Ethical Orientation and Auditors’ Ethical Judgments: The Mediating Role of Moral Intensity

RAZANA JUHAIDA JOHARI
Faculty of Accountancy & Accounting Research Institute
UiTM Kampus Kelantan
18500 Machang, Kelantan, Malaysia

ZURAIDAH MOHD. SANUSI
Faculty of Accountancy & Accounting Research Institute
UiTM Shah Alam
40000 Shah Alam, Selangor, Malaysia

RASHIDAH ABD RAHMAN
Faculty of Accountancy & Accounting Research Institute
UiTM Shah Alam
40000 Shah Alam, Selangor, Malaysia

NORMAH OMAR
Faculty of Accountancy & Accounting Research Institute
UiTM Shah Alam
40000 Shah Alam, Selangor, Malaysia

Corresponding email: razana@kelantan.uitm.edu.my

ABSTRACT
Moral intensity has been recognized as an important variable which could provide answers on individual’s ethical judgment differences on certain ethical issues. This study extends the previous ethical judgments model in accounting ethics research by examining the mediating effect of moral intensity on the relationship between personal ethical orientation and auditors’ ethical judgments. The research instrument consisted of two scenarios with different level of moral intensity issues, a 12-item of moral intensity measurement and a 20-item of Forsyth’s (1980) instruments. Three hypothesized relationships were tested using a sample of 191 auditors. The findings showed that the moral intensity dimension of perceived social pressure mediates the relationship between ethical orientation and auditors’ ethical judgments. Implications of the findings and future research are discussed in the paper.

Keywords: moral intensity; ethical orientation; ethical judgments; malaysia; auditors
INTRODUCTION

Over the past 10 years, there has been a growing interest on ethical conduct among the accounting profession due to the various worldwide accounting scandals. A series of corporate failure has suggested that the auditors involved in monitoring those companies have not honored what the public has perceived to be their appropriate role and involved in unethical judgments. Recent events have stimulated public and professionals concern to restore ethical manners among auditors and public confidence in the accounting profession. As a result, various studies (Waldron, 2010 & 2009) have been done in examining auditors’ ethical judgments (AEJ) in order to understand of how an individual would behave when confronting ethical/unethical situations. Empirically, research in accounting has focused on the influences of individual, situational and organizational factors on AEJ (Greenfield et al., 2007; Douglas et al., 2001; Wright et al., 1997). One important aspect that received less attention amongst accounting researchers is the influences of moral intensity (MI) on AEJ. Jones (1991) argued that the specific characteristics of ethical issues must be explicitly recognized and investigated to understand the ethical decision-making process of an individual. The effect of the auditors’ perception on the MI of the ethical issues is important in order to understand why such auditors might perform differently in dealing with the same ethical issues. Indirectly, the importance of assessing the issues of MI has been noted by Weber (1996). He argued that conclusions and implications presented in prior research which ignores the ethical issue when assessing decision-making may be limited or misdirected.

In addition, according to the most ethics theories, an individual will apply ethical guidelines based on their personal ethical orientation when making decisions on ethical issues. Individual differences on their ethical orientation may account for varying approaches to ethical judgments (Forsyth, 1980). Personal ethical orientation comprises of two underlying components i.e. idealism and relativism (Forsyth, 1980). The ethical orientation could act as a basis in understanding the ethical behavior of an individual since it represents the way of how an individual think and react to certain arguments (Forsyth, 1992; Hunt & Vitell, 1986). The differences in ethical orientation can result in disagreements about what is ethical per se, about the situations to which a person should be sensitive and about the ethical judgments made. Empirically, it is proven that an individual’s personal ethical orientation influences ethical judgments of professionals including accountants (e.g. Douglas et al., 2001; Achilles, 2006).

Therefore, with regards to the above possible variations of MI effects and personal ethical orientation on an individual’s action, this study is carried out to examine the roles of these two constructs on AEJ. By taking into account the Malaysian series of corporate failures, this study is warranted to provide a better understanding towards the Malaysian AEJ. Specifically, this study will examine (1) the direct effect of personal ethical orientation and MI on AEJ and (2) the mediating effect of MI on the relationship between ethical orientation and AEJ.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

A. Ethical Orientation

In 1980, Forsyth developed the Ethics Position Questionnaire (EPQ) to identify an individual’s personal ethical orientation. Forsyth proposes that differences in individual’s personal ethical orientation can be parsimoniously described by the degree to which they are idealistic or relativistic. Idealism focuses on human welfare whereas relativism represents an individual’s concern for a universal set of rules or standards (Forsyth, 1980). Empirically, idealism may have a stronger influence on ethical judgments than relativism (Barnett et al., 1994; Douglas et al., 2001). For example, Barnett et al. (1994) suggested that ethical orientation is more effective in explaining differences in ethical judgments when the actions are rated highly unethical, but when the actions are not considered highly unethical, ethical orientation may not be an important variable in explaining differences in ethical judgments. EPQ instrument has been used in few prior accounting ethics studies of accounting professionals (e.g. Marques & Pereira, 2009; Greenfield et. al., 2007; Achilles, 2006 and Shaub et al., 1993). Greenfield et al., (2007) pointed out that individual with more idealistic ethical orientation (IEO) will be less likely to engage in earnings management behavior but not for the individual with a relativistic ethical orientation (REO). Therefore, based on the preceding discussion, the following hypotheses will be tested:

H1 (a): Idealistic ethical orientation affects AEJ positively.
H1 (b): Relativistic ethical orientation affects AEJ negatively.
From the literature, there are also evidences which suggested that the influence of personal ethical orientation on ethical judgments is more likely to operate through the perceptions of MI. Previous finding indicates that idealism and relativism influence responses to some components of MI such as social consensus, magnitude of consequences and probability of effect (Singh et al., 2007; Finch, 1995 and Forsyth, 1985). Since both of the IEO and REO consider the welfare of the individuals involved in a situation, their ethical conduct may also be influenced by the other three components of MI i.e. proximity, concentration of effect and temporal immediacy. Therefore, the following hypotheses will be tested:

H2 (a): Idealistic ethical orientation affects MI positively.
H2 (b): Relativistic ethical orientation affects MI negatively.

B. Moral Intensity

The issue-contingent model has been developed by Jones in 1991 as a model which compliments other ethical judgments model by introducing the construct of MI. According to Jones (1991), MI is a multidimensional construct comprises of six components: (1) magnitude of consequences (MOC); (2) social consensus (SC); (3) probability of effect (POE); (4) temporal immediacy (TI); (5) proximity (PX); and (6) concentration of effect (COE). The more these components are present, the more likely for an individual to form ethical judgments. Studies examining the MI construct within business/marketing area have investigated the dimensions of MI (e.g. McMahon and Harvey, 2006; Singhapakdi et al., 1996) and the relationship between the MI components and the ethical decision-making process i.e. ethical sensitivity, ethical judgments/evaluation and ethical intentions (e.g. Singh et al., 2007; Singhapakdi, et al., 1996). Notably, the findings are rather consistent that MOC and SC are the most powerful MI components (see, e.g., McMahon & Harvey, 2007).

However, research using MI construct in auditing is still developing (Cohen and Bennie, 2006). The inclusion of the MI within the accounting ethics research has been offered by a few researchers, i.e. Leitsch, 2004; Cohen & Bennie, 2006; Sweeney & Costello, 2009; Johari et al., 2011. Previous studies indicated a significant positive effect of certain MI components on the ethical judgments made by auditors (Cohen & Bennie, 2006; Johari et al., 2011) and also accounting students (Leitsch, 2004; Sweeney & Costello, 2009). In previous studies, MOC and SC are identified as the most significant components that influenced respondents’ ethical judgments. Recently, a study done by Johari et al., (2011) has found dissimilar findings. Their results revealed that instead of the MOC, Malaysian auditors’ perceived the component of PX as the most significant component followed by the SC. Both of the components were found significant in both scenarios tested on the ethical decision-making process. Other components were either insignificant or inconstantly affecting the process. Therefore, based on the preceding discussion, the following hypotheses will be investigated:

H3 (a): MI affects AEJ positively.

MI is also expected to mediate the effect of ethical orientation on ethical judgments. It is expected that auditors with high IEO will capture more components of MI in situation which requires their ethical consideration. Consequently, they are likely to have higher perceptions of MI of the issues. This in turn will lead to higher ethical judgments. On a contrary, a REO individual will consider the circumstances first rather than the potential harm a decision might cause. Therefore, this consideration has led those auditors with high REO to judge decisions more leniently as compared to the auditors with IEO (Elias, 2002). Thus, indirectly they are more in a position to assume lower perceptions of MI of the issues and will lead to lower ethical judgments. There is a few studies that developed frameworks to explain the relationships between ethical orientation and ethical judgments using MI (e.g. Singh et al., 2007; Singhapakdi et al., 1999). Singhapakdi et al., (1999) found that personal moral philosophies are significant predictors of MI and that MI mediates the relationship between personal ethical orientation and ethical judgments. On the other hand, Singh et al., (2007) did not find any direct relationship between personal ethical orientation and ethical judgments. However, their study revealed an indirect impact of personal ethical orientation on ethical judgments through MI of the situation. Therefore, based on the preceding discussion, the following hypotheses will be investigated:

H3 (b): High idealistic ethical orientation increases the level of MI, which in turn leads to high AEJ.
H3 (c): Low relativistic ethical orientation increases the level of MI, which in turn leads to high AEJ.
RESEARCH METHODOLOGY

A. Sample and Data Collection

A total of 963 survey booklets were randomly distributed from April 2010 to September 2010 to auditors who work with audit firms throughout Malaysia. Out of 963 copies survey booklets distributed, 212 completed surveys were returned representing a 22% response rate. Out of this figure, 21 respondents were identified as outliers and were dropped from the sample. As a result, the total questionnaires analyzed were 191.

B. Variable and Measurement

This study uses ethical judgment as dependent variable, ethical orientation as independent variable and characteristics of the moral issues (MI) as mediating variable. The ethical judgments were measured by asking the respondents’ level of agreement with the action statement in the two scenarios (underreporting of time and non-compliance). The issue of non-compliance (Scenario 2) is regarded as having more ethical concern among the auditors as compared to the issue of underreporting of time (Scenario 1). The components of MI were measured using a 12-items (2 items per component) based on Jones’ (1991) and adapted from previous research (Singhapakdi et al., 1996; McMahon & Harvey, 2006). The ethical orientation is measured by using instrument developed by Forsyth (1980). A 20-question consisted of 10 questions each on idealism (IEO) and relativism (REO) were used to identify the respondent’s ethical orientation. Responses to the above measurements was made on seven-point scale (1 = strongly disagree; 7 = strongly agree).

RESULTS

A. Demography of Participants

The demographics data are intended to give a clear understanding of the respondents’ background. In respect to gender, there are 81 males (42%) and 110 females (58%). The age of the respondents ranged from 21 to 49 years with a mean value of 27.39 years ($SD = 6.31$). Majority of the respondents were degree holders (68%) followed by the professional qualification (30%) and the rest of 2% are the diploma holders. The sample of respondents included audit assistants (46%), audit senior (25%), audit manager (16%) and partner (13%). Most of them (44%) are currently being attached to a small audit firm category. Therefore, another 36% and 20% of the respondents are from a medium and big 4 audit firm category, respectively.

B. Descriptive Statistics

• Means for Measured Variables

Table 1 presents the preliminary analysis of the responses for AEJ and the six components of MI, for each of the scenarios. In this study, the level of mean score was divided into three categories, namely high (>67 %), moderate (33% to 67%) and low (< 33%). A high mean score indicates that the respondents were more likely to form ethical judgments (respondents perceived the situation as unethical). Whereas, a low mean score shows that the respondents were less likely to form ethical judgments (respondents perceived the situation as less unethical). From Table 1, the non-compliance issue (Scenario 2) is regarded as having higher level of ethical judgments as compared to the underreporting issue (Scenario 1). The overall MI mean scores of Scenario 2 (mean = 4.70) signifies that the respondents perceived the scenario as a situation with a higher level of intensity (67.14%) as compared to the Scenario 1 (62.14% - a moderate level of intensity). Thus, this reflects the earlier notation in this study that the issue of non-compliance (Scenario 2) is regarded as having more ethical concern among auditors as compared to the issue of underreporting of time. The mean values of IEO and REO are obtained by averaging the respective scores of question items. Overall, the mean value of IEO (mean =5.5) is 0.9 higher than the mean of REO (mean = 4.6). Therefore, on average, all respondents have higher levels of IEO compared to REO.
**Table 1: Means for Ethical Judgments and Moral Intensity Components**

<table>
<thead>
<tr>
<th></th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Chi-square Test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>SD**</td>
<td>Mean</td>
</tr>
<tr>
<td>EJ</td>
<td>4.62</td>
<td>1.74</td>
<td>5.11</td>
</tr>
<tr>
<td>MOC</td>
<td>4.68</td>
<td>1.63</td>
<td>5.06</td>
</tr>
<tr>
<td>SC</td>
<td>4.60</td>
<td>1.55</td>
<td>5.18</td>
</tr>
<tr>
<td>POE</td>
<td>3.83</td>
<td>1.29</td>
<td>4.34</td>
</tr>
<tr>
<td>TI</td>
<td>4.26</td>
<td>1.55</td>
<td>4.25</td>
</tr>
<tr>
<td>Px</td>
<td>4.85</td>
<td>1.17</td>
<td>4.91</td>
</tr>
<tr>
<td>COE</td>
<td>3.90</td>
<td>1.39</td>
<td>4.48</td>
</tr>
</tbody>
</table>

<sup>a</sup>p<0.05(1-tailed), <sup>b</sup>p<0.01 (1-tailed)

Scenario 1: Underreporting of time; Scenario 2: Non-compliance

**SD = Standard Deviation**

EJ = Ethical judgments, MOC = Magnitude of consequences, SC = Social consensus, POE = Probability of effect, TI = Temporal immediacy, Px = Proximity, COE = Concentration of effect

### C. Goodness of Data

- **Moral Intensity**
  
  An exploratory factor analysis using varimax rotations was performed on the twelve items (two items each for components) for each of the two scenarios. A factor loading above 0.45 is needed to indicate that data is practically significant for the sample size between 150-199 units (Hair et al., 2010). The Kaiser-Meyer-Olkin measure of sampling adequacy is 0.56 for Scenario 1 and 0.55 for Scenario 2, indicating that factor analysis was an appropriate technique. From the analyses, MI could be grouped into two factors as in (Sweeney & Costello, 2009; Singhapakdi et al., 1996). Factor one comprises the probability of effect, magnitude of consequences, concentration of effect and temporal immediacy. This factor was labeled as ‘perceived potential harm (PPH)’ and explained between 27.67% and 24.21% of the variance, depending upon the scenario. The second factor consisted of proximity and social consensus and was labeled ‘perceived social pressure (PSP)’. This factor explained between 16.98% and 20.16% of the variance depending upon the particular scenario. The MI scale reliability analysis demonstrated an acceptable individual alpha coefficients for each scenario (i.e. exceeded the minimum value alpha coefficient of 0.60) (Hair et al., 2010). Scenario 1 and Scenario 2 provided a Cronbach’s alpha reliability coefficient of 0.638 and 0.790, respectively.

- **Ethical Orientation**
  
  The exploratory factor analysis is also applied to understand the structure of correlations among the ethical orientation items. The factor loadings for each IEO and REO with the eigenvalues more than 1.0, account for 42.60 percent and 32.62 percent, respectively. The Kaiser-Meyer-Olkin coefficient for these dataset is 0.765 for IEO and 0.683 for REO. These results provide evidence for the two dimensions of ethical orientation, i.e. idealism and relativism with seven and eight items respectively. The IEO and REO scale has a Cronbach’s alpha reliability coefficient of 0.76 and 0.70, respectively.
D. Hypotheses Testing

To examine the relationship between variables under study, a preliminary correlation analysis of the ethical orientation construct, MI construct and AEJ was performed for each of the scenario. The analytical results revealed that all the variables were significantly correlated with the AEJ as per hypothesized. Since the MI construct is issue-specific and thus scenario-specific, separate regression analyses were run for each of the scenarios.

- Direct Effects of Ethical Orientation and Moral Intensity on AEJ

Results in Table 2 indicates that both components of ethical orientation i.e. idealism and relativism, were found significantly predicted the AEJ in Scenario 1 and Scenario 2. The positive direction of the relationship between IEO and AEJ, indicating that the more idealistic auditors tend to be, the more likely for them to follow an ethical action thus avoiding the questionable actions expressed in both of the scenarios. In contrast, the negative direction of the relationship between REO and AEJ indicates that the more relativistic auditors tend to be, the more likely for them to follow the questionable actions expressed in both of the scenarios. Therefore, H1 (a) and H1 (b) were strongly supported. In regards to MI constructs, there is only one dimension i.e. PSP, which significantly influence the AEJ in both scenarios. Thus, this finding lends a partial support for H3 (a).

<table>
<thead>
<tr>
<th>TABLE 2: REGRESSION ANALYSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>DV: AEJ</td>
</tr>
<tr>
<td>Independent Variables</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Constant</td>
</tr>
<tr>
<td>IEO</td>
</tr>
<tr>
<td>REO</td>
</tr>
<tr>
<td>Potential harm</td>
</tr>
<tr>
<td>Social pressure</td>
</tr>
<tr>
<td>R²</td>
</tr>
</tbody>
</table>

\(\text{a} \ p<0.05 (1\text{-tailed}), \ \text{b} \ p<0.01 (1\text{-tailed})\)

*Scenario 1: Underreporting time; *Scenario 2: Non-compliance

AEJ = Auditor ethical judgments, IEO = Idealism ethical orientation, REO = Relativism ethical orientation

- Direct Effects of Ethical Orientation on Moral Intensity

This study also examines the influence of ethical orientation on MI (H2a-b). The results are presented in table 3. Since MI is grouped to two factors, separate regression analyses were run for each MI factor. For the first factor (i.e. PPH), both IEO and REO were found to be insignificant in both scenarios. On the other hand, as expected, results in Table 3 show that IEO has positive effects on the second factor (i.e. PSP) at \(p<0.05\) (\(b=\ 0.223\)) in Scenario 1 and at \(p<0.05\) (\(b=\ 0.345\)) in Scenario 2. Whereas, REO has negative significant effects on PSP at \(p<0.1\) (\(b=-\ 0.175\)) in Scenario 1 and at \(p<0.05\) (\(b=-\ 0.333\)) in Scenario 2. These results suggest that high IEO lead to high MI but high REO lead to low MI. However, the relationship between these variables are only found to be significant on the second factor of MI i.e. PSP. Hence, H2 (a) and H2 (b) are partially supported.
### TABLE 3: REGRESSION ANALYSES

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>DV: Moral Intensity</th>
<th>Potential harm</th>
<th>Standard error</th>
<th>Social pressure</th>
<th>Standard error</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scenario 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>4.634</td>
<td>0.653</td>
<td>4.353</td>
<td>0.675</td>
<td></td>
</tr>
<tr>
<td>IEO</td>
<td>0.011</td>
<td>0.093</td>
<td>0.223</td>
<td>0.096</td>
<td></td>
</tr>
<tr>
<td>REO</td>
<td>-0.115</td>
<td>0.102</td>
<td>-0.175</td>
<td>0.105</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.007</td>
<td>0.038</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Scenario 2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>4.898</td>
<td>0.666</td>
<td>4.733</td>
<td>0.788</td>
<td></td>
</tr>
<tr>
<td>IEO</td>
<td>0.061</td>
<td>0.095</td>
<td>0.345</td>
<td>0.112</td>
<td></td>
</tr>
<tr>
<td>REO</td>
<td>-0.144</td>
<td>0.104</td>
<td>-0.333</td>
<td>0.123</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.011</td>
<td>0.075</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*a*p<0.05 (1-tailed), b*p<0.01 (1-tailed)
*Scenario 1: Underreporting time; *Scenario 2: Non-compliance
IEO= Idealism ethical orientation, REO = Relativism ethical orientation

- **Mediating Effects of Moral Intensity**
  This study also examines the mediation effect of MI on the relationship between ethical orientation and AEJ (H3b-c). The results are presented in Table 4.

### TABLE 4: TEST OF MEDIATION

<table>
<thead>
<tr>
<th>Step 1</th>
<th>Step 2</th>
<th>Step 3</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEJ</td>
<td>PSP</td>
<td>AEJ</td>
<td></td>
</tr>
<tr>
<td>β</td>
<td>β</td>
<td>β</td>
<td></td>
</tr>
</tbody>
</table>

*Scenario 1*  
IEO: 0.548^b 0.223^a 0.487^a Partial mediation  
REO: -0.511^b -0.175^a -0.593^a Partial mediation  
PSP: 0.271^a  

*Scenario 2*  
IEO: 0.501^b 0.345^a 0.312^a Partial mediation  
REO: -0.428^b -0.333^a -0.522^a Partial mediation  
PSP: 0.312^a

*a*p<0.05 (1-tailed), b*p<0.01 (1-tailed)
*Scenario 1: Underreporting time; *Scenario 2: Non-compliance
IEO= Idealism ethical orientation, REO = Relativism ethical orientation
AEJ = Auditor ethical judgments, PSP= Perceived social pressure

(i) **First condition** - The first condition (i.e. predictor-criterion) has been tested. As shown in Table II, the results support the first condition in which both IEO and REO influence AEJ. Thus, these variables are examined in the next condition;

(ii) **Second condition** - The second condition is to establish the relationship between the predictors and the mediator. Results for the second condition are shown in Table 3. The results show that both IEO and REO are also significantly related to MI (i.e. PSP)
Proceedings of the 6th International Conference of the Asian Academy of Applied Business (AAAB) 2013

(iii) Third condition - The third condition is to regress AEJ simultaneously on both MI (PSP) and ethical orientation constructs (idealism and relativism). Results in Table 4 (Step 3) show that, in Scenario 1, PSP influences the AEJ significantly ($b = 0.271$, $p < 0.05$). The coefficient of IEO and REO in Step 1 is significantly reduced ($\beta$ value is reduced from $0.548$ to $0.487$ for IEO; and $\beta$ value is reduced from $-0.511$ to $-0.593$ for REO). As IEO and REO are still significant when PSP is controlled, there is evidence to support partial mediation in Scenario 1. Scenario 2 also managed to have same results as found in Scenario 1. The PSP influences the AEJ significantly ($b = 0.382$, $p < 0.05$). The coefficient of IEO and REO in Step 1 is also significantly reduced ($\beta$ value is reduced from $0.501$ to $0.312$ for IEO; and $\beta$ value is reduced from $-0.428$ to $-0.522$ for REO). Again, as IEO and REO are still significant when PSP is controlled, there is also evidence to support partial mediation in Scenario 2.

DISCUSSION OF FINDINGS

This study extends the theoretical model of Jones (1991) to the ethical judgments within the field of accounting, focusing on the auditing area. In particular, this investigation examined the direct effect of moral intensity construct and personal ethical orientation construct on AEJ within two unethical auditing scenarios. In addition, the study also tested the mediation effects of the MI construct on the relationship between personal ethical orientation and AEJ. The factor analyzed suggested that the six components of moral intensity identified by Jones could be synthesized into two dimensions. The first dimension, known as PPH appears to measure on the ‘potential harm’ (comprising probability of effect, magnitude of consequences, concentration of effect and temporal immediacy) which is likely to be done to the victim. The second dimension, known as PSP appears to measure the degree of ‘social pressure’ (comprising proximity and social consensus) involved in all scenarios.

From the regression analyses, all variables were significantly influencing the AEJ except the PPH. The finding in this study indicated that idealistic auditors are not intrinsically “more ethical” than relativistic auditors since both IEO and REO were significantly affecting AEJ as the hypothesized directions in both scenarios. However, the auditors’ level of idealism found was higher than the level of relativism. This indicates that the auditors are more concern towards the human welfare in making up their ethical judgments. They tend to support the ethical correct actions and will not compromise with any actions which could harm others. These findings support previous empirical studies such as Douglas et al., 2001; Dorantes et al., 2006 and Greenfield et al., 2007.

In regard to the MI, it is identified that the MI of an ethical issue is primarily determined by PSP (i.e. the components of SC and PX). These results are dissimilar to the findings of Singhapakdi et al., 1996; Singhapakdi et al., 1999 and Singh et al., 2007. The importance of perception of SC indicates that auditors’ perceptions of society’s attitudes on these issues influence their decisions. This indication is consistent with the lower levels of cognitive moral development (Kohlberg, 1969; Rest, 1986). In addition, Barnett (2001) also pointed out that respondent around the age of 20 believed that societal opinion would be a very important influence. The results of this study were supported by the fact that majority of the respondents (71%) comprised of the audit staff (audit assistant and audit senior) who worked as an auditor for less than six years, with an average age of 24 years old. Therefore, by taking into account the respondents’ background, Kholberg Theory (1969) and Barnett (2001), their actions of being guided by perceived societal acceptance is supported. Thus, this argument reasoned out the justification of having contradictory findings regarding the significant effect of SC component on the Malaysian AEJ.

Another moral intensity component which significantly correlated with the AEJ in both scenarios is PX. This finding is inconsistent with previous studies (e.g. Sweeney & Costello, 2009; Davis et al., 1998; Singhapakdi et al.; 1996) but supported the results of Cohen & Bennie (2006). Jones (1991) claims that people care more about other people who are close to them (socially, culturally, psychologically or physically) than those who are distant. Based on this assertion, Malaysian auditors seem to place higher consideration towards the PX components as compared to other components of MI. This might be due to the notion that Malaysian people are more considerate in making judgment when the consequences will impact the people who are close to them. The ethical values which Malaysian respondents held might be used in explaining this finding. Malaysians are being associated with the ethical values such as
respecting for elders, maintaining harmonious relationships by not hurting others, being sensitive towards others’ feelings and being tolerant (Asma, 1996). Therefore, these arguments supported the significant impact of PX on the AEJ. Finally, our mediating analyses indicated that PSP mediated the relationship between ethical orientation and AEJ. The findings show that higher IEO increases PSP which in turn leads to a better AEJ, whilst lower REO o increases PSP which in turn leads to a better AEJ. PSP partially mediates the relationship.

IMPLICATIONS OF THE FINDINGS

Overall, this study has two important theoretical implications to the accounting ethics research particularly within auditing area. First, this study extends the ethical judgments model proposed by Sweeney & Costello, 2009; Leitsch, 2006; Cohen & Bennie, 2006 by examining the MI components together with personality traits (i.e. personal ethical orientation). Results of this study support that the simultaneous examination of these variables provides additional explanation to the AEJ. Second, the development of the conceptual framework of this study considers the mediating effect of MI construct on AEJ which is yet to be examined in an audit setting. The factor analyzed suggested that the six components of MI is synthesized into two dimensions. The first dimension, known as PPH appears to measure on the ‘potential harm’ (comprising probability of effect, magnitude of consequences, concentration of effect and temporal immediacy) which is likely to be done to the victim. The second dimension, known as PSP appears to measure the degree of ‘social pressure’ (comprising proximity and social consensus) involved in all scenarios. Results of this study indicate that MI partially mediates the relationship between the two dimensions of ethical orientation i.e. IEO and REO and AEJ. This contribution is important because it highlights the potential effect of MI as a mediator between auditors' personal ethical orientation and AJP. In general, findings of this study show that younger respondents are likely to vary their judgments base on the social consensus and proximity dimensions of moral intensity. Therefore, this information will help organizations in planning their training sessions as to expose younger employees to ethical issues. In addition, the younger employees need to be guided through informal session where they can discuss the consensus among members of the organization, profession and society regarding the ethicality of certain decisions that employees may make while on the job.

LIMITATIONS AND FUTURE RESEARCH

There are several limitations that should be noted. First, respondents of this study were given two ethical scenarios which might limit the respondents’ perception towards the differences of MI level embedded in the scenarios. The second limitation is that moral intensity was narrowly defined within the context of each scenario. These components may have been more or less intense depending upon the issue without the researcher detecting these differences. Future research should attempt to replicate these findings in other samples of accounting profession to ensure their generalizability.

REFERENCES


