

Principled Moral Reasoning: Is it a Viable Approach to Promote Ethical Integrity?

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ABSTRACT. In response to recent recommendations for the teaching of principled moral reasoning in business school curricula, this paper assesses the viability of such an approach. The results indicate that, while business students' level of moral reasoning in this sample are like most 18- to 21-year-olds, they may be incapable of grasping the concepts embodied in principled moral reasoning. Implications of these findings are discussed.

Accounts of unethical managerial behavior appearing in popular and business periodicals have prompted many people to call for improvements in the ethical integrity of our business leaders, as well as sparked interest for improvements in business education. In particular, the teaching of principled moral reasoning in our collegiate business schools has been strongly recommended (Baxter and Rarick, 1987; Penn and Collier, 1985). Many scholars believe that, by teaching principled moral reasoning, occurrences of unethical behavior by future managers will be diminished. The curriculum, according to Marcia Mentkowski (1988), has a decided, added value in

the quest for personal growth toward individual integrity. In particular, she notes that an emphasis upon the students' moral development in the curriculum results in a more ethically sensitive and astute decision-maker. Baxter and Rarick (1987) and Penn and Collier (1985) also target the curriculum as a critical factor in enabling students to develop just resolutions for ethical dilemmas.

By injecting the business school curriculum with the teaching of principled moral reasoning, many believe that future managers will exhibit a higher degree of executive integrity, leading to a practice of ethical behavior. Blasi (1980), in an extensive review of the empirical moral reasoning literature, found that a positive relationship generally exists between moral judgment and moral action. In assessing ethical behavior, a relationship between principled moral reasoning and the practice of ethical behavior was discovered by Brabeck (1980). She found that students exhibiting a greater tendency toward principled moral reasoning also tended to perform the ethically acceptable behavior.

Applied philosophy courses in ethics, managerial business and society courses, and auditing courses are all intended to improve the ethical reasoning skills of future managers. Ethics courses promote the learning of values (Konrad, 1978) and assist future managers in identifying potential conflicts between personal ethics and business practices (Buchholz, 1981). The auditing courses offered in the traditional, undergraduate accounting curriculum typically introduce the students to the AICPA Code of Professional Conduct. It is believed that this exposure is beneficial to the students by providing them with an understanding of expected ethical behavior (Cohen and Pant, 1989; Langenderfer and Rockness, 1989). The viability of education as a catalyst for teaching principled moral reasoning was confirmed

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in an experimental research project reported by Linwood Small (1974). Undergraduate students were exposed to training sessions emphasizing the concepts underlying moral reasoning. The students demonstrated significant advances toward principled moral reasoning; whereas, students in the control group, on average, did not change their moral reasoning orientation (1974, p. 424).

Yet, unanswered throughout the numerous arguments favoring the teaching of principled moral reasoning and the observed relationship between principled moral reasoning and ethical behavior is the question: Are undergraduate business students *capable* of reasoning on a principled moral level? Furman (1990) argues that in teaching a principle-based approach to business ethics, we assume the students' cognitive ability to grasp universal ethical principles. However, as Furman identifies, "only a small fraction of the population ever reaches this stage, yet we consistently expect our students to beat these statistics" (1990, p. 32).

The purpose of this research is to determine whether business students are capable of grasping the concepts embodied in principled moral reasoning by identifying their reasoning level prior to their exposure to courses emphasizing these concepts. Kohlberg's theory of moral development (1981, 1984) and Standard Issue Scoring method (Colby and Kohlberg, 1987) are presented as research bases for exploring the moral reasoning of business students.

Theoretical framework

Lawrence Kohlberg's theory of moral development (1981, 1984) provides a framework for developing research questions about the reasoning processes utilized when decision makers must resolve an ethical dilemma. Based upon earlier work by Jean Piaget (1932), Kohlberg's theory posits that reasoning processes are "developmental" in nature and that an individual progresses through stages of moral reasoning. Kohlberg identifies three levels of moral development through which individuals progress: preconventional, conventional, and postconventional, with two stages within each level (see Figure 1). The second stage within each level represents a more advanced and organized form of the first stage. A brief description of these six stages of moral reason-

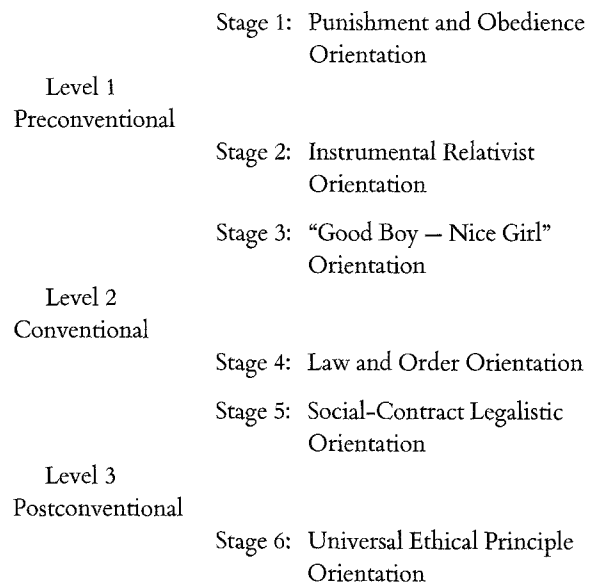


Fig. 1. Kohlberg's stages of moral reasoning.

ing follows (for a more detailed discussion, see Colby and Kohlberg, 1987).

Preconventional level

At this level, a person responds to notions of "right" or "wrong," especially when expressed in terms of punishment, rewards or the imposition of physical power by those enunciating the rules. At Stage 1 (Punishment and Obedience Orientation) the physical consequences of action determine its goodness or badness. Avoidance of punishment and unquestioning deference to power are valued in their own right. Right action is defined in Stage 2 (Instrumental Relativist Orientation) as that which satisfies one's own needs. Elements of fairness and equal sharing are always interpreted in a physical or pragmatic way.

Conventional level

At this level, maintaining the expectations of the individual's family, group or nation is perceived as valuable. Stage 3 ("Good Boy — Nice Girl" Orientation) emphasizes behavior that pleases or helps others and is approved by them. There is much conformity to stereotypical images of what is majority or "natural" behavior. At Stage 4 (Law and Order

Orientation) the individual takes the perspective of a generalized member of society. This perspective is based on a conception of the social system as a consistent set of societal, legal, or religious codes and procedures that apply impartially to all members in a society.

Postconventional level

At this level, there is a clear effort to define moral values and principles which have validity and applicability apart from the authority of the groups and persons holding these principles. Generally with utilitarian overtones, Stage 5 (Social-Contract Legalistic Orientation) defines right action in terms of general individual rights and in terms of standards which have been critically examined and agreed upon by the whole society. Rather than rigidly maintaining laws in terms of Stage 4 law and order, Stage 5 emphasizes the possibility of changing law in terms of rational considerations of social utility. At Stage 6 (Universal Ethical Principle Orientation) right is defined by the decision of conscience in accord with self-chosen ethical principles appealing to logical comprehensiveness, universality, and consistency.

Research question

Research conducted by Kohlberg and his associates has illuminated a number of traits underlying Kohlberg's stage theory that are critical in assessing the viability of teaching principled moral reasoning to college students.

First, Kohlberg's research indicates that individuals reason at a single stage. If an individual's reasoning reflects more than one stage, it is generally one stage above or one stage below the predominant reasoning stage (Kohlberg, 1981).

Second, progression to higher stages of reasoning is usually dependent upon exposure to an environment which stimulates reasoning at this higher level. Without any specific attention toward moral education, the movement from stage to stage typically occurs over a six to eight year period. For example, Colby and Kohlberg (1987) report differences in

stage orientation for the 10, 16–18, and 24–26 age groups.

Research has also shown that the amount of time necessary for progression can be shortened by intense exposure to moral education. Blatt and Kohlberg (1975) reported that students exposed to arguments reflecting reasoning one stage above their present stage of moral reasoning demonstrated progression toward this next highest stage. Similar progression was not observed for those students in control groups. This finding was replicated in five additional settings and is consistent with similar sequential patterns of stage progression found in other studies (Colby *et al.*, 1983; Small, 1974). This suggests that courses designed to teach principled moral reasoning can have an impact on students' reasoning processes.

Critical to the success of efforts to teach principled moral reasoning to college students, however, is the consistent research finding that progression occurs one stage at a time, in a *sequential* (or invariant) pattern (Colby and Kohlberg, 1987; Colby *et al.*, 1983). Hence, a Stage 2 person should not be expected to leap to Stage 4 or Stage 5 simply by being exposed to reasoning at these levels. Rather, it would be necessary for the individual to gradually move from Stage 2 through Stage 3 before being able to comprehend the reasoning embodied in Stage 4.

Thus, although reasoning is generally found to be at a single, predominant stage, research has shown that students can be expected to progress to the *next highest* stage if exposed to an environment which stimulates reasoning at this higher level. The empirical evidence suggests that, in order for courses that emphasize principled moral reasoning (Stage 5 and Stage 6) to have a positive impact on students' reasoning processes, it would be necessary for students to be capable of reasoning at Stage 5 or Stage 6 prior to the course or to reason at one stage below (Stage 4).

To assess the viability of teaching principled moral reasoning to college students, the authors investigated whether:

Prior to exposure to courses emphasizing principled moral reasoning, students predominantly reasoned at Stage 4 or higher.

Methodology

Seventy-three students enrolled in an introductory accounting course during fall, 1988, completed an analysis of an ethical dilemma. In this dilemma, an auditor discovers evidence of fraud while conducting a routine audit of a manufacturing firm (see the Appendix for the full text of the case). When the auditor presents this evidence to the managing partner of the office, he was told to shred the evidence and to let the managing partner take care of the matter. Thus, he is faced with deciding whether to succumb to organizational pressure and shred the papers (an unethical alternative), or to adhere to the guidelines in the professional code of conduct governing auditors and not shred the papers (an ethical alternative).

The students' written responses focused upon a recommended course of action and the reasons supporting the recommended course of action. To limit problems of social desirability in responses, students were informed that there were no right or wrong answers to the dilemma. Rather, they were instructed that the focus of their responses was to be on what they thought should be done and, more importantly, *why* the recommended action should be taken.

Of the 73 case analyses submitted by the students, 12 were eliminated, nine because the students were not business majors and three because the students were not sophomores. These 12 cases were dropped because it was not possible to determine whether the students' previous coursework had included courses that could have had an impact on the development of their level of moral reasoning (e.g., an ethics course).

The subjects in the sample averaged 19.5 years, 53.6 percent of the subjects were male and 89.3 percent were white. Nearly all the subjects were single (98.2%) and had previous work experience (89.3%).

The stage of moral reasoning was assessed by analyzing the students' written responses. The reasons why a particular course of action had been recommended were coded using the Kohlbergian Standard Issue Scoring method (Colby and Kohlberg, 1987). This method compares each subject's responses to the traits embodied in Kohlberg's six stages of moral reasoning (see Figure 2 for represen-

tative examples of reasoning at each stage). The Standard Issue Scoring method consists of three major sections: (1) breaking down the subject's responses into identifiable units of moral reasoning; (2) matching the units to the corresponding stages of moral reasoning; and (3) assigning stage scores. The Standard Issue Scoring method was selected for use in this study because this method has been shown to have greater reliability and validity than other comparable methods (Colby *et al.*, 1983).

Following the general format of the Standard Issue Scoring method, both authors read the subjects' responses to the reasons why a particular course of action was recommended. Once the unit of moral reasoning was identified, the unit was matched to

Stage	ACTION RECOMMENDED	
	Shred the Papers	Do Not Shred the Papers
1	There is no reason for Roger to be a hero and risk losing everything.	Roger can avoid the worst penalty of all which would be a criminal charge against him.
2	This would enable Roger to acquire the two years of auditing experience needed to get his CPA.	Shredding the papers could ruin Roger's credibility and stand in the way of a promotion or a future job.
3	Roger would be acting as a "team player" within the firm and his boss would appreciate that.	This course of action is the best for Roger, the firm and the stockholders of the savings and loan.
4	There is an obligation for every employee to be loyal to the employer. This is essential for the operation of any firm.	If we ignore accepted written laws within our society, there would be a breakdown of the system.
5	The partner has a right to run his office in the manner he deems necessary. He may have other information which may justify his actions for the greater good of all involved.	Roger should not compromise his perceived ethical code for a business.

Fig. 2. Representative examples of reasoning at each stage

the attributes contained in each stage of Kohlberg's stages of moral reasoning. If more than one stage of moral reasoning was identified, the higher stage was assigned since the purpose of this research was to identify the highest stage of moral reasoning displayed by the students. In all of the cases where more than one stage of moral reasoning was identified, the two stages were in sequential order (e.g., Stage 1 and Stage 2, or Stage 2 and Stage 3). The authors then compared their independent assessments of each subject's responses. If there was agreement, the stage score was assigned. If uncertainty or disagreement occurred, the authors discussed and reassessed their evaluations until a mutually agreeable decision was reached.

To further validate the scoring procedure, an additional rater coded a random sample of 10 percent of the usable responses (six cases). This rater was familiar with the Standard Issue Scoring method and made his assessments independently of the authors. In comparing the results between the authors' assessments and the independent rater's assessments with prior levels of interrater reliability using the Standard Issue Scoring method, the level of complete stage agreement (0.83) was above the commonly acceptable limit (see Colby *et al.*, 1983).

Results

Our research question investigated whether sophomore business students would predominantly reason at Stage 4 or higher. Table I displays the observed frequencies of the students' stages of moral reasoning. Surprisingly, only 23 percent of the students in our sample demonstrated the ability to reason at Stage 4 or above. The overwhelming majority (77%) demonstrated reasoning below Stage 4. Thus, the findings of this study are consistent with the results of previous Kohlbergian research using similar subjects. For example, Colby and Kohlberg (1987) recently reported the results of a longitudinal study of the moral development of American males. They found that subjects in the same age group as those in our study typically reasoned at Stage 2 or Stage 3 (73.3%).

Closer examination of the data in Table I reveals another interesting finding. That is, approximately one-half (30 of 61) of the students demonstrated

TABLE I
Students' stages of moral reasoning

Stage	Number of students		
6	0	0.0%	
5	1	1.6%	22.9%
4	13	21.3%	
3	17	27.9%	
2	28	45.9%	77.1%
1	2	3.3%	
Total	61	100%	

self-centered reasoning characteristics reflected in the preconventional level of reasoning (Stages 1 and 2).

We also performed an analysis to test the assertion that principled moral reasoning would be associated with higher degrees of ethical integrity, although no formal research hypotheses had been developed. Previous research suggests that such a relationship exists (see Blasi, 1980, for a review of these studies). Table II displays the observed frequencies of stages of moral reasoning associated with both the ethical (not shred the papers) and the unethical (shred the papers) courses of action. A *chi-square* test revealed a statistically significant relationship between higher stages of moral reasoning and ethical action (*chi-square* = 15.946, 4 d.f., $p = 0.003$). The significance of this relationship, however, must be interpreted with care due to the small number of observations for the unethical action.

TABLE II
Distribution of stages of moral reasoning by action

	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Total
Shred The Papers	2	4	2	0	1	9
Do Not Shred The Papers	0	24	15	13	0	52
Total	2	28	17	13	1	61

Chi-square test: $X = 15.946$, 4 d.f., $p = 0.003$.

The results of our study have important implications about the viability of teaching principled moral reasoning to business students. They also provide some insight into alternative ways in which courses might be structured to aid in the moral development of students. These implications will be discussed in the next section.

Discussion and conclusions

This study identified the stages of moral reasoning exhibited by sophomore business students. The authors discovered that the majority of the subjects reasoned at the same stages exhibited by similar subjects found in other research (Colby and Kohlberg, 1987). Thus, the theory and the Standard Issue Scoring method appear to be an acceptable framework as our findings are generally consistent with previous studies using the same method with similar subjects.

However, the purpose of this study was to assess the viability of teaching principled moral reasoning, given the students' reasoning level prior to their exposure to courses emphasizing these concepts. Students are typically exposed to courses emphasizing this level of reasoning during their junior or senior years. Thus, by looking at the level of moral reasoning demonstrated by college sophomores, the potential success for introducing principled moral reasoning in the next year or two of the business school curriculum could be evaluated.

Our findings are not consistent with those of other studies and challenge the viability of teaching principled moral reasoning to undergraduate business students. While several studies have reported that exposure to principled moral reasoning significantly improved business students' espoused ethical behavior (for example, see Fulmer and Cargile, 1987; Arlow and Ulrich, 1980), 77 percent of the students in our sample did not demonstrate reasoning at a level sufficient to grasp the concepts embodied in principled moral reasoning. If these students do not encounter an environment which fosters progression to at least Stage 4 reasoning prior to an ethics, business and society, or auditing course, it is unlikely that these courses will have a significant impact on

the students' ability to comprehend principled moral reasoning.

Our findings support the generally observed relationship between higher stages of moral reasoning and ethical behavior. One of the objectives of teaching principled moral reasoning is to improve ethical integrity and the practice of ethical behavior (Mentkowski, 1988). Students in our sample demonstrating Stage 4 or higher reasoning were inclined toward selecting the ethical alternative. However, although our findings support the observed relationship between higher stages and ethical behavior, the number of students demonstrating higher stages of reasoning is relatively small.

Given this observed lack of development, it may be advisable for instructors to emphasize conventional moral reasoning before progressing to the higher level concepts of principled reasoning. In particular, an appreciation for a social system with a consistent set of societal, legal, or religious codes or procedures (concepts embodied in State 4) might aid Stage 3 students in progressing from a concern for pleasing or helping others to a more advanced form of conventional reasoning. In addition, since half of the students in this sample exhibited pre-conventional reasoning, an initial emphasis upon Stage 3 reasoning (behavior that pleases or helps others and is approved by them) may be necessary. The students' pre-conventional perspective (emphasizing a concern for the well-being of the individual) must be expanded to include the conventional moral level perspective of a concern for the expectations of various referent groups (family, school, nation). This emphasis could provide the students with the proper environment to accelerate their reasoning process toward higher stages and prepare them for an understanding of the concepts embodied in principled moral reasoning.

Once these intermediate steps are provided, the probability of the students being prepared to aspire to and comprehend Stage 5 (and eventually Stage 6) moral reasoning may be increased. Without these intermediate steps, a course which emphasizes the teaching of principled moral reasoning might be ineffective for a significant proportion of business students, most of whom may be predominantly concerned with the satisfaction of their own needs (Stage 2) or in pleasing or helping others (Stage 3).

Our conclusions must be considered in the light of the following limitations. First, it must be recognized that our sample may not be representative of the population of sophomore business students. Our students were almost exclusively white, single, 19-year-olds. Additional studies are needed before these results can be generalized.

Second, our study concentrated solely on assessing moral reasoning before specific coursework emphasizing principled moral reasoning concepts had been encountered by the students. It would be fruitful for future research to critically assess the opportunities students might encounter between their sophomore year (when the assessments in this study were taken) and the time the students are exposed to ethics, business and society, and auditing courses which introduce principled moral reasoning.

Appendix Roger Worsham Case*

Arnold Abramson and Company is a regional accounting firm, with offices in Michigan and northern Wisconsin. It was founded in 1934 to provide auditing and tax services in the Bay City, Saginaw and Midland triangle in Michigan and, despite the depression, was immediately successful due to the economic growth of that area. Following the Second World War, the firm opened offices in Flint and Detroit to the south, and in Traverse City, Petosky and Alpena to the north. The northern offices were successful, as competition was very limited. The company continued to expand across the Upper Peninsula, with new offices in Escanabe (1952), Marquette (1954) and Ironwood (1954) in Michigan, and in Rhineland (1957), Ashland (1959) and Wausau (1961) Wisconsin.

The southern offices of Arnold Abramson and Company, in Flint and Detroit, competed directly with the large, national CPA firms, the so-called "Big-Eight." They were able to operate successfully until the mid-1960s by providing more personalized services and by charging somewhat lowered rates. However, competition sharply increased in the late 1960s and early 1970s as the tax laws became more complex, the auditing procedures more rigorous and the bookkeeping more automated. The "Big Eight"

firms were able, through their extensive training programs and their continual staff additions, to provide more extensive help and assistance to their clients on tax changes and data processing procedures. Many of the small and medium sized companies that had been customers of Arnold Abramson for years switched to one of the national firms. It was eventually necessary to close the Detroit office, and to reduce the size of the staff at Flint.

Some of the partners of Arnold Abramson and Company recommended the merger of their company with one of the national CPA firms, but the founder, Mr. Arnold Abramson, was not only still living but was still active, and he and his two sons were adamant in their opposition to any sale or merger. They believed that their past policies of personal attention, prompt response and reduced billings would maintain the firm in the smaller cities and towns of northern Michigan and Wisconsin. Even when some of their clients in the northern areas of the two states felt it necessary to obtain the data processing assistance and tax expertise of the national firms, Mr. Abramson and his two sons continued their resistance to the possibility of merger, and continued to emphasize their concept of personalized service.

The old gentleman was 84 when I joined the firm, and he simply was not going to surrender to Arthur Andersen or Price Waterhouse. And, you know, he had a point: there is room left in the world for the more personal approach, even in auditing. The old man was adamant about this. I understand that at the partners' dinner this year he laid it right on the line to the other members of the firm. "You are to keep the local banks, retail stores and manufacturers as your clients; if you lose your clients to those people from Detroit, we'll shut down your office." He always referred to representatives of the Big-Eight firms as "those people from Detroit" even though they might be from offices in Lansing, Grand Rapids or Milwaukee (statement of Roger Worsham).

Roger Worsham was a 32-year-old graduate of the MBA program at the University of Michigan. He had majored in accounting, but had found it difficult to obtain employment at the large national CPA firms. He had interviewed with eight of the largest companies, and had been rejected by all eight. The Director of Placement at the School of Business Administration had explained that this was due to

his age, and that the Big Eight firms were exceedingly hesitant to hire anyone over 28 to 30 years of age since they felt that the older entrants were unlikely to stay with the firm over the first few years of auditing, which some people found to be dull and tedious. Roger, however, felt that perhaps his personality was more at fault than his age. He found it difficult to converse easily in the interviews, and he was afraid that he projected himself as a hesitant, uncertain individual. He had worked for six years as a science teacher in a primary grade school after graduating from college. Interviewers always asked about his decision to change professions, and always seemed to imply that he was not certain about his objectives in life or his commitment to accounting.

At the suggestion of a faculty member who taught the small business management course at the Business School, Roger applied to some of the smaller CPA firms in the state, and was almost immediately accepted by Arnold Abramson and Company.

I met Mr. Abramson, Jr. and he talked about what I wanted to do in accounting, not what I had done in teaching. That interview went really well, and I knew when he asked me if my wife and I would mind living in a small town that he was going to offer me a job. It does not pay as much as working for some of the other firms, but I can get my CPA (in Michigan, two years of auditing experience is required after passing the written examinations to obtain a CPA) and then I assume they'll pay me more, or I can move into industry (statement of Roger Worsham).

Roger was assigned to one of the northern offices, and he moved his family (wife and two small children) to the area and started work immediately after graduation. Within the first six months he participated in the audit of a savings and loan association, a farm equipment dealership, a large retail hardware store and a nearly bankrupt machinery manufacturing firm. His family enjoyed the area in which they were living, and Roger enjoyed the work that he was doing. He felt that his life was beginning to take on a direction and purpose. But then he found clear evidence of fraud, and encountered a situation that threatened his newly-found security and employment:

We were doing the annual audit for the machinery manufacturer. This company had not been doing well. Sales had been declining for four or five years, losses had

been reported for each of those years and the financial position of the company had steadily deteriorated. I was going through the notes payable, and found that they had a loan, and a large one, from the savings and loan association in (name of the city in which Mr. Worsham and his family lived).

Now, firstly it is illegal for a savings and loan association to make a loan to a manufacturing firm. They are restricted by law to mortgages based upon residential real estate. But, even more, I knew this loan was not on the books of the savings and loan since I had been the one to audit the loan portfolio there. I had looked at every loan in the file. I had not statistically sampled from the file (which is the way you would usually do it), but had checked each loan to see that it was supported by a properly assigned mortgage and a currently valid appraisal. The only thing I had not done was to add up the total for the file to check with the reported total, since the usual way is to sample, and you don't get a total when you sample. I still had my working papers back at our office, of course, so I went back and ran the total. Sure enough, it was off by the amount of the loan to the manufacturing company.

It was obvious what had happened. Someone had taken the folder covering the illegal loan out of the file prior to our audit. It became obvious who had done it: the president of the savings and loan association was a lawyer in the town who, I found by checking the stockholder lists, was the largest owner of the manufacturing company. He was also on the board of directors of the local bank, and reputedly was a wealthy, powerful person in the community.

I took my working papers and a xerox copy of the ledger showing the loan, and went to see the partner in charge of our office the next morning. He listened to me, without saying a word. When I finished, he told me, "I will take care of this privately. We simply cannot afford to lose a client of the status of (name of the lawyer). You put the papers you have through the shredder."

I was astonished. The AICPA Code of Ethics and generally accepted auditing standards both require that you either resign from the engagement or issue an adverse opinion when you find irregularities. This was not a small amount. The loan was not only illegal, it was in default, and would adversely affect the savings and loan association.

I hesitated, because I was surprised and shocked. He told me "I will not tell you again. You put those papers through the shredder or I'll guarantee that you'll never get a CPA in Michigan or work in an accounting office in this state for the rest of your life."

I didn't know what to do (statement of Roger Worsham).

Notes

* This case was prepared by Professor LaRue Tone Hosmer as a basis for class discussion. The names of all individuals and the names and locations of all firms have been disguised. The case is copyrighted (1978) by the Regents of the University of Michigan and is reprinted here with the author's permission.

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