

Ethical Judgements

An ethical judgment is characterised as a legal and moral judgment. Hunt and Vitell (1986; 1993) described ethical judgments as judgments that recognise ethical dilemmas and evaluate them according to the duty and rule systems of deontological evaluation. Besides, it is also evaluated based on consequences of teleological evaluation. People consider the action or conduct of the guides and evaluate the wider society's implications (Bicen and Gudigantala, 2019; Bregman et al., 2015; Chang and Chou, 2018; Hassan et al., 2022, Zakaria et al., 2021). At the same time, Vitell and Ho (1997) described ethical judgments as a psychological framework that distinguishes the formative procedure, whether or not, an action is morally "appropriate" or "not appropriate" in a particular circumstance.

Organizational Ethical Climate

The concept of organizational climate is associated directly with the workplace view as a community. Victor and Cullen (1988) introduced and conceptualized organizational ethical climate as the predominant insight among employees of ethical organizational practices procedures and what constitutes the right behaviour. Similarly, Agarwal and Malloy (1999) claimed that climate refers to the members' shared perception of how the organization operates ethically. It describes how the auditors in the audit firm saw and realised the existing ethical structure, procedures, norms of the organization, and the manner management in handling ethical dilemmas. Hence, it appears to be the result of a manifestation of organizational culture

H1: There is a relationship between organizational ethical climate and ethical judgments.

Ethical Sensitivity

Hunt and Vitell theory (1993; 1986) posits that ethical sensitivity is the catalyst in driving the entire ethical judgments. Moreover, the issue contingent model also supports that perception of a moral issue is the first process before individuals form an ethical judgment (Jones, 1991). Furthermore, the model states that, one who does not perceive an ethical issue is less likely to form the ethical judgments. Instead, he or she uses other criteria such as economic rationality as an evaluation. However, different people may possess different levels of ethical sensitivity (Karcher, 1996). In summary, most of the ethical judgment models postulate that the higher the ethical sensitivity, the more likely is the formation of ethical

judgments. As such, the more likely one will engage in ethical behaviour.

H2a: There is a relationship between organizational ethical climate and ethical sensitivity.

H2b: There is a relationship between ethical sensitivity and ethical judgments.

H2c: Ethical sensitivity mediates the relationship between organizational ethical climate and ethical judgments.

Social Influence

Social influence refers to the perceived social pressure to engage in or refrain from a behaviour (Ajzen, 2006). Social influence is determined by normative beliefs, or the perceived behavioral expectations of important referent individuals or groups (Ajzen, 2006). Among the people can influence the judgement maker are your spouse, family, friends, neighbours and peers (Azjen & Fishbein, 1991). Social influence is positively correlated with intention to engage in an action. Individuals are more likely to intend to act in a certain way if they believe that important people in their lives support such conduct.

H3: There is a relationship between social influence and ethical judgments.

Theoretical Framework

The research framework of the study is based on the integration of two theories, namely Hunt and Vitell’s Theory of Ethics and Theory of Planned Behavior. The Hunt and Vitell’s theory explain the relationship between the dependent variable (auditor’s ethical judgments) and the independent variables (organizational ethical climate, and ethical sensitivity). The study also looked into the role of ethical sensitivity in mediating the relationship between organizational ethical climate and ethical judgments. However, the main

contribution of the study is on how social factor, known as social influence, as proposed by the Theory of Planned Behavior, affects the auditor's ethical judgements.

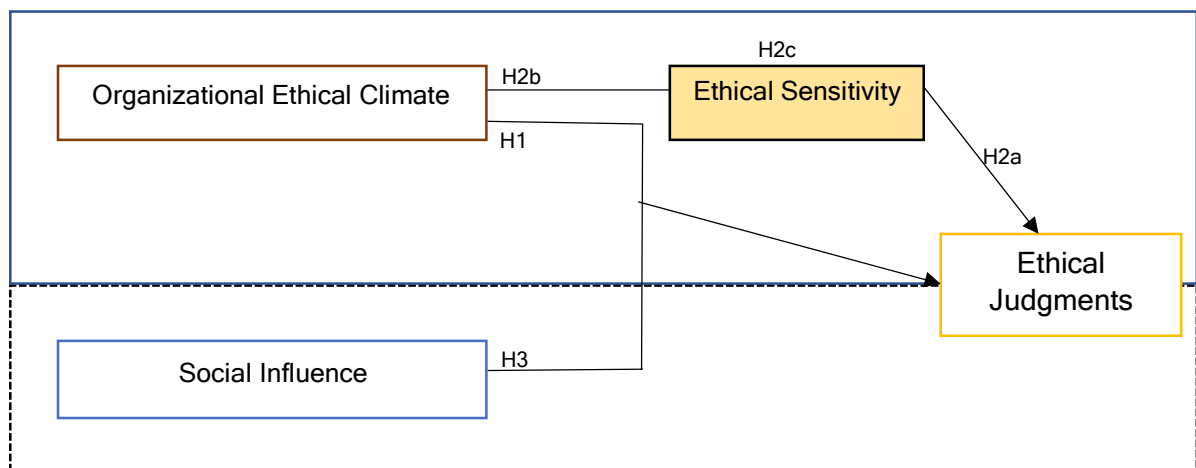


Figure 1. Hunt and Vitell Theory

Theory of Planned Behavior

METHOD

Quantitative research is adopted when statistical findings are required to gather

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practical insights. Numbers provide a more accurate picture of how people form ethical judgements. This method is appropriate to assess perception of auditors in audit firm using numerical data. Indeed, insights drawn from analysis of numerical data are proven to be highly effective when forming ethical judgments specifically for the professional accountants. Other than that, the study is a cross-sectional technique in which the collection of data is carried out at one point of time. This study investigates the relationship between organizational ethical climate, ethical sensitivity, and social influence on ethical judgments among auditors who work with audit firms and members of the Malaysian Institute of Accountants (MIA) in 14 states in Malaysia. Additionally, the study examines the mediator effect of ethical sensitivity in the relationship between organizational ethical climate and ethical judgments as postulated by Hunt and Vitell's Theory of Ethics.

The questionnaires will be distributed through email to all potential respondents of the selected audit firms. The potential respondents will be required to return the completed research questionnaires within a certain period. The respondents are ensured of their anonymity and confidentiality. If no questionnaires are returned after two weeks, the officers-in-charge will be prompted to collect them and mail them directly to the researcher. The study will use the measurement that have been adapted from Cohen et al. (1995), Victor and Cullen (1988) and P. Sarajo (2015), which are written in the source language (English) and has been tested in prior studies.

CONTRIBUTIONS AND BENEFITS OF STUDY

The study integrates Hunt and Vitell's theory and Theory of Planned Behavior to provide a novel solution to the factors leading to ethical judgments. The outcome of the study will contribute to the body of knowledge in ethics literature on the social influence that led to the formation of ethical judgments. The validity of Hunt and Vitell's theory and the Theory of Planned Behavior on the impact of these three factors, namely individual, organizational, and social, on the judgments of external auditors in Malaysia will be enhanced by this research.

The study will provide beneficial insights to the professional auditors on the contribution of recommendations to the management of audit firms by creating a conducive ethical environment in the organisation that would trigger ethical judgments among auditors. The management of audit firms should have a set of ethical conducts, policies, rules, and standards that are communicated clearly to the auditors. Also, the study can enhance the awareness among auditors in understanding the concept of social pressure, and the importance of establishing ethical sensitivity in an organisation.

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