

## **Toward a Strong Ethics Codes for Professional Accounting and Auditing**

Najeb Masoud

*Department of Accounting, Aqaba University of Technology, Jordan*

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**Abstract:** *The main purpose of this study is to examine the variables that influence adoption of accounting ethics codes by professional accounting and auditing in MAS region. The study assesses the perceptions via an online survey of 143 questionnaires were distributed from which a total of 70 usable responses (independent auditors) were received, providing a response rate of approximately 79.55%, while a total of 32 usable responses (professional accountants) were received, providing a response rate of approximately 58.18%. The findings suggest that there is significant difference in the perception of respondent regarding factors influencing the adoption of accounting ethics codes by professional accounting and auditing in MAS region for extremely higher level of “integrity” and “objectivity” observed. Thus, provide useful information for the principal professional accounting and auditing to encourage the development of adoption of accounting ethics codes. Future empirical studies may also find it fruitful to investigate other potential covariates of ethical decision making stages such as religion and culture; these were not possible to investigate in the current study because of the religious and cultural homogeneity of the samples.*

**Keywords -** *Ethics Codes, Professional Accounting, Auditing, Adoption, IFAC*

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### **I. Introduction**

It is widely acknowledged that, there is some movement toward internationalisation in the accounting profession. Wyatt (2004) argued that the profession, or the society as a whole, has paid a high price for the accounting profession's failure during the Enron and Arthur Andersen affairs to meet the expectations of creditors, investors, and other users of financial statements (i.e. changing equilibrium). As Moore et al. (2006: 13) pointed that “Andersen's audit of Enron may have been the most notable failure [...], but it was by no means the first, the largest, or the last. The earnings restatement that precipitated Enron's fall revised the company's profits downward by \$650 million. Yet prior to the Enron scandal, Waste Management overstated earnings by \$1.43 billion over a five-year period, and U.S. regulators found that the company's auditor, Arthur Andersen, conspired to hide accurate accounting data from the public. Since Enron's fall, WorldCom, another Andersen client, revised its profit reports downward by a shocking \$9 billion. [...] These cases are only the most vivid of the multitude of cases in which the major auditing firms paid to settle lawsuits or lost cases in the courts”. Thus, collapses has been drawn attention to the accounting profession and its perceived ethical standards (Ponemon, 1993; Armstrong et al., 2003; Leung & Cooper, 2005). In this sense, the International Federation of Accountants (IFAC), through its independent standard-setting boards, and in conjunction with the international regulatory community, sets, among others, international auditing and assurance standards and a code of ethics for professional accountants. This is supported by, for example, the IFAC has been beginning with 63 members from 51 countries in 1977. It works with its 175 member organisations in 130 countries to protect the public interest by encouraging high quality practices by the world's accountants (IFAC, 2016). IFAC members represent 3 million accountants worldwide employed in public practice, industry and commerce, government, and academe.

Similarly, and more relevant to this study, the International Ethics Standards Board for Accountants (IESBA) is an independent standard-setting board that has recently issued a revised “Code of Ethics for Professional Accountants” (IFAC Code), which came into force on 1 January 2011. A number of revisions were made to this Code in 2013, and these have been incorporated by the Association of Accounting Technicians (AAT). More clearly, This Code was revised in 2013, and approved by the AAT Council, to come into force on 1 January 2014. AAT is a full member of IFAC. The mission of IFAC, as set out in its constitution, is “the worldwide development and enhancement of an accountancy profession with harmonised standards, able to provide services of consistently high quality in the public interest” (AAT, 2014: 5). In pursuing this mission, the report considered by IFAC identified several key weaknesses in organisations from a review of a number of corporate collapses worldwide. The findings included a recommendation for more effective corporate ethics codes as well as the provision of training and support for individuals within organisations to better enable them to face difficult ethical questions (IFAC 2003: 2). Reporters are now questioning, whether the value systems of accounting professionals are strong enough to withstand client and economic pressures that potentially compromise professional judgment (Douglas et al., 2001). It also appears that the development of the auditing

profession is characterised by large changes in the organisational structures of international accounting firms, which have grown from sole practitioners to multinational professional service firms (Suddaby et al., 2008). Continuous professional, auditors have extensive access to proprietary, product, strategic and financial client information, and consequently are subject to confidentiality requirements (e.g., Almer et al. 2008).

In order to know if professionals consider that specific skills, particular higher education and a certain social status then they are. Davis (2007) conformed that “Ideally, a code of professional ethics should consist of those standards everyone in the profession, at her rational best, wants everyone else in the profession to follow even if that means having to follow them too”. The code essentially applies to other professionals “[who] believe that their peers contravene their professional codes relatively often” (Higgs-Kleyn & Kapelianis, 1999). Others, although, argue that a code of ethics is not enough for supporting ethical behaviour (e.g., Kram, Yeager, & Reed, 1989; Kohut & Corriher, 1994). In another study, Coppage and Sriram (1992) concluded that further evaluation of the current code of ethics was needed and several behavioural issues might not easily be matched to the content of the current code of ethics.

Our study contributes in an important way towards narrowing the fills a gap in prior literature that has been restricted to addressing the attitudes of academics, students and business organisations. The research question central in this paper is: what is the important of its adoption in accounting ethics codes, and how does factors influencing its adoption by professional accountants and auditing in MAS region context? In particular, this paper considers aspects of the code of ethics issued by the AAT member of IFAC, which has been identified the ethical principles focus on five aspects (2014) as follows: integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. These fundamental principles try to reflect the main values shared by interest groups to whom professional accountants and auditing. It, thus, the principal aim of this study is to determine the variables that influence adoption of accounting ethics codes by professional accounting and auditing in Middle East/African subcontinent (MAS). To accomplish this aim, the following research objectives will be pursued:

1. To identify what types of accounting ethics codes are faced by accounting and auditing profession within MAS region;
2. To investigate the degree of adoption of accounting ethics codes by professional accountants and auditing in MAS region.
3. To Examine the factors (integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour) that influencing the adoption of ethics codes by professional accountants and auditing in MAS region.

In order to be able to answer the research questions from the scope of accounting ethics codes practices and accounting and auditing profession, and to achieve the above objectives, the following hypotheses were raised:

**H<sub>01</sub>:** There is no an unimportant of adoption of accounting ethics codes by professional accountants and auditing in MAS region.

**H<sub>02</sub>:** There is no significant difference in the perception of respondent regarding factors influencing the adoption of accounting ethics codes by professional accounting and auditing in MAS region.

The work is divided into the following sections. Following the introduction, a review is carried out of the academic literature regarding the influence of codes of ethics in the accounting profession and auditing. In the third section, the methodology and data used to carry out the study is provided. In the fourth-section we will show the results regarding the influence of codes of ethics and, lastly, we will show the most relevant conclusions drawn and future lines of research.

## **II. Literature Review**

The relevant literature regarding the significance of ethical codes for the accounting profession and auditing is discussed under four headings: the definition of ethics codes, the professional codes of ethics, the accounting ethics of professional conduct and the auditing as a profession.

### **II.1 Definition of Ethics Codes**

The idea of ethics codes is as old as antiquity. More specifically, the purpose of this ethics codes is to believe that if what one “objective to is simply the word “ethics”, nothing significant is lost by speaking of a code of conduct instated” (Lichtenberg, 1996). In actuality, the code of ethics is considered to be one of the important prevalent means used by organisations in efforts to guide the behaviours of their employees (Schwartz, 2002; Pater & Anita, 2003). Alternatively, Stevens (1994: 64) defined a code of ethics as “written documents through which corporations hope to shape employee behaviour and produce change by making explicit statements as to desired behaviour”. Additionally, Langlois & Schlegelmilch (1990) explained codes of ethics as the systematic study of conduct based on moral principles, ethics, rules of conduct, code of practice or company philosophy, reflective choices, concerning responsibilities to employees, shareholders, consumers, the environment and society, and standards of right and wrong conduct (Wheelwright, 1959). In contrast, codes of

ethics have been researched widely in business ethics literature due to their potentially important relationship with ethical decisions within organisations (Brian Farrell, 2000; Wood, 2000; Singh, 2006), others look at whether organisations have code of ethics or not and to what extent they are effective (Somers, 2001; Schwartz, 2002; Webley & Werner, 2008). This means that the code applies only to those who would do what the code enjoins. One should also bear in mind that research has investigated the role of code of ethics within organisations in business ethics literature and shows interesting results (Boo & Koh, 2001; Pater & Anita, 2003).

## **II.2 Professional Codes of Ethics**

Ethics is a code of conduct to join their obligations, rules and principles that have been accepted by a particular community, which applies to everyday life. This code is not designed for “bad” people, but for the persons who want to act ethically. However, ethics codes can have a verifiable impact on the behavior of bad people in accounting organisations. Bouville (2007) argued that (i) codes are necessary need it: a private stance on ethics cannot suffice; (ii) codes are not essentially ethical as they are useful and convenient; and (iii) codes do not require or justify any input from society. Understanding different perspectives of ethics will help to implement better training in such behaviors in the workforce and promote stronger ethical values. In this respect, Guy et al. (2003) argued that ethical decision making in the workplace entails individual morality and work related judgment. Ethical codes that may face accountant professional at their workplace have been investigated (Coppage, 1992; Coppage & Sriram, 1992; Fisher & Lovell, 2000). With regard to the literature of accounting ethics, which shows various evidence that ethical behavior will be influenced by courses which students are taken (Cohen & Pant, 1998; Gray et al., 1994), while some argue that education might have no important relationship with ethical behaviour in the workplace (Ponemon & Glazer, 1990; Comunale et al., 2006; Jackling et al., 2007). Although study by Rest (1986) suggested that ethical behaviour is the outcome of multiple and complex process. Additionally, many researchers (Reiss & Mitra, 1998; Treviño et al., 2006) who suggested that more empirical research is needed regarding ethical behaviour, whilst some argue that ethical behaviour is not easy to study due to its sensitive nature and the difficulties in measuring and observing it without biases (Ampofo et al., 2004).

## **II.3 Accounting Ethics of Professional Conduct**

Historically, the rules and principles of conduct for the accounting profession can be traced back to 1844 in English Joint Stock Companies Act as amended in 1856, which states that “The accounts of the company shall be examined and the correctness of the Balance Sheet ascertained by one or more auditors to be elected by the Company in General Meeting” (O’Riordan and Hirshfield, 1982: 30). Later in 1880, the code of professional was inaugurated by Royal Charter from Queen Victoria of the English Institute of Chartered Accountants. In 1893, American accountants adopted its first rule which stated that “[...] the indiscriminate soliciting of business by the issue of touting circulars is unprofessional and unworthy of the profession of public accountants” (O’Riordan and Hirshfield, 1982: 30). During 1906 to 1980, the American Association of Public Accountants (AAPA) under constitution and bylaws, that code professional ethics to study the relevance and effectiveness of the professional standards (Anderson, 1985: 91). In 1988, AICPA adopted the most recent version of its codes of professional conduct (AICPA, 1988), is involved through its Auditing Standards Board. However, the Financial Accounting Standards Board (FASB) has an effect, since CPAs ethics must follow its Statements. By the mid-1990s, most studies of codes of ethics suffered from a lack of information on how the codes were communicated in the organisation and whether or not they were effective (Stevens, 1994), and a lack of theory identifying how professional codes are associated with ethical behavior is observed (Pater & Van Gils, 2003).

In recent decades, professionalism, ethics, independence and objectivity have been brought under the scrutiny of the public in the wake of corporate failures (Giacomino, 1992; Ponemon, 1993; Ashkanasy and Windsor, 1997; Earley and Kelly, 2004; Shamoo & Resnik, 2009). However, a review of existing literature such as Herbert (2001), Obadan (2001), Robert (2005), IFAC (2006), and Akenbor & Onuoha (2013) revealed that the accounting professional ethics centred on independence, integrity, objectivity, competence, confidentiality, fairness, fidelity, responsibilities to other members. Moreover, numerous empirical studies have been conducted on the subject of ethical issues within accounting (Fisher & Lovell, 2000; Rogers & Smith, 2001; Schneider, 2004; Buchan, 2005; Brandon et al., 2007; Bernard & Sweeney, 2010). Today, ethics and professional conduct are one of the most important plays factor in accounting, ensuring public trust in the world of financial reporting and business practices. The role of codes of ethics developed by accounting professional bodies area which has been investigated by some empirical studies (e.g., Morgan et al., 1985; Sheldahl, 1986; Coppage, 1988, 1992; Douglas & Otto, 2002). Thus, the role of the professional is unique in several ways. First, the professional is an expert in a field, be it accounting or business, which most customers know little about. Customers rely on the knowledge, expertise, and honesty of the professional. Second, a model for a global code of ethics and international standards within the public accounting profession is undertaken by State Boards of Accountancy.

Finally, in the principled-individual, local, rules and procedures of the organisation, and laws and professional codes (respectively) guides ethical decisions. According to Douglas et al. (2001) the profession must make sure that the value systems of accounting professionals are strong enough to withstand client and economic pressures that may compromise professional judgment.

#### **II.4 Auditing as a Profession**

It has argued that the auditing profession has been forced to reform due to its failure to maintain public trust (Carpenter and Reimers, 2009), which has implied improving the ethical reasoning of auditors in order to enhance public trust (Abdolmohammadi et al., 2003) in the profession as a whole. Thus, the most important of public trust and audit reputation is well illustrated in the Arthur Andersen case. Therefore, the development of the auditing profession is grown by large changes in the organisational structures of international accounting firms (Suddaby et al., 2008), which currently known as the Big 4 auditing firms. The Big 4 audit firms operated under the brand names of Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers, each with global revenues of USD 13 to 17 billion and 100,000 to 150,000 employees. Back to 1970, there were eight such firms but a series of mergers in 1989 created the “Big 6”, while the 1998 merger of Price Waterhouse and Coopers & Lybrand reduced this to the “Big 5” accounting firms and the 2002 collapse of companies such as Enron, WorldCom and Global Crossing in the USA has left the “Big 4” and led to a loss of confidence by the investing public in the system of financial reporting and accountability. These developments led response to the accounting scandals, US Congress passed the Sarbanes-Oxley Act in 2002 (SOX) and installed the Public Company Accounting Oversight Board (PCAOB, comprising a majority of non-accountants) similar legislation such as the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 in Australia. Furthermore, auditors have extensive access to proprietary, product, strategic, and financial client information, and consequently are subject to confidentiality requirements (e.g., Almer et al. 2008).

### **III. Methodology**

The purpose of this paper is to examine whether the variables that influence ethical codes for the accounting profession and auditing worldwide. Given the debate over the proper measure in most of the studies on the decision taken by professional organisations from the countries members of the IFAC in developing countries and the variables used in many studies. In this study, use independent variables and dependent variables in MAS as demonstrated in Table 1. The independent variable is the professional accountants and auditing in MAS. The dependent variables are five codes of ethics fundamental principles issued by the AAT member of IFAC, which has conduct of the IFAC Code as follows: integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. These fundamental principles try to reflect the main values shared by interest groups to whom professional accountants and auditing.

In order to generate the necessary data for this study, the survey (quantitative) method of research design was adopted. Quantitative approach involves choices about the phenomenon and variables to observe and the level of detail for observation. Survey was sent to individuals listed in two databases representing: (i) independent auditors; and (ii) professional accountants. The original goal was to have participants’ complete survey online from February 2016 till the end of April 2016 in order to achieve the overall each member bodies in MAS countries and associate of IFAC complete the questionnaires on time. The study assesses the perceptions via an online survey of 143 questionnaires were distributed from which a total of 70 usable responses (independent auditors) were received, while a total of 32 usable responses (professional accountants) were received.

However, the reliability of a measure in terms of its stability and consistency was tested through the parallel test and Cronbach’s coefficient alpha and all the scales in the questionnaire were considered as reliable. According to Sekaran & Bougie (2010), the value of alpha level more than 0.60 will result in the instrument being reliable for the research study purposes. Therefore, reliability is a pre-condition for validity (Oppenheim, 2003; Sekaran, 2003; Saunders et al., 2007). To meet the content validity requirements in this research, an extensive literature review was undertaken to define the topic and clarify items and the scales used in this study. For the purpose of the study, five point Likert scale has been used. Data obtained from the survey were analyzed using a statistical analysis program of Statistical Package for the Social Sciences (SPSS) version 22. Descriptive and inferential statistics were used in presenting findings of the study as depicted in the ensuing section.

**Table 1.** Definitions and Measurement of Variables

Variables	Definition and measurement
<i>Independent Variables</i>	
Professional Accounting and Auditing	To provide professionals engaged in accounting, financial reporting, audit and attest, and compilation and review services the guidance and knowledge for accurate reporting
<i>Dependent Variables</i>	
Integrity	To be straightforward and honest in all professional and business relationships
Objectivity	To not allow bias, conflict of interest or undue influence of others to override professional or business judgments
Professional competence and due care	To maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A member shall act diligently and in accordance with applicable technical and professional standards when providing professional services
Confidentiality	To respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the member or third parties
Professional behaviour	To comply with relevant laws and regulations and avoid any action that brings our profession into disrepute

**Source:** Authors' computation

## IV. Findings

### IV.1 Descriptive Statistics

As mentioned previously, the main purpose of this study is to explore and offer a more inclusive analysis of the perceptions of the ethical codes for the accounting profession and auditing in the context of MAS region. As may be seen from Table 2, a total of 70 usable responses (independent auditors) were received, providing a response rate of approximately 79.55%, while a total of 32 usable responses (professional accountants) were received, providing a response rate of approximately 58.18%. It can be mentioned here that the majority of the returned questionnaires were received in three months. Randall & Gibson (1990) found that the response rate ranged commonly from 21% to 50% in business ethics literature. Bampton (2004) also found similar results in accounting ethics research. Also, the literature suggests that a response rate between 60% and 70% is considered to be acceptable (Mangione cited in: Bryman & Bell, 2007: 244). Thus, the response rate of this study was felt to be more than satisfactory. However, the majority (75%) were male and over 93% were aged (31-45, 28%; 46-55, 34%; and above 55, 31%). It can be noted therefore, that views about ethics codes of accountants and auditors from survey were largely from those more senior within their professional accounting body experienced in the field and also predominately male. For instance, (33%) respondents held the chief executive officer position, while (42%) identified themselves as chairman, chief education officer, technical director or executive director.

**Table 2.** Provides the Details of The Survey Response Rate in MAS Region

Survey	Independent auditors		Professional accountants	
	No	%	No	%
No. surveyed	88	100	55	100
No response	(14)	(15.90)	(17)	(30.91)
Total received	74	84.09	38	69.09
Unusable/partially completed	(4)	(4.55)	(6)	10.91
Usable	70	79.55	32	58.18

**Source:** Data and summary statistical analysis 2016

### IV.2 Empirical Analysis and Results

Tests of research hypotheses and questions required comparisons between observed frequencies or means across groups. Comparisons between observed means were evaluated with chi square analysis with results reported as percentages rather than as raw means.

Hypothesis 1: there is an unimportant of adoption of accounting ethics codes by professional accountants and auditing in MAS region. Specifically, the respondents were asked to rank the adoption of ethics codes of their important with a "Very important" response to correct statements or "unimportant" response to incorrect statements for each of independent auditors and professional accountants. The results shown in Table 3 indicate that the most respondents (23.53%) a Very important of adoption ethical code, (28.43%) asserted Just important, (19.61%) confirmed Undecided, while (14.71%) of the respondent were of the that signing declaration of compliance with ethical codes as unimportant, therefore (13.73%) of the respondents are signing Very unimportant of adoption with ethical code. This implies that there is an important of adoption of ethical code by professional accountants and auditing in MAS region. This suggests that the results of the test are

rejection  $H_0$  of the null-hypothesis there are an unimportant of adoption of accounting ethical code was supported in that respondents in organisations and accepted  $H_1$  hypothesis.

**Table 3.** Importance of Adoption of ethics codes by Professional Accounting and Auditing

Variables	Respondents			
	Independent auditors	Professional accountants	Total	Percentage (%)
Very important	16	8	24	23.53
Just important	19	10	29	28.43
Undecided	14	6	20	19.61
Unimportant	10	5	15	14.71
Very unimportant	11	3	14	13.73
Total	70	32	102	100

**Source:** Data and summary statistical analysis 2016

**Hypothesis 2:** There is no significant difference in the perception of respondent regarding factors influencing the adoption of accounting ethics codes by professional accounting and auditing in MAS region. This study also sought feedback from member bodies of the accounting profession and auditing about the adoption of ethical codes. Respondents were asked to express their views by selecting whether they: “strongly disagreed” (1); “disagreed” (2); “agreed” (3) or “strongly agreed” (4) with a series of statements about possible adoption of ethical codes in accounting body. The mean responses provide some indication of the degree of concern about ethical codes. Results of the analysis shown in Table 4 suggest that representatives of responding professional bodies from MAS region members of the IFAC which may contribute to ethical codes.

**Table 4.** Summary of Factors Influencing The Adoption of Ethics Codes By Professional Accounting and Auditing

Variables	Independent auditors			Professional accountants			$\chi^2$ *
	Rank	Mean	SD	Rank	Mean	SD	
Integrity	1	3.19	1.233	3	1.85	0.524	1.652
Objectivity	2	2.35	1.264	1	1.97	0.586	0.981
Professional competence and due care	3	2.21	1.150	4	1.82	0.465	1.603
Confidentiality	4	1.99	1.201	5	1.76	0.507	2.232
Professional behaviour	5	1.80	0.892	2	1.93	0.543	4.775
<b>Mean of the group</b>		<b>2.31</b>			<b>1.87</b>		

**Note:** \*Non of  $\chi^2$  results were statistically significant.

**Source:** Data and summary statistical analysis 2016

The extent to which respondents agreed with the statements appearing in Table 4 are shown in rank differences between the mean scores of the respondents and also between any of the categorical variables and the type of response at a 0.05 level of significance. The results show that “integrity” and “objectivity” with a mean score of 3.19 and 1.97 respectively, were considered to be the most influencing factors the adoption of ethical codes in professional accounting and auditing practice (45-55% of respondents). It is noted that the professional behaviour and confidentiality was rated as a “the least” factors contributing to ethical cods with a mean score of 1.80 and 1.76 respectively. In this respect, Wright (1995) claims that education is the best means of developing good ethical behaviour in the modern business environment.

As the decision rule is rejecting  $H_0$  of the null-hypothesis and accept the  $H_2$ , which means that there is significant difference in the perception of respondent regarding factors influencing the adoption of accounting ethics codes by professional accounting and auditing in MAS region.

## V. Conclusion

This paper sought to examine the variables that influence adoption of accounting ethics codes by professional accounting and auditing in MAS region. From the findings, that there is significant difference in the perception of respondent regarding factors influencing the adoption of accounting ethics codes by professional accounting and auditing in MAS region for extremely higher level of “integrity” and “objectivity” observed. The responding was clearly committed to an important of adoption of ethical code by professional accountants and auditing in MAS region. Thus, provide useful information for the principal professional accounting and auditing to encourage the development of adoption of accounting ethics codes. It also provides useful information for the financial leaders and auditor who need to build and improve knowledge of accounting practices. And, finally, it provides useful information for public accountants who would increase professionalism depends in their practices. Despite the recent significant changes in the profession and organisational context of accounting profession and the auditing, Suddaby et al. (2009: 409) point that “a majority of accounting professionals remain committed to their profession”. Rottig & Heischmidt (2007), who found no significant relationship between the existence of ethical code and ethical decision making, suggested

that ethical code should be systematically and empirically examined in conjunction with additional determinants of ethical decision making such as ethical training. Thus, along with ethical code, future research within MAS region context should include other organisational factors such as rewards and sanctions, and ethical training.

The paper has achieved its aims. However, as is the case with all research in business ethics and other areas, it is subject to some limitations. These limitations and some recommendations for future research are presented as follow. Firstly, limitation is the size of the sample. Another limitation of this study is that the data regarding the decision to adopt the Code has been gathered from questionnaires completed by the accounting bodies themselves. Future empirical studies may also find it fruitful to investigate other potential covariates of ethical decision making stages such as religion and culture; these were not possible to investigate in the current study because of the religious and cultural homogeneity of the samples. There has also been limited research regarding the contribution of personal values to individuals' ethical decision making process.

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