

The Effect of Moral Reasoning, Exposure to Ethics and Perceived Ethical Climate on Ethical Judgement of Auditors in Malaysia

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ABSTRACT

This study examines whether perceived ethical climate of the firm, exposure to ethics and moral reasoning have an influence on the ethical judgement of auditors in Malaysia. Analysis suggests that all three factors have positive and significant influence on the ethical judgement of auditors. This study also finds that the moral reasoning of majority of the auditors in Malaysia is contained within the first and second levels of Kohlberg's moral development stage although some have also achieved the highest level. It is deduced that this is because majority of the auditors in Malaysia are more deontologists in approach rather than teleologists and that they tend to adhere to strict rules and processes. Additionally, the study finds that the level of ethical judgement among these auditors is at the average level. The findings will be useful for the government, the regulator and also audit firms which are striving to improve the ethicality of their auditors.

Keywords: Auditors, Ethical Judgement, Exposure to Ethics, Hunt-Vitell Theory, Moral Reasoning

JEL Classification: M4

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1. Introduction

The pressure to perform well has increased in today's competitive environment. Employees are striving to excel and impress their employers as well as colleagues. This applies to the auditing profession too, where many in today's work force are turning to unethical practices in an attempt to keep their jobs or derive some benefits for their companies (Cheng, Hsieh, & Yang, 2014; Labich, 1992; Román & Munuera, 2005).

Corporate scandals like Enron, Worldcom, Adelphia and Tyco had led to the passing of a United States of America (US) law in 2002 called the Sarbanes Oxley Act (SOX), whose goal is to overcome unethical business practices. The SOX also aims to strengthen corporate governance and regain investors' confidence in the US financial system. The SOX can be applied to both publicly owned US companies and companies that have registered equity or debt securities under the Securities Exchange Act of 1934. However, more recent corporate scandals after the enactment of the SOX such as the Lehman Brothers, which collapsed in 2008, had greatly impacted the 2008 financial crisis. More recently, the Energy Future Holdings Corp filed for bankruptcy on 28 April 2014 (Spector, Glazer, & Smith, 2014). These examples highlight the importance of having an effective monitoring mechanism that can help to minimise the occurrence of corporate scandals. One such monitoring mechanism is the auditing function. In this regard, the SOX regulates the Public Company Accounting Oversight Board that oversees the auditing of public companies and the establishment of conflict of interest rules for securities analysis.

Malaysia has followed suit in establishing the Audit Oversight Board (AOB) on 6 April 2010 under the auspices of the Securities Commission Malaysia. Amongst the objectives of the AOB is the need to oversee the independence of auditors and to ensure that only fit and proper persons are allowed to audit financial statements (SCM, 2010). Other government initiatives to promote good ethics amongst the industry players include the setting up of the Malaysian Anti-Corruption Commission in 2008¹ and the Malaysian Institute of Integrity (IIM) in 2004, which has the role of facilitating the aims and objectives of the National Integrity Plan (NIP). The NIP and IIM were both launched on 23 April 2004 with the overall objective of the NIP aimed at fulfilling the fourth challenge of Vision 2020 i.e., to establish a fully moral and ethical

¹ Formerly known as Anti-Corruption Agency (ACA).

society whose citizens are strong in religious and spiritual values and imbued with the highest ethical standards (NIP, 2007).

In the auditing profession, a high level of ethical behavior is compulsory. Only qualified and reliable persons are admitted into this profession to carry out their responsibilities and perform their services in the context of serving the public's interest. They are perceived as "professionals" and as professionals they earn a certain level of respect as they are expected to adhere to a high level of performance. The public trusts auditors to perform their assignments proficiently. Auditors must balance competing interests in performing their public service role where they need to apply ethical decision-making competence. Understanding the role of ethics is essential in the development of an auditing professional as an auditor is expected to exercise professional judgement in this dynamic environment.

The public has endorsed members of the auditing profession to be among people with high moral values and integrity, as auditors are required to maintain a high standard of professional conduct when auditing companies. There are some rules and regulations to monitor and govern the conduct of auditors and one important attribute is their professional judgement and ability to make fair and just judgements. According to Mautz and Sharaf (1961) and Hansen (1992), an auditor's judgement is similar to that of a judge where the judgement has to be fair, objective, impartial and independent.

Several corporate scandals have occurred in Malaysia over the years and these include Transmile Group Berhad, Kenmark Industrial Co. Berhad and Megan Media Holding Berhad. Transmile Group Berhad, for example, overstated its revenue between 2005 to 2006. Instead of showing a profit, it reported a loss after the auditor conducted a special audit. In the case of Megan Media Holding Berhad, a false statement was declared for the amount of revenue it generated in its financial statements between 2006 to 2007. These incidences indicate that companies do engage in unethical behaviours so as to show an increase in revenue and to boost their companies' earnings. Another example is the case of Kenmark Industrial Co. Berhad, where the price of company shares drastically decreased due to mismanagement. A survey conducted by KPMG (2014) finds that the majority of the respondents believe that fraud had increased over the last three years since 2012 and it had also become more sophisticated. Unethical behaviour including fraud, bribery and corruption is one of the main problems existing in the business world in Malaysia. The lack of communication of a company's

ethical code, poor leadership and poor ethical climate are some of the reasons that have led to this occurrence.

Ford and Richardson (2013) provide evidence which shows that ethics receive a lot of attention and interest in the empirical work. They investigated the issue of work ethics in Malaysia because, as Curtis, Conover, and Chui (2012) have pointed out, the country origin of the respondents is an important factor that should be considered when examining ethical judgements. In the case of Malaysia, as pointed out in the KPMG (2014) survey, ethical behaviour is one of the main problems existing in the Malaysian business community. Various reports have shown that there are more discoveries of fraud from the years 2009 to 2013. Although this outcome indicates that the external auditors are performing better, it is still an issue which warrants further investigation.

Moreover, previous research focusing on accountant/auditor ethical judgment in Malaysia had mostly focused on accounting students as seen in Ismail (2014), Saat, Porter, and Woodbine (2009; 2010; 2012), Zakaria, Haron, and Ismail (2010a; 2010b) and Zakaria, Ahmad, and Zin (2011). For instance, Zakaria et al. (2010a) find that deontology and teleology, as an approach, have significant effects on auditor judgment. Zakaria et al. (2010b) provide evidence that knowledge of ethics and perceived ethical problems have a significant relationship with auditor judgement in Malaysia.

Zakaria et al. (2010a) thus call for more research to look at the factors affecting auditor ethical judgement among auditors in Malaysia. Some of the factors that significantly affect ethical judgement encompass perceived ethical climate (Craft, 2013), exposure to ethics (Kish-Gephart, Harrison, & Trevino, 2010; Trevino, 2013) and moral reasoning (Kish-Gephart et al., 2010). However, there is limited evidence on the impact of such factors within the Malaysian context. With this gap in mind, the current study attempts to investigate if these three factors of perceived ethical climate of the firm, exposure to ethics and moral reasoning can affect the ethical judgement of auditors in Malaysia. This study has three objectives: (i) to examine the level of ethical judgement of auditors in Malaysia; (ii) to examine the level of moral reasoning of auditors in Malaysia; and (iii) to examine the relationship between perceived ethical climate of the firm, exposure to ethics and moral reasoning and the ethical judgement of auditors in Malaysia.

The remaining discussion is organised as follows. Section 2 reviews the prior literature, leading to the development of the hypotheses and

framework in section 3. Section 4 explains the methodology used for this study. This is followed by the data analyses and discussion of the results in section 5. Finally, section 6 concludes the study.

2. Literature Review

2.1 *General Theory of Marketing Ethics (Hunt-Vitell 1993)*

Hunt and Vitell first published their virtue ethics theory in 1986. In 1993, they further refined the theory by including more details on environmental and personal influences. It also includes ethical decision making in general, and is thus broader than the 1986 version. This model depicts ethical decision making as a process that consists of six stages and a feedback loop. The first stage represents an attempt to describe the societal/environmental effects that are exogenous or outside the organisation. The four environments (i.e., cultural, professional, industry, and organisational) combined with personal characteristics influence the perception of the existence of an ethical problem, alternatives and consequences (Hunt & Vitell, 1993). Later, Hunt and Vitell (2006) argue that their 1986 and 1993 models provide a general theory of ethical decision and represent a process model.

Hunt and Vitell's (1993) model indicates that there are two types of evaluations to arrive at an ethical judgement. They are deontological (follow rules and regulations) and teleological (weigh actions versus consequences) evaluations². These were termed by Hunt and Vitell (1986) as the "heart of the model". Figure 1 shows Hunt-Vitell General Theory of Marketing Ethics model as revised in 1993.

When making decisions, there may be occasions when a person does not consider consequences but relies solely on deontological norms and there may be times when consequences serve as the sole determinant. Hunt and Vitell (1993) postulate that in most circumstances individuals use both types of evaluation. However, there may be times when teleological evaluation is used when framing judgement. Mayo and Marks (1990) confirm the relationships specified in the Hunt-Vitell's (1993) model, but their empirical results show that teleological evaluation weighs more heavily than deontological norms when forming ethical judgements and intentions. This result is compatible with Sparks and Siemens (2014) who find that in difficult ethical judgement tasks, teleological process increases and deontological process decreases. In

² The deontological and teleological evaluations will be explained in detail in section 2.5 below.

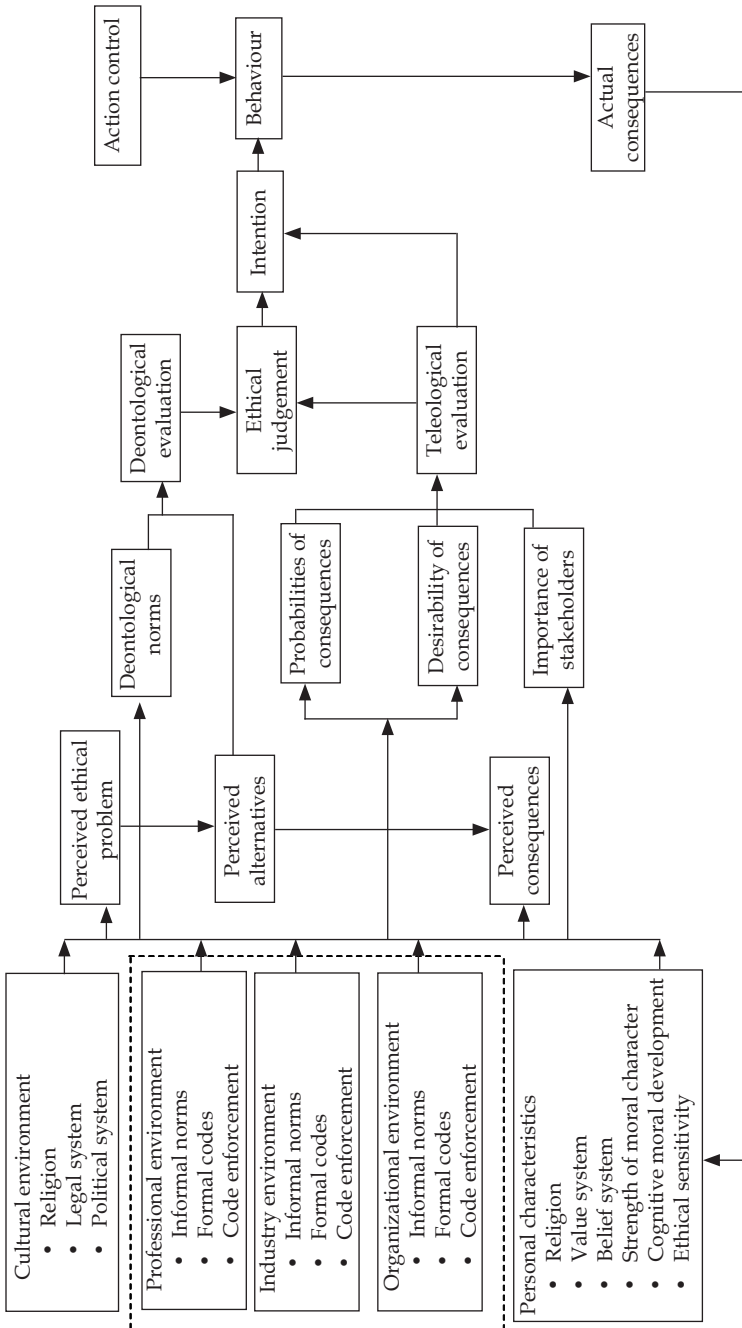


Figure 1: Hunt-Vitell General Theory of Marketing Ethics (Hunt & Vitell, 1993, p. 776)

another study, Donoho, Polonsky, Roberts, and Cohen (2001) apply Hunt-Vitell's model in their cross-country study bordering the countries of the US, Canada, Netherland and Australia. Their results support Hunt-Vitell's (2006) model in that students apply deontological and teleological evaluation when they face ethical dilemma. Cherry, Lee, and Chien (2003) compare business ethics between practitioners in the US and Taiwan and they find that Hunt-Vitell's (1986) model can be applied in both countries. Business practitioners use both teleological and deontological evaluations to make ethical judgements. Pan and Sparks (2012) use a meta-analysis approach to conduct a study on ethical judgement and they find significant relationships between teleological and deontological evaluations and ethical judgements. However, these studies were conducted in developed countries. Previous studies have shown that the institutional context is important in examining the efficacy of ethical judgements.

Curtis et al. (2012) conducted a cross-country study to investigate factors influencing ethical decision making. They find that the country of origin has a significant effect on ethical decision making. This result shows that it is important to consider the local context when analysing ethical decision making. The result of Curtis et al. (2012) supports Goodwin and Goodwin (1999) who find different responses affect the ethical dilemma of Malaysian students and New Zealand students. It appears that students from different countries react differently when making ethical judgements. A subsequent study by Patel, Harrison, and McKinnon (2002) also confirms the importance of the respondent's country of origin on auditor-client conflict resolution. The respondents of the prior studies include auditors from Australia, India and Malaysia, and the results show that professional judgements among these auditors from different country backgrounds vary. This shows that a study looking at ethical judgements made by auditors in the Malaysian context is important as the results might be different when compared to those done in other countries.

There have been some studies which focus on the Malaysian setting such as Ghazali and Ismail (2013) and Zakaria et al. (2010b). The former finds that ethical judgement is influenced by age, code of conducts and corporate ethics while the latter finds that knowledge of ethics and perceived ethical problems have significant relationships with ethical judgements made by Malaysian auditors. Further, Zakaria et al. (2010a) also find evidence which indicates that auditors with deontological and teleological philosophy exercise different ethical judgements. Thus,

Zakaria et al. (2010a) call for more research on ethical judgements to be conducted among Malaysian auditors because it is important to understand the factors influencing their ethical judgement decisions. According to Hunt-Vitell's (1993) General Theory of Marketing Ethics, personal and organisational factors have significant influence on the making of ethical judgements. Thus, this research adapts exposure of ethics (Kish-Gephart et al., 2010; Trevino, 2013) and moral reasoning (Kish-Gephart et al., 2010) as personal factors and perceived ethical climate of the firm (Craft, 2013) as the organisational factor.

2.2 Perceived Ethical Climate

Reinforcement theory is related to perceived ethical climate of the firm in the making of ethical judgements. The theory was developed by the behaviourist school of psychology, notably by B.F. Skinner in the early 20th century (Burns, 2002; Laird, Naquin, & Holton, 2003; Near & Miceli, 2013). Skinner believes that behaviour is a function of its consequences. The learner will repeat the desired behaviour if positive reinforcement (a pleasant consequence) follows the behaviour. Negative reinforcement through punishment, on the other hand, weakens the behaviour because a negative condition is introduced or experienced as a consequence of the behaviour (Dunn, 2002). The main point of the reinforcement theory is that consequences influence behaviour thus, people will produce certain behaviours and avoid others, depending on the type of consequence that follows. The reinforcement theory expects that a company supports good ethical behaviour and punishes unethical behaviour (Stead, Worrell, & Stead, 2013). Therefore, it is expected that employees of a firm would follow good ethical behaviour.

2.3 Exposure to Ethics

Stedham and Beekun (2013) investigate the effect of culture on ethical decision making. They compare the ethical decision making of graduate students from Germany and Italy. Their result shows that there is a significant impact of culture on ethical decision making. This result is confirmed by Fan, Woodbine, and Cheng (2013) and Ho (2010). Fan et al. (2013) compare the ethical issues of Chinese and Australian accountants and find that Chinese auditors have less concerns on the impact of auditor-client relationships to independence as compared to their Australian counterparts. A study done by Woodbine, Fan, and Scully (2012) shows that an accountant's personal ethical orientation

and an individual's impression about his/her firm's ethical tone has a significant impact on the accountant's ethical behaviour. This result highlights the importance of the cultural environment of public firms on the ethical behaviour of Chinese accountants. The finding is in line with Shafer (2008) who focuses on accounting firms in China. Shafer finds that the prevailing perception of organisational ethical practices, which he terms as ethical climate of the organisation, has a significant influence on the unethical behaviour of accounting firms in China. In the case of Malaysia, Ho (2010) examines the effect of culture on ethical decision making. She looks at the effect of culture on ethical perception among Malaysian accountants from different ethnic groups: Malay, Chinese, and Indian. Ho (2010) finds a significant difference among the three ethnic groups with regards to moral awareness. Indian accountants have the highest scores for moral awareness, followed by Malay and Chinese accountants. Further test shows that a culture's value of relationship orientation can have a significant effect on gift-giving scenarios among Malaysian Chinese accountants. Ho's (2010) study provides evidence illustrating the importance of culture on ethical judgements among Malaysian accountants.

The current study uses cognitive development theory to relate exposure to ethics and ethical judgements. Traditionally, the cognitive-developmental perspective focuses on understanding the way individuals develop their cognitive conception of morality. Morality is the individual's definition of what is "good" or "right". Four categories can be used to describe the cognitive-developmental perspective: (i) cognitive; (ii) structural; (iii) developmental; and (iv) sequential. Cognitive means it acknowledges that reasoning is an integral component of the moral decision process. Structural means it focuses on the cognitive structures that delineate the various levels of moral reasoning. Developmental means it focuses on the acquisition of the cognitive structures over time. Finally, sequential means that development may progress only in one direction (Ponemon & Gabhart, 1990).

The cognitive-development approach to moral decision making has been summarised by the metaphor of a staircase "moral development advances like steps on a staircase, development progresses by going up the staircase, one step at a time and always in the same order" (Rest, 1994). Thus, cognitive development theory focuses on the cognitive process in judging what is morally right (Trevino, 2013). Jordan, Brown, Trevino, and Finkelstein (2013) use the Cognitive Development Theory to explain the relationship between leader and follower. They find

positive relationship between cognitive moral development (CMD) and ethical leaderships; a leader with high CMD is perceived as an ethical leader by the follower. Doyle, Hughes, and Summers (2013) use the CMD theory to test the ethical dilemma of tax practitioners. Their result shows that tax practitioners have lower levels of moral reasoning and are less principled when they face tax dilemma as compared to social dilemma. Table 1 shows Kohlberg’s Theory of Moral Development (Kohlberg, 1981; 1984) which serves as a stage for moral reasoning where three

Table 1: Kohlberg’s Stages of Moral Development

Level One: Pre-Conventional Level		
Stage One	Punishment and Obedience Orientation	Individuals are able to respond to rules and social expectations and can apply the labels good, bad and wrong. Right and wrong are interpreted in terms of the pleasant or painful consequences of actions or in terms of the physical power of those who set the rules. Their behaviour is driven by a desire to avoid punishment or to earn rewards.
Stage Two	Instrument and Relativity Orientation	
Level Two: Conventional Level		
Stage Three	Interpersonal Concordance Orientation	The individuals are more concerned with societal expectations. Maintaining the expectation of one’s own family, peer group, or nation is now seen as valuable in its own right, regardless of the consequences. Doing what is right is motivated by the needs to be seen as a good performer in one’s own eyes and in the eyes of others.
Stage Four	Law and Order Orientation	
Level Three: Post-Conventional, Autonomous or Principles Level		
Stage Five	Social Contract Orientation	The individual no longer simply accepts the values and norms of the group to which the individual belongs. Instead the individual now tries to see a situation from a point of view that impartially takes everyone’s interest into account. Their behaviour is driven by universal ethical principles such as justice, rights and honesty.
Stage Six	Universal Ethical Principles Orientation	

Sources: Kohlberg’s Theory of Moral Development (1981; 1984) and DIT Manual 2002

levels of moral development are identified: (i) Pre-Conventional; (ii) Conventional; and (iii) Post-Conventional, with two stages contained within each level. The theory explains the process of human decision-making prior to ethical behaviour. Table 1 shows the three levels and their explanations.

Kohlberg's theory helps to outline how an individual's moral capacities develop and it also reveals how an individual can become increasingly sophisticated. It is crucial to understand how an individual understands and uses the moral standards that he/she holds. Although people generally progress through the stages in the same sequence, Kohlberg (1984) shows that not everyone progresses through all the stages. Luthar and Karri (2005) connect Kohlberg's theory to the importance of exposure to ethics on ethical judgements. Although Kohlberg (1984) argues that age does not necessary equate with ethical development, nonetheless, exposure to ethics is an important instrument to develop ethical judgements (Luthar & Karri, 2005).

2.4 *Virtue Ethics*

Normative ethical systems can generally be broken down into three categories, namely deontological, teleological and virtue ethics. Deontology and teleology have been discussed in Hunt and Vitell's (1986) theory of ethics. Virtue-based ethical theories place less emphasis on which rules people should follow. Instead, it focuses on helping people develop good character traits such as kindness and generosity. Virtue ethics are derived from the classical Hellenistic tradition represented by Plato and Aristotle, in which the cultivation of virtue traits of character is viewed as morality's primary function (Beauchamp & Bowie, 2001). According to the International Federation of Accountants (IFAC), virtue ethics stress on the kind of moral abilities that put one in a position to act morally. Usually, an individual's behaviour and intentions are influenced by those who are important to the individual, either his/her peers or bosses. According to Hunt and Vitell's (1986) theory, a morally good person with the right desires or motivation, is likely to understand what should be done, more likely to be motivated to perform required acts than would a morally bad person (Beauchamp & Bowie, 2001).

Hunt and Vitell's (1986) theory of ethics is applied in this study to relate moral reasoning to ethical judgements. As this theory suggests, the morality of a person dictates his/her acts. A person with high moral reasoning will be more likely to act more ethically than a person who has lower moral reasoning level. This ethical theory says that ethics should

develop the character traits or virtues in a person so that the person will do what is morally right because he/she is a virtuous person.

As observed above in section 2.1, Hunt-Vitell's (1986) theory was further refined in 1993 when a more detailed explanation of each variable was provided in the model. In 2006, Hunt and Vitell discussed at length how the theory could be used as a positivist theory even though the model was said to be a process leaning towards ethical decision making.

2.5 Deontological and Teleological Perspectives

Deontological and teleological perspectives are considered deontic or action-based theories of morality because they focus entirely on the actions which a person performs. When actions are judged morally based on their consequences, it is called teleological (Hunt & Vitell, 1986) or termed as consequentialist ethical theory (Reidenbach & Robin, 2013). When actions are judged morally based on how well they conform to some set of duties, it is deemed as a deontological ethical theory (Hunt & Vitell, 2006; Reidenbach & Robin, 2013).

People with deontological perspective adhere strictly to rules and regulations while people with teleological perspective weigh the action against the consequences of that action before saying it is ethical or not (Hunt & Vitell, 1986). In short, teleological, consequentialist or utilitarian analysis focuses on the consequences of an action while deontological analysis focuses on the intent of the action.

Deontological moral systems are characterised primarily by a focus on adherence to independent moral rules or duties. Thus, a person simply has to understand what his/her moral duties are and what correct rules exist to regulate those duties in order to make the correct moral choices. When the person follows his/her duty, he/she is behaving morally. On the other hand, when he/she fails to follow his/her duty, he/she is behaving immorally.

Teleological moral systems are characterised primarily by a focus on the consequences which any action might have (Hunt & Vitell, 2006). Thus, a person has to have some understanding of what will result from his/her choices in order to make the correct moral choice. When he/she makes choices which result in the correct consequences, then he/she is acting morally; when he/she makes choices which result in the incorrect consequences, then he/she is acting immorally.

This action that is based on morality helps to explain the perspectives of individuals in making decisions. Men and women may

face the same set of occupational demands and rewards but they may respond differently. Since men are more concerned with competitive success in business, they may be more prone to break the rules and laws of the workplace and consequently, commit unethical acts (Radtke, 2000).

In relating this study to Kohlberg's stages of moral development, it can be seen that individuals who belong to the Pre-Conventional and Conventional Levels are deemed as deontologists and they are characterised primarily by a focus on adherence to independent moral rules or duties. In contrast, individuals who belong to the Post-Conventional level (Autonomous or Principles Level) tend to be teleologists and they are characterised primarily by a focus on the consequences, which any action might have.

3. Theoretical Framework and Hypotheses Development

3.1 Theoretical Framework

Based on Hunt-Vitell's (1993) General Theory of Marketing Ethics, the theoretical framework for this study is shown in Figure 2:

3.2 Hypotheses Development

Based on the theoretical framework, the hypotheses of this study are discussed below:

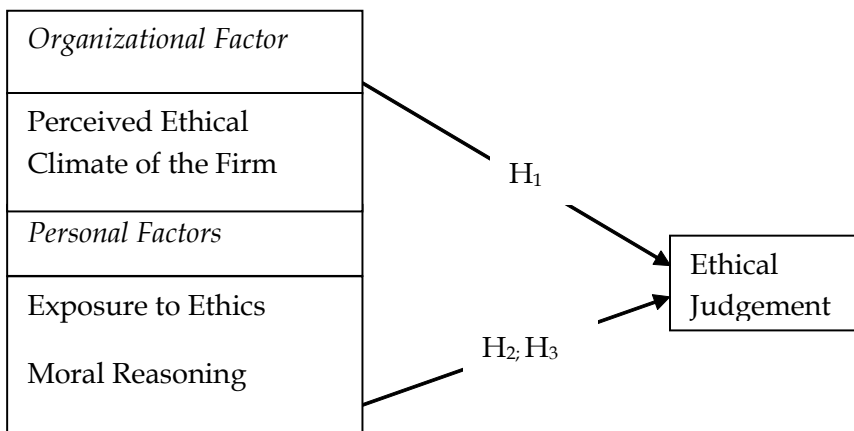


Figure 2: Theoretical Framework

3.2.1 *Perceived Ethical Climate of the Firm and Ethical Judgements*

Ethical codes play an instrumental role in organisational members' ethical decision making. Craft (2013) observes that ethical climate receives a lot of attention from researchers in the area of ethical judgements. Ethical codes are typically introduced as a means for clarifying intra organisational roles and expectations (Brothers, 1991), and they have been suggested as a means for promoting an ethical climate within an organisation (McDonald, 1999). Higher levels of ethical behaviour have been found in firms where codes of ethics are in place and enforced (Ferrell & Skinner, 1988). When codes become an active part of an employee's working knowledge, the codes are more likely to affect his/her ethical decision making (Hegarty & Sims, 1979). Additionally, codes that are effectively communicated (i.e., understood) are likely to result in greater ethical behaviour (Weeks & Nantel, 1992).

Shafer (2015) examines the ethical climate of professional accountants in Hong Kong, and finds that ethical climate has a significant relationship with ethical judgements. This result is in line with his previous study which focuses on local and international CPA firms in China (Shafer, 2008). It appears that there is a significant relationship between perceived ethical climate and intention to conduct questionable actions. However, different ethical judgements seem to exist between auditors in local CPA and auditors in international CPA firms. It appears that auditors who work in local CPA firms are more likely to judge questionable actions as ethical and they express their willingness to conduct these questionable actions. Shafer (2008) provides evidence to illustrate that an auditor's ethical judgement is influenced by perceived ethical climate of the firm. It seems that auditors in local CPAs are more permissive on aggressive actions and they have intentions to engage in similar actions. These results are in line with the meta-analytical study done by Randall and Gibson (2013) who find that ethical climate has a significant relationship with ethical judgements.

Saat et al. (2012) conduct a longitudinal study of ethical judgements made by accounting students in Malaysia. They observe the effect of ethical course and practical training on the students' ability to make ethical judgements. The result shows that there is improvement on students' ability to make ethical decisions after they get exposure to the ethical climate of the workplace. There is a significant difference between students who have attended the ethical course and those who have not (Saat et al., 2010). Male students and students from private universities

show higher ethical decisions (or more ethical decisions) compared to female students and public universities students.

On the other hand, the results in Zakaria et al. (2011) and Saat, Yusoff, and Panatik's (2014) study do not confirm the result of Saat et al. (2012). In their study, Saat et al. (2014) do not find significant effect of industrial training on ethical awareness among students at Malaysian public universities. Zakaria et al. (2011) also find that organisational ethical climate does not have significant effect on ethical judgements among accounting students. These studies provide conflicting findings on the effect of organisational ethical climate on ethical judgments among accounting students. However, a further test conducted among Malaysian accountants shows that corporate ethics have a positive effect on ethical judgements (Ghazali & Ismail, 2013). Therefore, this study hypothesises that there is a positive relationship between auditor with higher perceived ethical climate and ethical decisions. The following hypothesis is therefore framed:

H₁: There is a positive and significant relationship between perceived ethical climate of the firm and the level of ethical judgement.

3.2.2 *Exposure to Ethics and Ethical Judgements*

The development of what is right and wrong in individuals starts from childhood. It progresses from every stage of life, from a child to a teenager to an adult. Besides upbringing by the parents, individuals are exposed to ethics in school, college, university and even in the work place. The way other people surrounding an individual view ethics can influence the way the individual perceives ethics; and how much an individual is exposed to ethics can determine his/her conduct. Exposure to ethics is related to education on ethics. Education is positively correlated with ethical behaviour; the more educated (more exposed to ethics) the individual is, the less likely it is that he/she will act unethically (Wimbush & Shepard, 1994).

Luthar and Karri (2005) find that exposure to ethics has positive effects on the student's perception regarding ethical behaviour and business outcomes. Exposure to ethics gives the student more understanding on ethical behaviour. This result is supported by Awasthi (2008) who finds that a student who has attended an ethics course is more aware of the moral issues involved in decision making. Exposure to ethics helps a student to evaluate ethical and unethical decisions.

Kish-Gephart et al. (2010) emphasise the importance of exposure to ethics which can guide a person to make ethical decisions. This result is supported by Trevino (2013) who argues that education on ethics is important in guiding people to make ethical judgements.

Saat et al. (2010) investigate the outcome of the cognitive moral development theory on Malaysian accounting students. They observe the effect of a course on ethics on the student's ethical judgements. The comparison of test results between pre- and post-ethical course among the accounting students are significantly different. There is an improvement in cognitive moral development after attending the course on ethics. Therefore, it is expected that moral reasoning also increases. Saat et al. (2010) also provide evidence which shows that students who have attended a course in ethics have higher ability to make ethical decisions. Therefore, it is expected that exposure to ethics increases ethical judgements. The second hypothesis of this study is as follows:

H₂: There is a positive and significant relationship between exposure to ethics and the level of ethical judgement.

3.2.3 *Moral Reasoning and Ethical Judgements*

There is considerable support for a moderate statistical relationship between moral reasoning and ethical behaviour (Blasi, 1980). The cognitive moral development theory posits that individuals at higher levels of moral development can be expected 'to do the right thing' when confronted with ethical dilemma (Latif, 2000). Grover (1993) finds that professionals with low moral development are more likely to act unethically as compared to those persons at a higher level of cognitive moral development. Jordan et al. (2013) and Kish-Gephart et al. (2010) also provide evidence that supports that moral reasoning has a significant relationship with ethical leadership.

Ponemon and Gabhart (1990) find that auditors' moral development is significantly related to their independent judgements. In particular, auditors with lower levels of moral development are more concerned with personal penalties (e.g., poor evaluation, loss of promotion) than affiliation (e.g., disappointing the client) in ethical dilemmas involving independent judgements.

Studies looking at the impact of personal factors on ethical decision among Malaysian accountants find that there is a significant relationship between ethical decision and ethical ideology (Ismail, 2014),

knowledge of ethics (Zakaria et al., 2011; Zakaria et al., 2010b), and personal attributes (Ghazali & Ismail, 2013). In their study, Zakaria et al. (2010a) examine how moral philosophies affect ethical judgements. Their result shows that both teleological and deontological beliefs have significant relationships with ethical judgements among Malaysian auditors. This result shows the importance of moral philosophies on ethical judgements. Moral reasoning, as part of the personal factors, is also expected to provide similar results. Thus, the third hypothesis of this study is as follows:

H₃: There is a positive relationship between moral reasoning and the level of ethical judgement.

4. Methodology

4.1 Sample Size

According to the Roscoe's Rule of Thumb suggested by Sekaran and Bougie (2013), the sample size required is 10 for every item tested. Since there are four items tested in this study, an appropriate sample size for the study should be 40. Although this study uses individual auditors as the unit of analysis, the questionnaires were not sent to individual auditors as the Malaysian Institute of Accountants (MIA) could only provide contact details of audit firm members. Hence, it began with the dispatch of one set of questionnaire in February 2006 to 1355 audit firms in Malaysia, including Sabah and Sarawak. The addresses of the audit firms were provided by the MIA. Each set of the questionnaire was accompanied by a support letter from the MIA and the Malaysian Accountancy Research Education Foundation (MAREF). The questionnaires were addressed to the partners of the audit firms listed in the MIA membership directory. Instruction was provided, requesting that three of their staff respond to the questionnaire. However, only 99 sets of the questionnaires (7.42 per cent) were received from the auditors and of these, six were incomplete and two were sent back blank/ without answers. Of the valid 91 sets of completed questionnaires, 10 did not pass the Defining Issues Test (DIT) reliability check and were excluded. Consequently, the set of usable questionnaires totaled 81, all of which passed the reliability check for having experienced the ethical dilemmas, hence, all these responses were included in the final analysis.

4.2 *Variables and Measurement of Variables*

The questionnaire that was used for this study consists of four sections, namely Sections A, B, C and D. Section A asks about the demographic profile of the respondents, namely gender, race, age, religion, marital status, education level, position level, income level and firm size. Section B measures the perceived ethical climate of the firm and exposure to ethics. Section C measures the moral reasoning of the respondents. Section D measures ethical judgement.

4.2.1 *Independent Variables and Their Measurement*

The independent variables of this study are sub-divided into two groups, namely personal factors and organisational factors. Under personal factors, exposure to ethics and moral reasoning were studied and under organisational factors, auditors' perception of the ethical climate of the firm was studied.

Perceived ethical climate of the firm and exposure to ethics (Section B of the questionnaire) were measured using statements adapted from Davidson, Douglas, and Schwartz (2000). There were eight statements measuring perceived ethical climate of the firm and four statements measuring exposure to ethics. The respondents were asked to rate each of the statements using a 9-point Likert-type scale from one (completely disagree) to nine (completely agree).

Moral reasoning (Section C of the questionnaire) was measured using the rating of one to five with one being of great importance, two of much importance, three of some importance, four of little importance and five of no importance. Defining Issues Test 1 (DIT 1) was used to measure moral reasoning.

Short form of the Defining Issues Test 1 (DIT 1) as recommended by Rest (1979) was used in this study. The three stories in the short form DIT 1 were namely 'Heinz and the Drug', 'Escape Prisoner' and 'Newspaper'. These three stories were modified to suit the Malaysian context. The names of the characters and locations were also localised. The instructions on 'Heinz and the Drug' case used to measure DIT (moral reasoning) are appended in Appendix 1.

The moral reasoning level of the 81 respondents was determined by the P score of each respondent. The respondents were grouped into three namely "low third", "middle third" and "high third". The "low third" consisted of respondents with P score of 0-27 per cent, "middle third" consisted of respondents with P score of 28-41 per cent and "high third" consisted of respondents with P score of 42-100 per cent.

4.2.2 *Dependent Variable and Its Measurement*

The dependent variable in this study is the auditors' ethical judgement. The factors that influence this dependent variable were studied. Ethical judgement was measured in Section D of the questionnaire. There were four scenarios in this section. These scenario cases were adapted from text books and previous studies. One of the scenarios was adopted from Flory, Phillips, Reidenbach, and Robin (1992). The scenarios were modified to suit the Malaysian context. In each scenario, the respondents were asked to rate on five ethical judgement dimensions, namely (i) ethical/unethical; (ii) fair/unfair; (iii) just/unjust; (iv) morally right/not morally right; and (v) acceptable to family/unacceptable to family.

According to Hunt and Vitell (1986), the use of a scenario is well established in ethics research and an appropriate way to measure ethics. There are seven scales for the measurement of ethics. The respondents were asked to rate on a scale of one (ethical) to seven (unethical) on the ethicalness of the controller's position in each case.

Each case has an introduction paragraph that is common for all cases. This is to ensure that the respondents are assessing the ethical dilemma based on a consistent "context of the study". An example of the Introduction Paragraph is provided as follow:

Introduction Paragraph

The company's financial condition is not very healthy and the company is a major client of your audit firm. It has a long standing relationship with your firm and the managing partner of your firm and the company's Managing Director are good friends. As usual, the audit report is due soon and you have to finalize the audit quickly.

As can be seen in the Introduction Paragraph, the financial condition, major client, and long standing relationship were the three contextual variables controlled in the study, thus, they acted as "control variables". These were selected as they had been considered in the auditing literature to affect the judgement of auditors (Patel et al., 2002; Zakaria et al., 2010b). The illustration of the introduction paragraph and the ethical scenario is provided in Appendix 2.

There were two other questions in the questionnaire that acted as reliability checking. The respondents were asked whether they had experienced the particular situation since they started their career as an auditor. If the respondents have experienced those situations before, they were instructed to proceed to the next question which asked how many times they had experienced the situation. In cases where the

respondents had not experienced the scenario before, their responses would not be considered for analysis.

4.3 Reliability Analysis

Reliability test was done for perceived ethical climate of the firm and exposure to ethics. Separate tests were carried out for each of the two factors. Reliability test was conducted to determine how reliable each statement was in explaining the underlying factors which were perceived ethical climate of the firm and exposure to ethics. Once the statements were found to be measuring the intended variable, the mean of the statements was calculated to represent the factor. The Cronbach Alpha for perceived ethical climate of the firm is 0.759 and the Cronbach Alpha for exposure to ethics is 0.644. Both are within the acceptable range (Hair, Anderson, Tatham, & Black, 1998). No items were deleted for both variables.

5. Data Analyses and Results

A pilot test was conducted on five external auditors to check on the clarity of the questions and time taken to complete the questionnaire. The external auditors did not encounter any problem in answering the questionnaire.

Multivariate analysis of variance (MANOVA) was used to examine the effect of three independent variables (perceived ethical climate of the firm, exposure to ethics and moral reasoning) on the multiple measurement of the dependent variables of ethical judgement.

Besides using the SPSS's test methods, Excel was used to calculate the mean value of the respondents' scores of P values so as to get a mean value that represents the sample's P value or the moral reasoning level. The mean value of each respondent's ethical judgement was also calculated to determine the ethical judgement level of the respondents.

5.1 Profile of Respondents

Table 2 shows that out of a total of 81 respondents, 74.1 per cent are men and 25.9 per cent are women. The respondents comprise three races, namely Malay (14.8 per cent), Chinese (75.3 per cent), and Indian (9.9 per cent) and majority of the respondents are Chinese. More than half of the respondents (60.5 per cent) are above 36 years old and majority are Buddhists (40.7 per cent).

The Effect of Moral Reasoning, Exposure to Ethics and Perceived Ethical Climate on Ethical Judgement of Auditors in Malaysia

Table 2: Profile of Respondents

Demographic Variables	Category	Frequency (n=81)	Percentage (%)
Gender	Male	60	74.1
	Female	21	25.9
Race	Malay	12	14.8
	Chinese	61	75.3
	Indian	8	9.9
Age (in years)	Below 26	6	7.4
	26 - 30	8	9.9
	31 - 35	18	22.2
	36 - 40	14	17.3
	Above 40	35	43.2
Religion	Islam	12	14.8
	Buddhism	33	40.7
	Hinduism	6	7.4
	Christianity	20	24.7
	Others	10	12.4
Marital Status	Single	18	22.2
	Married	62	76.5
	Divorced	1	1.3
Highest Level of Education	Degree	15	18.5
	Masters	3	3.7
	Professional Qualification	63	77.8
Professional Qualification	MICPA	19	23.5
	ACCA	27	33.3
	CPA, Australia	11	13.6
	CIMA	2	2.5
	Others	22	27.1
Years Being Member of Malaysian Institute of Accountants (MIA) (in years)	Below 4	18	22.2
	4 - 6	6	7.4
	7 - 9	15	18.5
	Above 9	42	51.9
Position Level in Audit Firm	Senior	16	19.8
	Manager	11	13.6
	Partner	44	54.3
	Others	10	12.3
Monthly Income Level	RM3,000 and below	17	21.0
	RM3,001 - RM4,000	6	7.4
	RM4,001 - RM5,000	4	4.9
	RM5,001 - RM6,000	3	3.7
	RM6,001 and above	51	63.0
Years Working in Present Audit Firm (in years)	1 and below	6	7.4
	2 - 3	16	19.8
	4 - 6	20	24.7
	7 - 9	1	1.2
	Above 9	38	46.9
Years Being an Auditor (in years)	Below 4	15	18.5
	4 - 6	14	17.3
	Above 9	52	64.2
Audit Firm Category	Big N	9	11.1
	Non-Big N	72	88.9

Most of the respondents are married and their highest educational level distribution for degree qualification, master qualification and professional qualification are 18.5 per cent, 3.7 per cent and 77.8 per cent respectively. The respondents are all qualified and highly-educated people. For the level of position in the audit firm, most of the respondents are partners (54.3 per cent). Majority (65 per cent) earn a monthly salary of above RM6,000, nearly half of the respondents (46.9 per cent) have worked in the present audit firm for more than 9 years and 88.9 per cent of them are working in Non-Big N audit firms.

5.2 Value of Ethical Judgement Measurement and P Score of the Short-form of Defining Issues Test 1

The mean ethical value of the four scenarios which represent the ethical level of the respondents is 3.15 while the maximum score for this test is 7. With the mean value of 3.15 computed based on the responses of 81 respondents representing Malaysian auditors, it can be concluded that the level of ethical judgement of Malaysian auditors is lower than average. This is because on a scale of 1 to 7, the level of 3.5 to 4 is considered average and anything below 3.5 is considered lower than average.

Table 3 summarises the P score of the auditors. The “low third” score which will be referred to as “low level” in the study, can be equated to Pre-Conventional Level of Kohlberg’s stages of moral development as shown in Table 1. The “middle third” which will be referred to as “middle level” in this study can be equated to the Conventional Level of Kohlberg’s stages of moral development and the “high third level” which will be referred to as “high level” in the study can be equated to the Post-Conventional, Autonomous or Principles Level of Kohlberg’s stages of moral development.

Table 3 shows that 50 respondents (61.7 per cent of the total respondents) have a P score which belongs to the “low level” of moral

Table 3: Descriptive Summary for Categorised P Score

Variable	Category	Frequency (n=81)	Percentage (%)	
P Score	Low Level	0- 27%	50	61.7
	Middle Level	28 - 41%	18	22.2
	High Level	42-100%	13	16.1

reasoning. This represents the largest percentage of respondents. The second highest is a P score at the “middle level” with a percentage of 22.2 per cent followed by 16.1 per cent with a P score at the “high level”. From this, it can be deduced that half of the auditors of this study belong to the low level category of moral reasoning.

5.3 Hypotheses Testing

Multivariate analysis of variance is carried out to test the three independent variables (perceived ethical climate of the firm, exposure to ethics and moral reasoning) to ethical judgement. Table 4 shows the results of the multivariate tests. The statistical results for H₁, H₂, and H₃ are shown in Table 4.

Table 4: Table of Results on Multivariate Tests

Effect	Value	F	Sig.
Intercept	0.139	65.681	0.000***
Moral reasoning	0.677	2.283	0.018**
Perceived ethical climate	0.642	2.628	0.007***
Exposure to ethics	0.643	2.619	0.007***
Moral reasoning*Perceived ethical climate	0.307	3.782	0.000***
Moral reasoning*Exposure to ethics	0.311	3.728	0.000***
Perceived ethical climate*Exposure to ethics	0.269	4.289	0.000***
Moral reasoning*Perceived ethical climate*Exposure to ethics	0.249	3.606	0.000***

Note: **, and *** indicate significance at the 5% and 1% levels respectively.

Table 4 shows that all three hypotheses are accepted. Perceived ethical climate has a significantly positive relationship with ethical judgements. This result shows that auditors with high perceived ethical climate have higher level of ethical judgement. This result is in line with Randall and Gibson (2013) and Shafer (2008; 2015). Further, Table 4 also shows that exposure to ethics has a positive relationship with the level of ethical judgement. Auditors who get more exposure to ethics are able to make higher ethical judgements. Thus, auditors who have higher exposure to ethics have a significantly higher level of ethical judgement. This result confirms the findings of previous research such

as those found by Awasthi (2008), Luthar and Karri (2005), Kish-Gephart et al. (2010) and Trevino (2013).

It can be seen from Table 4 that moral reasoning is significantly and positively related to the level of ethical judgement. Auditors with higher moral reasoning are able to make higher level of ethical judgement. This result confirms the findings of previous researches that there is positive effect of moral reasoning on ethical judgements (Jordan et al., 2013; Kish-Gephart et al., 2010). Thus, the result of this study shows that perceived ethical climate, exposure to ethics and moral reasoning have positive relationships with the level of ethical judgement.

In addition, it can be seen that the two way interaction between the independent variables (moral reasoning*perceived ethical climate, moral reasoning*exposure to ethics, perceived ethical climate*exposure to ethics) have significant and positive relationships with the level of ethical judgement. Further, the three way interaction effect for the three variables which encompass moral reasoning, perceived ethical climate and exposure to ethics also indicate a significant and positive influence on ethical judgements. These results show that moral reasoning, perceived ethical climate and exposure to ethics have significant positive relationships with the level of ethical judgement.

Table 5 shows the univariate/between-subject effects of each variable on each of the five ethical judgement dimensions. This research also analyses the univariate/between-subject effects of each variable on each of the five ethical judgement dimensions. The ethical judgement dimensions are (i) ethical/unethical; (ii) fair/unfair; (iii) just/unjust; (iv) morally right/not morally right; and (v) acceptable to family/unacceptable to family.

The outcome of this study shows that there are significant differences in the mean of the four dimensions of moral reasoning on ethical judgements. The mean differences of three namely Fair/Unfair, Just/Unjust and Morally Right/Not Morally Right are significant at the 0.05 level while the mean difference of Ethical/Unethical is significant at the 0.10 level.

The interaction effect of moral reasoning and exposure to ethics on the three dimensions of ethical judgement shows a significant level of 0.10. The three dimensions encompass Ethical/Unethical, Just/Unjust and Morally Right/Not Morally Right. It was noted that the interaction effect of perceived ethical climate and exposure to ethics on the other dimension of ethical judgement (namely Morally Right/Not Morally right) shows a significant level of 0.10.

Table 5: Results on Tests of Between-Subjects Effects

Source	Dependent Variable	df	F	Sig.
Corrected Model	Mean for Ethical/Unethical	23	2.836***	0.001
	Mean for Fair/Unfair	23	2.460***	0.003
	Mean for Just/Unjust	23	2.300***	0.006
	Mean for Morally Right/Not	23	2.711***	0.001
	Mean for Acceptable to Family/Not	23	1.138	0.337
Intercept	Mean for Ethical/Unethical	1	321.810***	0.000
	Mean for Fair/Unfair	1	294.166***	0.000
	Mean for Just/Unjust	1	304.452***	0.000
	Mean for Morally Right/Not	1	328.498***	0.000
	Mean for Acceptable to Family/Not	1	254.639***	0.000
MR	Mean for Ethical/Unethical	2	2.737*	0.073
	Mean for Fair/Unfair	2	4.001**	0.024
	Mean for Just/Unjust	2	3.336**	0.043
	Mean for Morally Right/Not	2	3.629**	0.033
	Mean for Acceptable to Family/Not	2	1.367	0.263
PEC	Mean for Ethical/Unethical	2	0.279	0.758
	Mean for Fair/Unfair	2	0.464	0.631
	Mean for Just/Unjust	2	0.588	0.559
	Mean for Morally Right/Not	2	0.933	0.399
	Mean for Acceptable to Family/Not	2	0.28	0.757
ETE	Mean for Ethical/Unethical	2	1.667	0.198
	Mean for Fair/Unfair	2	1.632	0.205
	Mean for Just/Unjust	2	1.437	0.246
	Mean for Morally Right/Not	2	0.067	0.935
	Mean for Acceptable to Family/Not	2	0.684	0.508
MR_PEC	Mean for Ethical/Unethical	4	0.968	0.432
	Mean for Fair/Unfair	4	0.307	0.872
	Mean for Just/Unjust	4	0.177	0.949
	Mean for Morally Right/Not	4	1.847	0.132
	Mean for Acceptable to Family/Not	4	0.327	0.859
MR_ETE	Mean for Ethical/Unethical	4	2.348*	0.065
	Mean for Fair/Unfair	4	1.941	0.116
	Mean for Just/Unjust	4	2.192*	0.081
	Mean for Morally Right/Not	4	2.328*	0.067
	Mean for Acceptable to Family/Not	4	1.534	0.205

Table of Results on Tests of Between-Subjects Effects (continued)

PEC_ETE	Mean for Ethical/Unethical	4	0.75	0.562
	Mean for Fair/Unfair	4	1.193	0.324
	Mean for Just/Unjust	4	0.869	0.488
	Mean for Morally Right/Not	4	2.141*	0.087
	Mean for Acceptable to Family/Not	4	0.225	0.923
MR_PEC_ETE	Mean for Ethical/Unethical	5	3.525***	0.008
	Mean for Fair/Unfair	5	2.385**	0.049
	Mean for Just/Unjust	5	2.461**	0.044
	Mean for Morally Right/Not	5	2.354**	0.052
	Mean for Acceptable to Family/Not	5	0.813	0.545

a. R Squared = 0.534 (Adjusted R Squared = 0.345)

b. R Squared = 0.498 (Adjusted R Squared = 0.296)

c. R Squared = 0.481 (Adjusted R Squared = 0.272)

d. R Squared = 0.522 (Adjusted R Squared = 0.330)

e. R Squared = 0.315 (Adjusted R Squared = 0.038)

* The mean difference is significant at the 0.10 level

** The mean difference is significant at the 0.05 level

*** The mean difference is significant at the 0.01 level

The interaction effect of moral reasoning, perceived ethical climate and exposure to ethics on the three dimensions of ethical judgement (Fair/Unfair, Just/Unjust and Morally Right/Not Morally Right) is significant at 0.05 while the dimensions of Acceptable to Family/Not Acceptable to Family on ethical judgement is significant at 0.01.

6. Discussion and Conclusion

6.1 Discussion

6.1.1 *The Level of Ethical Judgement of Auditors*

The level of ethical judgement of auditors as derived from this study is found to be below average as they scored a mean of only 3.15 from a scale of one to seven. The low level score implies that auditors have the tendency to make unethical judgements. This finding is consistent with the finding that the level of moral reasoning is also low. As discussed above, since such auditors are at the Pre-Conventional Level of Kohlberg's stage of development, they tend to respond to rules and social expectations and they are driven by a desire to avoid punishment.

6.1.2 *The Level of Moral Reasoning of Auditors*

The level of moral reasoning of auditors is measured by using the short-form of Defining Issues Test 1 (DIT 1). The result shows that 61.7 per cent of the respondents' level of moral reasoning (or P score) is concentrated at the low level, followed by 22.2 per cent at the middle level and 16.1 per cent at the high level. This implies that majority of the auditors are at the low level of moral reasoning. The auditors can be said to be at the Pre-Conventional Level of Kohlberg's stage of development where they are able to respond to rules and social expectations and can apply the labels good, bad and wrong while their behaviour is driven by a desire to avoid punishment or to earn rewards.

Empirical evidence drawn from Jeffrey and Weatherholt (1996) shows that the P score of 56 per cent of the auditors in Taiwan is concentrated at the higher level, followed by the middle level (32 per cent) and the low level (12 per cent). The average value for P score in their study is 43.15 per cent which indicates that majority of Taiwanese auditors are at the higher level of moral reasoning. On the other hand, a study by Cherry et al. (2003) finds that business practitioners in Taiwan have lower level of perception of ethics as compared to their counterparts in the US. Thus, it may be concluded that the average value of moral reasoning of auditors in Taiwan is higher than auditors in Malaysia.

For auditors who are at the moderate level of moral reasoning, it can be said that they belong to the Conventional Level of Kohlberg's stage of moral development where they are more concerned with societal expectation and maintaining expectations of one's own family, peer group or nation. They are also of the opinion that doing what is right is motivated by the need to be seen as a good performer in one's own eyes and in the eyes of others.

For auditors who belong to the high level group of moral reasoning, they are said to be in the Post-Conventional, Autonomous or Principles Level of Kohlberg's stage of moral development where they no longer simply accept the values and norms of the group to which they individually belong. Instead, they now try to see a situation from a point of view that impartially takes everyone's interest into account. Their behaviour is driven by universal ethical principles such as justice, rights and honesty.

By applying the virtue theory of ethics in this study, it appears that auditors with a moral score at the low and medium level and belonging

to the Pre-Conventional and Conventional Levels of Kohlberg's stage of moral development can be said to be practising deontological moral systems and are thus, characterised primarily by a focus upon adherence to independent moral rules or duties. This is true of the culture of Malaysians which tend to be more compliant to process and procedures. As for auditors who belong to the high level of moral reasoning and belonging to the Post-Conventional, Autonomous or Principles Level of Kohlberg's stage of moral development, they can be said to follow the teleological moral systems which are characterised primarily by a focus on first, the consequences which their action might have; and secondly, who will be affected by their actions. They do not just focus on compliance to a set of rules. They can also be said to practise virtue ethics and focus more on helping others to develop good character traits such as kindness and generosity.

The lower level of moral reasoning of the majority of auditors is supported by Lampe and Finn (1992) and Jeffrey and Weatherholt (1996) who assert that the reason might be due to the accounting profession's orientation towards rules (deontology in nature and also belonging to the Pre-Conventional and Conventional Levels of Kohlberg's moral stage of development). Accounting and auditing are very much a rule-based profession as accountants and auditors are taught to follow accounting rules throughout their studies and careers. It is their nature to follow rules and regulations.

Thus, stricter rules and regulations accompanied by effective enforcement of the laws will affect the decision of auditors on whether to carry out unethical acts or not. Auditors will reconsider their decision to act unethically if there is a higher chance that they will be caught and penalised. Thus, more stringent rules and regulations will be able to change the ethical perception and judgement of the auditors. Enabling a wide coverage of their unethical conducts and the consequences of the unethical acts will also alert auditors, warning and stopping them from unethical conducts as they would want to avoid the humiliation and focus of being in the negative limelight.

6.1.3 The Influence of Perceived Ethical Climate of the Firm, Exposure to Ethics and Moral Reasoning on the Level of Ethical Judgement

This study finds that perceived ethical climate of the firm, exposure to ethics and moral reasoning have an effect on the five dimensions

of ethical judgement. In other words, the different levels of ethical judgement depend on moral reasoning, perceived ethical climate of the firm and exposure to ethics. The interaction effects of the three independent variables also have an impact on the level of ethical judgement. Ponemon and Gabhart (1990) find that auditors' moral development is significantly related to their independent judgements. A firm's ethical climate dictates its ethical values and the behaviours expected, and this has been shown to influence the ethicality of its members.

The result of this research is consistent with the findings of previous studies that detect a significant effect of ethical climate on ethical judgements as is uncovered by Shafer (2008; 2013) and Randall and Gibson (2013). Perceived ethical climate has a positive effect on ethical judgements. As pointed out by Weeks and Nantel (1992), ethical codes that are effectively communicated are likely to result in better ethical judgements. Accountant decisions on ethical dilemma will be influenced by the code of ethics because of the exposure to the ethical codes (Hegarty & Sims, 1979). The level of perceived ethical climate has a positive effect on the ethical decisions made. This result is also consistent with the findings of Ghazali and Ismail (2013) that accountants who are attached to corporations with higher ethical standard are stricter in making decisions in questionable ethical conduct. In short, perceived ethical climate significantly affects an accountant's ethical decision making.

Further, the outcome of this study also supports previous studies which find that there is significant effect of exposure to ethics on ethical judgements as is evidenced by Awasthi (2008), Kish-Gephart et al. (2010), Luthar and Karri (2005) and Wimbush and Sephard (1994). Accountants with higher exposure to ethics have higher levels of ethical judgement. Prior studies looking at the effect of exposure to courses on ethics among Malaysian students show that students who have attended ethics courses have higher ethical judgements (Saat et al., 2010; 2012). Therefore, the result of this research confirms the importance of exposure to ethics on ethical decision. However, this study provides contrary result with those of Saat et al. (2014) who find an insignificant effect of industrial training on the ethical awareness of students.

The result of this study shows that moral reasoning has a positive relationship with ethical judgements. The higher the level of moral reasoning an auditor has, the higher is his/her level of ethical judgement.

An accountant with high moral reasoning standard will be more likely to act more ethically as predicted by the virtue ethics theory (Beauchamp & Bowie, 2001). This result shows the importance of moral reasoning in making ethical judgements. This result is also consistent with previous studies done by Grover (1993), Jordan et al. (2013) and Kish-Gephart et al. (2010). A previous study conducted by Zakaria et al. (2010a) shows that moral philosophies, i.e. deontological and teleological, have significant effect on ethical judgements. Thus, this research confirms the findings of Zakaria et al. (2010a).

6.2 Implications of the Study

This research has provided information about the ethical level and moral reasoning level of auditors in Malaysia. Besides that, this study also provides insights on the factors that affect auditors' level of ethical judgement. Some of the actions that can be taken to address this issue include getting the government to improve and reform the education system by putting more emphasis on ethics education since studies have shown that exposure to ethics influences the level of ethical judgements.

In addition, the management of audit firms may want to establish an ethical climate for their organisations because it is found that the ethical climate of the firm dictates the level of ethical judgement of its auditors. If auditors perceive that the climate of their firm is ethical, they are more likely to behave ethically. Exposing the auditors to ethics in the work place will also enhance the auditors' level of ethicality. Thus it should begin with the "tone at the top". The management should have a set of ethical conduct that are communicated clearly to the staff of the organisation and the management should also "walk the talk" and reprimand staff who do not follow the set of ethical codes. Through this, the culture of ethical conduct can be established.

Moral reasoning level cannot be changed and modified easily. It is a long-term process which starts from childhood. The way a person grows up and the environment in which he/she is brought up will determine his/her moral development. Although there are auditors in the high level of moral reasoning, majority are in the low and moderate levels. Theoretically, those who have a high moral reasoning tend to make better ethical judgements. On this premise, audit firms should assist their auditors who are in the low level of moral reasoning to progress to a higher level of moral reasoning. This could be done through the support of providing training and conveying good values.

6.3 Limitations of the Study and Suggestions for Future Research

Although this study provides some interesting insights on the level of ethical judgement of auditors in Malaysia, it is subjected to a number of limitations which may affect the generalisability of this study. Nonetheless, the limitations can serve as the basis for future research. Although representative sampling method is used, the sample of this study might not be a representative sample of auditors in Malaysia and this is attributed to the low response rate. With a larger number of respondents, the findings can be generalised.

Although there are many researches which look at ethical judgement and moral reasoning in other countries, there is however, a lack of related research in the Malaysian context and this has, invariably, limited the guidelines for this study. Much reference has been made to the western literature which might not be applicable to the Malaysian culture. Thus, it is hoped that future studies can use the measurements of this study where a comparison of findings can be made. In addition, the Defining Issues Test (DIT) instrument used in this study has not been widely used in Malaysia. Thus, the appropriateness of the measurement used within the Malaysian context can be questioned.

Further, there might be other factors that can affect the ethical judgement of auditors for example, personal factors (like religion) and organisational (like organisational commitment) factors. Previous research looking at ethical judgement among Malaysian students shows the significant effect of religiosity (Saat et al., 2009; Zakaria et al., 2011). This research does not include religiosity, thus future research can consider this factor.

6.4 Concluding Remarks

Notwithstanding the limitations highlighted above, this study contributes to the literature focusing on the ethical judgement of auditors in Malaysia. Further, it is also the first of its kind, to the best of the authors' knowledge, to examine the level of moral reasoning of auditors in Malaysia. It is hoped that this study could serve as a basis of comparison in future studies. The findings of this study will be useful for MIA, the government and also audit firms who can employ the findings in their efforts to improve the ethicality of auditors and thus, ensure sustainability and public's confidence in the auditing profession. This study finds that majority of auditors in Malaysia have low level moral reasoning. Thus, it is important for audit firms to provide a clear policy

of what is acceptable and unacceptable behaviour. Such a policy should be made known to its employees. In addition, any form of unacceptable behaviour should be reprimanded and addressed quickly.

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APPENDIX 1

Defining Issues Test 1

The Defining Issues Test

This instrument assesses your opinions about controversial social issues. Different people make decisions about these issues in different ways. You should answer the questions for yourself without discussing them with others. You are presented with three stories. Following each story you will be asked to perform **three** tasks: (1) rate the action that you would take out of 3 actions given; (2) rate each of 12 statements in terms of its importance in making a decision; (3) choose 4 most important statements out of the 12 statements given and then rank them from "one" to "four" in terms of relative importance in making a decision. The tasks will be summarized as follows:

Task 1: Make a moral decision

You will be asked to state your preference for what action to take in the story. After the story, you will be asked to indicate the action you favour out of three actions that you can take.

Task 2: Rate 12 statements in terms of importance to the moral decision that you have made in the Task 1.

Following each story are 12 statements or questions. Your task after reading the story is to rate each statement in terms of its importance in making a moral decision. Some statements will raise important issues, but you should ask yourself whether the decision should rest on that issue. Some statements sound high and lofty but are largely gibberish. If you cannot make sense of a statement, or if you don't understand its meaning, mark it (5) "Of no importance".

Use the following rating scale for your response.

Rating Scale

1	Of GREAT importance. This statement or question makes a big, crucial difference one way or the other in making a decision about the problem.
2	Of MUCH importance. This statement or question is something that a person should clearly be aware of (though not always a crucial one) one way or the other in making a decision about the problem.

3	Of SOME importance. This statement or question involves something you generally care about, but it is not of great importance in making a decision about the problem.
4	Of LITTLE importance. This statement or question is not very important to consider in making a decision about the problem.
5	Of NO importance. This statement or question is completely unimportant in making a decision. You would waste your time thinking about it when making a decision about the problem.

Task 3: Choose 4 important statements out of the 12 statements given in Task 2 and rate them in relative importance to the moral decision that you have made in Task 1.

After rating each of the 12 statements, you will then be asked to select the **FOUR** most important statements out of the 12 statements in assisting you in making a decision. You are then required to rank them from “one” to “four” in the spaces provided, in terms of its relative importance in making your decision.

After Reading The Instructions, Please Proceed To Answer The Cases.

CASE 1 (Heinz and the Drug)

In Penang a woman was near death from a special kind of cancer. There was one drug that doctors thought might save her. It was a form of radium that the druggist in the same town had recently discovered. The drug was expensive to make, but the druggist was charging ten times what the drug actually cost to make. He paid RM200 for the radium and charged RM2,000 for a small dose of the drug. The sick woman’s husband, Encik Tan, went to everyone he knew to borrow the money, but he could only raise about RM1,000, which is half of what it cost. He told the druggist that his wife is dying, and asked him to sell it cheaper or let him pay later. But the druggist said, “No, I discovered the drug and I’m going to make money from it. So Encik Tan got desperate and began to think about breaking into the man’s store to steal the drug for his wife.

Task 1:

Should Encik Tan steal the drug?

Should Steal Can’t Decide Should not steal

Task 2:

Please rate the following 12 statements in terms of importance on a rating scale of (1) Great, (2) Much, (3) Some, (4) Little and (5) No to the moral decision that you have made in Task 1.

Rating of Importance

(1) GREAT	(2) MUCH	(3) SOME	(4) LITTLE	(5) NO	STATEMENTS
					1. Whether a community's laws are going to be upheld?
					2. Isn't it only natural for a loving husband to care so much for his wife that he'd steal?
					3. Is Encik Tan willing to risk getting shot as a burglar or going to jail for the chance that stealing the drug might help?
					4. Whether Encik Tan is a professional wrestler, or has considerable influence with the professional wrestlers?
					5. Whether Encik Tan is stealing for himself or doing this solely to help someone else?
					6. Whether the druggist's rights to his invention have to be respected?
					7. Whether the essence of living is more encompassing than the termination of dying, socially and individually?
					8. What values are going to be the basis for governing how people act towards each other?
					9. Whether the druggist is going to be allowed to hide behind a worthless law which only protects the rich anyhow?
					10. Whether the law in this case is getting in the way of the most basic claim of any member of society?
					11. Whether the druggist deserves to be robbed for being so greedy and cruel?
					12. Would stealing in such a case bring about more total good for the whole society or not?

Task 3:

Please choose 4 important statements out of the 12 statements given in Task 2 and rate them in relative importance to the moral decision that you have made in Task 1 by circling the appropriate number.

RATING OF IMPORTANCE	STATEMENTS											
Most important statement	1	2	3	4	5	6	7	8	9	10	11	12
Second most important	1	2	3	4	5	6	7	8	9	10	11	12
Third most important	1	2	3	4	5	6	7	8	9	10	11	12
Fourth most important	1	2	3	4	5	6	7	8	9	10	11	12

