

CHAPTER I INTRODUCTION

A. Background

Ethics are a fundamental discussion in human life. Ethics in an organization are moral principles, a set of values, and standards that must be followed by the employers and the employees. Ethical workforce plays the important part in every organization to ensure that staff works ethically to meet the aim of organization. To create the ethical workforce, an organization should perform ethical judgments in every task. Ethical judgments are defined as a cognitive process by which an individual determines which course of action is ethically right (Nguyen & Biderman, 2008). Ethical judgment plays important role in every field, especially in the local government field. This is because the fundamental duties of local government are related to deliver services to the society.

Recently, there are a lot of issues concerning unethical judgment of local government officers, such as corruption, abuse of assets, abuse of power, misrepresentation of financial statements of local government agencies, etc. The role of head and staff of accounting and finance division at local government agencies in decision making process may have influenced some of these unethical incidences. Accordingly, evidence suggests that accountants at local government agencies tend to present various kinds of unethical incidences, such as mismanagement of funds, making false claims, and graft (Hassan et al., 2022). These unethical

incidences have raised the questions regarding the ethical judgments of accountants at local government agencies.

Unethical behaviors impact negatively on a company's image, increase dysfunctional behavior and decrease the company's value. In this era, there have been a lot of issues concerning unethical judgment of local government officers. Public sector accounting practices that are unethical can weaken confidence of the public in government (Suhaiza & Nursia, 2017). Based on a survey by the Associated of Certified Fraud Examiner (ACFE) in 2019, there were 239 fraud cases in Indonesia, namely 69.9% corruption cases, 20.9% asset abuse cases, and 9.2% financial statement fraud. This result shows that unethical behaviors phenomenon is quite high in this country. According to a report by the Corruption Eradication Commission (KPK), throughout 2021, the most cases of corruption in Indonesia occurred in the South Sumatera region with a total of 30 cases. Some of these corruption crimes were committed by government officials. This phenomenon is surprising for the community and will make them to have less trust in government. These issues have raised questions regarding the ethic of the local government officers.

The unethical actions from local government officials above will be accounted for not only in this world but also in the hereafter. Everything that is done by humans in this world will be accounted for in front of Allah in the hereafter. This is in accordance with the words of Allah SWT in the surah Al-Muddassir Verse 38:

كُلُّ نَفْسٍ بِمَا كَسَبَتْ رَهِينَةٌ

Meaning: “Every soul, for what it has earned (done), will be retained (accounted for).”

Ethical behavior occurs when an individual acts in accordance with established laws, rules, and morals. Ethical behavior is critical in a variety of professional fields, one of which is accounting. In the field of accounting there are many ethics, rules, and standards that must be obeyed to create an ethical judgment. Ethical judgment is the process by which an individual decides which of two alternatives is morally correct and which is morally incorrect. This ability is critical and is required for each individual to perform their duties. Ethical judgments are related with individuals' cognitive ability when faced with ethical dilemmas to differentiate between right and wrong. Hence, the ethical judgments are mainly based on Cognitive Moral Development (CMD) Theory. This theory explains about individuals' ability to understand the right and wrong over time. The theory of Cognitive Moral Development (CMD) has been acknowledged as a construct to explain business ethics, organizational phenomena and social responsibility.

According to (Mohd Ghazali, 2021), demographic variables and corporate ethics values can influence the ethical judgments of accounting practitioners. The model which encompasses gender, age, current position, and educational attainment as internal variables and corporate ethical

values as external variables revealed that corporate ethical values and age are considerable, while gender is weakly related. These results emphasize the critical nature of creating an ethical culture within an organization as they imply that accounting practitioners working in organizations with a greater level of ethical values make more ethical decisions. Mohd Ghazali (2021) also argues that corporate ethical values are the crucial variable in determining ethical judgments. Additionally, the research suggests that while current position has no bearing on accounting practitioners' ethical judgments, educational qualification affects the ethical judgments when only internal factors are considered.

There are several determinants that can influence the ethical judgments. This research will focus on the influence of educational qualification, current position, corporate ethical value, moral idealism, and moral relativism towards ethical judgments, especially at local government agencies. The uniqueness of this research which different from others is that it transforms moral idealism and moral relativism as variables. Although numerous researchers have examined the influence of various individual variables and moral intensity, there is still a research gap in that there is still little empirical evidence regarding this research, especially in developing countries such as Indonesia (Narsa & Prananjaya, 2017). Abdolmohammadi and Baker (2006), Fritzsche and Oz (2007) stated that one's individual moral philosophy has an effect on one's ethical judgments. Personal moral philosophy is concerned with the rules and principles that

individuals use to determine what is right and wrong (Ferrell & Fraedrich., 1997). An individual's capacity to make ethical judgments is determined by two factors, namely idealism and relativism. Idealism refers to the level of individuals who believe that the desired consequences will always be obtained without violating the moral code. Moral idealism indicates that causing harm is always wrong and should be avoided. In contrast to idealism, relativism refers to the degree to which individuals reject universal rules to guide their behavior. Moral relativism is the philosophical concept that believes moral values and ethical principles depend on the individual, culture and norm of society (Forsyth, 1980). This shows that relativism individuals are more flexible than idealistic individuals, so their views on ethical issues related to a problem will be different (Schlenker & Forsyth, 1977).

This current study is a replication of the previous study entitled “Factors Influencing Ethical Judgments of Accounting Practitioners: Some Malaysian Evidence” by Nazli Anum Mohd Ghazali (2021). What distinguishes this research from the previous research is the addition of moral idealism and moral relativism variables in this study, as well as differences in the location and object of research. Individual’s moral philosophy may influence their ethical judgments ability (Abdolmohammadi & Baker, 2006; Fritzsche, 2007). Moral idealism and moral relativism are related to the rules and principles which individual considered when determining what is right and wrong. An accountant, in

carrying out their work, should have individual's values and principles to guide their judgment in taking a decision (Schlenker & Forsyth, 1977). The unethical incidences phenomena among accountant caused the research regarding individual moral philosophy, such as moral idealism and moral relativism become very important. The research results by Abou Hashish & Ali Awad (2019), Musbah et al. (2016), Oboh (2019) conclude that different moral philosophy among individuals (idealism and relativism) can create the different judgment and decision.

Some previous research which has studied factors influencing ethical judgments show various findings, a higher level of education may enhance an individual's ability to make ethical decisions. Individuals with higher degree of qualification would be equipped with the required knowledge in making the ethical choices. Moreover, individual would anticipate that a greater level of qualification would be linked with individuals who are adult or more mature. Mohd Ghazali (2021) found that educational qualification has the influence on ethical judgments when only internal factors (gender, age, current position, and ethical judgment) are brought into the research. Some of prior studies concluded that there is no significant relationship between educational qualification and ethical judgments (e.g. Le & Kieu, 2019; Nasution & Östermark, 2020). Meanwhile, current position has negative relationship on the ethical judgments. Another study by Nasution & Östermark (2020) has also indicated that higher individuals' work experience does not mean that

higher ethical judgment than individuals with lower work experience. This is contrast to prior studies which found that there is significant relationship between current position and ethical judgments. There is a significant contrast in ethical judgments between career levels, with practitioners in later career levels demonstrating a higher level of ethical judgment (Weeks et al., 1999). Prior research also demonstrates the significance of work experience. A greater amount of work experience is associated with more ethical responses (Kidwell et al., 1987). Furthermore, some previous research about corporate ethical value also shows the inconsistency results. Mohd Ghazali (2021) discovered that it is critical to foster an ethical culture within an organization as this implies that practitioners in accounting working in organizations with the higher level of ethical values make decisions more ethically. There is no significant correlation between corporate ethical values and internal auditors' ethical perspective in the United States of America (Ziegenfuss & Singhapakdi, 1994). In China, ethical leadership was associated with both positive and significant employee performance (Walumbwa et al., 2011). These results highlight the crucial function of management commitment to fostering an ethical corporate culture and its effect on performance.

The previous studies involved respondents consisting of accounting practitioners, auditors, accounting students, and managers. In this current study, the samples consist of the head and staff of accounting and finance division at local government agencies. Those sample become the

uniqueness of this research compared to the previous research. Thus, because of the existence of unethical decisions phenomena, inconsistency findings in the previous studies, and different sample, the researcher is interested to conduct further research about educational qualification, current position, corporate ethical value, moral idealism, moral relativism, and its influence on ethical judgments. Hence, the researcher wants to conduct future research under the title “**THE DETERMINANTS OF ETHICAL JUDGMENTS AT LOCAL GOVERNMENT AGENCIES (A Study on Local Government Apparatus in South Sumatera)**”.

B. Research Scope

This study aims to examine the factors influencing ethical judgments. This research focuses on the educational qualification, current position, corporate ethical value, moral idealism, and moral relativism as the determinants of ethical judgments. This study takes place at local government agencies in South Sumatera, specifically on the accounting and financial division at local government agencies in South Sumatera.

C. Research Questions

The researcher formulates the following research questions based on the explanation above as follows:

1. Does educational qualification have positive significant influence towards ethical judgments on the head and staff of accounting and finance at local government agencies?

2. Does current position have positive significant influence towards ethical judgments on the head and staff of accounting and finance at local government agencies?
3. Does corporate ethical value have positive significant influence towards ethical judgments on the head and staff of accounting and finance at local government agencies?
4. Does moral idealism have positive significant influence towards ethical judgments on the head and staff of accounting and finance at local government agencies?
5. Does moral relativism have negative significant influence towards ethical judgments on the head and staff of accounting and finance at local government agencies?

D. Research Objectives

The researcher needs to obtain the objectives of this study as follows:

1. To obtain the empirical evidence whether educational qualification has positive significant influence towards ethical judgments on the head and staff of accounting and finance at local government agencies.
2. To obtain the empirical evidence whether current position has positive significant influence towards ethical judgments on the head and staff of accounting and finance at local government agencies.
3. To obtain the empirical evidence whether corporate ethical value has positive significant influence towards ethical judgments on the head and staff of accounting and finance at local government agencies.

4. To obtain the empirical evidence whether moral idealism has positive significant influence towards ethical judgments on the head and staff of accounting and finance at local government agencies.
5. To obtain the empirical evidence whether moral relativism has negative significant influence towards ethical judgments on the head and staff of accounting and finance at local government agencies.

E. Research Benefits

The researcher hopes that this study will benefit future researchers and other interested parties. The following are the expected benefits of this study:

1. Theoretical Benefit

This study provides developing knowledge about the factors that affect ethical judgments, especially the educational qualification, current position, corporate ethical value, moral idealism, and moral relativism factors. This study also provides information that is expected to contribute to future research.

2. Practical Benefit

Practically, this research gives information to the head of accounting and finance at local government agencies about how to ensure ethically imbued workforce. This research is expected to give more information about how to create a conducive working and

organizational environment where all the activities and processes are carried out ethically. It is expected that the head and staff of accounting and finance department can prevent all unethical behaviors. This study is expected to assist employees in identifying and addressing ethical issues. This research can be used to manage ethical failures by increasing understanding of how educational qualification, current position, corporate ethical value, moral idealism, and moral relativism can influence ethics.