

# **An Analysis on Ethical Climate and Ethical Judgment among Public Sector Employees in Malaysia**

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*Many unethical business practices have alerted the deterioration of ethicalness among employees of public sector. As such, the public is skeptical towards the ethical issues in public sector and accuses them of forming unethical judgments. Specifically, this study aims to analyse the influence of ethical judgments on the intention towards unethical behavioural practices among employees in selected Malaysian public sectors. The data is analysed using a simple regression analysis based on 151 responses of a questionnaire survey. However, the overall finding of this study has shown a positive significant relationship between ethical climate and ethical judgment of employees' behaviour on selected financial decisions in Malaysian public sectors. Hence, it will be useful to those in public sector in their effort to improve ethical awareness and ethical judgments. Recommendations are highlighted on how to improve the credibility and viability of public service delivery system towards national prosperity.*

## **INTRODUCTION**

Governance of public sector in Malaysia has undergone major transformations since the 1980s as a result of various reforms and innovations. The government's public service delivery has also strived on improving the ethical climate with the aim to be into the top 30 of Transparency International's Corruption Perception Index (CPI) by 2020. A declining Corruption Perception Index of Malaysia from year 2008 to 2011 somehow indicates that the public perceive business ethics in Malaysia as not up their expectation (Maisarah *et al.*, 2012). The focus on good governance in the public sectors is to enhance transparency and efficiency and make Malaysia more competitive and attractive to investors. Thus, the role of government is to provide transparent procedures and policies to serve the people. Malaysia is intensifying its effort to eliminate opportunities for corruption, malpractices and abuse of power, not only in the public sector but also in the private sector. The National Integrity Plan (PIN) was launched in 2004 to mould a moral and ethical society with strong religious and spiritual values and high ethical standards. Reviews of laws, rules and regulations as well as stringent enforcement measures were undertaken by various regulatory bodies to enhance governance. The government is taking steps to enhance the integrity, transparency and accountability of both the public and private sectors toward improving the level of good

governance. In improving the public service delivery system, the government will continue to reduce bureaucratic red tape and improve the services of frontline agencies. This is a vital endeavor as public service excellence will deliver a conducive business environment and consequently, national prosperity. Legislation and monitoring by agencies, as well as training and awareness programs, are the traditional methods of maintaining accountability in the public service. Attending courses on ethics will also improve ethical judgment (Saat *et al.*, 2010). The system of checks and balances can be seen through:

- The active vigilance of the Anti-Corruption Agency (ACA);
- Monitoring by the cabinet committee on integrity in government management;
- Scrutinizing financial compliance by public sector agencies via the auditor-general's report, and
- Enhancing discipline in the public service through the Public Service Officers (Conduct and Discipline) Regulations 1993.

In line with the government's policy of accountability, transparency and performance, the government implemented the establishment of key performance indicators (KPIs) in 2005. The implementation of this performance-based work culture in the public sector aims to upgrade the quality of delivery services at government agencies for the customers. However, to maintain the ethical standard among individual values and ethical attitudes in the organization is a big challenge to the leaders and top management in both the public and the private sectors.

## **ISSUES RELATED TO PUBLIC SECTOR**

Several studies on individual values and ethical attitudes of decision makers to establish ethical behavioural practices in their organizations have discovered that self-interest amongst managers can impinge on their individual ethics and result in increased unethical behaviour (Wu, 2002). There are also several issues within Malaysian public sectors which question the accountability, integrity and ethical behaviour practices.

The case of Bank Rakyat (People's Bank) episode perhaps best illustrates the environment which quickly spawned a new greed-driven business culture that was eagerly embraced by Malaysian government subsidized enterprises. For instance, in 1954, Bank Rakyat began life as a financial cooperative society where its primary responsibility is to help poor farmers and fishermen. But, the first intimation that something had gone drastically wrong was when its 1973 and 1974 accounts were tabled without the approval of the registrar of cooperatives at its 1985 annual general meeting. Price Waterhouse report revealed a staggering catalogue of financial mismanagement excesses that served to confirm the nation's worst fears (National Observer Home, 1999).

In addition, the Bank Bumiputra scandals in 1988 began when large sums of money being transferred to its wholly-owned subsidiary in Hong Kong, Bumiputra Malaysia Finance Limited, or BMF, which in turn lent a total of more than US\$1 billion to a Hong Kong company called Plessey Investment Limited and another called Carrion Investments Limited. However, Carrion went into bankruptcy a few months later which led into Bank Bumiputra's catastrophic financial loss that caused irreparable damage to Malay pride and prestige.

In November 2004, the Malaysian media carried a front-page story on defective buildings and roads that had cost the taxpayer an estimated RM2 billion (US\$500 million). The public works minister disclaimed responsibility for the fiasco, and blamed a group of contractors known as Project Management Consultants (PMC), set up in the 1990s and registered with the Treasury (Fernandez & Selvam, 2006).

According to the 2007 Auditor General Report, Syarikat Glotel Sdn Bhd was given the RM33 million contract through direct negotiation with the Health Ministry to supply two Positron Emission Tomography Computed Tomography Scan (PET CT Scan) and a Cyclotron machine, and to build the buildings to house these machines at Penang Hospital and Putrajaya Hospital despite the fact that Glotel was not registered with the Contractor Service Centre. The issue raised questions how the contract was awarded (Malaysia Today, 2008).

The control system and the practice of ethical climate are supposed to curb these unethical practices. Inevitably, these immoral and unethical practices in public sectors can erode the public confidence in the current government. In order to minimize the practice of unethical issues particularly in public sector, there is greater demand on tighter control system such as better monitoring system, stricter accounting and auditing rules for financial decision, improvements in public sector governance, heavier penalties for people caught in such wrongdoing, and so on. To date, there are very few empirical studies related on ethical climate and ethical judgment in Malaysia, particularly on the public sector.

The effect of ethical climate and ethical judgment of management personnel to make ethical decision pertaining to financial decision can be questionable. The accountability of management to inculcate the ethical values in the public sector organizations may be at risk. These alarming issues have raised some questions on; first, to what extent the existing ethical climates being practiced at this public sectors? Secondly, how ethical judgments of management personnel influence their behaviour when confronted with selected ethical dilemmas or questionable practices pertaining to the financial discipline?

In view of the above issues, the purpose of this study is twofold; first, to examine the existing ethical climate in selected Malaysian public sector. Secondly, this study analyses the management personnel's ethical judgment on the questionable or unethical practices on several financial decisions in selected Malaysian public sector.

This study tends to provide some insight on the existing ethical climate and ethical judgment in making financial decisions in selected Malaysian public sector, and whether there is any relationship between ethical climate and ethical judgment in selected scenarios. It provides some evidences to support the need for The National Integrity Plan (PIN) to ensure that ethical behaviour are always being practiced in public sectors.

## **ETHICAL CLIMATE AND ETHICAL JUDGMENT**

Normally, ethics is the code of moral principles and values that govern the behaviour and beliefs of individuals with respect to what is ethically right or wrong (Aaker, 1989). These values and principles mould one's lifestyles which in turn influence perceptions and ways of forming judgments. An ethically acceptable judgment is both legally and morally acceptable to the larger community. Those who possess high moral and ethical values are assumed to be more perceptive of ethical problems. Thus, they will be more likely to form ethical judgments.

Victor and Cullen (1987, p. 51) define ethical climate as "the shared perception of what is correct behavior, and how ethical situations should be handled in an organization". According to Cohen (1995) ethical climate lies beneath value system. Moreover, according to Weeks and Nantel (1992), when codes are effectively communicated and understood it is likely to result in greater ethical behaviour.

Implementing ethical climate or ethical culture can help to resolve the issues related to unethical behavioural practices in the organization. Ethical climate or ethical culture of an organization is the shared understanding about what is correct behaviour (Victor & Cullen, 1987). Similarly, Hunt *et al.*, (1989) rephrased the ethical climate as corporate ethical value. Corporate ethical value is defined as "a composite of the individual ethical values of managers and both the formal and informal policies on ethics of the organization" (Hunt *et al.*, 1989). Trevino's (1986) interactionist model has proposed that organizational culture can contribute to an individual's moral development by allowing organizational members decision-making responsibility and by encouraging role-taking opportunities. Victor and Cullen (1987) have suggested that ethical climate in organizations influences the moral conduct of their membership especially that of their boards of directors.

However, in non-profit organization, Gardner (1987) stated that many non-profits organization are not held as accountable as their government or for-profit counterparts due to the fragmentation "between the community-at-large, the fiduciary board, the funding source, and management". Research in this field generally suggests that non-profits organization are less prone to opportunism than private sector firms.

Agarwal and Malloy (1999) study a non-profit organization and found that not all the ethical climate types were replicable. They found that, in the non-profit organization, there were no significant ethical

climate perceptions based on the “local or organizational locus” of analysis. In addition, in the non-profit organization, there was a general trend toward a “caring climate of benevolence”, including individual caring (in which the primary concern of members is the well-being of others, and the tendency among them is to do what is best for the service users rather than the general public) and social caring (in which the primary concern of members is the well-being of the community or society at large (social responsibility), and the tendency among them is to do what is right for the public as a whole (Malloy and Agarwal, 2001)).

Wumbush *et al.*, (1997) have suggested that there is a relationship between the ethical climate of an organization and the ethical decisions its employees make. An organization that has shaped an ethical climate and culture should be less likely to house unethical behaviours. It is also important that the management personnel use their ethical judgment and ethical reason in their decision making process, particularly on the financial decisions. Ethical judgment and ethical reasoning are distinct concepts commonly relevant to ethical decision making. Ethical judgment refers to endorsement of ethical business practice and intolerance for the unethical one. Ethical judgment is defined as a cognitive process in which an individual is to “judge which course of action is morally right” (Trevino, 1992, p.445).

The linkage between ethical judgment and behavioural intentions, defined as an individual’s intent to act in a certain way, has been postulated in ethical decision making models (for example, Jones, 1991; Rest, 1986). Judgment, usually used as the most common indicator of an attitude and its predictive validity of subsequent behavioural intentions, is a central focus of the theory of cognitive dissonance (Festinger, 1957). According to this theory, people are rational decision makers who strive for consistency in everything they do.

Ethical reasoning refers to using some reasons to judge a management decision act as ethical or not. The reasons are either deontological, teleological, conventional, or egoistic (Fraedrich & Ferrell, 1992a, 1992b; Harris & Sutton, 1995). Deontological reasoning focuses on the intention for realizing important goals, ideals, and universally desirable values, including loyalty (Barnett *et al.*, 1994). Teleological reasoning emphasizes maximization of benefits for society or the greatest number of people. Conventional reasoning refers to conformity to law, norms, and professional ethical codes. Egoistic reasoning favors acquisition of interests for oneself. These four modes of reasoning may reflect a hierarchy of ethical development, reminiscent of that proposed for moral development (Kohlberg, 1981). Whereas egoistic reasoning and conventional reasoning reflect development at pre-conventional and conventional respectively, teleological reasoning and deontological reasoning may respectively represent Stage 5 and Stage 6 of the post-conventional level. Hence, the hierarchy would denote increasing levels of ethical development from egoistic reasoning, to conventional reasoning, to teleological reasoning, and finally to deontological reasoning. Such development underscores the paramount importance of universal values as a basis for ethical behaviour.

Cognitive developmental theory regards ethical reasoning as pivotal to the concept of ethics. Accordingly, ethical reasoning would facilitate making ethical judgment and behaviour. This facilitation would reflect the precedence of cognitive development to formation of judgment and behaviour. Hence, one tends to have ethical judgment according to the level of development in one's ethical reasoning. A study by Stanga and Turpen (1991) on accounting majors shows that people with high ethical judgment will not engage in unethical behaviour. In other words, people with high ethical judgment is more likely to behave ethically in their decision making.

## **RESEARCH METHODOLOGY**

This study explores the existing ethical climate in public sector and to what extent the ethical judgment are being practiced among employees in selected Malaysian public sector. This study has used a questionnaire survey method as the survey approach improves the researcher’s understanding of the incidence of a particular phenomenon and/or helps the researcher to understand the relationships of the variables under study (Modell, 2005). The sampling frame was obtained from the Public Service Department.

There are five components of public sectors in Malaysia, namely, federal, state, federal statutory bodies, state statutory bodies and local authorities. The respondents were employees who are involved in decision-making process and responsible for the implementation of the organizational control system (such as head of departments, head of units etc.) in the public sectors. Accordingly, 300 instruments were arbitrarily sent by enumerators to the selected employees using a personally administered survey in Putrajaya and Selangor area.

The survey question is developed and slightly modified for measuring the ethical climate or ethical culture and ethical judgment. Ethical climate/culture measurement is adopted from the scale developed in Victor & Cullen (1988) and Suar & Khuntia (2004). This is based on ten-item measures on management perception on ethical climate in existing organization. The five-item Likert scales are used, ranging from 1 = mostly false to 5 = always true. Therefore, a high score shows the presence of an ethical climate and a low score shows the absence of an ethical climate. We made clear in the questions that our objective was to discover, through respondents' answers, how the climate of their organization actually was (at the time when the questionnaire was being completed).

Ten item measures include:

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1. People are expected to comply with the law.
  2. In this organization, people are expected to follow own personal and moral beliefs.
  3. The major responsibility of people in this organization is to control costs.
  4. People in this organization strictly obey organizational policies.
  5. In this organization, people are not being self-interest.
  6. Our major concern is always what is best for the other person.
  7. Each person in this organization decides for him/ herself what is right and wrong.
  8. In this organization, it is expected that everyone will always do what is right for the customer and public.
  9. In this organization, people is concern for each other.
  10. In this organization the most efficient way is always the right way
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The ethical judgment measurement on selected financial decisions are adopted and modified from Stanga and Turpen (1991). This is based on scenario case questions to indicate the likelihood that they would engage in the activity described. The questions have five ordinal scales, ranging from 1 = No, I definitely would not, 2 = I probably would not, 3 = I do not know what I would do, 4 = I probably would and 5 = Yes, I definitely would. The nature of the case is described below:

Case 1: Submit a false reimbursement claim of RM150 for 5 days of out-of-town meals.

Case 2: Use confidential inside information to potentially make millions of dollars illegally by giving tips on contract.

Case 3: Increase organization's income by recognizing revenue before it was earned.

Case 4: Not reporting the amount of income or allocation received for the organization.

Case 5: Accept a RM25,000 cash payment in exchange for selecting a company as an outside contractor to perform maintenance work

The respondents were asked to exercise their judgment in dealing with various accounting and financial matters. They were assured that their responses would remain confidential and completely anonymous. The data was collected from January to March 2011. Out of 300 distributed questionnaires, 151 usable responses are used for analysis which represents a response rate of 50.3 per cent. The reliability of each item used in the survey was then assessed by Cronbach's alpha which is a coefficient of reliability. Data was analyzed using SPSS 17.0 for descriptive analysis and regression analysis to test whether there is a significant relationship between ethical climate and ethical judgment.

## RESULTS AND DISCUSSION

The number of respondents was 82 per cent for male and 69 per cent for female. More than half of the employees were in the age group of 21 to 29 (51.7 percent) and 62 respondents were above 30 years old. Majority of the employees are Malay (96 per cent) and only 4 per cent from other races (such as Chinese and Indian). This is not surprising because the majority of government employees are Malays. In general, all respondents were well educated with slightly half of them holding at least a Bachelor degree (53.6 per cent). The remaining respondents have Malaysian secondary education up to PMR/SRP (2.6 per cent), SPM (16.6 per cent) and STPM (22 per cent). Concerning the salary, 70.2 per cent of the respondents earned a minimum of RM2,000 a month with 6 respondents earned more than RM5,000 a month.

Table 1 summarizes the responses on the employees' perception on existing ethical climate in their organizations and answers the first objective of the study. A mean score above 3.0 shows the presence of an ethical climate in their organizations. The results in Table 1 suggest that employees agreed that their organizations have good ethical climate. Item 7 (mean 3.41) is the lowest mean score for responses which represents moderately true. The possible reason for this score is that the employees may not make their own right or wrong decision without referring to certain ethical guidelines or code of ethics besides seeking colleagues' or superiors' opinion before making decisions. These results show that there is a need for better monitoring system to ensure the ethical climate is being established at all time.

**TABLE 1**  
**SUMMARY OF ETHICAL CLIMATE**

| <b>Statements</b>   | <b>Mean</b> | <b>SD</b> | <b>Skewness</b> |
|---|-------------|-----------|-----------------|
| 1. People are expected to comply with the law.  | 4.48        | .944      | -2.004          |
| 2. In this organization, people are expected to follow own personal and moral beliefs.                          | 4.24        | 1.011     | -1.396          |
| 3. The major responsibility of people in this organization is to control costs.                                 | 4.01        | 1.122     | -.959           |
| 4. People in this organization strictly obey organizational policies.   | 3.91        | .966      | -.636           |
| 5. In this organization, people are not being self-interest.  | 3.62        | 1.045     | -.419           |
| 6. Our major concern is always what is best for the other person.   | 3.85        | 1.044     | -.509           |
| 7. Each person in this organization decides for him/herself what is right and wrong                             | 3.41        | 1.282     | -.443           |
| 8. In this organization, it is expected that everyone will always do what is right for the customer and public. | 4.30        | 1.095     | -1.680          |
| 9. In this organization, people look out for each other.  | 3.77        | 1.027     | -1.544          |
| 10. The most efficient way is always the right way in this organization.  | 4.30        | 1.106     | -1.602          |

Table 2 shows the breakdown of responses for five cases. These results suggest that majority employees at Malaysian public sector have indicated high ethical judgment in their responses (between 1 = definitely would not and 2 = probably would not engage in the probable case of questionable behaviour related to accounting and financial matters). Only a small minority of employees indicated the willingness to engage in questionable or unethical behaviour related to financial matters (scores of 4 and 5).

**TABLE 2**  
**SUMMARY OF ETHICAL JUDGMENT**

| Cases   | Ethical responses | Number     | Mean | SD    |
|---|-------------------|------------|------|-------|
| 1. Submit a false reimbursement claim of RM150 for 5 days of out-of-town meals.   | 1                 | 81         | 2.27 | 1.661 |
|   | 2                 | 24         |      |       |
|   | 3                 | 5          |      |       |
|   | 4                 | 12         |      |       |
|   | 5                 | 29         |      |       |
|   | <b>Total</b>      | <b>151</b> |      |       |
| 2. Use confidential inside information to potentially make millions of MYR illegally by giving tips on contract.            | 1                 | 125        | 1.23 | .594  |
|   | 2                 | 20         |      |       |
|   | 3                 | 4          |      |       |
|   | 4                 | 1          |      |       |
|   | 5                 | 1          |      |       |
|   | <b>Total</b>      | <b>151</b> |      |       |
| 3. Increase organization's income by recognizing revenue before it was earned.  | 1                 | 130        | 1.26 | .804  |
|   | 2                 | 13         |      |       |
|   | 3                 | 4          |      |       |
|   | 4                 | 1          |      |       |
|   | 5                 | 3          |      |       |
|   | <b>Total</b>      | <b>151</b> |      |       |
| 4. Not reporting the amount of income or allocation received for the organization.  | 1                 | 125        | 1.25 | .632  |
|   | 2                 | 19         |      |       |
|   | 3                 | 4          |      |       |
|   | 4                 | 2          |      |       |
|   | 5                 | 1          |      |       |
|   | <b>Total</b>      | <b>151</b> |      |       |
| 5. Accept a RM 25,000 cash payment in exchange for selecting a company as an outside contractor to perform maintenance work | 1                 | 125        | 1.27 | .692  |
|   | 2                 | 16         |      |       |
|   | 3                 | 6          |      |       |
|   | 4                 | 3          |      |       |
|   | 5                 | 1          |      |       |
|   | <b>Total</b>      | <b>151</b> |      |       |

Note: Scale values: 1=No, I definitely would not. 2=I probably would not, 3=I don't know what I would do, 4=I probably would and 5=Yes, I definitely would.

Case 1 indicates that 27% of respondent (total 41 respondents) have intention to perform unethical behaviour by submitting a false reimbursement claim of RM 150 for 5 days of out-of-town meals. Stanga and Turpen (1991) described this case 1 as the least serious offence of any of the five cases.

In case 2, only 2 respondents indicated either probably would and definitely would engage using confidential inside information to make millions of money by giving tips on contract.

Case 3 shows that 3 respondents indicated the willingness to increase organization's income by recognizing revenue before it was earned and 1 respondent would probably do the same.

For Case 4, 2 respondents probably would engage and 1 respondent definitely would engage in the unethical behaviour of not reporting the amount of income or allocation received for the organization.

For case 5, only one respondent definitely would accept a RM 25,000 cash payment in exchange for selecting a company to be a contractor to perform maintenance work, whereas 3 respondents indicated that they probably would accept the cash payment.

Vast majority of the respondents have high ethical judgment and indicated they would behave ethically and would not likely to engage in the questionable behaviour. This results are consistent with the Stanga and Turpen (1991) study, which shows that majority of the employees in Malaysian public sectors would behave ethically, and unlikely to perform unethical behaviour. This implied that they are performing high ethical judgment when confronting with ethical dilemma or questionable behaviour.

Another analysis done on the data was simple regression analysis. The regression analysis is performed to examine whether there is any significant relationship between ethical climate and ethical judgment among the respondents in Malaysian public sector. The results shows that there is a significant relationship between ethical climate and ethical judgment, where the value of standardized estimate of coefficient is .327,  $t=3.845$ , and  $p < 0.001$ . The value of r-squared is 10.8 per cent. The results show there is significant relationship between ethical climate and ethical judgment.

The result implied that ethical climate explained about 10.8 per cent variation in the respondents' ethical judgment. Other factors that could influence the employee's ethical judgment can be moral or ethical reasoning values, individual ethical values, code of ethics or religious values. The management in government department and ministries should take appropriate action to improve the organization's existing ethical climate and enhance the integrity and accountability level in providing the services to public.

The results of this analysis may offer insight into some, particularly how education and income affect ethical judgments. These results support the view that, rather than make judgments stricter, education may open minds and enhance reasoning (Pan & Sparks, 2012). In their meta-analysis, the negative relationship between ethical judgments and income may imply that the condition of being wealthy or poor influences ethical standards and the strictness with which they are applied.

## **RECOMMENDATION AND CONCLUSION**

This study provides several recommended strategies to inculcate ethical behavioural practices in Malaysian public sector. Improvement in ethical behavioural practices will increase the reputation of the public sector governance, not only in short term, but also for the long term.

Firstly, the government needs to improve existing ethical climate by implementing the control and monitoring procedure of the employees at various departments of public sectors in order to enhance the ethical behavioural practices. The employees at public sectors are expected to perform high integrity and high ethical values consistently. Public sectors with high integrity will lead to increase public confidence and trust on their reliability and accountability of their services. It is hope that more emphasis on ethical behavioural practices can improve the public service delivery system and enhance the reputation to the public and towards national prosperity.

Secondly, the top management from various ministries and departments needs to find the best way to handle ethical issues among their employees. This can be done through the emphasis of ethics training program, regular meetings and inspections, emphasis on certain key performance index (KPI) based on a set of accountability and integrity measures, as well as the use of reward for good ethical behaviour and the use of penalty or sanction for unethical behaviour. The existing code of ethical values and the sanction need to be circulated and clearly understand by all the employees. This will enhance the ethical judgment of the employees. Consequently, any deficiencies may be addressed and the performance of the public sector delivery system can be effectively monitored and assessed through KPIs, systemic inspections, management audits and compliance with the Malaysian standard of MS ISO 9001:2008.

Thirdly, there are general attributes of a mature, functioning and just system of government is expected from the nation. The first task of a government is to ensure the security of the country, both internal as well as external peace. White collar crime such as bribery should be controlled and the rule of law enforced. The whistle blowing process should be allowed smoothly and protect the rights of whistleblower as stipulated in the Malaysia Whistle blowing Act 2010. The second task of the government is to ensure a proper administrative framework with transparent procedures and policies to serve the people.



Due to pragmatic reasons, this research is limited to a selected respondents in public sectors located in the area of Putrajaya and Selangor, Malaysia. A broader sample that incorporates other public sectors from different regions would be valuable for future research. This study provides important insights that can allow policy makers in government to better understand the employee's behaviour and perception on existing ethical climate and ethical judgment toward selected cases on engaging questionable behaviour.

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