

ETHICAL JUDGMENT AND ETHICAL IDEOLOGY OF ACCOUNTING PROFESSIONALS AND ACCOUNTING STUDENTS

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Abstract

This paper has two main objectives. First, it intends to investigate the differences in ethical ideology between accountants and accounting students. Second, it aims to examine the differences in the ethical judgments in general situations and based on the legality of the situations between the two groups. Using a questionnaire survey that comprises Ethical Position Questionnaire (EPQ) and ethical dilemma vignettes, a total of 617 usable responses were received comprising of 396 and 221 responses from accountants and accounting students respectively. In achieving the objectives, independent t-tests were also performed. The results reveal that there are significant differences in the idealism ethical ideology between accounting practitioners and accounting students. It is also discovered that there are significant differences in the ethical judgments between the two groups of respondents for overall vignettes as well as for illegal ethical vignettes.

Keywords: Ethical Ideology, Idealism, Relativism, Ethical Judgment, Accounting Practitioners, Accounting Students, Malaysia

JEL Classification: I20, M41

1. Introduction

In recent years, numerous cases of ethical misconduct committed by accountants have been reported and publicised in the media and this has caused serious deterioration in the credibility of the accounting profession. Besides the cases of Enron, World.Com and Parmalat in Western countries, in Malaysia there have also been a number of corporate scandals, which the former president of Malaysian Institute of Accountants (MIA) called the ‘Malaysian Enrons’ (Abdullah, 2007). In particular, in the case of air cargo carrier Transmile Group Bhd, the company was alleged to have overstated its revenue by a total of RM522 million over three years from 2005 to 2007. Other financial irregularity cases reported to have occurred in recent years in Malaysia involving accountants include Megan Media Holdings Bhd and Wimems Corporation Bhd (Abdullah, 2007; Othman & Abdul Rahman, 2010).

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In improving the reputation of the profession, various efforts to improve ethical attitudes have been carried out at different levels, including by the professional bodies that prepare professional accountants and higher institutions that produce future accountants. In particular, several accounting associations, including the American Accounting Association, International Federation of Accountants (IFAC), Association of Chartered Certified Accountants (ACCA) and the Malaysian Institution of Accountants (MIA), have taken action to improve the coverage of ethics in the professional qualification curriculum. In the context of higher education institutions, the Malaysian National Higher Education System requires accounting graduates in Malaysia to be well-equipped with professional values and ethics, and, therefore, ethics contents should be embedded in all courses of the accounting programme (Ministry of Higher Education, 2006).

Prior studies (Forsyth 1981, 1985 and 1992; Barnett et al., 1994; Emerson & Conroy, 2004; Marques & Pereira, 2009) have identified ethical ideology and ethical judgment as two connected ethics issues. Evidence shows that the ethical judgment of individuals is influenced by their ethical ideology of idealism and relativism, which is derived from the traditional moral philosophies of teleology, deontology and ethical scepticism (Forsyth, 1980; Barnett et al., 1994). A meta-analytic study by Forsyth et al. (2008), which covered world-wide published prior studies on ethical ideology, reported that there are only limited studies from developing countries. This present study intends to extend the existing literature on ethical ideology and ethical judgment with a focus on two groups of respondents: existing accounting practitioners and accounting students. The ultimate objective of the present study is to investigate differences in ethical ideology and ethical judgment between the two groups of respondents in the context of Malaysia. The significance of the study is that it covers two fundamental aspects of ethics – ethical ideology and ethical judgment – and two related groups of accounting professions – accounting practitioners and accounting students. The study examines ethical judgments not only in general situations but also in both legal and illegal ethical situations.

The remaining part of this study is structured as follows. The following section reviews relevant literature on the differences between practitioners and students in terms of ethical ideology and ethical judgment and proposes hypotheses for the study. The subsequent section describes the research methodology and procedures used in undertaking this study. Next, the findings and results are discussed, and, finally, the implications, limitations of the study and suggestions for future study are provided.

2. Literature Review and Hypotheses

2.1. Ethical Judgment

The issue of ethical judgment and decision-making has long been the province of moral philosophers. Over the last century it has also become the object of study of social and educational psychologists, some of whom have theorised it in a

systematic way and developed models that lend themselves to practical application in many contexts, including that of accounting profession. A key scholar in the field was Lawrence Kohlberg (1969, 1976), who extended the work of Piaget by developing the theory of moral development, in which he postulated that an individual's moral reasoning develops through three stages. Each of these stages he subdivides into two levels. Specifically, he contends that an individual's moral reasoning progresses upwards through three stages, starting with what is termed 'pre-conventional morality', to the second level termed 'conventional morality', and to the final and highest level called 'post-conventional morality'. While he agrees with Piaget that the individual's capacity for moral reasoning development develops through childhood into adolescence, he sees that moral development could continue cognitively throughout adulthood through the six levels he identifies (Kohlberg, 1976).

Moral cognitive development as Kohlberg theorises it is not neutral; it is influenced by context. Hunt and Vitell (1986), whose primary interest was in marketing ethics, proposed an ethical decision-making model that focuses on a number of demographic factors, such as religion, value systems, strength of moral character and sensitivity to moral issues as major influences on development. Bommer, Gratto, Gravander, and Tuttle (1987), focusing on professional ethics, developed the Behavioural Model of Ethical and Unethical Decision-making to identify and describe various factors that affect ethical and unethical behaviour in organizations. The model identifies the factors that influence ethical and unethical behaviour of different decision-makers in different situations (Bommer et al., 1987). The model recognises several categories, and, in each category, a list of possible context-specific factors that may influence the decisions of individuals when they are confronted by ethical dilemmas are presented. The categories include a decision-maker's social environment, government and legal environment, professional environment, work environment and personal environment, as well as individual attributes (Bommer et al., 1987).

In distinction from the above-mentioned theories, the ethics position theory may offer some evidence on the influence of individual's difference variables on ethical decision. The ethics position theory of ethical decision-making is based on the assumption that individual moral beliefs and philosophy or also known as ethical ideology is part of an integrated conceptual system of personal ethics. The following section provides further explanation on ethical ideology. Looking from a legal perspective, as ethical conduct can be judged as either legal or illegal (Emerson & Conroy, 2004; Emerson et al., 2007), the illegal ethical conduct is considered as more severe than the legal ethical conduct. Individual's ethical judgment will therefore depend on the legal status of the ethical issue (i.e. severity or seriousness of the ethical conduct). Specifically, a person will be less accepting of an ethical situation that is violating the law than if the ethical situation is not legally wrong as illegal conduct will normally result in greater harm or more negative implications (Emerson & Conroy, 2004; Emerson et al., 2007).

2.2. Ethical Ideology

Ethical ideology, also known as an individual's moral philosophy, is derived from three main general traditional moral positions – deontology, teleology, and ethical scepticism (Barnett et al., 1994). While deontological judgments are determined by universal moral laws, rules or duties, teleological judgments focus on the consequences or outcomes of an action rather than the morality of the action itself (Hunt & Vitell, 1986; Reidenbach & Robin, 1988; Barnett et al., 1994). Ethically sceptical judgements draw from both deontology and teleology in determining the action that is relatively appropriate within a specific moral situation, but do not justify the action as fulfilling a moral duty (deontological) or achieving an outcome that is universally “good” (teleological).

On the basis of these three moral philosophical positions, Schlenker and Forsyth (1977) and Forsyth (1980) developed an instrument called the Ethics Position Questionnaire, which assesses an individual's ethical ideology through a cognitive framework of idealism and relativism. The dimension of idealism is focused on the effect of moral action on the welfare of others. Individuals who take an extreme idealistic position assume that the consequences of choosing actions based on universal moral principles are inevitably desirable. They do not recognise choosing the lesser of two evils as a valid moral position. Individuals with a less idealistic orientation, on the other hand, admit that in some situations harm will occur in the process of achieving a positive outcome. In contrast to these two idealist positions, relativism refers to the extent to which an individual rejects the universality of moral rules. Highly relativistic individuals judge the morality of actions in terms of the nature of the situation and the individuals involved, and when making ethical judgments they privilege the circumstances surrounding the action over any violation of ethical principles. Conversely, individuals whose levels of relativism are low judge moral action on its conformity with moral principles, norms or laws, with less regard for situation or individuals involved.

2.3. Ethical judgment and Ethical Ideology of Professionals versus Students

There are numerous prior studies on ethical judgment and ethical ideology that cover various disciplines, including business and marketing (Barnett et al, 1994; Singhapakdi & Vitell, 1994; Singhapakdi et al., 1999; Bass et al., 1998; Rawwas et al., 2005; Hastings & Finegan, 2011; Adnan, Jamil, & Nor, 2012; VanMeter, Grisaffe, Chonko, & Roberts, 2013), finance (Phoung et al., 2014), information technology (Winter et al, 2004), psychology (Watson et al, 1998; Hadjistavropoulos et al., 2003) as well as accounting (Ziegenfuss et al., 1994; Ziegenfuss, 1999; Marques & Pereira, 2009; Ismail, 2014; Ismail & Mohd Ghazali, 2011). There is also research comparing different cultures in terms of ethical judgment and ethical ideology. For instance, Douglas et al. (2001) investigated the differences in the ethical ideology of companies' managers in the United States and Egypt; Karande et al. (2002) made comparisons of the

ethical ideology of marketing managers in the United States, Australia and Malaysia; and Ahmed et al. (2003) examined the ethical judgment of business students across several countries. Similar cross-cultural studies have been carried out by Singhapakdi et al. (1994), Lee and Sirgy (1999), Marta et al. (2003), Vitell et al. (2003), Axinn et al. (2004), Rawwas et al. (2005).

Despite the abundance of prior studies on ethical judgment and ethical ideology, most of those studies have covered mainly one group of respondents of either professionals or students and very few studies have covered the two related groups of respondents. As the present study intends to examine the differences between accounting practitioners and accounting students in terms of their ethical judgment and ethical ideology, the following review of literature will focus on the relevant prior studies that have also examined the differences in the ethical judgment and ethical ideology of professionals or practitioners and students in a variety of disciplines. However, the studies from the accounting discipline are very limited and none is from the developing economy.

Phuong et al. (2014) examined the differences in ethical decision-making between banking and finance professionals and students in Vietnam and revealed an overall significant difference in the ethical-decision making between the two groups, with the professionals' group demonstrating higher ethical reasoning than the students. Consistent findings of a statistically significant greater level of ethical reasoning by professionals than the students were reported by Wennerholm and Larsson (2006) on auditors and accounting students in Sweden. Likewise, DuPont, and Craig (1996), whose respondents include retail sales people, sales managers and business students in the United States, discovered that the practitioners were significantly more ethically oriented than the students. Cole and Smith (1995) in their study comparing the ethical judgment of experienced business people with business students claimed that the business people were more ethically oriented than the students. In terms of ethical ideology, Ziegenfuss (1999) investigated the differences in the ethical ideology of accounting practitioners and accounting students and also revealed statistically significant differences in the ethical ideologies between the two groups.

In contrast, Smith et al. (1999) found that students were significantly more sensitive than managers in ethics-related decision making. Similarly, in a study by Ibrahim and Angelidis (1993), students were reported to have greater concern about corporate ethical conduct than business executives. Despite the mixed findings, it is argued that maturity and work experience have a profound impact upon the accountants' ethical ideologies and ethical judgment (Ziegenfuss, 1999; Phuong et al., 2014). This is because as time passes, work experience gained will change the individual's perception of certain ethical matters. The generation gap between the two groups also has to be taken into consideration, with different values informing differences in ethical ideologies and ethical judgment (Phuong et al., 2014). Based on the above discussion and the empirical evidence, the following hypotheses are proposed.

H1: There are differences in ethical ideologies between accounting practitioners and accounting students.

H2: There are differences in ethical judgment between accounting practitioners and accounting students.

3. Research Methodology

3.1. Sample and data collection

Questionnaire surveys were distributed to accounting practitioners attached to audit companies registered with the Malaysian Institute of Accountants (MIA) and accounting students who went for internships at those audit companies. The list of companies was obtained from the university database, which comprises of companies that have been receiving accounting degree students for internship. Phone calls were made to the firm to inform them about the study and to ask about the number of accountants and interns currently attached with the companies. A total of 250 and 500 questionnaires were distributed to the two groups respectively. Each respondent was provided with a set of questionnaires together with a cover letter explaining the objective of the study and assuring them of the confidentiality of the information given. Follow-up calls were made after two weeks of initial mail, and, finally, after a month of questionnaire distribution, a total of 221 and 396 completed questionnaires were received from accounting practitioners and accounting students, representing a response rate of 88.4 percent and 79.2 per cent, respectively.

3.2. Research instrument

The questionnaire consists of three parts, namely, parts A, B and C. The only difference between the questionnaire to the accounting practitioners and the interns was in the contents of Part A on the background of the respondents. In part B, respondents were asked to respond to the Ethics Position Questionnaire (EPQ) developed by Forsyth (1980) in order to assess the personal moral philosophy by indicating their acceptance of items that vary in terms of relativism and idealism (Forsyth, 1992). The EPQ contains 20 items, of which the first 10 items examine idealism and the other 10 measure relativism. For each item, respondents indicate the degree of agreement or disagreement using a 5-point scale ranging from “strongly disagree” to “strongly agree”.

Part C of the questionnaire requires respondents to respond to eight vignettes on ethical scenarios adopted with permission from Emerson and Conroy (2004), which aims to gauge the ethical judgment of respondents based on their response to the ethical scenarios. It is relevant to adopt vignettes from previously validated instruments as it tends to increase the reliability of the results and consistency of the approach in line with the vignettes used in the empirical business ethics literature. Furthermore, there would be no benefit to reinvent the work that has previously been done by other researchers (Cheung et al., 2009). Bribery, environmental pollution and ethical codes of conduct are the

ethical business issues presented in the vignettes (Emerson and Conroy, 2004). The respondents were asked to rate the acceptability of the action described in each of the eight vignettes by circling the appropriate number on the 7-point Likert scale, where “1” indicates always acceptable and “7” indicates never acceptable. Table 1 below summarises the ethical vignettes used in this present study and provides information on the legality status of each vignette.

Table 1. Ethical Vignettes

| Vignette | Brief description | Legality |
|----------|---------------------------------|----------|
| A | Pad expense account | Illegal |
| B | Exceed legal limit pollution | Illegal |
| C | Recommend bad stock | Legal |
| D | Underreport income for tax | Illegal |
| F | Hire employee to get secret | Legal |
| G | Collusion to reduce competition | Illegal |
| H | Bribe to purchasing agents | Legal |
| J | Promotion of friend over other | Legal |

3.3. Data analysis

In achieving the objective of the study to investigate the differences between accounting practitioners and accounting interns in terms of ethical ideologies and ethical judgment independent t-tests were conducted using Statistical Packages for the Social Sciences (SPSS) version 19.0.

4. Findings and Discussion

4.1. Demographic Information and Descriptive Analysis

Table 2 depicts the demographic information on the two groups of respondents of this study with the majority of the respondents being female (72.4 per cent and 70 per cent for accounting practitioners and accounting students respectively). Although the accountant respondents are employed in various working positions, most of them were new in their accounting career, with less than five years of related working experience (72.9 per cent).

Table 2. Demographic Data and Descriptive Analysis

| | Accountants | | Accounting Students | |
|---|-------------|------|---------------------|------|
| | Frequency | % | Frequency | % |
| Gender | | | | |
| Male | 61 | 27.6 | 120 | 30.3 |
| Female | 160 | 72.4 | 276 | 69.7 |
| Total | 221 | 100 | 396 | 100 |
| Working Experience in Accounting Field | | | | |
| Less than 5 years | 161 | 72.9 | | |
| 5-10 years | 33 | 14.9 | | |
| 11-15 years | 11 | 5.0 | | |
| 15-20 years | 5 | 2.3 | | |
| More than 20 years | 11 | 5.0 | | |
| Total | 221 | 100 | | |

Table 2. Demographic Data and Descriptive Analysis (continued)

| | Accountants | | | |
|-------------------------|-------------|------|------|-----------|
| | Frequency | % | Mean | Std. Dev. |
| Current Position | | | | |
| Executive | 80 | 36.2 | | |
| Senior Executive | 32 | 14.5 | | |
| Manager | 16 | 7.2 | | |
| Senior Manager | 11 | 5.0 | | |
| Partner | 5 | 2.3 | | |
| Missing data | 77 | 34.8 | | |
| Total | 221 | 100 | | |
| Ethical Ideology | | | | |
| Idealism | 3.84 | .51 | 3.92 | .50 |
| Relativism | 3.51 | .57 | 3.56 | .54 |
| Ethical Judgment | | | | |
| Overall | 4.85 | .98 | 5.18 | .83 |
| Illegal | 4.98 | 1.05 | 5.51 | .89 |
| Legal | 4.72 | 1.11 | 4.84 | .99 |

In relation to ethical ideology, the mean scores for idealism of the accounting practitioners and students were 3.84 and 3.92 respectively, which was higher than the mean scores of relativisms, which were 3.51 and 3.56 each. For ethical judgment, the mean score for overall vignettes of accounting practitioners was 4.85, while the mean score of accounting students was 5.18. The mean acceptability scores for the illegal vignettes of accounting practitioners and accounting students were 4.98 and 5.51, while the mean scores for the legal vignettes were 4.72 and 4.84 accordingly. Overall, the results indicate less acceptability for both situations with even less acceptability for the illegal situation. This is consistent with Emerson and Conroy (2004), who reported that a person will be less accepting of an ethical situation that is illegal than if the ethical situation is not legally wrong.

4.2. Differences in Ethical Judgment

Table 3. Differences in Ethical Judgment Between Accountants and Accounting Students

| Ethical Judgment | Accountants | | Students | | F | t | Sig. |
|------------------|-------------|-----------|----------|-----------|------|------|--------|
| | Mean | Std. Dev. | Mean | Std. Dev. | | | |
| <i>Overall</i> | 4.85 | .99 | 5.18 | .83 | 6.07 | 4.13 | .00*** |
| <i>Illegal</i> | 4.98 | 1.05 | 5.51 | .89 | 3.43 | 6.35 | .00*** |
| <i>Legal</i> | 4.72 | 1.11 | 4.84 | 1.00 | 1.94 | 1.32 | .18 |

*** Significance at less than 1%

As depicted in Table 3, there are significant differences in ethical judgment between the accounting practitioners and the accounting students in terms of overall ethical judgment as well as for judgment in illegal situations. The results imply that the accounting students are less accepting of ethical dilemmas than

the accounting practitioners in general and in illegal situations. However, there is no significant difference in the ethical judgment of accounting practitioners and accounting students in ethical dilemma situations that are legal. This finding supports the earlier findings of Smith et al. (1999) and Angelidis et al. (1993), who reported that students are more ethical than practitioners; however, it contradicts the result reported by Phuong et al. (2014), Wennerholm and Larsson (2006), DuPont and Craig (1996) and Cole and Smith (2005). Therefore, to some extent, hypothesis 1 is supported.

To further scrutinize the differences in ethical judgment between accounting practitioners and accounting students, an examination was carried out for each of eight ethical situations, the results of which are presented in Table 4.

Table 4. Differences in Ethical Judgment for Each Ethical Dilemma Situation Between Accountants and Accounting Students

| Ethical Judgment | Accountants | | Students | | F | t | Sig. |
|------------------|-------------|-----------|----------|-----------|-------|------|--------|
| | Mean | Std. Dev. | Mean | Std. Dev. | | | |
| <i>QCA (IL)</i> | 4.63 | 1.53 | 5.34 | 1.36 | 2.29 | 5.69 | .00*** |
| <i>QCB (IL)</i> | 5.38 | 1.48 | 5.75 | 1.44 | 3.18 | 3.00 | .00*** |
| <i>QCC (L)</i> | 5.33 | 1.44 | 5.43 | 1.36 | 2.74 | .92 | .35 |
| <i>QCD (IL)</i> | 5.36 | 1.56 | 5.56 | 1.42 | 4.70 | 1.59 | .10 |
| <i>QCF (L)</i> | 4.58 | 1.65 | 4.74 | 1.64 | .00 | 1.16 | .25 |
| <i>QCG (IL)</i> | 4.55 | 1.51 | 5.39 | 1.21 | 14.66 | 7.14 | .00*** |
| <i>QCH (L)</i> | 4.50 | 1.64 | 4.71 | 1.42 | 6.30 | 1.56 | .11 |
| <i>QCJ (L)</i> | 4.49 | 1.71 | 4.49 | 1.72 | .00 | -.01 | .99 |

Note: L = legal, IL = illegal; Significance at less than 1%

Consistent with the t-test results on average legal and illegal situations, the result for the individual situation as depicted in Table 2 shows that there is no significant difference in ethical judgment between accounting practitioners and accounting students for any of the legal ethical dilemma situations, but for three out four for illegal situations there were significant differences between ethical judgment of accounting practitioners and accounting students. The three illegal situations with significant differences between the two groups of respondents include situations of padding expense accounts, exceeding the legal limit of pollution and collusion to reduce competition.

4.3. Differences in Ethical Ideology

Table 5 presents the results on the differences in ethical ideology between accounting practitioners and accounting students in terms of idealism and relativism. As shown in Table 3, there is a significant difference in the idealist ethical ideology level between the two groups, whereby the accounting students seem to be more idealistic than the accounting practitioners. There is no significant difference in terms of relativist ideology between the two groups of respondents. The result on the significant difference in the idealism level of the two groups is consistent with the finding by Ziegenfuss (1999). Hypothesis 2 is therefore partially supported.

Table 5. Differences in Ethical Ideology Between Accountants and Accounting Students

| Ethical Ideology | Accountants | | Students | | F | t | Sig. |
|-------------------|-------------|-----|----------|-----|-----|------|------|
| | Mean | SD | Mean | SD | | | |
| <i>Idealism</i> | 3.84 | .51 | 3.92 | .50 | .25 | 1.83 | .06* |
| <i>Relativism</i> | 3.51 | .57 | 3.56 | .54 | .64 | 1.10 | .26 |

* Significance at less than 1%

5. Implications, Limitations and Conclusion

The present study investigated the difference in ethical judgment and ethical ideology between accounting practitioners and accounting students in Malaysia. In terms of ethical judgment, the study examined judgment in general as well as based on the legality of the cases. The study discovered a significant difference in the ethical judgment of accounting practitioners and accounting students in overall situations and well as for illegal situations. In terms of ethical ideology, there is significant difference in the idealism level between accounting practitioners and accounting students with accounting students being more idealistic than accounting practitioners.

The findings that accounting students are significantly more ethical than accounting practitioners in overall situations as well as in illegal situations to some extent implies a decline in ethical decision-making upon joining the career. Although this is an unfavourable phenomenon for the accounting profession, it is useful input to the Malaysian Institute of Accountant (MIA), the accounting regulatory body in Malaysia, and also to the various accounting professional bodies. For example, inculcating and enhancing critical thinking skills to their members is a useful measure for facilitating members' internalisation of ethical values, which might then be translated into sounder ethical decision making of the accountants.

In relation to the findings on ethical ideology, whereby the students are significantly more idealistic than the accounting practitioners, it is a positive indicator as it reflects a higher ethical level of future accountants. This is based on the evidence of prior studies, which suggest that highly idealistic individuals who believe that it is possible to avoid harm to others if the morally right action is undertaken have been reported to judge unethical matters more strictly (Forsyth, 1980, 1981 and 1985). Applying prior evidence to the context of the current study, it is expected that the higher the level of idealism ethical ideology among accounting students, the more ethical will be the accountants of the future, as these accounting students will soon join the profession upon completing their degree programme. Ultimately, having more ethical accounting practitioners will help to improve the credibility of the accounting profession that has been tarnished by the various accounting scandals involving accountants.

There are several limitations of this study. The first limitation is in terms of the respondents' responses to the ethical vignettes. It cannot be proven whether the levels of acceptability provided by the respondents are true reflections of what they would actually do in a real situation, especially when they face ethical

dilemmas in the workplace. This limitation must be considered even though there is no reason to believe that respondents would react differently to the ethical situations than to a real-life situation presently or in the future. Secondly, the present study adopts general ethical vignettes that are not specific to the job scope of an accountant. Although, at present, accountants are also facing a variety of ethical situations besides ethical dilemmas specifically related to accounting, they may be more familiar with accounting-related ethical cases. Thirdly, the current study mainly focuses on the differences in ethical ideology and ethical judgment of the two groups of respondents. In future, researchers may want to investigate the differences in other variables, such as personal values and related experiences, as well as differences in the influence of ethical ideology on ethical judgment between accounting students and accounting practitioners. Despite the limitations of the present study, it provides some insightful evidence on the differences in ethical ideology and ethical judgment of existing accounting practitioners and future accountants, in which the findings, to some extent, support the results of a number of previous studies and add to the limited empirical evidence in the existing literature on the differences in ethical ideology and ethical judgment between these two important groups of respondents.

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