

How does an accountant's ethical framework influence their decision making?

Carson C. Sanders

Oklahoma State University

School of Accounting

## Abstract

In creating this study, I wanted to provide a better understanding of the practical application of ethics in the accounting profession, an area of research that often doesn't receive the attention it deserves. This project revolved around data collected through a Qualtrics survey. In it, participants provided demographic data and answer a series of scenario based ethics questions with their anticipated actions. The goal of our research was to determine if accounting students are more likely to respond to these situations in a particular way than students from other majors. Each answer choice aligns with one of the main ethical thought processes for how to live a morally just life. That is, either virtue ethics, deontology, or consequentialism. We hypothesized that accounting students disproportionately favor Deontology as a method of making ethical decisions, given its rigid nature. As a whole, the data appeared to confirm this. If accounting students tend to gravitate towards one of these ways of thinking, firms and governing agencies may be able to focus on one particular area of an audit more thoroughly so their auditors aren't tempted to allow potentially unlawful activity under the guise of ethical thinking.

## Introduction

The primary research question being explored with this data boiled down to "how does an accountant's ethics affect their decision making?". The survey presented three distinct ethical scenarios for participants to read through. Each scenario was multiple choice, with three possible answers. Some had two "yes" answers while others had two "no" answers. Included with the "yes" and "no" are an explanation for why the decision was made. This portion of the answer is the most important for our research purposes as it demonstrates the thought process that precluded the decision. Each explanation corresponds to one of the three main approaches to situational ethics and general ethical living.

In her book, *On Virtue Ethics*, Dr. Rosalind Hursthouse describes virtue ethics as “a term of art” that “emphasizes the virtues, or moral character, in contrast to an approach which emphasizes duties or rules [deontology] or one which emphasizes the consequences of actions [utilitarianism]” (Hursthouse, 1). Virtue ethics tends to be less concrete and much more individualized. Deontology, in stark contrast, is very black and white with clear rules that everyone must adhere to in a functioning society. Utilitarianism is more situational, with the effects of an action being the primary determining factor of its morality.

If we can determine which theory accounting students tend to gravitate towards, we might be able to answer the question above. Different ways of thinking lead to different actions in the same scenario. Actions that are justified by an individual’s way of thinking, regardless of legality. Pinning down how they think in relation to non-accounting students will provide an incredibly useful starting point for potential adjustments not only in firms, but industry, and even legislation.

Along with major and scenario-related questions, the survey included anonymous demographic information questions. The focus of these was narrowing down survey results to even more specific categories. Religious accounting students might gravitate more towards deontology in decision making, while a non-religious accounting student may show greater interest in utilitarianism or virtues. Conversely, the opposite may be true. Having a more detailed understanding of participants’ backgrounds may help with the goals presented above. If the religious-accounting situation described was found to be accurate, it might be worth looking into methods of fraud reduction that support those who don’t come from a deontological perspective in regions that are statistically less religious. There are plenty of ways for the data to provide

additional perspective, which may benefit governing entities in ensuring proper accounting practices.

## Literature Review

A study conducted in 2010 by Drs. Richard A. Bernardi and Donald F. Arnold touched on a similar element to this study. Instead of studying college students, this paper revolved around the development of professional ethics in public accounting firms. Using the Defining Issues Test, Bernardi and Arnold compared the ethics scores of different firms, positions within those firms, and the gender of the accountants in question. Different firms turned out to have vastly different ethics scores, as well as positions. Males on average performed much lower than their female counterparts, particularly in leadership roles. They noted that due to the environment that public accounting presented, it is particularly likely that immoral men would rise to managerial roles. Far more likely than men deemed moral by the test or women regardless of moral status. This provided a substantial challenge for accounting firms as they adapt to a more inclusive environment, particularly ones that strive to be perceived as ethical by outsiders (Bernardi, 653).

Another example to cite by Drs. Linda Thorne and Jon Hartwick explored the effect of informal, off the book discussion about an audit on the results of that engagement. These discussions allow auditors to come to terms with ethical quandaries by developing the situation with a coworker. After speaking openly about the situation, auditors tend to earn higher moral reasoning scores, leading to a more moral and accurate audit opinion. They expand on the

importance of informal communication in accounting and push to ensure firms allow this kind of open and honest communication among team members.

While communication among auditors is a given, most studies only explore this in a formal setting. The side conversations in the audit room, without management present, is generally what determines the integrity of an engagement. Ensuring these discussions are properly researched is integral to the profession. The importance of these conversations cannot be overstated and both Dr. Thorne and Dr. Hartwick implore how much auditors need to be having them to question themselves and the work on their screen (Thorne, 337).

Finally, Dr. Bryan Howieson's work in 2018 explored the relationship between Virtue Ethics and forensic accounting. Namely, the integrity of audits performed by accountants who used Virtue Ethics as their primary means of ethical decision making and how they are perceived by outsiders. Howieson cites the inherent accounting risk of assuming that legality is the same thing as morality, a common mistake in such a technical and legalistic career field. Howieson suggests that Virtue Ethics provides a sort of workaround for this problem, relying on traditional wisdom to solve complicated, multifaceted issues by old fashioned means.

Using these means can provide an additional degree of ethical reassurance regarding the practice of forensic accounting. Howieson is a pioneer in the study of ethics and forensic accounting, so this paper provides a necessary framework for the development of further research (Howieson, 155).

This research paved the way for this study by exploring the basics of ethical accounting practices and the impact they have on professional judgement. I wanted to pull the general methodology from Bernardi and Arnold's study and apply it to the impact discussed by Thorne

and Hartwick. Howieson's focus on Virtue Ethics gave me the idea to differentiate responses into each main ethical theory and use that differentiation as a basis for further statistical analysis.

## Methods

Participants included 123 college students between 18 and 25 years old, primarily students attending Oklahoma State University – Stillwater. Most were not accounting students (73%) and all participants had completed at least 12 years of education. A sample size of 123 was considered appropriate for detecting a correlation in the data and would need to be expanded upon further to be conclusive. However, as presented the data trends suggest a notable variance.

As stated previously, data was collected via online survey and requested a myriad of information prior to answering scenario questions. After ensuring that participants consented to the privacy agreement, they were asked whether their major was accounting or not, a simple yes or no question. Participants then provided their gender identity and graduation year to get a baseline understanding of their age and background. Next they chose the size of their hometown, with small defined as "Fewer than 10,000 people", medium as "10,000 – 60,000 people", and large as "More than 60,000 people". Note that the primary state of origin for students partaking in this survey is Oklahoma, a state with only seven cities/towns that meet the 60,000 threshold, and thirty-eight that meet the 10,000 threshold (U.S. Department of Commerce, 3). This is considered large for our purposes and would be adjusted if the survey ever took place in a different geographic location. The idea is to determine the overall "feel" of one's city of origin, with cities like Tulsa, Bartlesville, and Idabel each providing very different cultural perspectives for residents. For similar purposes, participants answered whether or not they were first-

generation college students and whether or not they had ever taken a formal ethics course. Educational background may influence how one answers these questions. Next, participants stated their religious affiliation (if any), which might potentially influence how legalistically they answer these questions or respond to real-world situations.

After providing this baseline information for comparison, each participant was provided three distinct scenarios with answers that each appealed to one of the three main ethical theories. The first question asked “You are auditing a non-profit’s financial statements and find a small (but material) error that doesn’t harm their operations but violates Generally Accepted Accounting Principles. Fixing the mistake would be costly and timely. You know the organization is already low on funds. Do you report the issue or not? Why?”. Presumably, the Deontologist would answer “Yes, your duty is to ensure GAAP is followed, anything else is wrong”. A follower of Utilitarianism might be more concerned with the overarching impact of the decision, instead responding “No, that would hurt the charity and harm people in the long run”. One focused on Virtue ethics might choose “Yes, I cannot lie in good conscience”. However, thinking one way in one particular situation is not entirely reflective of one’s overall perspective on life and morality. To get a better gage of how the subject thinks, the questions continued.

The next question read “You are preparing a large corporate tax return. The company has a dark history of harming the environment, engaging in unethical practices, and even violating basic human rights. You strongly disapprove of such practices. You can decide whether or not to inform them of a beneficial tax deduction for fees paid to the EPA. Assume no one will know whether or not you inform them. Do you tell them about the deduction?”. Even if positive emotions couldn’t get the better of someone in the prior question, negative emotions might

impact their choice in the second. Once again, a rule-following Deontologist would likely respond with “Yes, you made a commitment to provide an unbiased service and will do so”. One concerned with Utilitarianism and the consequences of their actions might say “No, helping them will lead to their growth, causing more negative outcomes”. Finally, a Virtue focus may simply respond with “No, it is wrong to support a morally bankrupt company in this way”. Again, answering this question doesn’t nail down a participant’s ethical stance on all issues, but a positive and negative situation juxtaposed can provide a plethora of information about their ethical framework.

The final scenario did not ask for a “yes” or “no” response, separating it from the prior two situations. It provides a narrative that is clearly illegal and almost universally agreed upon to be unethical by all forms of ethical thinking. The question reads “Your job is to prepare financial documents for a small beverage company. Your boss comes to you in private one afternoon with a request to write up depreciation in a weird, unorthodox way. The idea is that you recognize less of it so reported income looks higher than it normally would otherwise. Not only is this illegal, but you know it’s morally wrong. Why?”. Here, participants align much more with the actual reasoning more than a final decision. This better cements their thought process. The Deontological perspective claims “You have a job to be honest and have to abide by it”. Again concerned with consequences, Utilitarianism claims “It could hurt investors and other stakeholders in the long run”. Using a personal ethical code, Virtue ethics states “You believe lying is wrong and can’t obey”. Given the emphasis on reasoning, this question will serve as the primary data source with the other two scenarios available to provide additional assurance (or to discredit) the assertion that a participant falls under one of the three ethics theories.



After completing the questionnaire, participants were given the opportunity to earn a gift card for having taken part in the survey. This was advertised in promotional materials to entice students to participate and gather more data.

## Results

The survey results, as a whole, conclude that accounting students are significantly more likely to make ethical decisions from a deontological mindset (see Figure 1, Figure 2).

Accounting students are generally very black and white, preferring a strict set of rules and guidelines. At first glance this makes sense. By definition, the accounting profession is one of order, repetition, and legalese. It only makes sense that those drawn to the profession are oftentimes conservative and orderly in nature. Deontology is a much more concrete way of making ethical decisions, straying from emotion or a seemingly endless list of potential consequences.

Beyond just major choice, the demographic data allowed for an analysis of whether or not any other elements of a person's identity influence the way they responded to accounting scenarios. The first category that required exploration was gender identity. It turns out gender did have an impact on how participants answered questions, with those identifying as female leaning slightly towards Virtue Ethics and those identifying as male leaning towards Deontology (see Figure 4, Figure 6). Interestingly, this trend was not identified in the "Corporation" question, with all respondents focused on Deontology, especially females (see Figure 5). Female respondents appear to use GAAP as their primary reasoning when experiencing negative emotions and personal virtues when experiencing positives. In contrast, male respondents appear

to focus on GAAP in more positive situations and put personal virtues forward in negative ones. While more widespread research is needed to form a concrete opinion, if these preliminary results are to be believed there is a notable difference in how males and females respond to these scenarios.

Graduation year also provided some insight into how education influences decision making. From responses, it is clear that the more time a student has spent in college, the more likely they are to commit to Deontological ethics, strictly following GAAP protocol (see Figure 7, Figure 8, Figure 9). This shows the importance of formal education in the accounting profession and how learning can influence morality. Classroom experience has a clear influence on how students view the world and cannot be discounted in researching the profession.

Experience clearly carries with it a substantial impact on ethics and decision making, so it is worth noting the size of participants' hometowns to get a better idea of where they come from. The survey results suggest that those from small towns are slightly more likely to use Virtue Ethics than those from midsized or large towns. Subjects that fall into the latter two groups are far more likely to rely upon Deontology in decision making. Much like the education element, this confirms the importance of how environment can impact the way that people make decisions.

Following this conclusion, whether a student's parents attended college had a small impact on their decisions, with non-first generation students leaning slightly towards Deontology with their first generation counterparts leaning away (see Figure 10, Figure 11, Figure 12). While not overly significant, this element also may impact how accounting decisions are made by both professionals and students.

Students that took a formal ethics course prior to completing the survey appear to slightly lean towards Consequentialism that those who have not (see Figure 13, Figure 14, Figure 15). These students do not view ethics as concretely as those following Deontology or as personally as those following Virtue Ethics. Ethics can be a web of interconnected consequences, something very familiar to students who have gone through one or more of these courses.

Finally, much like other experience-related factors, religious upbringing can affect how one makes decisions. While religious individuals varied on their responses to questions, respondents who identified as non-religious were more likely to cite Deontology as their reasoning than religious respondents (see Figure 16, Figure 17, Figure 18). Religious participants were slightly more likely to rely on Virtue Ethics or Consequentialism than hard black and white consistencies.

## Discussion

Likely the largest takeaway from the experiment was the observation that accounting students disproportionately favor Deontology over other methods of making ethical decisions. As expected, accounting students like a clear set of guidelines. This is advantageous in the profession, given the role of an auditor is to ensure GAAP are applied by businesses and the role of a tax accountant requires strict adherence to local, state, and federal tax codes. Thinking too much about the consequences or one's personal leanings leaves room for error that ideally would be avoided.

Given this, pushing for deontological ethics in accounting education could help improve the quality of financial statements and opinions. While the other two forms are no doubt valuable

and important, this should be the general direction of ethics in the profession to ensure legal, proper audits and tax advice occur(s).

It is very possible that, based on the results of this study, the demographics of the audit team influence many of the decisions made throughout the course of the audit procedures. While extreme caution must be taken to avoid the potential for workplace discrimination, many of these factors could absolutely be used to improve the integrity of external audits. Take for example the notable difference between male and female respondents. Results indicate that female auditors might be less naturally inclined to provide a more “by the book” opinion when faced with an audit that induced positive emotions, such as in Question 8. Conversely, male auditors might be more tempted to bring personal feelings into play on an audit that induced negative emotions, such as in Question 9. When these situations arise, it might be of benefit to staff audit teams with a more diversified team of auditors to ensure a more variable ethical perspective. That way, regardless of which direction an audit goes, there will be contrasting opinions that force potentially emotion-dependent accountants to rely solely on legal principles and guidelines. Ignoring potential red flags is much easier when the entire team is comfortable ignoring them, so the more perspective applied the better.

Several questions also highlighted the importance of formal accounting education on ethical decision making. Highlighting Deontology appears to be a simple way to help enforce clear, consistent ethical principles across the profession. This seems to be happening already to a certain extent, as this survey demonstrated above. However, an emphasis on accounting ethics, instead of general or purely academic ethics continues to be important. Based on the results of Questions 3 & 6 (Graduation Year and Ethics Course), it does appear that more time in accounting academia leads to more of a Deontological mindset while ethics at large leans slightly

towards Utilitarianism. Again, not inherently a bad thing, but not ideal for a profession as legalistic as accounting.

Much like classroom experience, personal experience appears to shift one's ethical perspectives. Subjects from towns with a population above 10,000 leaned more towards Deontology than their small-town counterparts. Furthermore, non-religious individuals were more likely to rely on Deontology than religious ones. While not an overly substantial difference, it may be worth teaming accountants from a plethora of backgrounds together to balance each other out. This goes back to the importance of diversity in ensuring accurate accounting standards. One accountant may be more reliable than another solely on the basis of their upbringing. There is no known ethical and practical way to determine who these professionals are, so bringing a variety of histories to the table benefits the firm, business, and/or government involved.

Based on the results of this study, it is clear that accounting students responded differently than non-accounting students. Furthermore, other demographic factors made a profound disruption in the data and allowed for more of a variable approach to understanding the reasoning behind accounting decisions. This information can be used to alter the makeup of audit teams, business groups, and other accounting bodies to ensure the most accurate reporting possible. These results may prove useful in proving the accuracy of this approach and allow for modification in the way the accounting profession expands in the coming decades.

## References

- Bernardi, R. A., & Arnold, D. F. (1997). An Examination of Moral Development within Public Accounting by Gender, Staff Level, and Firm. *Contemporary Accounting Research*, 14(4), 653-668. doi:10.1111/j.1911-3846.1997.tb00545.x
- Howieson, B. (2018). What is the 'good' forensic accountant? A virtue ethics perspective. *Pacific Accounting Review*, 30(2), 155-167. doi:10.1108/par-01-2017-0005
- Hursthouse, R. (2010). *On Virtue Ethics*. Oxford: Oxford University Press.
- Thorne, L., & Hartwick, J. (2001). The Directional Effects of Discussion on Auditors Moral Reasoning\*. *Contemporary Accounting Research*, 18(2), 337-361. doi:10.1506/y917-mpry-panf-prve
- U.S. Department of Commerce. (2012, September). Oklahoma: 2010 Population and Housing Unit Counts. Retrieved from <https://www.census.gov/prod/cen2010/cph-2-38.pdf>

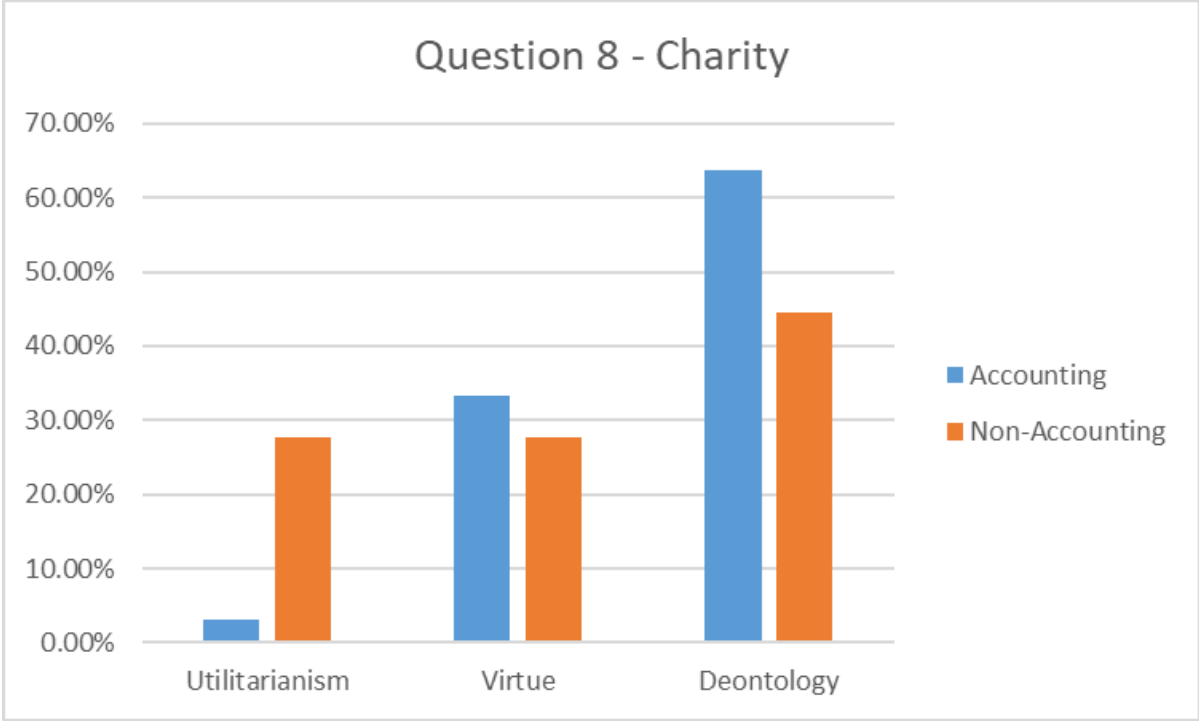


Figure 1

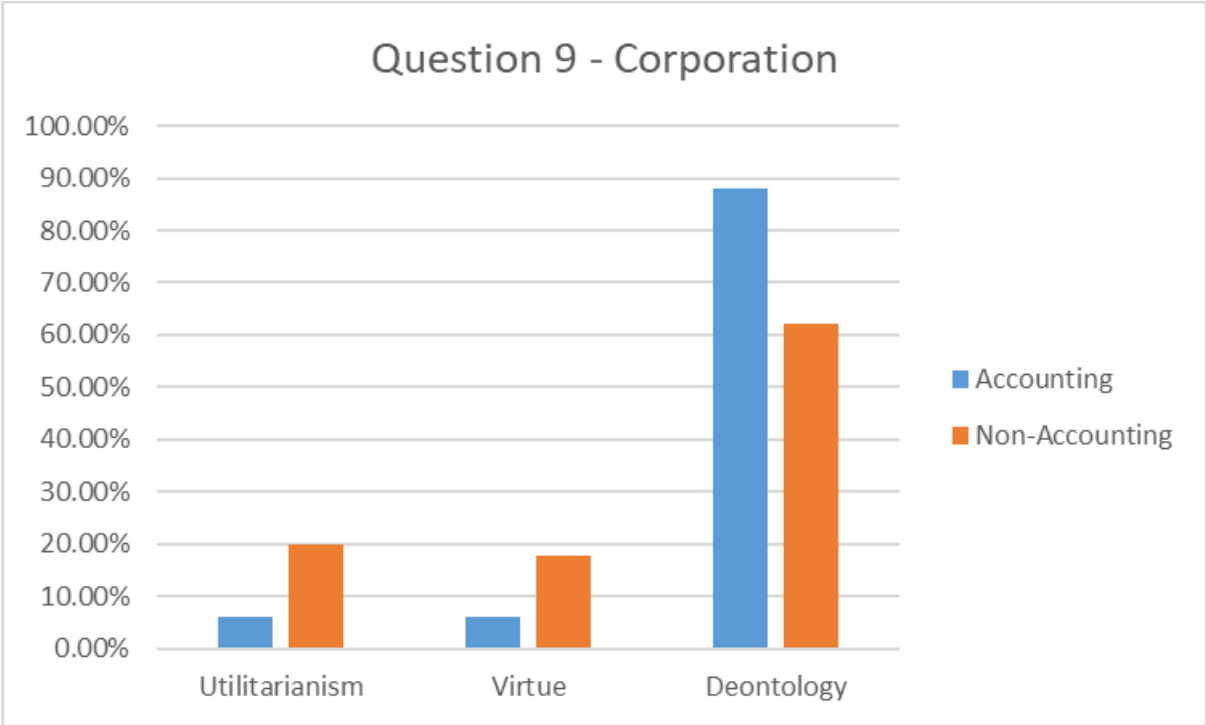


Figure 2

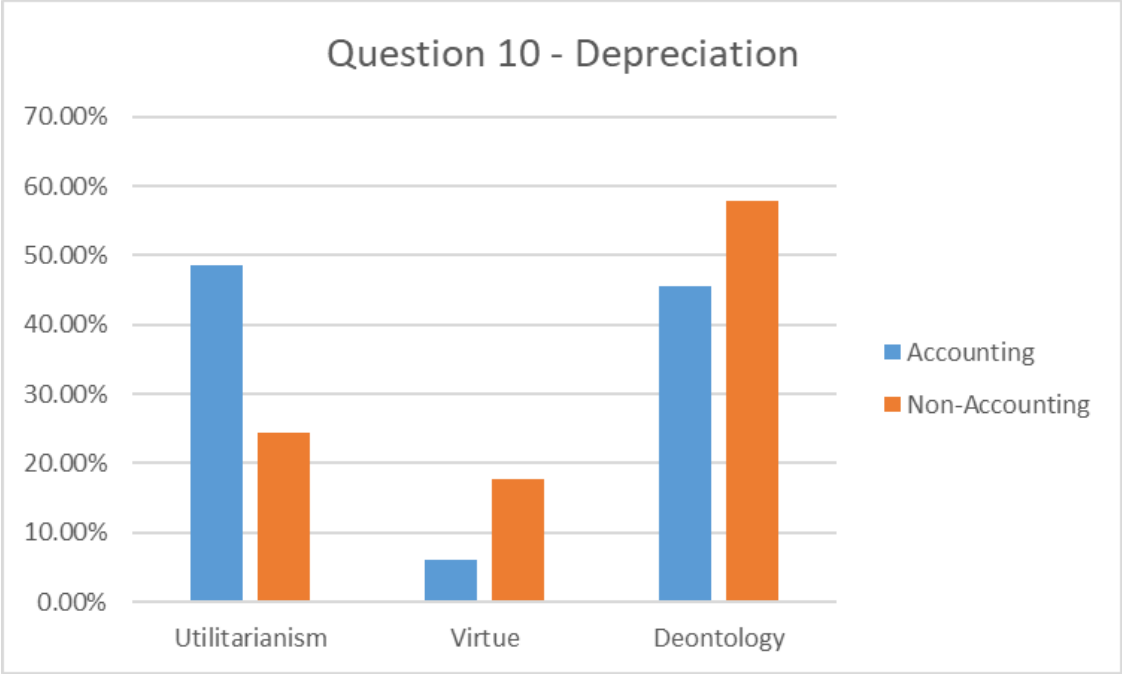


Figure 3

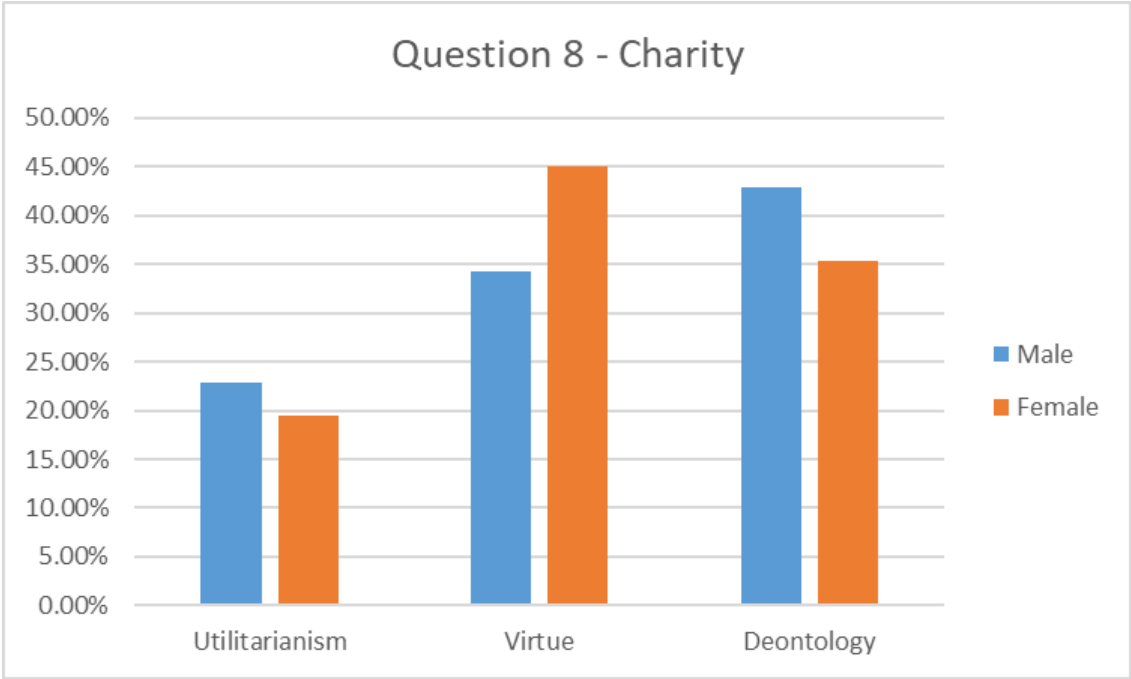


Figure 4



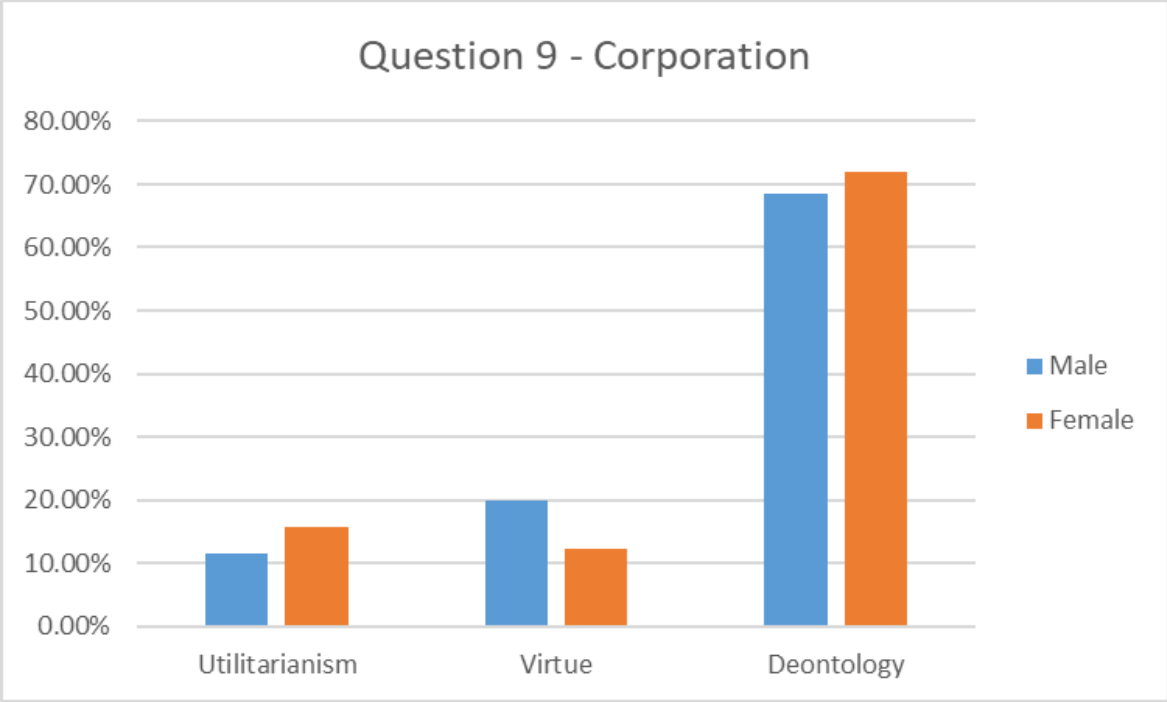


Figure 5

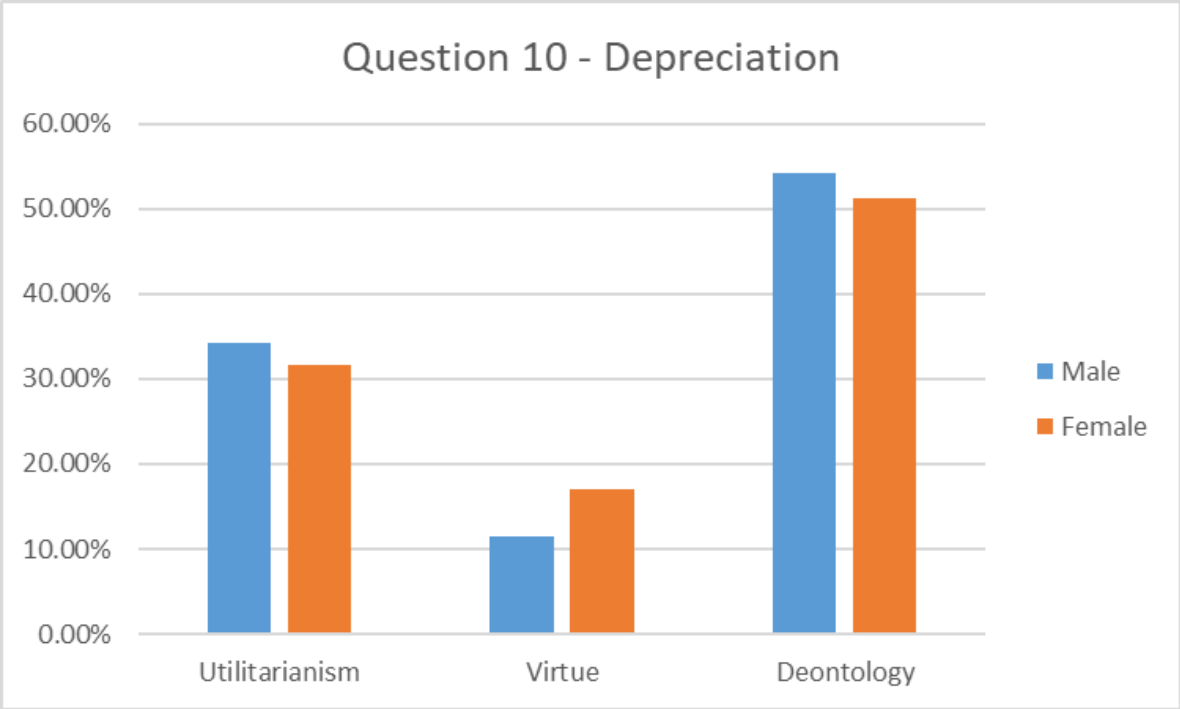


Figure 6

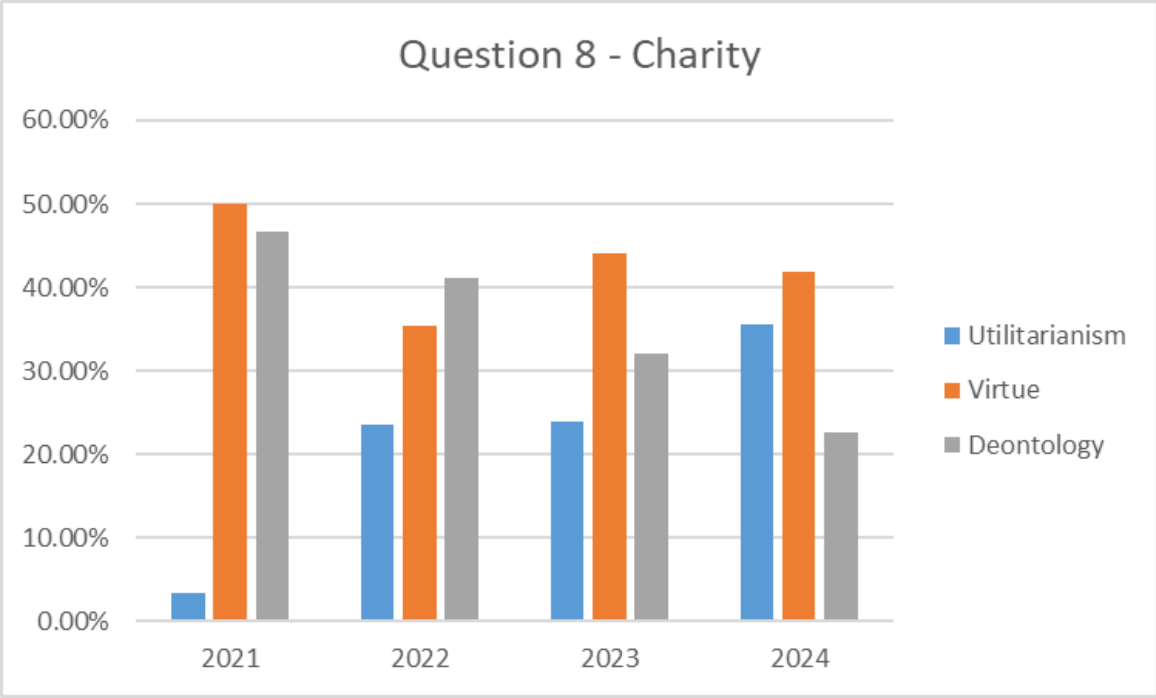


Figure 7

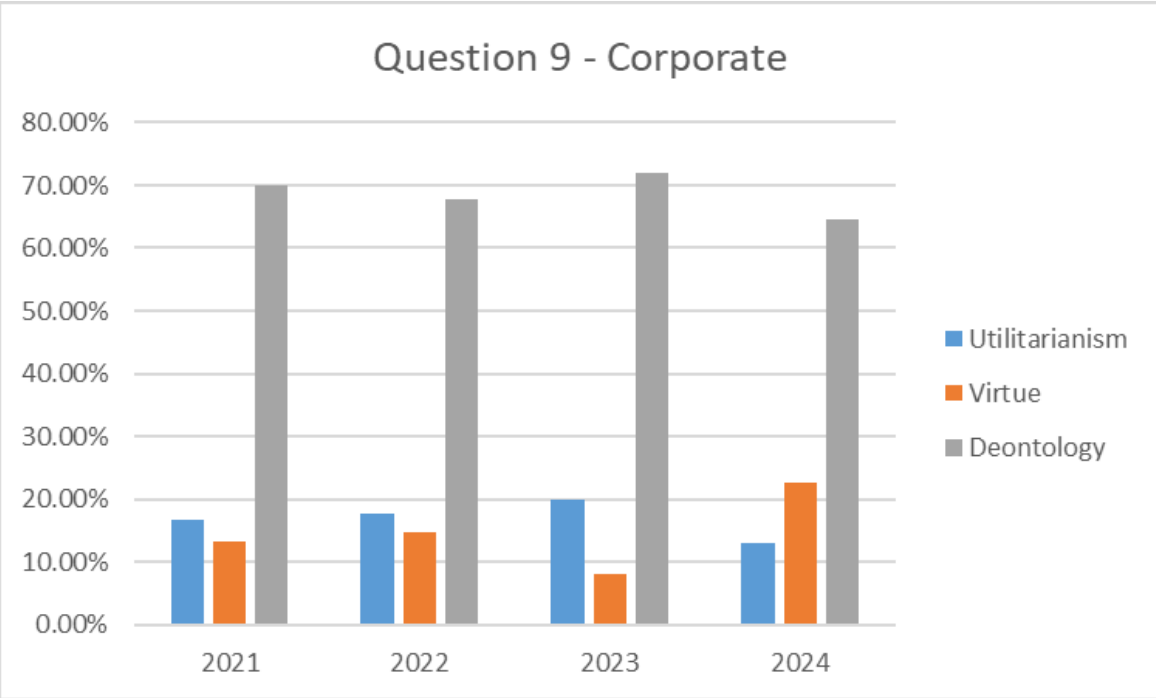


Figure 8

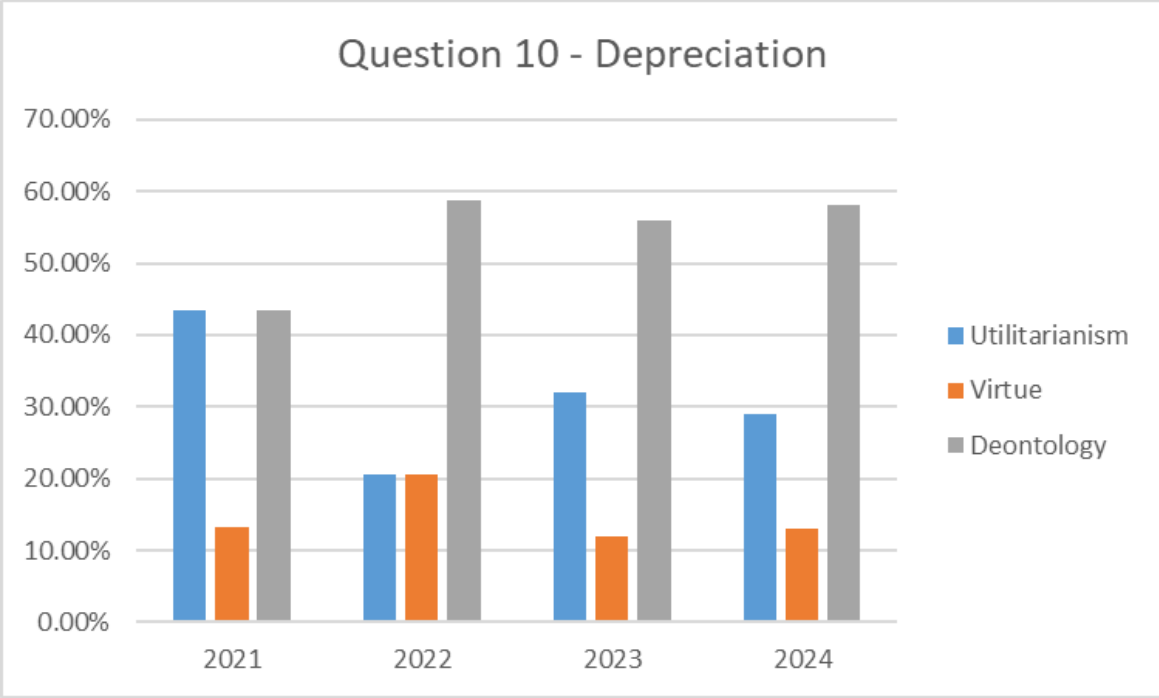


Figure 9

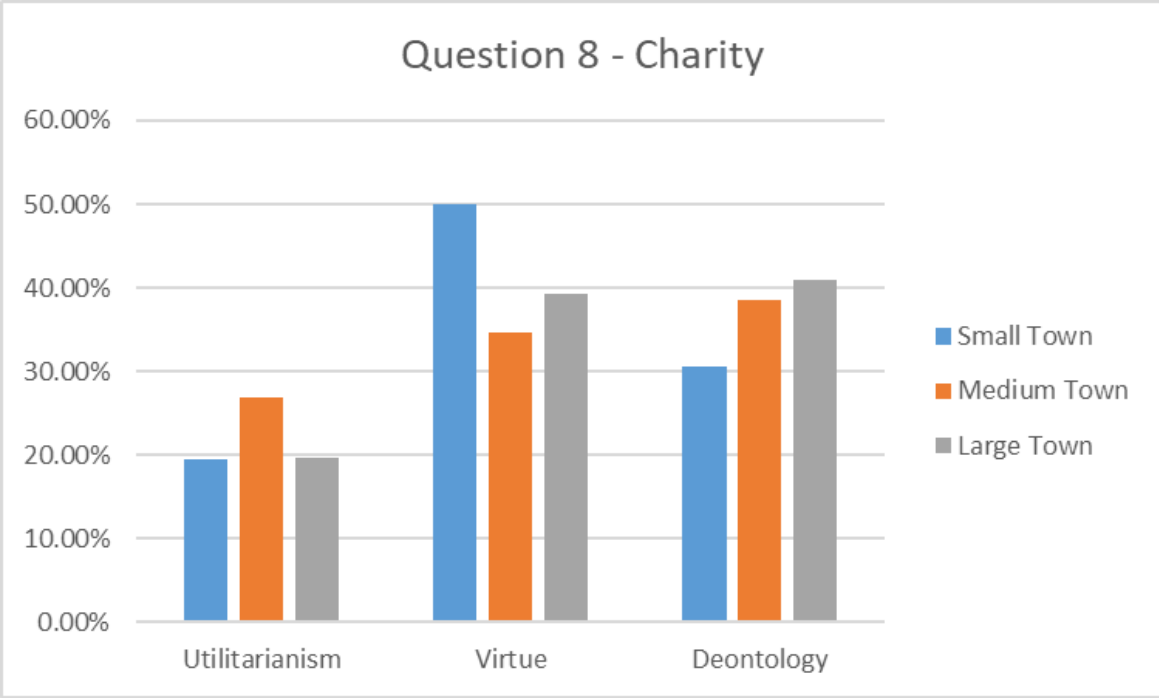


Figure 10

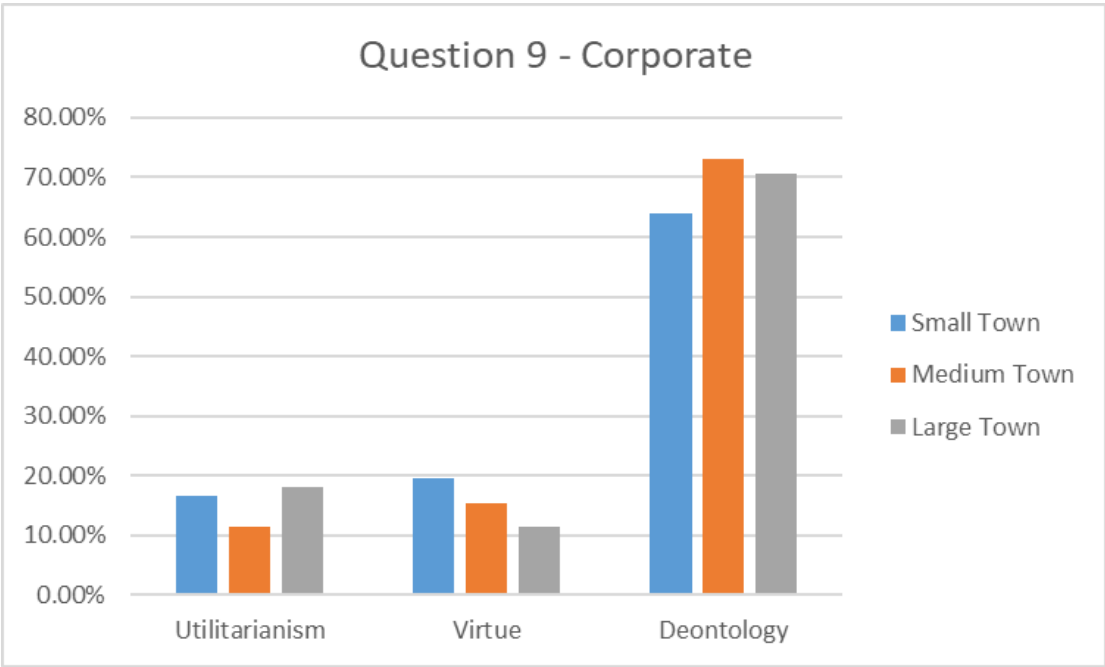


Figure 11

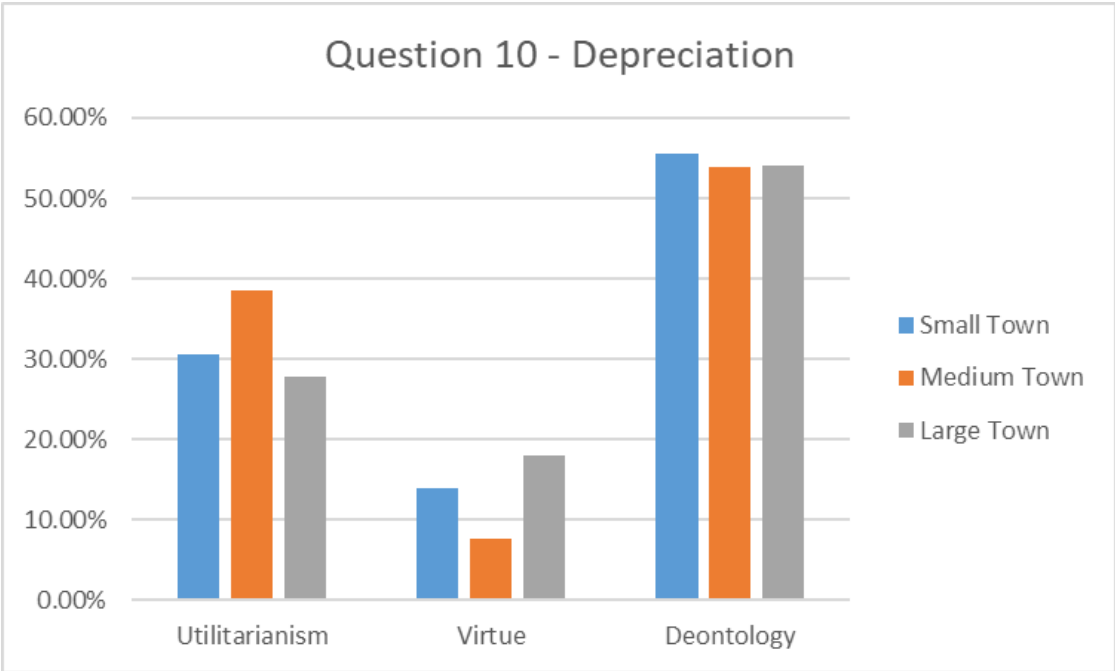


Figure 12

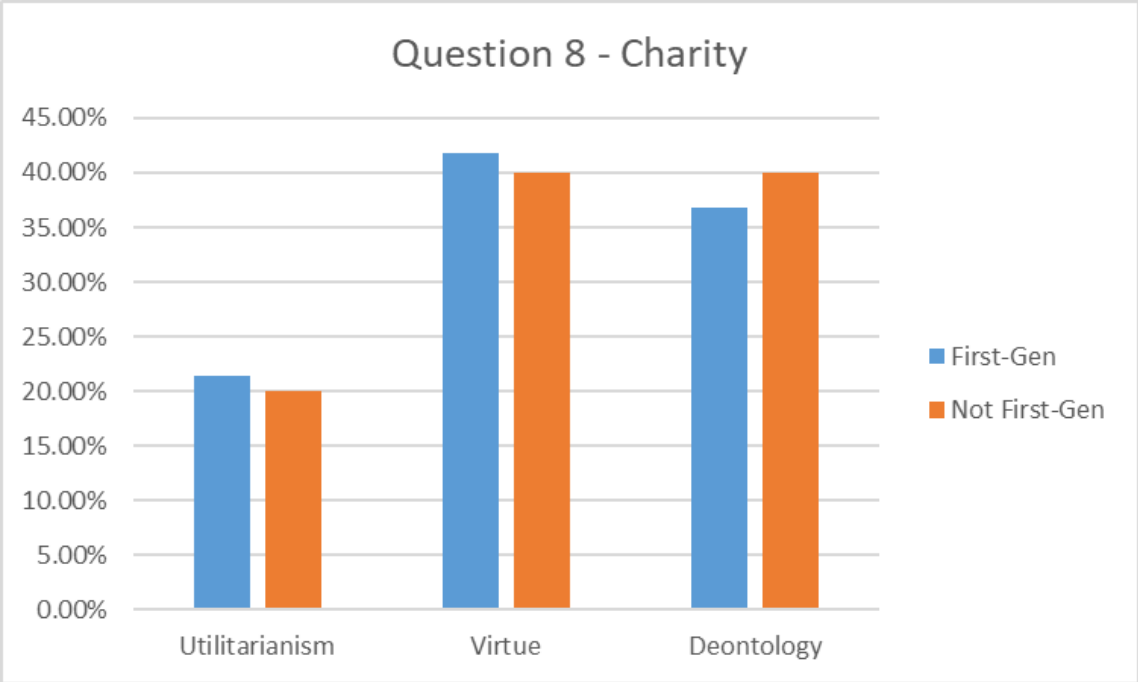


Figure 13

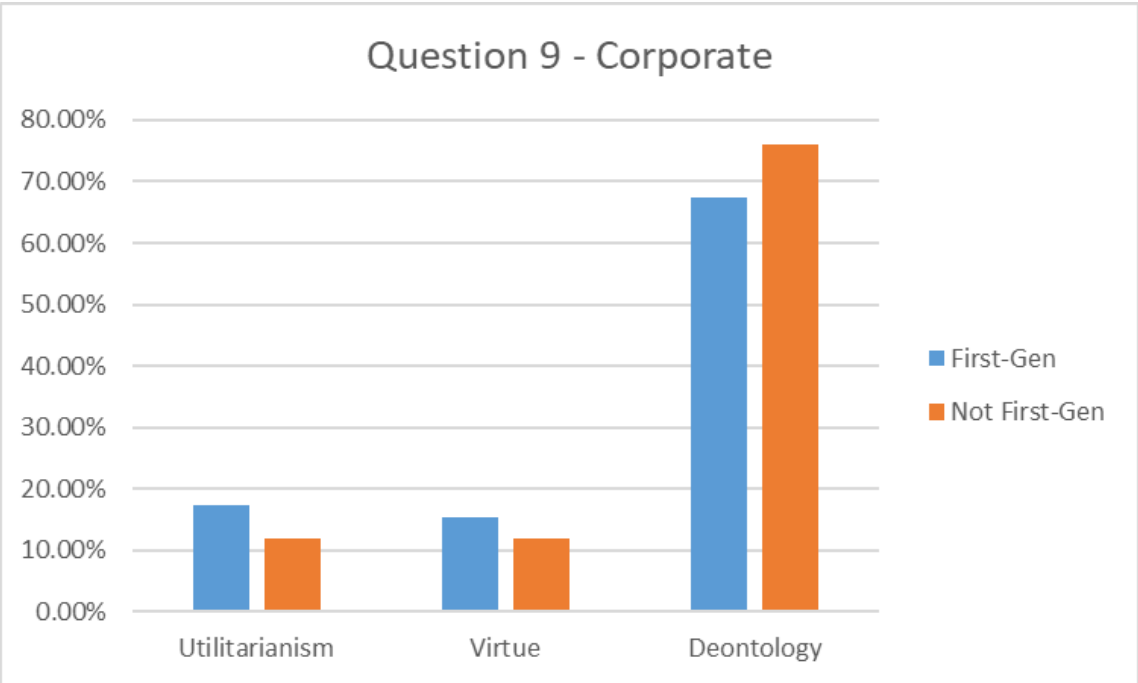


Figure 14

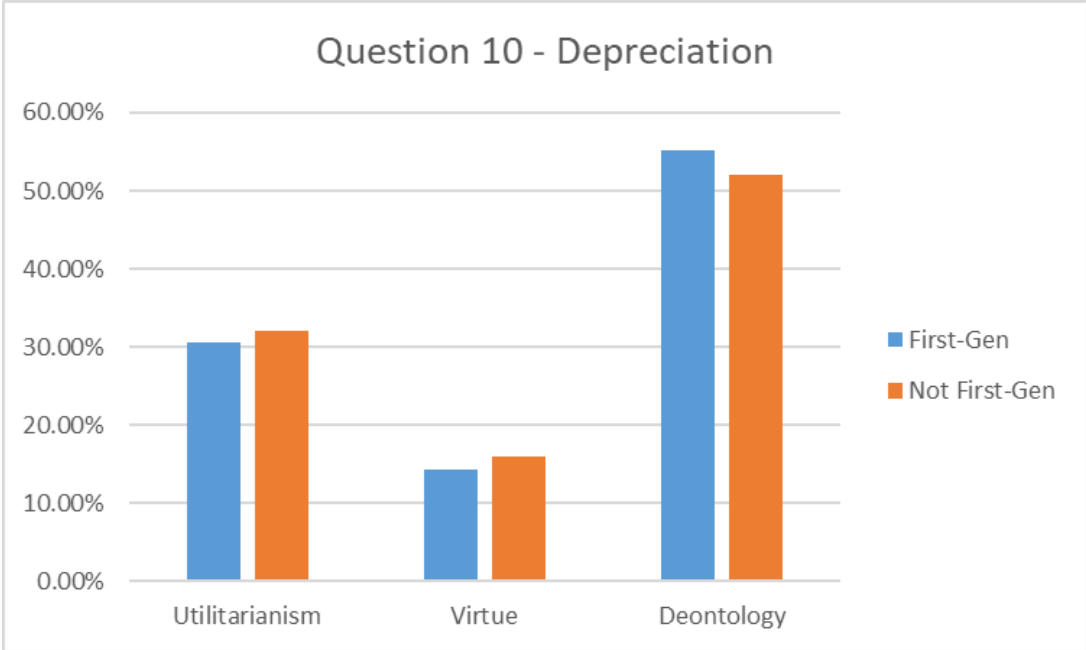


Figure 15

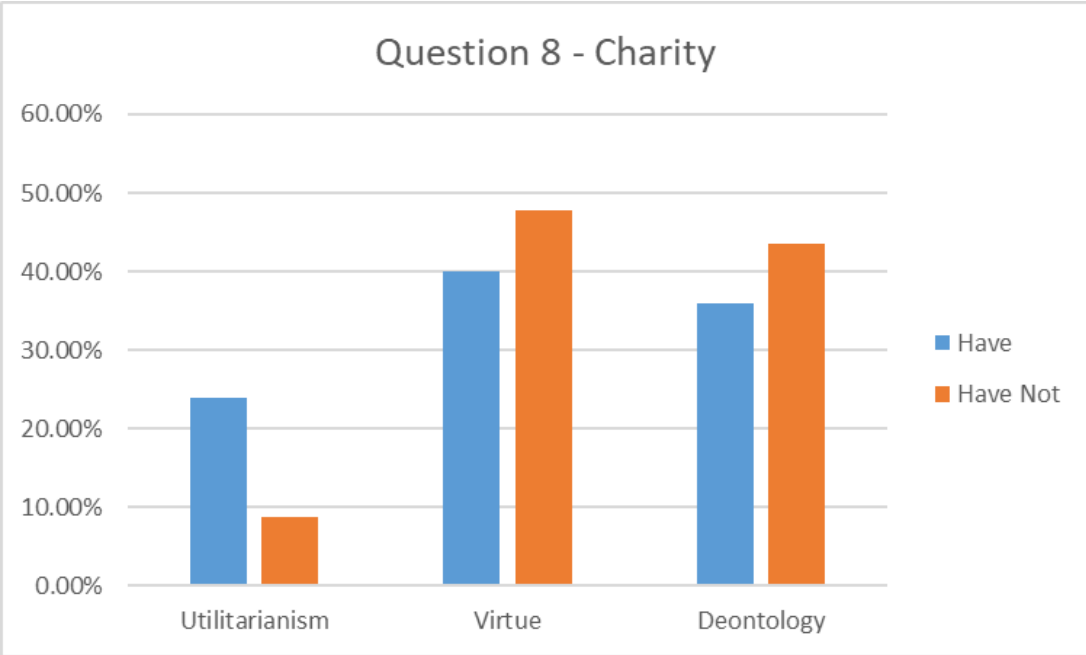


Figure 16

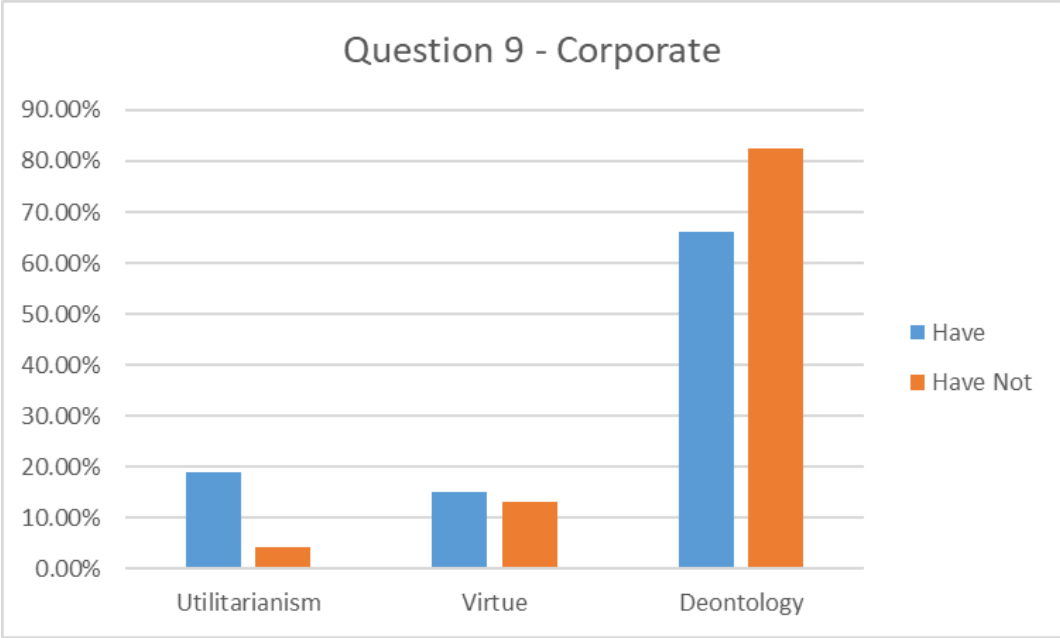


Figure 17

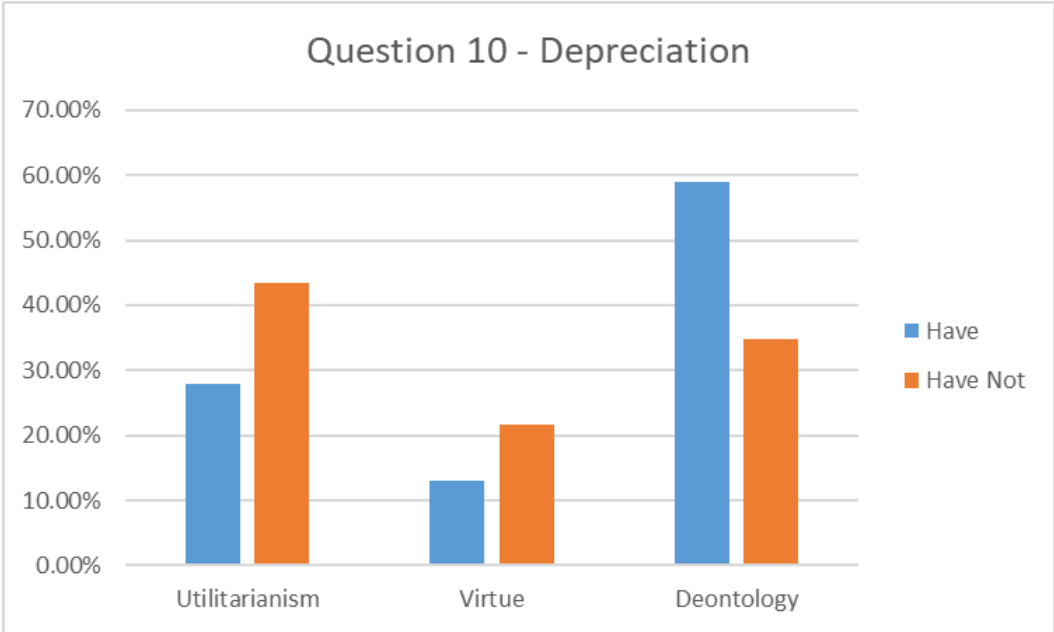


Figure 18

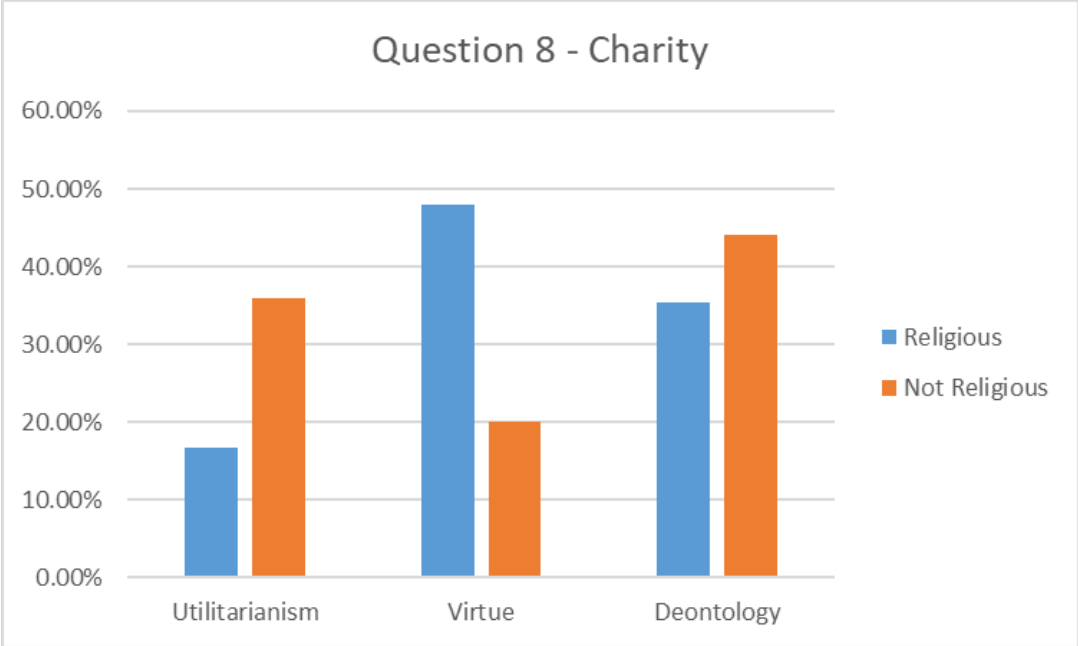


Figure 19

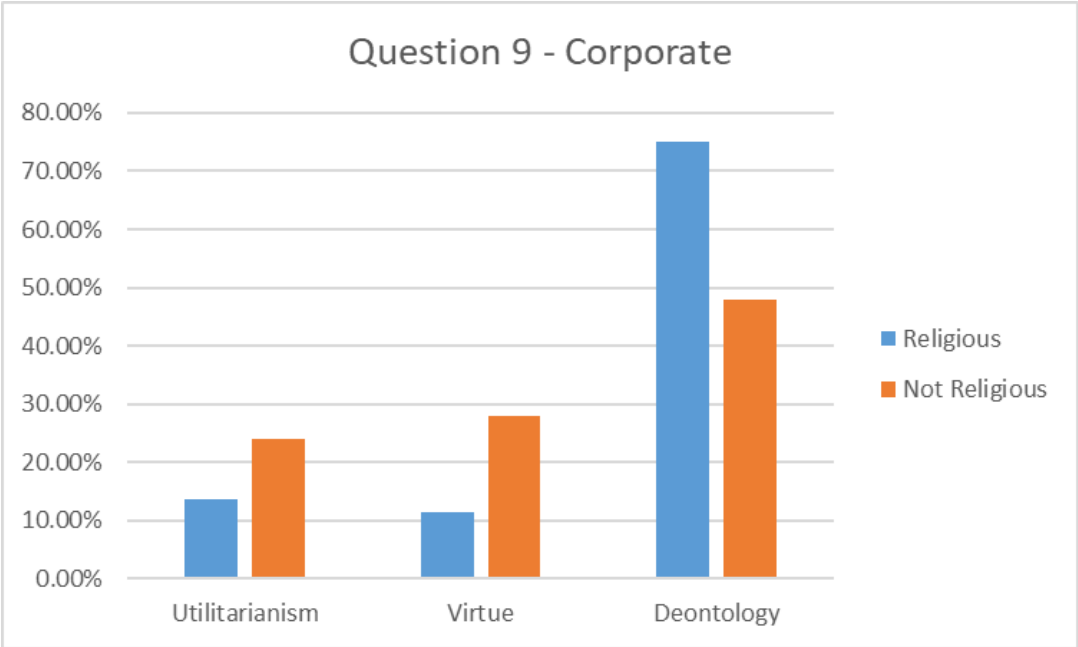


Figure 20



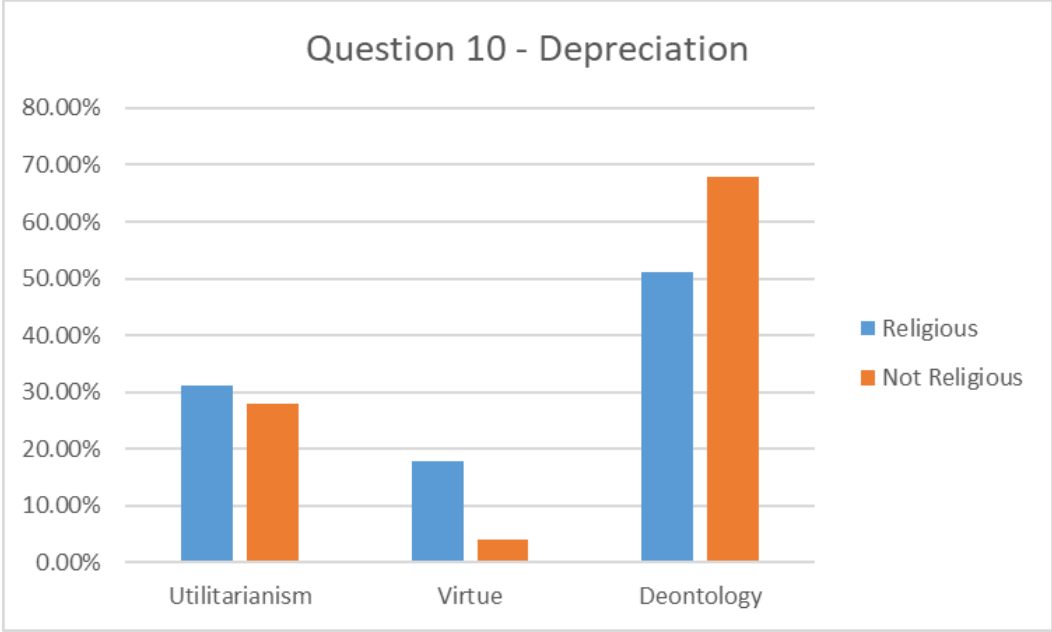


Figure 21