# ROLE OF CODE OF ETHICS IN BUILDING A FRAUD-RESILIENT ORGANIZATION: THE CASE OF THE DEVELOPING ECONOMY

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## Abstract

Due to the prevalence of fraud and corruption in Malaysia's economic and governmental sectors, this article examines the importance of ethical standards and their application in constructing a fraud-resistant organization. Public confidence in officials' honesty and commitment to the common good has been eroded by their unethical behavior (Salin, Ismail, Smith, & Nawawi, 2019). Without a doubt, adhering to a code of ethics enhances an organization's reputation, which can assist in keeping and attracting new consumers and investors, as well as in developing the organization's brand image in private and public organizations (Yallop, 2012). However, conformity with the code of ethics is acknowledged as insufficient due to a variety of constraints. As such, this study aims to provide light on the role of codes of ethics in fostering the development of fraud-resistant organizations and the impediments to code of ethics adoption in Malaysia. Numerous databases, including Scopus, Web of Science, Science Direct, and Google Scholar, were reviewed to assemble literature on the issue from 2010 to 2021. This article helps to public awareness and understanding of Malaysia's commercial and government sectors' code of ethics, as well as its present state of application. Additionally, the article discusses limitations and future studies.

**Keywords:** Code of Ethics, Public and Private Organizations, Ethical Values, Fraud-Resilient

## 1. INTRODUCTION

The demise of huge firms and corporate scandals, such as the infamous Enron and Worldcom cases, have captured the world's attention due to their admissions of accounting fraud and false reporting (Salin, Ismail, Smith, & Nawawi, 2019; Abri, Arumugam, & Balasingam, 2019). Malaysia is not immune to corporate fraud, as demonstrated by the examples of 1Malaysia Development Berhad (1MDB), Port Klang Free Zone (PKFZ) Berhad, Transmile Group Berhad and Megan Media Holdings Berhad, whose financial statements contained accounting problems. The impact of these frauds has eroded public confidence, particularly among investors, in the reliability and integrity of firms' financial accounts (Zam, Pok, & Ahmed, 2014). Additionally, these scams have resulted in significant financial losses as a result of several wrongdoings that included coordination between several parties within the company, individual violations of the organization's code of ethics, and inadequate corporate governance within the business (Setiawan et al., 2020). Notably, a code of ethics has been extensively explored due to its critical role in regulating individual behavior. It has long been associated with corporate governance, as it is a technique that guides and regulates how individuals conduct themselves when making decisions within a company. However, breaking the code of ethics as a result of inadequate corporate governance has resulted in fraud incidents occurring within organizations worldwide, including Malaysia (Zam et al., 2014). The collapse of organizations as a result of unethical conduct has cost billions of ringgit to the organization's owners, shareholders, employees, and other stakeholders. This, it is alleged, would not have occurred if senior management and employees were aware of their colleagues' unethical activities (Alias, Nawawi, & Salin, 2019). On the basis of the foregoing ideas and arguments, this study seeks to emphasise the importance of a code of ethics in establishing a fraud-resistant organization in Malaysia. Additionally, the study contributes to the current situation of the code of ethics' application in Malaysia's private and public sectors, as well as the obstacles faced by organizations seeking to embrace the code of ethics.

The remainder of the paper is structured in the following manner. To begin, in Section 2, we discuss fraud and the challenges surrounding the code of ethics in organizations in order to have a better understanding of their respective natures. Following this explanation, Sections 3 and 4 detail the methods used in this study and the relevance of a code of ethics in developing a fraud-resistant company. Section 5 examines some of the difficulties associated with implementing a code of ethics inside an organization. Section 6 summarizes the current state of the code of ethics implementation in Malaysia's business and public sectors. This is followed by Section 7, which discusses the findings of this investigation. Finally, Section 8 finishes by providing some insights for firms to consider revisiting their ethical procedures within their management and personnel in order to create a fraud-resistant organization.

## 2. LITERATURE REVIEW

The code of ethics, or code of conduct, is defined as an organization's principles and values that influence individuals' behavior and decision-making when confronted with certain scenarios inside the organization (Singh & Mahavir, 2017). Commitment to ethics is required not just of senior management, but also at all levels of management inside the company, including employees, the board of directors, and the audit committee because it has an impact on the organization's performance.

The code of ethics highlights the organization's values, ethics, objectives, and obligations in a well-written manner that is appropriate for the organization's nature and operation. Ethics are critical to the business because they assist define the roles of management and employees in situations involving ethical issues (Kazmi et al., 2014). According to Remišová, Lašáková, and Kirchmayer (2019), the objective of ethics is to evaluate individuals' behavior in order to guide them toward moral behavior in certain situations.

By contrast, fraud is an act undertaken by persons for their personal gain that may result in financial or non-financial loss to others (Said, Alam, Ramli, & Rafidi, 2017). Aris, Othman, Arif, Omar, and Malek (2013) defined fraud as a legal but unjust act that entails withholding material information from shareholders that could jeopardize their interests. Fraud may exist as a result of three factors: pressure, opportunity, and justification, collectively referred to as the fraud triangle. Additionally, capacity was introduced as a component of fraud, resulting in the formation of the fraud diamond. Additionally, organizational fraud is grouped into three categories: asset misappropriation, corruption, and financial statement fraud involving personnel and management.

Fraud cannot be completely eradicated. However, it can be decreased to a considerable extent using a variety of fraud protection techniques. While management can take numerous measures to avoid fraud, implementing a code of ethics is the first and most critical step in preventing fraud within the firm (Astriana & Adhariani, 2019). This demonstrates the critical nature of management adopting a code of ethics in which each individual, including employees and other stakeholders, contributes to the development of a fraud-resistant firm. This can be established when organizations have robust ethics policies and anti-fraud procedures. Therefore, organizations must prioritize fraud and ethics, as robust ethics programs assist in enhancing fraud prevention and mitigating the organization's losses (Aris et al., 2013).

The code of ethics has been widely adopted by corporations to manage employee behavior and to mitigate the occurrences of fraud among their personnel. However, some businesses presently undervalue the code, assuming that individuals are self-aware of ethical behavior. Certain actions taken by employees on a regular basis may be deemed unethical by the corporation. According to Astriana and Adhariani (2019), unethical behavior might involve purposeful deception, violation of the company's code of ethics, illegal action, or ignorance of the company's policy. Thus, a well-written code of ethics may emphasize the behaviors

that are to be avoided. This could involve limiting the number of gifts that staff or senior management can accept in order to protect their integrity. Typically, unethical behaviors that are regarded as minor errors escalate into significant fraud incidents.

According to a PwC's (2020) survey on fraud and corruption, Malaysia's fraud incidences remain high, with the top four types of fraud being asset theft, bribery and corruption, customer fraud, and cybercrime. Individuals within organizations were also identified as the most frequent perpetrators in Southeast Asia by this poll. According to the findings of this survey, Malaysian organizations lack maturity in terms of implementing and administering ethical and anti-fraud programs. This demonstrates that employees within organizations lack the necessary understanding and disrespect the code of ethics since they take its execution casually. While it is hard for businesses to completely eliminate fraud, they can take proactive measures to keep it from getting worse by maintaining a strong code of ethics. Following that, this paper explores the importance of ethics codes in developing fraud-resistant organizations in Malaysia.

## 3. METHODOLOGY

This paper's methodology entails conducting a library search and evaluating prior literature reviews on the subject of code of ethics in organization. The library search spans a range of items, from online and print sources to articles in journals and chapters in books. Online databases such as Web of Science, Scopus, Science Direct, and Google Scholar are used to compile the references. The advance search is confined to corporate governance, the ethical function of the organization, fraud-resistant organizations, and ethics. References are drawn exclusively from journal articles, book chapters, and full-text documents published between 2010 and 2021.

## 4. ROLES OF CODE OF ETHICS IN CREATING A FRAUD-RESILIENT ORGANIZATION

### 4.1. Importance of code of ethics in organization

While codes of ethics are prevalent around the world, they are more prevalent in large companies than in smaller ones (Yallop, 2012). It is an inherent aspect of the company culture and is viewed as a critical instrument for developing and establishing an ethical culture within the corporation. A strong corporate culture boosts employee morale, which results in increased productivity and financial benefits for the firm (Singh & Mahavir, 2017). This demonstrates the critical nature of an organization's code of ethics.

The code of ethics serves as a guide for top management in making decisions that benefit all stakeholders, including employees, investors, and shareholders, as well as any affected community. This is critical since all decisions made by top management will determine the organization's path in the short and long term. Singh and Mahavir (2017) also highlighted that, in addition to top

management, lower management members such as supervisors and operational managers make daily decisions. As a result, a code of ethics is required to control their decision-making and reporting to top management. In a sense, lower management can also use the code to ascertain the top management's expectations for conducting corporate operations.

By publishing the code of ethics on the organization's official website or in the form of an advertisement, the code of ethics will help the organization maintain a positive reputation (Furlotti & Mazza, 2020). This will attract new customers and investors, thereby strengthening the organization's brand image. Additionally, the employees' behavior will shape the organization's image, and thus the code of ethics will be useful in guiding their behaviors. A strong code of ethics will help ensure that clients have a positive experience with the service given and will return in the future. This fosters client loyalty toward the business or group.

Individuals prefer to work for an organization with a strong management team and a favorable work environment that allows them to develop their skills and expertise, while businesses seek dedicated personnel (Setiawan et al., 2020). Managements that adhere to a strong code of ethics will be able to recruit this type of person. Thus, prospective employees might ascertain the work environment by examining their work ethics and the organizational culture.

### 4.2. How code of ethics helps in creating a fraud-resilient organization

Fraud and unethical behavior are well-known issues that have garnered significant attention following the collapse of big Malaysian firms such as Transmile Group Berhad and Megan Media Holdings Berhad. The presence of an ethics code among management and employees can help prevent fraud within the firm, as personnel who lack ethical values are more likely to engage in fraudulent activity such as bribery and corruption (Said et al., 2017).

The code of ethics establishes the foundation for employees' ethical behavior, which adds to fraud prevention initiatives and minimizes the likelihood of fraud occurring (Aris et al., 2013). Corporate governance must incorporate a source of ethics since it promotes accountability and integrity in directing top management and all employees in conducting business (Salin et al., 2019). Corporate governance is necessary to establish optimal management behavior and to eliminate unethical activity (Nafi & Kamaluddin, 2019). Additionally, the code of ethics includes examples of forbidden or unethical conduct, as well as consequences or sanctions for those who breach the organization's code of ethics. Additionally, it will safeguard the organization's reputation if an employee commits fraud (Singh & Mahavir, 2017). Employees must comprehend the code of ethics in order to avoid unethical behavior that could have a negative effect on the organization. Penalties for violators of the code of ethics must be applied not only to employees but also to senior management. Top management must create the correct tone, set an example for staff, and practice organizational transparency. This will encourage employees to act

ethically and prevent them from committing fraud while executing their jobs.

Additionally, an organization's code of ethics can address any unethical risks detected within the organization. Employees are sometimes unable to discern whether certain behaviors constitute fraud or not. As a result, the code of ethics will serve as a guide for employees in identifying unethical behavior by their peers. This enables senior management to prevent fraud by identifying unethical acts. Establishing a culture of honesty and high ethical standards through the adoption of a code of ethics is a critical component of effective fraud prevention (Albrecht, Albrecht, Albrecht, & Zimbelman, 2018) since it results in the formation of a fraud-resistant organization.

## 5. CHALLENGES TO ADOPT CODE OF ETHICS WITHIN ORGANIZATION

The management can establish high standards for employees to ensure they engage professionally through the code of ethics; yet, instilling ethical ideals in employees is not a simple undertaking (Furlotti & Mazza, 2020). This is because each member inside a company must be involved in order for the code of ethics to be successfully implemented. Adopting a code of ethics inside a business presents problems for senior management, employees, and other stakeholders.

### 5.1. Board of directors and management

The board of directors and management are regarded as the organization's highest management. They set the code of ethics and provide rules for employees to follow when performing their jobs. They are critical in implementing and communicating the organization's culture (Kazmi et al., 2014). However, there are obstacles to overcome in order to implement the code of ethics.

Poor corporate governance has been identified as a possible risk factor for fraud, such as financial statement fraud (Zam et al., 2014). Furlotti and Mazza (2020) defined the role of ethics in corporate governance from three perspectives: corporate governance as a code of ethics, ethical inclusivity in corporate governance, and ethics as an affiliate of corporate governance, all of which emphasize the relationship between ethics and corporate governance. As corporate governance entails three parties: the board of directors, the audit committee, and management, one of the obstacles to implementing the code of ethics within the firm is the top management's leadership shortcomings. Because leaders have a substantial impact on employee morale, ethical judgement (Johari, Rosnidah, Ahmad Nasfy, & Sayed Hussin, 2020) and leadership (Nafi & Kamaluddin, 2019) are critical in giving employees clear direction on how to accomplish their obligations. The application of the code of ethics will involve all employees, including top management and the board of directors. Top management should set a positive example for employees, as it will be difficult for them to execute the organization's code of ethics if top management does not model ethical behavior.

It is critical that the code of ethics is defined in full because it encompasses all facets of a company.

It may, however, be ineffectual for employees, supervisors, or managers who are unable to enforce the code of ethics but maintain a productive workplace (Othman, Abdul Rahman, & Shamsudin, 2012). As a result, they may not adhere to the organization's code of ethics. While management has established a code of ethics to guide employee behavior, they must also uphold the code of ethics for themselves and their employees. Top management must be severe in enforcing the code of ethics on employees in order to increase the organization's efficiency and effectiveness. Additionally, they must monitor the code's implementation. Every individual is responsible for adhering to the code of ethics in their daily activities, including interactions with external stakeholders like customers or investors. Inadequate enforcement of the code of ethics by top management will make it more difficult to successfully implement the code of ethics.

Additionally, in some organizations, the code of ethics may be so out of date that it becomes irrelevant to the organization's actual circumstances. As a code of ethics governs an individual's behavior, it must be applicable to the day-to-day duties performed and must comply with all applicable laws and regulations in the country. Additionally, the code of ethics must be consistent with the organization's objectives as they relate to the management principles. The top management must guarantee that the code of ethics is frequently reviewed and updated in light of the operation's adaptability and technological advancements in the business environment (Ibiricu & van der Made, 2020).

### 5.2. Employees and other stakeholders

Employees are critical to the business since they are assets that contribute to the organization's success and effectiveness. Additionally, other stakeholders such as investors, customers, suppliers, and others that have an impact on the business play a significant role. Additionally, they face numerous obstacles in ensuring the organization's code of ethics is successful.

Certain employees and other stakeholders may have problems accessing the top management-established code of ethics. In certain instances, senior management fails to clearly define the code of ethics and how it will be implemented inside the firm. The management must establish an appropriate route for employees to access the code of ethics or disseminate the code to employees in a transparent manner (Furlotti & Mazza, 2020). Effective communication is necessary to engage employees and ensure the code of ethics is adopted successfully throughout the organization. If employees lack understanding of the code, it will be difficult for them to accept it.

Additionally, one of the barriers to employees adopting the code of ethics is a lack of information. Occasionally, employees become so acclimated to their daily routines that they are more comfortable staying still than changing, which might cause them to be unaware of the company's code of ethics. Employees with limited awareness of the newly implemented code of ethics will demonstrate resistance to embracing the code of ethics. However, management should provide training on the code of

ethics to employees to increase their awareness of it and to urge people to accept it.

Typically, management would punish or discipline employees who breached the code of ethics. However, the punishment may not be as successful in motivating employees to follow the stated code of ethics. Additionally, the rewards supplied may be ineffective at motivating them to follow the rules. Because the code of ethics governs employees' behavior, it is connected to the incentives and punishment system that should be effective for them. Employees will have a difficult time adhering to the code of ethics if there is nothing motivating them.

Employees are crucial to the business since they are assets that contribute to the profitability and performance of the firm. Additionally, other stakeholders like investors, consumers, and suppliers, as well as those who have an impact on the firm, play a critical role. Additionally, they encounter several roadblocks in assuring the achievement of the organization's code of ethics. Certain employees and other stakeholders may have difficulty accessing the code of ethics created by top management. In certain circumstances, top management fails to establish the code of ethics and the manner in which it will be implemented inside the organization. Management must develop an acceptable channel for employees to access the code of ethics or transparently disseminate the code to employees (Furlotti & Mazza, 2020). Effective communication is critical to engaging employees and successfully implementing the code of ethics throughout the organization. If employees do not comprehend the code, they will find it difficult to embrace it.

Additionally, a lack of information is a barrier to employees embracing the code of ethics. At times, employees become so accustomed to their daily routines that they choose to remain stationary rather than change, which may result in their being uninformed of the company's code of ethics. Employees who are unfamiliar with the newly imposed code of ethics will display reluctance to embrace it. Management, on the other hand, should provide training to staff on the code of ethics in order to improve their awareness of it and to encourage them to adopt it.

Typically, management would censure or punish employees who violated the code of ethics. However, the penalty may be less effective at motivating staff to adhere to the declared code of ethics. Additionally, the benefits may be insufficient to motivate people to follow the regulations. Because the code of ethics guides employees' behavior, it is inextricably linked to an effective system of incentives and punishment. Employees will struggle to adhere to the code of ethics if there is no incentive.

## 6. APPLICATION OF CODE OF ETHICS IN MALAYSIA

### 6.1. Roles of practices and standards in promoting code of ethics

Malaysia established the Malaysian Code on Corporate Governance (MCCG), which mandates firms to apply it as a guideline for developing a good governance structure. MCCG provides global principles and practices for directing and managing the organization's businesses and affairs. Additionally, corporate governance is founded on the pillars of ethical behavior, accountability, transparency, and sustainability, all of which contribute to the organization's long-term worth. The code was reviewed in 2007 and 2012, as well as in 2017 to verify that it remains universally applicable. It emphasizes the board's responsibility and improves the board's and audit committee's accountability inside the organization (Salin et al., 2019).

Corporate governance is a term that relates to an organization's commitment to ethical behavior in its strategy, operations, and culture. Corporate governance stakeholders, particularly the board, should grasp important corporate governance concepts, including ethical behavior, in order to mitigate the danger of corruption or mismanagement. MCCG defines each party involved in corporate governance, such as the board of directors, and emphasizes the importance of establishing ethical business practices throughout the organization. Additionally, they are supposed to use professional skepticism in determining the organization's direction.

Additionally, MCCG gives guidance for directors in carrying out their tasks and obligations for the organization's benefit. One of the highlighted criteria encourages directors to collaborate with senior management in order to enhance ethical, prudent, and professional behavior. Additionally, directors must be aware of the risks that exist inside the business and oversee the integrity of the firm's financial and non-financial reporting. Additionally, MCCG encourages directors to design, implement, and publish the organization's code of conduct and ethics on the organization's official website, which will boost the organization's reputation both locally and globally (Othman et al., 2012).

MCCG provides directors with guidance for implementing the code of conduct and ethics in the organization in such a way that the rules are integrated into management practices and are reviewed on a regular basis. Additionally, MCCG defines the standard for the organization's code of conduct and ethics. Additionally, MCCG emphasizes the implementation of whistleblower mechanisms that allow employees and other stakeholders to raise any concerns or issues about illegal or unethical business practices.

MCCG is critical in promoting an organization's code of ethics by offering numerous recommendations pertaining to the ethical practices that must be followed by senior management, employees, and other stakeholders. This is to ensure that each individual maintains their integrity and ethics while carrying out their organizational obligations. While corporate governance's primary mission is to maximize shareholder value, it is also concerned with the ethical behavior of top management, particularly the board of directors, in order to accomplish that goal (Salin et al., 2019).

### 6.2. Code of ethics in private sector

Ethics is a culture that must be constantly assessed and practiced by senior management and every employee in the organization (Setiawan et al., 2020).

Effective communication between top management and staff regarding the code of ethics is critical in a business since it can support good governance practices. According to a prior study done by Othman and Abdul Rahman (2010), a company should have a well-written code of ethics that clearly outlines the ethical standards for all relevant stakeholders. For instance, it defines the types of gifts that employees or senior management may receive, the behaviors that are prohibited within the firm, and the reporting process for unethical activity. The code of ethics should be straightforward but comprehensive enough to encompass all elements of the company. Communication about ethics in a business can take two forms: internal and external.

Internal communication typically entails members within a business, such as the board of directors, top management, and employees, learning the code of ethics through orientation programs. Orientation programs are critical because they guarantee that new workers understand the nature of the business and the company's expectations for ethical behavior. Employees and other relevant parties must sign the code of ethics once a year to remind them of the organization's ideals (Furlotti & Mazza, 2020; Othman & Abdul Rahman, 2010).

External communication entails the dissemination of the organization's code of ethics to external parties such as suppliers, consumers, and other relevant parties. They are obliged to express their agreement with the organization's code of ethics, which includes principles and policies. This is to ensure that all parties involved in dealings with the organization retain their integrity and ethical standards. Certain corporations have formed an office of business practice to provide standards for workers to follow when it comes to adhering to the organization's code of ethics. It is responsible for examining and identifying pertinent codes of ethics for employees to follow, as well as for enhancing the organization's high standard of business ethics. This effort will educate employees on how to behave ethically while performing their jobs and how to respond to instances of unethical behavior.

## 6.3. Code of ethics in public sector

In the public sector, ethical behavior is inextricably linked to the ability of public servants to perform their jobs with integrity. Integrity is defined as an individualɔs moral or ethical behavior in determining what is right and wrong, or what is perceived to be right and wrong. Additionally, the public sector in Malaysia has encountered numerous fraud instances and scandals that have eroded public trust in public officials (Johari, Alam, & Said, 2021; Mohamed, Alykallam, Othman, Omar, & Rahman, 2017). As a result, the government has launched a number of efforts to improve public officials' ethical behavior and integrity in order to earn the public's and other countries' faith in Malaysia.

In reaction to a commission report on "Public Service Integrity" that focused on corruption, Malaysia launched ethics programmes in 1950. Later

that year, the government passed the Corruption Prevention Act 1961, reaffirming their commitment to fighting corruption.

The Anti-Corruption Agency (ACA) was established in 1967 as per the Anti-Corruption Act 1967. In 1973, the ACA was to be re-named as the National Bureau of Investigation (NBI) as a full fledged department under the Home Ministry. Subsequently, in a move to specialize the anti-corruption body in terms of its roles and functions, the ACA Act was passed by the Parliament in 1982 for which the NBI had to be re-named back to the ACA. In 2008, the Parliament and the Government unanimously approved for the formation of the Malaysian Anti-Corruption Commission (MACC) as an independent body to manage the nation's anti-corruption efforts effectively and efficiently. The transition to becoming an independent anti-corruption body became a reality when the MACC Act came to effect on January 1, 2009 which witnessed the establishment of the MACC.

Notably, another legal framework, the Public Officers (Conduct and Discipline) Regulations 1993, was established to regulate public officers' behavior. The restrictions prevent public officers from putting personal interests before of duty, from engaging in conflicting behaviors between duty and personal interests, from generating doubt about his duty, from disparaging public service, and from being dishonest, untrustworthy, and irresponsible (Lokman & Talib, 2017).

Additionally, the government has launched numerous initiatives to promote work ethics in the public sector, including Clean, Efficient, and Trustworthy, Public Service Values and Ethics, and Excellent Work Culture. Additionally, a written agreement known as the Public Servants Pledge was produced to outline the principles for public servants to follow when performing their tasks ethically. It is based on the 12 pillars, which are a collection of principles such as accountability, respect for time, wisdom, enjoyment of work, simplicity, patience, tenacity, kindness, progression of talent, innovativeness, exemplary impact, and a good personality. Additionally, the Malaysian public service engages with other public service organizations through the Commonwealth Association of Public Administration and Management (CAPAM) to promote good governance among its members. Another program aimed at establishing a moral and ethical society is the National Integrity Plan, which includes a Public Service Ethos and a set of individual principles. Additionally, the Public Service Department (PSD) developed a unified code of ethics to be utilized across the board, although individual agencies have their own code of ethics tailored to their specific functions (Lokman & Talib, 2017).

Despite the government's efforts, public servant corruption continues to persist. This demonstrates that the public sector's integrity is directly tied to the ethical behavior of public officials. Individuals must be informed and understand the value of ethical behavior and the implications of unethical action, as it may result in larger difficulties that harm their agencies and the country.

### 6.4. Islamic ethics in Malaysia

In Islam, an Islamic ethical framework exists that consists of unambiguous standards that govern all facets of political and social activity, as well as economic and business activities, according to the Qur'an and Sunnah (Abdul Rahman, Omar, Rahman, & Muda, 2018). Islamic ethics also specified moral concepts that distinguish between permissible and prohibited acts from an Islamic perspective based on the Qur'an and Sunnah, which are critical in helping Muslims in practicing Islam properly. Between the ninth and fifteenth centuries, during Islam's golden years, the application of Islamic principles was critical in fostering culture and prosperity (Salin, Ab Manan, Kamaluddin, & Nawawi, 2017).

Islamic ethics is founded on three fundamental principles: tawhid, justice, and contentment. Tawhid is a term that refers to the link between Allah the Creator and His servant, including all facets of human interaction in order to accomplish the ultimate goal of life, which is felicity (Al-Falah). In Islam, justice is described as restoring things to their proper places without respect for the rights of others. These two principles enable individuals to reach Islamic ethics' last ideal, which is contentment.

Islamic ethics place a premium on transparency in business, where all information about completed transactions must be transparent and unambiguous in order to avoid any doubt among shareholders or other stakeholders (Abdul Rahman et al., 2018). As a result, management must avoid unethical actions and offer complete and accurate information. Islamic ethics also improve an organization's efficiency and productivity by requiring employees to adhere to Islamic ideals while doing their jobs.

Islam teaches Muslims to prioritize the needs of the group or community over the needs of individuals, which demonstrates that management should consider the interests of other stakeholders such as customers, investors, and the community that may be impacted by the company's operation (Abdul Rahman et al., 2018). Because Islam promotes good deeds and discourages dishonest behavior, these values will be reflected in the way management conducts business and the organizational culture. Husin (2012) stated that ethics from an Islamic perspective will increase job satisfaction and result in an organization's improved performance.

The Malaysian government began introducing Islamic ethics in 1985 with the Instillation of Islamic Value Policy, which emphasized Muslims' awareness and obligation to uphold Islamic values at all levels of the organization. In 1987, the public sector developed Islamic Work Ethics, which emphasized the virtues of honesty, diligence, efficiency, teamwork, and harmony in the workplace. Additionally, it was appropriate for other private sector organizations (Kamri, 2010).

In 2015, the Malaysian government established the Sharia index as a benchmark for determining whether Malaysia adhered to the five major tenets of Maqasid Sharia, namely the protection of religion, life, mind, race, and property (Salin et al., 2017).

Malaysia was found to have adhered to Islamic laws and regulations, earning the highest score of 87.19 percent in the Islamic law category. Indeed, the Malaysian government has implemented a number of initiatives aimed at instilling Islamic ideals in enterprises, whether public or private. While some firms may not have well-written Islamic ethics for their employees, they may have unknowingly incorporated them in their daily actions. This is based on the Qur'an and Sunnah, which both encourage good deeds and discourage unethical behavior in life, which can be applied to business.

## 7. DISCUSSION

On the basis of the foregoing facts and arguments, it is evident that the implementation of a code of ethics in a business should begin with the top management and board of directors, as they are accountable for fostering an ethical work environment (Kazmi et al., 2014; Setiawan et al., 2020). Without a doubt, the code of ethics is critical in reducing the occurrence of fraud within a business since it establishes the norms that must be observed by all parties. However, based on prior instances of fraudulent companies and empirical investigations, the company looks to lack maturity in adopting a code of ethics, resulting in an increasing number of frauds. Additionally, employees lack awareness of the code of ethics, posing numerous difficulties for management in enforcing it.

Furlotti and Mazza (2020) stressed the importance of effective communication between top management and employees in order to strengthen their comprehension of the code of ethics and their ability to apply the code of ethics. This can be accomplished by developing a well-written code of ethics that employees can access and by doing ethics training. Apart from employees, all parties who conduct business with the organization, such as suppliers, customers, and investors, must adhere to the organization's ethical ideals. This is to ensure that they can conduct business with ethics and integrity.

The code of ethics was followed in a variety of sectors, both private and public. All firms in Malaysia, regardless of sector, must adhere to the code of ethics since they represent Malaysia on an international level, as some organizations conduct business on a global scale (Said et al., 2017). As a result, they must ensure that all individuals inside the organization act ethically, as they represent the organization's image. This is critical because a code of ethics can help organizations improve their reputation on a local or global level. Additionally, the Malaysian government has launched a number of initiatives to help government agencies and private sector companies improve their ethical beliefs and integrity in carrying out their tasks and obligations. Empirically, ethical values show a negative correlation with the prevalence of fraud, implying that a code of ethics can help prevent fraud (Alias et al., 2019). Thus, management must ensure that the developed code of ethics is consistent with the organization's objectives since this will provide insight into how the code of ethics

will be implemented inside the organization. To maintain the organization's efficacy and efficiency, all businesses and work must adhere to the ethical standards or principles outlined in the code of ethics.

Finally, it is critical to instill and nurture ethical beliefs in every employee within the corporation, as they regulate how employees conduct business and make decisions. The code of ethics, which comprises ethical ideals and principles, should also be reviewed and updated on a regular basis to ensure that it remains relevant to the organization's present operations. Individuals who breach the code of ethics should be punished regardless of their position within the organization, as the rule of ethics applies to everyone. Auditor involvement in the implementation of the code of ethics is also critical to promoting the top management's and board of directors' transparency and honesty. The position of auditors is also critical in the corporate governance framework, as it serves as a reminder of the organization's code of ethics. As a result, each member inside the organization must have a role in ensuring the code of ethics is implemented successfully and, as a result, fraud is reduced.

## 8. CONCLUSION

While numerous initiatives have been launched to promote the application of the code of ethics, Malaysian organizations continue to lack maturity in adopting and managing ethics within the organization (PwC, 2020). This shows that the code of ethics is not yet fully effective in molding the management teams and employees' ethical behavior. As a result, there are various implications for management on the need to increase knowledge regarding the use of a code of ethics in the workplace.

To begin, ethics training is critical for developing ethical behavior among employees, as they represent the organization's image. All employees, regardless of their position, are obliged to undergo ethics training to ensure the code of ethics is successfully implemented throughout the firm (Remišová et al., 2019). Additionally,

management must establish a system for employees to inquire about any issues pertaining to the code of ethics. This can help increase the effectiveness of the organization's adoption of the code of ethics.

Additionally, the tone set at the top is critical since it helps foster an ethical work environment. It is one of the ethical leadership characteristics that contribute to an organization's good governance. Top management must provide a positive example for employees by reflecting the organization's ethical ideals. In general, the personality of top management has an effect on how employees behave and how they respond to particular workplace conflicts. As a result, the organization's board of directors and senior management must be carefully chosen to guarantee they contribute positive ethical ideals to the firm and fully adhere to the code of ethics.

Another option is to engage auditors to assist in validating how the code of ethics is being implemented by personnel inside the organization. Auditors have a sizable influence on an organization's governance practices, which is critical in the structure and process of corporate governance. Auditors could assist in notifying the authority or board of directors if senior management or staff violates the code of ethics. This will increase top management's transparency and ethics toward employees. Additionally, auditors must collaborate with management to improve the code of ethics. This will motivate staff to adhere to the code of ethics, as senior management has diligently enforced its adoption. This will also boost employee and board of directors' confidence in the auditors' ability to oversee top management's conduct of business (Othman & Abdul Rahman, 2010).

Finally, this work has limitations in that the findings may not be generalizable to different environments or groups of professions and organizations. Qualitative and quantitative research could be conducted to elicit further information about the perceptions of employees in public and private businesses regarding the application of the code of ethics, particularly in light of the emergence of a new norm as a result of the COVID-19 outbreak.

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