Ethical Judgments on Selected Accounting Issues: An Empirical Study

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ABSTRACT. This study investigates the judgments made by accounting majors when confronted with selected ethical dilemmas that pertain to accounting practice. Drawing upon literature in philosophy and moral psychology, it then examines these judgments for potential gender differences. Five case studies, each involving a specific ethical dilemma that a practicing accountant might face, were administered to 151 acounting majors (males = 67; females = 84), in four sections of intermediate accounting II at a large, state university. The results suggest that although the vast majority of participants would *not* engage in unethical behavior, a reasonable opportunity exists to improve the participants' ethical awareness. The results do not, however, support the existence of gender differences in ethical judgments.

Introduction

In recent years, reports of unethical behavior among business personnel entrusted with accounting and financial responsibilities have become increasingly common. These stories appearing in the *Wall Street Journal* are typical:

- Rockwell International Corp. pleaded guilty to federal criminal fraud charges in connection with a double-billing scheme on a defense contract (Read, 1989, p. A4).
- CompuScan Inc.'s former assistant treasurer pleaded guilty to federal charges that he participated in a scheme to misuse nearly $1 million of company funds (*Wall Street Journal*, 1989, p. C16).
- A former operations manager for Prudential-Bache Securities Inc. pleaded guilty to mail fraud and embezzlement from the company's mutual fund house accounts (*Wall Street Journal*, 1989, p. C18).
- A former accountant with the Department of Housing and Urban Development was indicted by a federal grand jury in Denver for allegedly embezzling about $1 million from a federal program designed to help poor families obtain housing (*Wall Street Journal*, 1989, p. A12).
- The former chairman of MiniScribe Corp. and virtually all of the company's top management and accounting staff were apparently involved in deliberate financial statement falsification over at least a four-year period (Zipser, 1989, p. A1, A8).
- The chairman and chief financial officer of the parent corporation for the troubled Lincoln Savings & Loan Association testified before Congress that the company has engaged in intentionally obscure accounting practices (Thomas, 1989, p. A14).
- Southern Co.'s Gulf Power Co. subsidiary pleaded guilty to two felony charges of conspiracy to make illegal political contributions and tax evasion and paid $500,000 in fines as a result of having established an elaborate accounting system to disguise and hide the illegal payments from the Internal Revenue Service (Christie, 1989, p. B7).
- A study by the National Association of Accountants revealed that some 87% of the managers surveyed

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were willing to commit fraud in one or more of the cases presented to them (*Wall Street Journal*, 1990, p. A1).

The frequency of fraudulent and illegal activity is further evidenced by the fact that the *Wall Street Journal Index* lists nearly 800 news articles that were published during 1989 dealing with "white collar crime," or an average of three stories every business day.

In view of this publicity, it is not surprising that ethics has become one of the most widely-discussed topics in the business community. Nowhere in business is the subject more important than in the accounting profession. Corporate accountants and independent public accountants (auditors) have special obligations to behave ethically because of the considerable trust that investors and creditors place in them. Corporate accountants help managers to prepare financial information, while auditors attest to its fairness in accordance with generally accepted accounting principles. For capital markets to work efficiently in allocating resources among business enterprises, the investing public must have confidence in financial information and in the accountants who help to prepare and audit it.

Current AACSB accreditation standards require some coverage of ethical issues as part of the economic and legal environment of business organizations (*Accreditation Council Policies, Procedures, and Standards,* 1990, p. 32). Recently, a group of distinguished business leaders addressed the growing concern about ethical behavior and the accounting profession's role in maintaining the integrity of corporate financial reporting. As a result of its study of fraud in the marketplace, the National Commission on Fraudulent Financial Reporting (1987, pp. 82–83) recommended that ethics be given a greater emphasis in business and accounting curricula and that the subject matter be integrated into all business courses. Yet a survey by Cohen and Pant (1989) indicates that, except for the auditing course, ethics coverage in the typical accounting curriculum is currently minimal.

Interestingly, this increased awareness of ethical issues coincides with a tremendous growth in the number of females entering the accounting profession. A 1989 survey published by the American Institute of CPAs (AICPA), for example, indicates that about 52 percent of accounting graduates are female. In contrast, women comprised only 28 percent of all accounting graduates when the first AICPA survey was conducted in 1978 (Walsh and McInnes, 1989, pp. 7–8). Even more dramatic is the fact that between 1961 and 1985, the number of bachelor's degrees in accounting awarded to men increased by 136 percent, while the number of bachelor's degrees in accounting awarded to women increased by 4,900 percent (Changes in Accounting Education Committee, 1986–87, p. 148).

In view of the growing presence of women in the accounting profession and the vital importance of ethics to all accountants, this study has two primary objectives:

1. To analyze the judgments that accounting majors make when confronted with selected ethical dilemmas that pertain to the accounting discipline.
2. To determine whether male and female accounting majors differ in their ethical judgments.

The first objective is designed to provide some indication of how future accountants respond when confronted with accounting ethical dilemmas. The second is intended to add to a body of research that currently reflects conflicting views as to whether gender differences exist in ethical judgments.

Rationale for studying male-female ethical judgments

The literature of philosophy and moral psychology reflects disparate views as to whether males and females differ in their ethical judgments. One view supports the existence of gender differences. Gilligan (1982), for example, believes that men and women undergo a fundamentally different moral development. Men tend to view moral issues primarily from what Gilligan calls a *justice* perspective. According to this view, men conceive of morality as primarily consisting of rights and obligations, and they attribute great importance to the concepts of fairness and impartiality. In contrast, Gilligan believes that a *care* perspective dominates the moral development of women. That is, women see moral requirements as related to the needs of others in a particular context.

Women therefore tend to show more concern than men in their moral decisions about such issues as caring for others, preventing harm, and preserving relationships (Flanagan and Jackson, 1987, p. 623).

Certain literature in sociology and organizational psychology appears consistent with Gilligan's thesis. Specifically, the *gender socialization* approach suggests that men and women tend to approach their jobs from different perspectives and seek different rewards. Men are generally more concerned about such issues as money, advancement, and power, while women tend to emphasize harmonious relationships and helping people. The male concern about tangible measures of competitive success could result in a tendency for them to be less ethical than females (see Betz *et al.*, 1989, p. 322).

A second school of thought advanced in the literature of philosophy and moral psychology maintains that no fundamental differences exist in the moral development and judgments of men and women. That is, moral systems apply universally to all persons regardless of sex. Kohlberg (1984), for example, has constructed a model in which the moral development of any person may evolve through as many as six stages. The highest stages (5 and 6) of Kohlberg's theoretical model represent the most advanced levels of moral development and are reached only by a small minority of adults. Similarly, Rest (1986, pp. 3–4) has designed a four-component model and the Defining Issues Test (DIT) to determine whether a person is behaving morally. Kohlberg's six-stage model and Rest's DIT have been used extensively in research that studies moral judgments in a general context.

Certain literature in sociology and organizational psychology supports the probable absence of gender differences in moral orientation. The *structural* approach suggests that although men and women may initially approach their jobs with different values and work interests due to socialization differences that occurred during their childhood, these differences disappear as they adjust to their occupational roles. Thus, men and women learn to respond similarly to the reward structure that shapes their behavior in the job environment (see Betz *et al.*, 1989, p. 322).

Empirical research into possible gender differences in ethical judgments shows conflicting results. Some studies (e.g., Akaah, 1989; Betz *et al.*, 1989) have found that women tend to behave more ethically than men, while others (e.g., Haan *et al.*, 1976; Holstein, 1976) suggest that men are more morally advanced than women.[1] Still other research suggests that no significant differences exist between the sexes (e.g., Walker, 1984; Rest, 1986).

Given these conflicting results as well as the importance and sensitivity of the subject of gender differences, one objective of the present study is to determine whether such differences exist when ethical judgments are elicited in an accounting context. We are unaware of any previous research that has addressed the question of gender differences in the accounting environment.

Studying the gender issue in an accounting context is important for three reasons. First, it will add to an important body of literature in which conflicting theories and empirical findings currently exist. Second, it may suggest where limited resources for ethics education should be concentrated. Finally, it may provide insights into future ethical trends in the accounting profession as women continue to assume more important roles.

Methodology

The cases

The authors developed five case studies, each involving a specific ethical dilemma that a practicing accountant might face. Participants were instructed to read each case and check the space that best indicated the likelihood that they would engage in the activity described. Responses on the following five-step ordinal scale were possible:

No, I definitely would *not*. (coded 1)
I probably would *not*. (coded 2)
I don't know what I would do. (coded 3)
I probably would. (coded 4)
Yes, I definitely would. (coded 5)

Because the cases described engaging in unethical/questionable behaviors, the most appropriate (i.e., ethical) response to every case was "No, I definitely would *not*." The nature of each case is briefly described below.[2]

Case 1 – Dealt with submitting a false reimbursement claim of $150 for 5 days of out-of-town meals.

Case 2 – Dealt with using confidential inside information to potentially make millions of dollars illegally by trading in the common stock of a company targeted for takeover.
Case 3 – Dealt with increasing a company's income, by recognizing sales revenue before it was earned, in order to avoid breaking a ten-year trend of rising earnings per share.
Case 4 – Dealt with lowering a company's accounting and taxable income by misstating the company's cost of goods sold expense.
Case 5 – Dealt with accepting a $25 000 cash payment in exchange for selecting a company as an outside contractor to perform maintenance work.

Each case presented a reasonably complete scenario, comprehensible to anyone with a sufficient technical background in accounting. The cases were detailed enough to appear realistic, yet not so involved as to make them overly complex. The cases were carefully developed, reviewed by faculty colleagues, and revised numerous times before being administered.

The instructions asked the participants to simply exercise their judgment in dealing with various accounting matters. In order to avoid biasing the results, we did not disclose the fact that the cases dealt with ethical judgments. Such a disclosure could have, for example, implicitly encouraged the subjects to "do the right thing." To further promote candid participation, subjects were assured that their responses would remain completely anonymous. In no way could the authors associate the participants' names with their responses.

To avoid any additional bias that might be attributable to the presentation of the cases, each packet of cases was assembled in random order.

The participants

Subjects in the study were all accounting majors (n = 151; males = 67; females = 84) enrolled in four sections of the intermediate accounting II course at a large, comprehensive state university during the spring of 1990. The university is classified as a "Research University I" in the Carnegie Foundation classification system of universities and colleges. Intermediate accounting II is a second-semester, junior-level course required of all accounting majors. Students enrolled in this course would be expected to understand the technical content of each of the five cases.

The students took about 20 minutes to complete the research instruments during class and appeared to treat the task seriously and responsibly.

Table I summarizes demographic data for the sample of 151 participants. This table shows that the male and female students were basically alike in terms of selected key characteristics. Although the females had a significantly higher mean overall grade-point-average than the males, no other significant gender differences (at alpha = 0.05) were found on the demographic variables.

Results

Overall

Table II summarizes the responses to the five case studies, overall and by gender. Regarding the first objective of this study, the results in Table II suggest that the accounting students are generally ethical in their indicated responses. In other words, only a small minority of students indicated a probable or definite willingness to engage in the unethical behaviors described in the cases. The percentages of "unethical" responses (i.e., a "4" or "5" on the five-point scale described earlier) ranged from 8 percent for case 5 to 29 percent for case 1. In each of the five cases, more than 60 percent of the participants gave an "ethical" response (i.e., a "1" or "2").

Case 1, which dealt with submitting a false reimbursement claim of $150 for 5 days of out-of-town meals, yielded the highest percentage of unethical responses. However, case 1 described what is perhaps the least serious offense of any of the five cases.

Arguably the most serious offense presented to the students was case 2, which involved using confidential inside information in order to make money illegally in the stock market. Only 4 percent of the accounting majors indicated that they would definitely engage in this behavior, while another 10 percent indicated that they probably would. Interestingly, Betz *et al.* (1989, p. 323) presented a some-

TABLE I
Descriptive statistics for the demographic data

	Mean			Standard deviation			Mann-Whitney results[a]
	Overall	Male	Female	Overall	Male	Female	
Age	23.9	23.2	24.4	6.13	5.26	6.73	*NS*
Grade-Point-Average:							
Overall	3.34	3.28	3.40	0.35	0.35	0.33	*S*
Accounting courses	3.33	3.33	3.32	0.43	0.40	0.45	*NS*

	Number			Percentage			Mann-Whitney results[a]
	Overall	Male	Female	Overall	Male	Female	
Classification:							
Junior	107	49	58	71	73	69	
Senior	38	14	24	25	21	29	
Graduate	6	4	2	4	6	2	
	151	67	84	100	100	100	*NS*

[a] NS = not significant at $\alpha = 0.05$; *S* = significant at $\alpha = 0.05$.

what similar dilemma in a different context to finance and management majors (primarily graduate students) and found that 50 percent of the males and 31 percent of the females were willing to buy stock with inside information.

Cases 3 and 4 dealt with specific financial reporting issues. Only one person indicated a definite willingness to increase a company's income by recognizing sales revenue before the company earned it, while 16 percent indicated that they probably would (case 3). None of the participants expressed a definite willingness to lower a company's accounting and taxable income by misstating the company's cost of goods sold, although 20 percent indicated that they probably would (case 4).

The case that inspired the greatest number of ethical responses was case 5, which dealt with accepting a $25,000 cash payment in exchange for selecting a company as an outside contractor to perform maintenance work. Only one percent indicated a definite willingness and 7 percent a probable willingness to engage in this kind of behavior. Interestingly, as discussed later in the paper, this was the only case that yielded significant differences between the male and female participants.

Although the vast majority of accounting majors indicated that they would behave ethically, the responses show that a reasonable opportunity exists for improvement. Specifically, the frequencies of "3," "4," and "5" responses shown in Table II are perhaps troublesome and may lend support to arguments for instruction in business ethics. A separate course in business ethics coupled with an integration of ethics throughout the accounting curriculum is one approach. Another interesting possibility is two-person team teaching, with one instructor trained primarily in accounting and the other in ethics (Loeb, 1988, pp. 325–326). To encourage such activity among accounting professors, however, business schools will probably need to give ethics instruction a higher priority than they do now.

Gender effect

As to the possible existence of gender differences in ethical judgments, Table II shows that the mean

TABLE II
Summary of ethical judgments

	Ethical responses[a]	Number			Percentage			Mean			Standard deviation			Mann-Whitney results[b]
		Overall	Male	Female	Overall	Male	Female	Overall	Male	Female	Overall	Male	Female	
CASE 1	1	47	19	28	31	28	33							
Submitting a false reimbursement	2	51	24	27	34	36	32							
claim of $150 for 5 days of	3	9	5	4	6	8	5							
out-of-town meals.	4	37	17	20	24	25	24							
	5	7	2	5	5	3	6							
		151	67	84	100	100	100	2.38	2.39	2.37	1.28	1.23	1.32	*NS*
CASE 2	1	74	29	45	49	43	54							
Using confidential inside	2	38	16	22	25	24	26							
information to potentially make	3	18	11	7	12	16	8							
millions of dollars illegally by	4	15	6	9	10	9	11							
trading in the common stock of a	5	6	5	1	4	8	1							
company targeted for takeover.		151	67	84	100	100	100	1.95	2.13	1.80	1.17	1.28	1.06	*NS*
CASE 3	1	33	14	19	22	21	23							
Increasing a company's income,	2	60	24	36	39	36	43							
by recognizing sales revenue before	3	33	12	21	22	18	25							
it was earned, in order to avoid	4	24	17	7	16	25	8							

breaking a ten-year trend of rising earnings per share.	5	1	0	1	1	0	1						
		151	67	84	100	100	100	2.34	2.48	2.23	1.01	1.09	0.94	*NS*
CASE 4 Lowering a company's accounting and taxable income by mistating the company's cost of goods sold expense.	1	28	9	19	19	14	23							
	2	64	31	33	42	46	39							
	3	28	12	16	19	18	19							
	4	31	15	16	20	22	19							
	5	0	0	0	0	0	0							
		151	67	84	100	100	100	2.41	2.49	2.35	1.02	0.99	1.04	*NS*
CASE 5 Accepting a $25,000 cash payment in exchange for selecting a company as an outside contractor to perform maintenance work.	1	85	33	52	56	50	62							
	2	40	18	22	27	27	26							
	3	13	7	6	9	10	7							
	4	11	7	4	7	10	5							
	5	2	2	0	1	3	0							
		151	67	84	100	100	100	1.71	1.91	1.55	0.99	1.14	0.83	*S*

[a] 1 = No, I definitely would *not.*
2 = I probably would *not.*
3 = I don't know what I would do.
4 = I probably would.
5 = Yes, I definitely would.

[b] *NS* = Not significant at $\alpha = 0.05$; *S* = Significant at $\alpha = 0.05$.

female response in each of the five cases is lower than that of the males, suggesting that the females tended to respond more ethically. The null hypothesis that the male and female responses were drawn from the same population was tested using the nonparametric Mann-Whitney U in each of the five cases. As shown in Table II, only one (case 5) of the five two-tailed tests yielded significant results at the conventional alpha level of 0.05. The fact that four of the five tests (80 perent) did *not* yield significant differences suggests that the males and females generally tended to make similar ethical judgments. In other words, gender does not appear to significantly aid in explaining the variation in the ethical judgments of these participants.

Although the results of these univariate tests do not support the existence of gender differences, a possibility exists that other factors thought to influence ethical judgments may be confounding the univariate test results. In particular, research has shown that age and formal education influence moral judgment (Rest, 1986, p. 176). Although our sample was relatively uniform with respect to these variables, we nevertheless performed a second series of tests to control for differences in the subjects' ages and years of post-secondary education. Specifically, the case responses were regressed on three explanatory variables: (1) age, (2) years of post-secondary education, and (3) gender, a dummy indicator and the variable of interest. A separate model was estimate for *each* case.

Results of the regression analyses confirm those of the univariate tests. Controlling for the effects of possibly confounding influences fails to reveal any significant gender differences in ethical judgments. In the five regressions, gender is again significant at the 0.05 level only in case 5. Moreover, the age and years of post-secondary education variables are not significant.

Overall, the univariate and multivariate analyses do *not* support the existence of gender differences in ethical judgments. Our findings are therefore consistent with the research summarized by Rest (1986, p. 178), who maintains that "sex differences [in moral judgment] are trivial." The results are also consistent with the structural approach, as described earlier in this paper, rather than the gender socialization approach.

Concluding comments

Evidence summarized in this paper suggests that the vast majority of accounting majors who participated in this study would *not* engage in unethical behavior. Nevertheless, some would and others are uncertain about what they would do if confronted by the ethical dilemmas presented in the case studies. Thus, a reasonable opportunity seems to exist to improve the ethical awareness of certain accounting students, perhaps through appropriate coursework.

Research in philosophy and moral psychology provided the motivation to study the important and sensitive issue of gender differences in moral judgment. The evidence summarized in this study of accounting majors making ethical judgements in accounting contexts does *not* support the existence of gender differences.

As indicated earlier in this paper, recent years have seen a remarkable growth in the number of women entering the accounting profession. Moreover, society's expectations of men and women are changing rapidly. As Naisbitt and Aburdene (1990, p. 217) have observed in their best seller, *Megatrends 2000*, "to be a leader in business today, it is no longer an advantage to have been socialized as a male." Moreover, "the tendency – often attributed to women – to want to balance the top priorities of career and family is generational, not gender-specific" (Naisbitt and Aburdene, 1990, p. 222). The point is that behavioral differences that once existed between the sexes now seem to be rapidly disappearing. Men and women want similar rewards from their jobs and are willing to engage in similar behaviors to achieve them.

This study's results are limited in that accounting majors responded to hypothetical case dilemmas. Moreover, the ordinal measurements derived from the case scenarios are more simplistic than the measures produced by the scoring system of Kohlberg's six-stage model. Although considerable effort was expended to make the cases appear realistic, a stronger test of accounting ethical judgments would involve practicing accountants making actual ethical decisions. We hope our study will encourage further research of this kind.

Notes

[1] Many of these studies have used Kohlberg's six-stage model. Some researchers (e.g., Gilligan) believe that Kohlberg's model contains a sex bias favoring males in the scoring system.

[2] For the sake of brevity, this paper provides only a one-sentence description of each case. The actual cases are considerably more detailed. Readers may obtain the complete text of the cases by contacting either author.

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