

## **Ethics and Accounting Profession: An Exploratory Study of Accounting Students in Post Secondary Institutions**

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*Current news about corporate scandals and unethical behaviors of major accounting firms have implied a murky image that hangs over the accounting profession. As a result, there is growing interest in understanding how accounting majors view the ethical behavior of the scandals in large corporations. The purpose of this study therefore, is to evaluate the perception of ethical behavior among students in the 5-year accounting program and their view on the accounting profession in the 21<sup>st</sup> century and beyond. This study explores the stages of the theory of moral development by Lawrence Kohlberg and relates each stage that leads to students progressing in their moral reasoning. Approximately three hundred students enrolled in a five year accounting program in a selected four year accredited colleges and universities in New York State were surveyed. Findings suggest that accounting students surveyed in this paper are in line with Kohlberg's moral reasoning. Implications of this finding are discussed.*

Field of Research: Business Ethics

### **1. Introduction**

Well-known scandals of one of the major leading accounting firms in the United States Arthur Andersen coupled with alleged unethical acts committed by Enron, Adelphia Communications, Dynegy, WorldCom, and Tyco have arouse the conscious of the public and stakeholders as to the moral decline and unethical posture of public accountants unveiled a decline in moral reasoning and ethical standards of public accountants (Dellaportas, 2006; Esmond-Kiger, 2004). The result of unethical conduct among public accountants has necessitated a change in the manner of responsibility for improving the quality of education in the accounting curriculum (Desplaces, Melchar, Beauvais, & Bosco, 2007).

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An investigation on this topic revealed that little research has been conducted on this issue and none at all on the ethical perceptions of accounting students concerning the new mandated changes in the accounting curriculum by the American Institute of Certified Public Accountants (AICPA) (Taylor & Rudnick, 2005; Ritter, 2006).

Revisions in the accounting curriculum mandated by the (AICPA) added the 150-credit rule which has been adopted by 43 states in America (Taylor & Rudnick, 2005). The 150-hour rule requires students to complete 150-credit hours in order to sit for the Certified Public Accountant (CPA) exam. This rule has raised concerns regarding the effectiveness and need of the curriculum change by the AICPA (Bierstaker, Howe, & Seol, 2005). The AICPA's overall goal was to improve the quality of work performed by public accountants since the business environment is frequently changing and the demand for ethical accounting, auditing, and assurance services in financial reporting are performed. Similarly, the decline in ethical behavior of some key auditors and executives of public corporation's financial reporting led Congress to pass the 2002 Sarbanes-Oxley Act. Important to the establishment Sarbanes-Oxley was the creation of the Public Company Accounting Oversight Board (PCAOB) to protect investors and restore the public's confidence in the CPA. The PCAOB assigned auditors to combat unethical behaviors of corporate offices that commit fraud (Coates, 2007).

In view of the changes by both Congress and the AICPA, there is growing concern to understand the perceptions of accounting students regarding this new requirement imposed by AICPA (Reckers, 2006). The purpose of this research therefore, is to examine the perception of ethical reasoning among accounting students in the 150-credit program compared to the past 120-125 semester hours. This research will use the stages of the theory of cognitive moral reasoning and moral development by Kohlberg (1969) as a foundation for this research. The researcher will describe each stage and show its relationship to students' development and moral reasoning. Based on Kohlberg's (1976) theory of cognitive moral reasoning and moral development the author explores the current accounting curriculum in post secondary institutions and their influence on moral reasoning.

Ethical lapses among public accountants have necessitated a revision of the accounting curriculum (Earley & Kelly, 2004). Interestingly, students who are enrolled as accounting majors are faced with new challenges within the profession as a result of the debacles of large corporations (Puxty, Sikka, & Willmott, 1994). The challenges are in ethics, educational requirements, compliance with the 2002 Sarbanes-Oxley Act, and professional responsibility with the profession of accountancy (Malone, 2006). According to Koestenbaum, Keys, and Weirich (2005), "business leaders are products of business schools

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which often teach that money always comes before ethics.” (p.13) Studies have shown that the labor and capital markets today for accounting students who aspire to become CPA's places more demands on the profession as a result of unethical behavior by public corporations (Harrington & Moussalli, 2005). In addition, Koestenbaum, et al (2005), report that “current lack of confidence in financial reporting has been a contributing factor to the recent slowdown in U.S. capital markets” (p. 13). Consequently, recent government intervention and regulation have led to the creation and legislation of the 2002 Sarbanes-Oxley Act to address the critical ramifications of unethical behavior in financial reporting by corporations and independent accountants (Koestenbaum, et al, 2005; Cunningham, 2006). The Act enables the Securities and Exchange Commission (SEC) to enforce new rulings for publicly held corporations that will comply with the 2002 Sarbanes-Oxley Act. The Act includes 11 titles that represent new requirements for how publicly held corporations report financial statements. The first title of the 2002 Sarbanes-Oxley Act was the formation of the PCAOB.

The mission of the PCAOB is to oversee CPA's engaged in the auditing of financial reports of public companies to ensure against unethical behavior in misrepresenting financial information (Whitley, 2006; Coates, 2007). The misrepresentation of the financial reports of the past unethical misconducts of several CPA's produced a lack of confidence in the CPA by the public, investors, and the economy as a whole (Rau & Weber, 2004). Therefore, the mission of PCAOB is to restore public confidence in the CPA (Carmichael, 2004). While research on evaluating ethical perceptions of individuals has been conducted in the past (Kohlberg, 1967; Rest, 1970; Victor & Cullen, 1989) there has been little research on the perceptions of ethics among accounting students who completed the 150 credit rule whether pursuing a masters degree or an additional 30 credits. Therefore, there is a growing concern as to whether the mandated change by the AICPA in the accounting curriculum has influenced the ethical perceptions of accounting majors.

This study will allow the author to evaluate the perception of ethical behavior among students in the 5-year accounting program and their view on the accounting profession in the 21<sup>st</sup> century and beyond. This study explores the stages of the theory of moral development by Kohlberg (1969) and relates each stage that leads to students progressing in his or her moral reasoning. Kohlberg's (1969) work on moral development was motivated by psychologist Jean Piaget; famous for his work on cognitive development. Kohlberg (1968) expounded on Piaget's research by presenting a sequence of stages that shape individuals conscience from adolescents into adulthood. Based on Kohlberg's (1968) theory of moral development the author explores the current accounting curriculum in post secondary institutions and their influence on moral reasoning. Recently, changes in the educational requirements for accounting students who wish to sit for the CPA exam must now have 150 semester hours compare to the pass 120 semester hours (Read, Raghunandan, & Brown, 2001). Included in the 150 semester hours are a set of courses, which combine professional ethics and

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professional responsibility. According to Jones (2004), "professional ethics are the moral values that a group of people uses to control the way they perform a task or use resources." (p. 48). One of the objectives set fourth by the American Institute of Certified Public Accountants (AICPA), which maintains and makes a mandatory code of professional conduct for public accountants, was to enlarge the educational requirements. The AICPA's overall goal is to improve the quality of work performed by public accountants since the business environment is frequently changing and the demand for accounting and assurance services. Therefore, the purpose of this study was to evaluate the perception of ethical behavior among students in the 5-year accounting program.

### ***Research Questions***

1. To what extent are the perceptions of entry level accounting students in line with Kohlberg's Theory of Moral Development?
2. Has the AICPA mandated curriculum change impacted the ethical perceptions of accounting students?
- 3.

## **2. Literature Review**

Several studies have emerged on accounting students and their perception of ethical behavior and their ability to reason morally and ethically amid corporate scandals. Malone (2006) performed a study that measured the ethical attitudes of accounting students in an environment that was familiar to the student. Malone (2006) surveyed students using the Defining Issues Test (DIT) (Rest, 1986) instrument to measure the stages of moral development. Result of the study found that if harm were to come to themselves and others most students would not capitulate to unethical behavior. Notably, findings suggested that moral behavior of college students today will continue in the future when employed. Kohlberg's (1969) research on cognitive moral development was measured in a series of stages that begins from adolescence to adulthood. He explained how people's ability to reason in society was carried out by interacting with one's surroundings. He illustrated that ethics and moral reasoning are learned early in life and progress gradually as people develop into adulthood. According to Rest, Elliot, Kohlberg (1969) there are six stages of moral development:

1. Stage one which is obedience and punishment orientation.
2. Stage two is naively egoistic orientation.
3. Stage three is good boy orientation, orientation to approval and to pleasing and helping others.
4. Stage four is related to authority and social order maintaining orientation, orientation to "doing duty" and to showing respect for authority and maintaining the given social order for its own sake.

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5. Stage five is contractual legalistic orientation, duty defined in terms of contract, general avoidance of violation of the will or rights of others, and majority will and welfare, and
6. Stage sixth is conscience or principle orientation, orientation not only to actually ordained social rules but to principles of choice involving appeal to logical universality and consistency (Kohlberg, 1969).

Rest et al., (1986) noted that the “six stages are viewed as forming an invariant developmental sequence in which attainment of an advanced stage is dependent on the attainment of each of the preceding stages.” (p.226). Based on Kohlberg's theory of Cognitive Moral Reasoning, Victor and Cullen (1988) used a different approach to measure reasoning by examining the organization's ethical climate. In the case that involved Enron, Kelly and Early (2003) indicated that “negative aspects of the ethical climate or culture within Andersen played a pivotal role in its demise” (p. 12). Additional evidence reveals that a company's ability to maintain an ethical corporate culture is important to the attraction, productivity and retention of employees as well as the organization's customers. “Accountants violations have led to government intervention, and lost of the public's trust” (Chan, Leung, 2006, p. 436).

The Ethical Climate Questionnaire (ECQ) employs a two dimensional approach that recognize ethical climates internal to an organization. The first dimension is characterized by the ethical criteria that consist of self in egoism, benevolence, and principle used within an organization. The second dimension corresponds to the Locus of Analysis, which is shown in Figure 1, and defined by Victor and Cullen (1988) as “a referent group that identify the source of moral reasoning used for applying ethical reasoning to organizational decisions” (p. 105). Unethical practices will affect businesses in several ways. First, consumers tend to shy away from products and services from organizations with unethical reputations (Gilbert, 2003; Babin et al., 2004; Roman & Ruiz, 2005); affecting current and future business hurting the value of the organization. Second, some unethical practices are also illegal or fraudulent, consequently increasing the organization's financial risk, liability, and costs (Neese et al., 2005). Third, unethical climate has a pervasive effect on employees via high levels of workplace stress, lower job satisfaction, low performance, and high turnover (Weeks & Nantel, 2004).

Dellaportas (2006) contends that accounting students may reason more ethically through intervention on a course dedicated on accounting ethics. Results of Dellaportas' study reveal that accounting students through intervention respond more positively to moral reasoning using a series of dilemma questions base on Kohlberg's theory of moral development. Furthermore, the awareness of moral reasoning may be stimulated by curriculum and is therefore encouraged. In a comparative study done by Venezia (2005), indicated that ethical reasoning abilities of accounting students depend on the cultural orientation of the student. Venezia (2005) findings are in line with the results of Pitta et al., (1999) which

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stated that national culture shapes the foundation of ethical behavior of accounting student surveyed in their study. Venezia surveyed students using the Defining Issues Test (DIT) instrument to compare accounting students from Taiwan to the United States and determine whether culture plays an important role on moral development. Results of Venezia's study show a significant difference between the U.S. and Taiwanese accounting students ethical reasoning abilities.

In addition, Clikeman (2003) discusses the importance of accounting educators to promote ethical standards to accounting students. Clikeman's (2003) stated the idea that accounting students with ethical standards will prevent future accounting scandals. Clikeman's research suggests that, "accounting education does influence students' professional attitudes" (Clikeman, 2003, p80.) This assertion was a result of a he and a colleague conducted in 2000 using a sample of 164 accounting students enrolled in Southern Methodist University.

### **3. Methodology**

#### ***Research Hypothesis***

1. Ho1 Students that have not taken the AICPA mandated curriculum exhibit different ethical perceptions
2. H1Students that have taken the AICPA mandated curriculum exhibit different ethical perceptions

#### ***Research Instrument***

A questionnaire adapted from Kohlberg's Theory of Moral Development of contained three scenarios consisting of several questions on ethical reasoning was distributed to students enrolled in accounting courses at private and public universities in New York City. The instrument used was Victor and Cullen's Ethical Climate Questionnaire (ECQ), which was adapted from the six stages in Kohlberg's theory on moral development. Subjects were randomly selected from an attendance roster of private and public universities. The questionnaires were administrated during class time and took approximately 20 minutes to complete.

#### ***Data Collection***

The next set of questions asked the participants to read a scenario regarding coworkers who frequently remove resources (e.g., stationary, pens, etc.) from the office for their own personal use. The participant's responded by indicating either "yes" or "no" and asked whether they would confront or avoid the individual. The choices included, a) should rules be broken, b) the distinction between what should be done as part of your job or what you know your peers feel you should

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do, and c) what is your overall attitude on unethical behavior. The last part of the questions used a Likert scale ranging from strongly unfavorable to the concept (1) to strongly favorable to the concept (5). The 125 participants were asked to focus on what suggestions can be made by several recommendations on how to decrease unethical behavior among peers and fraudulent reporting. The choices comprise of a) documenting the findings, b) meet with a manager, c) assemble and collect all pertinent documents, and d) do nothing. The lead author conducted the survey in the distribution of the instrument in both private and public universities. Out of the 300 surveys administered, a total of 180 indicated an interest to respond. A total of 23 surveys were removed due to incomplete answers on the questionnaires. As a result, 157 surveys samples were used in the analysis of the study representing 54% for those surveyed.

### 4. Results

The results of the study indicated that the perceptions of accounting students in both groups are in line with Kohlberg's Theory of Moral Development. A comparison of the means of respondents reporting that accounting students understand their responsibilities and the consequences of unethical issues were. Similarly, the majority of respondents in both groups reported that no one should ever compromise ethical standards in the workplace because of what peer's feel is the acceptable norm. Additionally, there was an overwhelming response about maintaining ethical standards in both groups. The majority of both groups were strongly in favor to the concept of being accountable to documenting the findings, meet with a manager, and assemble and collect all pertinent documents.

**Table 1 Descriptive Statistics of the Variables**

Groups		Self	Profit	Efficiency	Friendship	Team	Social	Morality	Rules	Laws
120 credit	Mean	3.72	3.24	3.48	3.09	3.74	3.66	3.17	2.97	2.95
	N	58	58	58	58	58	58	58	58	58
	Std. Deviation	.951	1.081	1.047	.960	.690	.608	1.300	.837	1.616
	Variance	.905	1.169	1.096	.922	.476	.370	1.689	.701	2.611
150 credit	Mean	3.54	3.66	3.38	2.68	3.83	2.99	3.24	3.00	3.66
	N	99	99	99	99	99	99	99	99	99
	Std. Deviation	.983	.960	1.218	.855	.833	1.025	1.278	.869	1.458
	Variance	.966	.922	1.484	.731	.695	1.051	1.635	.755	2.126
Total	Mean	3.61	3.50	3.42	2.83	3.80	3.24	3.22	2.99	3.39
	N	157	157	157	157	157	157	157	157	157
	Std. Deviation	.972	1.023	1.155	.914	.782	.948	1.283	.855	1.552
	Variance	.946	1.046	1.335	.836	.612	.899	1.645	.731	2.407

Overall, the findings of our research indicated that the responses of the majority of the students in both groups in this study are in line with Kohlberg's theory of moral reasoning.

## **5. Conclusion And Implications**

The focus of the study was to evaluate the perception of ethical behavior among students in the 5-year accounting program compared with students who were not and their view on the accounting profession in the 21st century and beyond. The researchers of this study also revealed that accounting students surveyed in this paper are in line with Kohlberg's moral reasoning. Overall, accounting students are more likely to be aware of the importance of ethical behavior as a result of the demise of large corporations and the ripple effect of these catastrophes on the economy. Based on the findings and conclusion of this research, it is suggested that business school programs especially accounting, should continue to emphasize ethical and moral issues into their respective programs. Accounting professors should devote more time raising the awareness of ethics and ethical issues in the classrooms.

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