

## **ETHICAL ORIENTATION AND ETHICAL DECISION MAKING BY THE ACCOUNTING STUDENTS AT HIGHER EDUCATION**

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Ethical orientation is dealt with self concept and personal behavior which are related to the individuals themselves. Furthermore, it is stated that every individuals' ethical orientation is firstly determined by the individuals' need which is interactively related to their personal experience and individual value system. From this, they will determine their expectation or the goal of their behavior, in which, finally they use it for making ethical decision. Thus, ethics education is important in higher education to give the ethics orientation to, especially, the students of accounting. In addition, a professional accountant or an auditor is public domain which is highly appreciated so that independency must also be considered the first priority. However, there is a dilemma due to the fact that, on one hand, auditors are paid by their clients, and on the other hand, they must be independent. This research attempts to reveal whether there is relationship between ethical orientation and ethical decision making by the students of accounting. It also attempts to find out whether there is difference between the students' ethical orientation before and after taking the subject of professional ethics during one semester. This research uses the model of ethical orientation by Forsyth (1992), and the model of ethical decision making scenario by Simms (1999), with 50 respondents of accounting students at our college. Some recommendations and implications are also discussed in this research.

Key words: ethical orientation, ethical decision making, accounting profession, professional ethics.

## I. INTRODUCTION

When talking about ethics-- ethical orientation and ethical decision making, it is salient to look back to the previous researches undertaken by the related proponents. There have been some researches and discussion on ethics in education internationally, especially those pertaining to both the accounting as science and educational curriculum. Unfortunately, putting the ideas or the gist of the discussion into action has not yet come true. Most of the proponents find themselves being preoccupied with their masterpiece of works, qualified researches and journals but all are ended with dilemma, especially in putting the ideas in educational curriculum. There are, of course, various factors underlying this circumstance which calls for discussion, if not debate.

Based on the phenomena above, ethics seems to be a prevailing controversial idea when related to the education setting, in such as, accounting curriculum design. The difficulty varies from one university to another. It can be due to the factors of the educators, the policy makers, the situation and condition (politically and socially, as well as financially), and even to the teachers of accounting themselves. Cohen and Pant (1989: 70-81) in their report of their research concerning Accounting educators' perception of Ethics in the curriculum—said that the educators were unable to solve the ethics problems of public accounting. According to them, this implies that the effectiveness of accounting faculty's ability to define and solve the moral and ethical issues is followed with question mark. In addition, the faculty seems not to devote their tangible incentives for developing modules within the accounting curriculum. In summary of their research finding, they state that the coverage of ethics in accounting curriculum is minimal and this is due, unfortunately, to the current reward structure for accounting faculty.

Gray and Clark (2002: 43-62), investigated the lack of confidence in corporate activity due to the recent scandals. Ironically, the MBA students' business schools were intentionally and relatively idealistic ambition, but when they graduated they were more concerned with increasing corporate share price rather than the idealism. Having found some critical issues dealing with ethics in the corporations (in which most of the CEOs or top management are the MBA graduates), Gray and Clark, however, suggest that business education able to provide the remedy for this problem. Like Gray and Clark (2002), Knapp (1985:202-211), conducted a study on audit conflict, in which it was an empirical study of the perceived ability of auditors to resist management pressure. They examined the degree of certain contextual factors in auditor-client conflicts that affects the perceived ability to resist client pressure. One of the findings shows that auditors are perceived to be most susceptible to client pressure in the situation where the client is financially strong and conflict issue is not dealt with precisely by technical standard. Goldman and Barley, 1974; Nicholas and Price, 1979) as in Gray and Clark (1985), stated that the conflict between the top management and the audit firms is viewed as a power struggle. Yet, they said that the top management's power are always more considerably powerful than the audit firms. This will eventually produce the audit opinion that reflects the information that conveys the users' financial statement rather than the audit firms' opinion.

This problem is nationally crucial, especially in Indonesia. This issue has not yet been discussed a lot in this country let alone in the plan of educational curriculum. In addition, problems concerning corruption and financial scandals in Indonesia have become "the national, serious, moral crisis" in which there might not be the remedy

because this is considered the uncontrollable national burden. The root is, ironically, the failure of the educational institutions, due to the fact that most of the fraudulent practices are done by those who are “the products of education system” (university graduates) as based on the national conference held in Surabaya by the Forum of Indonesia Rectors (Jawa Pos, 19 May 2005).

In connection with the problems above, it is time for the educational policy makers, including teachers and leaders in universities, as well as the accountants or audit firms, to sit together and discuss this phenomenal problem so that they work cooperatively designing ethics materials in accounting curriculum. In this case, a question might be raised. “Is ethics as subject to be seriously put in the curriculum?” Finally, the content as recommended in the results of this discussion can be used as input for the subject of ethics in higher education.

This paper concerns the efforts of teaching process of professional ethics in university, in which it attempts to discover whether there is a relationship between ethical orientation and ethical decision making by the students of accounting. Another objective is to find out whether there is a difference between the students’ ethical decision making before and after taking the subject of professional ethics during one semester. This research adopts the model of ethical orientation by Forsyth (1992), and the model of ethical decision making scenario by Simms (1999). This topic is important for the educational curriculum; therefore, the results are expected to be used for policy in education. Thus, some recommendations and implication are also discussed.

## II. THEORETICAL BACKGROUND

### 1. Ethical Orientation.

Ethical orientation means a personal concept or behavior related to the individuals themselves. Cohen et.al (1995; 1996) and Finegan (1994) state, that every individual’s orientation is determined by his needs. These needs interact with his personal experience and his value system which in turn determines the expectation or the goal in his behavior so that, finally, he determines what decision he will make. Furthermore, Forsyth (as in Barnett, Bass and Brown, 1994) describes that ethical orientation operationally is defined as individual’s ability to evaluate and consider ethical values in one event. In addition, this ethical orientation shows the individual’s adopted view toward a situation when he is encountered with a problem to solve ethically or when he is in a dilemma situation.

There are two categories in human being’s ethical concept. Firstly, it is *idealism* versus *pragmatism*, and secondly, it is *relativism* versus *non-relativism*, in which are orthogonally and simultaneously become the measurement of individual’ ethical orientation. For one thing, idealism believes that the consequence of a decision which is made as long as it does not break the moral values. This dimension is described as an individual’s attitude toward an action and how this action will impact on others. It is stated that individual with high idealism believes that ethical action should have positive impact or do not always make others suffer or even lose anything at all (Barnett, Bass and Brown, 1994). On the other hand, pragmatism exhibits that the most important thing of any decision made is the result of the decision itself and, if necessary, ignoring the moral values for the sake of bigger “benefit”. Thus, an editor with idealism will always works prudently and professionally in the sense that he uses idealism ethical orientation for behaving ethically when encountered with ethical dilemma. For another thing, it is relativism which shows the behavior of refusal toward the absolute moral norms which

regulates the individual's existing behavior. This ethical orientation criticizes the practice of universal moral norms- based rules. It states that there is no any point of ethical view which can be identified clearly as "the best one", because every individual has his own various and wide range of ethical point of views. On the contrary, non-relativism (absolutism) states that ethical orientation should deals with moral principles and absolute obligation.

Shaub, Finn and Munter (1993), in their research, stated that individual with idealism automatically keeps their job procedures complied with professional standard, and thus, this professional standard will guide and direct their job. This is in line with the relativism which shows the high degree of absolutism. The main objective of an auditor's job, audit profession, is to avoid the loss by the users so that the auditor with idealism-ethical orientation will always refer to the guide and direction in the professional standard. Another research by Zeigenfuss and Singhapakdi (1994) concerns the ethical perception and individual's values of the members of Institute of Internal Auditor. Like Forsyth (1992), Zeigenfuss and Singhapakdi, suggest that internal auditor's ethical orientation has positive relationship with their ethical decision making. The auditors with high score of idealism tend to make decision absolutely more morally (more favor moral absolute), or the other way around.

## **2.2 Model of Decision Making**

Many researches on ethics often describe the process of decision making by individual related to the situation when encountered with ethical dilemma (Jones, 1991; Hunt and Vitell, 1986; Trevino, 1986). The model of ethical decision making is not based on how it ought to do but, rather on how the process of ethical decision making is. It is argued that any decision will result in either ethical or not ethical decision. Furthermore, defining whether the decision is ethical may lead to uncertainty (McMahon, 2002).

In connection with such an ethical decision making, Rest (as in Zeigenfuss and Martison, 2002), states that ethical decision making consists of four stages. First, when recognizing that moral issues exist, that is, how individual perceives moral issues when encountered with ethical dilemma. Second, the stage of making moral judgment, how individual makes ethical decision. Third, moral intention, when individual intends to behave ethically or not. Finally, moral behavior, in which it describes how individual behaves ethically or not. In addition, Jones (1991) suggests that there are three main elements in making ethical decision. First, moral issue, how far an individual makes decision when freely he makes decision, it will harm or benefit others. In other words, it concerns the consideration of the impact to others. Second, moral agent, describes an individual who makes moral decision. Finally, ethical decision, describes a decision is considered ethically and morally accepted by the society.

However, when talking about being moral, it is salient to refer to some proponents of this matter. According to Jones (1991) the measurement of being moral is not merely based on the tangible behavior but on moral awareness underlying the moral behavior itself. Thus, by measuring the moral awareness, the degree of being moral can be known. Another proponent is Magnis Suseno (1987) argues that the word "moral" always refers how good or bad human being because the moral matter is dealt with human being lives as human beings. Morality is an individual's behavior as revealed in his physical action. It is done because he is aware of the responsibility, and he does it merely without being appreciated by others.

Unlike Jones (1991) and Suseno (1987), Kohlberg (as in Arnold and Sutton, 1997), describes morality as the development from childhood to maturity. According to him, the moral development consists of three stages: Pre conventional level, Conventional level, and Post conventional level. The first level focuses on the individual himself, and this consists of two: *Obedience* and *egotism*. The second level focuses on relationships which consist of the stages of interpersonal concordance and law and duty to the social order. The third level focuses on personality principle which consists of two stages: *societal consensus* and *universal ethical orientation*.

The model proposed by Jones (1991), the model by Trevino (1986) also describes that when an individual encountered with ethical dilemma, he will consider it cognitively. Moral issue in ethical dilemma is always considered by individual based on his development level of morality. In summary, individual's ethical or moral consideration is based on his experience, ethical orientation, and commitment to the profession. A similar model by Sims and Keon (2000), considers the ethical decision making of individual employees and the influence of their perception of organizational expectations. The more they are matched with the organizational expectation the more ethical their decision making. Thus, the ethical orientation as expected by the organization has positive relationship with ethical decision making.

For a summary, the model developed by Syms (2000) as adopted from Rest (in Zegenfuss and Martison, 2002), there are four stages: 1) moral issue, 2) Moral recognition, 3) moral interest, 4) moral behavior. However, most of the research only up to stage number 2 (moral recognition) is measured because the stage number two is inevitably moved on to the moral behavior. This research proposes two hypotheses as follows:

Hypothesis one: There is a relationship between ethical orientation and ethical decision making by the students of Accounting.

Hypothesis two: There is a significant difference on ethical decision making by the students of accounting before and after taking the subject of professional ethics.

### **III. Methodology**

**3.1 Instrument:** This research uses survey, in which, questionnaires are distributed to the students who are taking the subject of Professional Ethics in our college, STIE Perbanas Surabaya this semester. First, the questionnaires distribute when they start the class of professional ethics. After one semester, the questionnaires are also distributed to them. By doing so, the difference between the decision making by the students of accounting before and after orientation (taking the subject) can be found out. The data from both the previous and the last questionnaires are gathered and analyzed. The questionnaire consists of part A, concerning the ethical orientation adopted from Forsyth with 20 questions and part B concerning the decision making adopted from Sims (1999) with two cases describing the scenarios (a and b) consisting of two questions for each. The Likert scale is used in each question such as, 1) strongly agree, 2) agree, 3) uncertain, 4) disagree, 5) strongly disagree.

#### **3.2 Subject:**

The number of respondents is 47 in the pre test, and 50 in the post test. They are the students who are currently taking the subject of professional ethics during this semester while the research is being done.

#### **3.3 Measures;**

This research uses Pearson Product Moment to find out the relationship between Ethical Orientation and Ethical Decision making. Another measurement is the **t test**

**which** is used to find out the difference between the decision making by the students of accounting before and after the ethical orientation (after taking the subject of professional ethics).

### **3.4. Variables**

Dependant variable is ethical orientation. In this case, it is the orientation by the students by taking the subject of professional ethics during one semester.

Independent variable is ethical decision making. In this case is the decision making by the students of accounting after taking the subject of professional ethics during one semester.

## **IV. Discussion.**

Based on the data analysis, it can be explained whether ethical orientation has positive relationship with ethical decision making by the students of accounting who are taking the subject of professional ethics. Secondly, it can also be found out how far is the difference between the ethical decision making by the students of accounting after having got ethical orientation ( by taking the subject of professional ethics during one semester).

The variables of ethical orientation, such as Idealism vs. Pragmatism and Absolutism vs. Relativism are measured by using questionnaires adapted from Forsyth (1992). Furthermore, using Cronbach Alpha measurement, the reliability testing of the idealism and pragmatism, is 0.7671 while the reliability testing of Absolutism and relativism is 0.7882. The Cronbach Alpha of the scenario of ethical decision making is 0.6819. In addition, the validity for all items are measured by means of item-to-total and the result is valid. The mean of ethical scenario is 0.200 which is as the first measurement stage from the decision making process proposed by Rest (1979) and as he stated that there is tendency of ethical factoring every scenario.

First of all, the relationship between ethical orientation and ethical decision making (hypothesis one) as measured by linear regression, the R and R squared is small (0.347 and 0.120), however, statistically it appears significant (Sig: 0.03<0.05). This means that there is positive influence between ethical orientation and ethical decision making. Secondly, using *t test*, the second hypothesis, the variables of idealism and pragmatism, the result shows that there is a difference between the students before and after having ethical orientation in their ethical decision making. Before taking the subject of Professional Ethics, the mean is 2.229, and after taking this subject the mean is 1.890 (more idealism). Furthermore, based on the statistical test, it shows its significance (sig: 0.000). So is the variable of absolutism-relativism, the mean before and after the lecture of professional Ethics is 2.209 to 1.964. The statistical analysis shows that it significantly different (sig: 0.000).

## **V. Conclusion**

Based on the results above, it is obvious that accountants should do any activity of auditing more ethically because idealism is important. In addition, accountants should also obey all the existing regulations in doing their task of auditing so that ethical orientation of being idealism and absolutism is kept and therefore, it should be appreciated more than the pragmatic interests. For

that reason, the orientation on how accountants to be more ethically in doing their tasks must also be given to them, the prospective accounting during they are studying as students. The comprehension dealing with such orientation can be put into the curriculum in Accounting department or studies. Brooke (2002) designs good materials for accounting professional ethics as used in our college covering such as, The Ethics Environment, The Role of a Professional Accountant, Ethical Governance – Codes and Beyond, Approaches to Ethical Decision Making. Significant Ethics Issues Facing Business and the Profession, and some issues related to ethics.

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