

A model of auditors' ethical decision processes; Discussions; Reply

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ABSTRACT

A study developed and tested an alternative "5-element" model, synthesized from 3 cognitive-developmental stage models. Both the American Institute of Certified Public Accountants' (AICPA) Code-based model and the proposed 5-element model were operationalized via a series of 7 ethical dilemma vignettes. Three sets of responses were used to compare the Code-implied and 5-element models: 1. the 3-story version of the Defining Issues Test (DIT), 2. yes-no decisions to each of the 7 vignettes, and 3. rank-ordered reasons for each of the ethical vignette decisions. Results indicated that the 5-element model describes how and why auditors make ethical decisions better than the Code-implied model. In a discussion paper, Gaa notes that the 5-element model is supposed to provide the theoretical foundation for the construction of the vignettes in the questionnaire. However, it is not sufficiently developed to bear this burden. O'Malley notes that Lampe and Finn do not discuss the difficulty auditors encounter when laws, rules, and principles seem to be in conflict.

FULL TEXT

The AICPA Code of Professional Conduct (Code) was revised in 1988 and approved by the membership to consist of two sections: principles and rules. Interpretations of the rules and rulings issued by the AICPA to answer specific questions regarding members' ethical conduct supplement the principles and rules and, in combination, provide guidance to auditors making decisions about ethical dilemmas. The model of the decision-making process implied by the combination of these Code elements is conservative, however, and may not fully capture all the actual influences on auditors' decisions. This study proposes and tests an alternative model in comparison with the AICPA Code-implied model.

ALTERNATIVE MODELS OF ETHICAL DECISION MAKING

When faced with an ethical dilemma, an auditor must gather and analyze data from many sources. It is likely that auditors gather and analyze these data in many different ways. One benefit of a model of auditors' ethical decision making is that the model elements can be identified and tested to better understand how and why the decisions are made. In this section the decision model implied by the AICPA Code is delineated and compared with other existing models.

PROFESSIONAL CODE-IMPLIED MODEL

Numerous professional accounting, financial, and auditing organizations have separately adopted codes of ethics. Most practicing internal, public, and governmental auditors are associated with one or more of these organizations and have voluntarily submitted to the respective codes of conduct which restrict activities beyond the legal statutes binding the general citizenry. Comparisons of these codes (Harris and Reynolds 1991) indicate that there are significant common components across many of them, but also that omissions and potential conflicts exist. Unlike most other codes, the AICPA Code provides specific guidance in using both rules and principles to conservatively resolve conflicts. The chairman of the committee drafting the restructured Code described the application of principles in the following manner:

... guided by the basic principles in the Standards of Professional Conduct, members must exercise professional

and moral judgments in all their activities (Anderson and Ellyson 1996, 96).

Within the newly-added principles section of the AICPA Code, members are called to an "unswerving commitment to honorable behavior, even at the sacrifice of personal advantage" (AICPA 1988).

This description of the AICPA Code implies an exceptionally conservative decision model. According to the Code-implied model, an accountant or auditor must be aware of the principles, rules, interpretations, and rulings promulgated by the AICPA. When facing an ethical dilemma, an auditor compares the dilemma situation with these elements of the Code and makes a decision to avoid any possible violation. To follow this decision model without exception would lead to increasingly conservative decisions in which the gray area calling for auditor judgment is reduced. That is, when an ethical dilemma situation is addressed within the Code each new level of guidance adds restrictions which require auditors to follow promulgated rules and principles without deviation. This model is illustrated in figure 1 and discussed below. (Figure 1 omitted)

At the legal level, CPAs are constrained from complete decision-making freedom. For example, a CPA might be serving a client who is involved in merger negotiations. When the merger proposal is made public, the price of the client's stock will rise substantially. An auditor is constrained by insider trading laws (LEGAL level) from investing in the stock to make a personal profit. Even when not legally constrained from investing in the client, Rule 101 of the Code (RULE level) restricts investment in clients' stock. The PRINCIPLES level further restricts the auditor's ethical decision-making freedom. A Code principle states that a CPA will not engage in activities that could hinder public confidence in the profession. For example, if loans from a bank to partners of the audit firm would be beneficial to the partners but would cause other business leaders to question the CPAs' integrity, then such loans should not be consummated even if not constrained by legal sanctions or specific Code rules.

The Code-implied model requires unswerving commitment to the LEGAL, RULE, and PRINCIPLE levels of self-constraint. Personal self-interest considerations as well as concerns for other parties such as family, friends, or colleagues are not appropriate reasons to swerve from the conservative decision rules. According to the Code-implied model, auditors always make conservative ethical decisions to avoid breaking laws, rules, or principles. Application of the model, however, is not straightforward in all situations. For example, some auditors have willingly incurred legal liability in order not to disclose confidential client information. On the other hand, auditors have disclosed confidential information obtained via an audit when it was considered necessary in order to protect investors from harmful decisions based on erroneous data. One objective of this study is to better determine the situations in which auditors consider it appropriate to violate the Code-implied model. Other models of ethical decision making provide a means of identifying non-Code factors influencing auditors.

ALTERNATIVE MODELS OF ETHICAL DECISION MAKING

Researchers in philosophy, psychology, economics, management, and accounting have begun to examine components of ethical decision making within models that describe the decision process. Before making an ethical judgment, auditors must gather, evaluate, and combine numerous professional and situational variables. The decision models in the literature attempt to explain what variables influence the decision maker, how the variables are valued, and how conflicting value judgments are reconciled. Specific models considered in this section include the agency model and three cognitive-psychology based models.

THE AGENCY MODEL. The basic agency model separates the ownership function (principal) from the function of a delegated decision maker (agent), recognizing that the best interest of the agent may be in conflict with that of the principal. Agency problems exist in all organizations and result in monitoring costs to be borne by the principal in order to control the agent (Jensen and Meckling 1976; Watts and Zimmerman 1986). A technical solution to the agency problem is to contract an optimal agreement clearly stating the agent's required actions. In situations of professional service, however, problems of moral hazard (the agent acting contrary to the interest of the principal) and information asymmetry (the principal not certain of the agent's actions) cannot be completely resolved through a contract agreement (Young and Jaworski 1988). DeJong and Smith (1984) conclude that auditors, as agents, may maximize personal utility by balancing short-term benefits with longer-term costs such as potential litigation or loss of reputation.

Noreen (1988) extends agency theory to the economics of ethics. For those individuals who act unethically in self-interest, without conscience and without being readily observable, agency theory is applicable. Noreen extends this application of agency theory to show that the agents would be better off economically if it were possible to mutually agree to restrain opportunistic behavior via agreements such as ethical codes of conduct. Because short-term violations of such an agreement would not be observable, it is necessary for members of a profession such as auditing to internalize sanctions for unethical behavior. In the long run, it is of significant economic benefit to the profession for members to internalize sanctions and thereby avoid more costly external sanctions in situations when those parties using and paying for audit services subsequently determine unethical behavior has occurred. Additional considerations of internalized ethical standards have been recognized in several cognitive-based ethical models.

COGNITIVE-BASED ETHICAL MODELS. Academics and practitioners have directed increased attention to both theoretical and empirical examinations of ethical decision making. The primary model on which the remainder of this study is based is the Rest (1986a) four-component model for individual ethical decision making and behavior. Another model (Trevino 1986) was offered as an alternative model to consider individual and situational variables. In this study, the Trevino "Interactionist Model of Ethical Decision Making in Organizations" is considered a complimentary extension of the Rest four-component model. A third issue-contingent model has been proposed by Jones (1991) and adds a new set of variables collectively referred to as "moral intensity," which further explains ethical decision making as internalized by individuals performing within an organization or profession. Each of these models includes recognition of an individual decision maker's stage of cognitive moral development as defined by Kohlberg (1984).

THE REST FOUR-COMPONENT MODEL. The central model presented in figure 2 was offered by Rest (1986a) to better explain the complexity of moral decisions. (Figure 2 omitted) The four components represent processes that Rest concludes must occur in order to result in moral behavior:

1. The person must be able to make some sort of interpretation of the particular situation in terms of what actions are possible, who would be affected by each course of action, and how the interested parties would regard such effects on their welfare.
2. The person must be able to make a judgment about which course of action is morally right (or fair or just or morally good), thus labeling one possible action as what a person ought to do in that situation.
3. The person must give priority to moral values above other personal values such that there is an intention to do what is morally right.
4. The person must have sufficient perseverance, ego strength, and implementation skills to be able to follow through on his/her moral intention, to withstand fatigue, and then overcome obstacles.

The second component within this model is based on cognitive stages of moral development and involves a logical process leading to moral decision making. Cognitive developmental research was pioneered by Piaget ([1932] 1965) and Kohlberg (1969) following Dewey's ([1891] 1960) three levels of moral and intellectual development.

The specific recognition of moral judgment in the four-component model is based on Kohlberg's (1976) delineation of six discrete stages of moral development which focus on how individuals distinguish right actions from wrong actions:

I. Preconventional Level (focus on self)

Stage 1—The physical consequences of actions determine goodness or badness. Avoidance of punishment and deference to power are key values.

Stage 2—Right action satisfies one's own needs and the needs of others, when reciprocity is involved.

II. Conventional Level (focus on group)

Stage 3—Good behavior is what pleases others and is approved by them.

Stage 4—Right behavior consists of doing one's duty, respecting authority, and maintaining the social order, for its own sake.

III. Post-Conventional Level (focus on inner self)

Stage 5--Right actions are defined in terms of general individual rights and standards agreed upon by society.

Outside of democratically set laws, right is a matter of personal values and opinions.

Stage 6--Right is defined by the decision of conscience in accord with more abstract self-chosen ethical principles centering around justice and dignity.

If the entire ethical decision-making process were based purely on individuals' cognitive level of moral development, a measure of component two of Rest's model would completely explain moral behavior. Instead, additional processes must be considered because "people use various organizations of thinking, are somewhat inconsistent ... are considerably influenced by the particular content and properties of the problem ... and developmental diagnosis is relativistic and probabilistic" (Rest 1974, 252). As one important part of the total model, objective measures of the second component are attainable from the Defining Issues Test (DIT) (Rest 1986b) of moral development with output in the form of continuous variable scores. The "P" score provides measures of "the relative importance a subject gives to principled moral considerations in making a decision about moral dilemmas" (1986b, 5.2). This is a computation of the percentage of a subject's thinking based on stage 5 and stage 6 combined. An alternative "D" score is an overall index of moral development based on subject responses for all of the stages. In total, the DIT provides measures for principled reasoning ("P"), overall moral development ("D"), each of the individual stages, and internal consistency checks. Hundreds of studies involving thousands of total subjects provide average scores for comparison.

For example, Rest (1986b, iii) provides the following group P score averages:

65.2 Moral philosophy doctoral students

59.8 Seminarians in a liberal Protestant seminary

52.2 Advanced law students

49.5 Practicing medical physicians

42.3 Average college students

40.0 Average of adults in general

31.8 Average senior high students

21.9 Average junior high students

18.9 Institutionalized delinquent 16 year-old boys

OTHER COGNITIVE-BASED MODELS The interactionist model proposed by Trevino (1986) posits that ethical decision making is explained by the interaction of individual moderators and situational moderators following recognition of the dilemma. This interaction is based on the individual's stage of cognitive moral development. Although cognition provides the initial decision of right and wrong, it is not sufficient to explain or predict ethical behavior. Additional individual variables (categorized as ego strength, field dependence, and locus of control) are proposed to interact with situational variables (arising from the immediate job context, organizational culture, and characteristics of the work) in the final determination of ethical behavior. As indicated in the lower portion of figure 2, Trevino's model allows for feedback from the situational variables to impact the moral judgment of the individual in an iterative fashion. Phases one, two, and four of the synthesized model are basically the same for both the Trevino and Rest models. The recognition of more specific individual and situational variables to replace Rest's component three adds an ability to measure the degree of influence that job and other values have on auditors' ethical decisions.

The synthesized model in figure 2 also draws on Jones' (1991) issue-contingent model. This model adds an additional set of issue-dependent variables. Jones posits that characteristics of the moral issue itself also affect ethical decision making and behavior. The issue-contingent variables are collectively referred to as "moral intensity" and are classified into six components: (1) magnitude of consequences, (2) social consensus, (3) probability of effect, (4) temporal immediacy, 5) proximity, and (6) concentration of effect. As illustrated in the upper portion of figure 2, one or more of the constructs of moral intensity are posited to impact all of the four components in Rest's model. From the perspective of professional auditors, these elements of moral intensity may

be directly associated with their judgments concerning the importance of moral issues and subsequently their ethical decisions. Auditors' behavior, when issues are unimportant, may differ from when they are perceived to be highly important.

AUDITORS' FIVE-ELEMENT MODEL

This study posits that auditors' ethical decision processes can be described in terms of a probabilistic, iterative, and situation-specific synthesis of the three cognitive-based models described in the preceding section. Each of the five elements of the proposed model will be discussed in relation to the Rest model and tested in comparison with the Code-implied model.

Figure 3 presents an overview of the five-element model and allows some overall comparisons of the proposed model with the Code-implied and cognitive-based models. (Figure 3 omitted) The first notable difference is that the proposed model stops short of predicting the action taken by an auditor following a final decision on a right versus wrong response to the ethical dilemma. In the Code-implied and cognitive-based models which do culminate in ethical action, empirical evidence (Blasi 1980; Thoma 1984) indicates that there is a pervasive and consistent link between moral judgment and subsequent behavior, but the strength of the relationship is only moderate. The five-element model for auditors stops with the final ethical decision and leaves the actual ethical action of auditors beyond the scope of this study.

A second point of comparison is the amount of decision freedom allowed the auditor, illustrated by the gray area within each model. In the Code-implied model, decision freedom is shown to be continually reduced by adherence to the rules and principles of the Code. Conversely, the proposed model indicates that the gray area between clearly right and clearly wrong decisions is increasingly widened by consideration of additional elements. Each element contains the potential to add variability to an auditor's ethical decision making. The final decision in the process selects one of many alternatives within the gray area of feasibility. A third aspect of the model presented in figure 3 is the interaction between the first four elements. The number and direction of arrows indicate that it is not a five-step sequential model, but rather an iterative one in which the first four elements could be considered multiple times in virtually any real-time sequence. Assessment of other-than-moral values (element 4) may lead to reconsideration of decision impact (element 2) and/or additional data collection to gain further understanding (element 1) of the moral issue. Each of the elements is capable of multiple iterations in any permutation of sequence following recognition of the situation.

ELEMENT 1—GAIN UNDERSTANDING

Once an auditor has recognized a moral issue, the first step illustrated is to obtain data concerning the situation. This may occur concurrently with other elements of the model and is likely to be reiterated throughout the decision process. In the proposed model, gaining an understanding of the situation is more extensive than the equivalent step in either the Code-implied or four-component model.

The Code-implied model indicates that the auditor will collect data concerning the situation and compare it to the Code. If the behavior is prohibited by laws, rules, or principles then the decision is to refrain from the questioned behavior. The data collection and comparison to the Code is a short, simple, and conservative decision rule with a clear dividing line between acceptable and unacceptable behavior. Variability in auditors' decisions following this model occurs only when auditors fail to properly comprehend either the situation or the Code (Glezen and Alexander 1989).

In the Rest (1986a) four-component model, the first component encompasses more than simple comprehension of facts, and includes individual interpretation of the issues. This first component (recognition of issues) is also influenced by the relative difficulty in comprehending the situation, the sensitivity of the individual, and the interconnection between cognition and effect. Element 1 in the five-element model is intended to include all of the Code-implied and Rest model considerations plus expansion to include the individual, job, and situation variables (Trevino 1986; Jones 1991) that affect the auditor's understanding of the issues. For example, whether an auditor is in a good or bad mood (Staub 1978), whether a client misstatement is intentional or unintentional, and the materiality of dollar amounts involved influence his or her understanding of the situation.

ELEMENT 2--RECOGNIZE IMPACT

The second element in the proposed model is for auditors to recognize the impact of alternative actions on other people. The Code-implied model does not have an equivalent step. The potential impact on others does not influence the auditor's decision under the Code. In the Rest four-component model, a determination of social impact is considered a subset of the first component in recognizing the moral issue. In the proposed model, auditors' ethical decision making is sufficiently oriented to third parties that it is recognized as a separate interactive element.

The dilemma of auditors' trying to balance the welfare of both the auditee and the users of audited financial statements has been studied by numerous practitioners, regulators, and academics. Element 2 of the proposed model recognizes the influence of many other parties on auditors' ethical decision making. Decisions to engage in alternative moral actions could have significant impact on the auditor's family, friends, and colleagues as well as the profession. Auditors also recognize that their decisions impact investors, creditors, regulators, the local community, and the general public. In the same way that auditee and report-user expectations of auditors differ, other parties also have differing and conflicting reasons for influencing auditors' ethical decision making. Examples of factors that may cause auditors to alter ethical decisions include whether the parties affected are close friends or family versus someone unknown, whether the action will take place immediately or far into the future, and the seriousness of impact.

ELEMENT 3--JUDGE ALTERNATIVES

Variability between auditors due to differences in judging alternative actions is not recognized in the Code-implied model, which is restricted to comparing situation facts with promulgated rules and principles. In the cognitive-based models, distinctions between alternatives are assumed and follow Kohlberg's (1976) postulate that individuals make moral judgments in some combination of six analytically distinct ways based on the six stages of moral development.

In the five-element model, the step of judging alternatives is similarly based on auditors' moral development with the addition of situational moderators in an interactive mode. An initial ethical judgment can be made prior to all data being obtained and before the impact on other parties is recognized. In the other direction, the level of conviction in an initial judgment can impact the amount of additional data gathered prior making a final ethical decision. Element 3 recognizes this type of interaction moderated by job and organizational variables. Firm or professional guidance literature, norms of peer practice, directives of superiors, and perceived probabilities of effect are examples of the job and organizational variables that influence auditors' moral judgments as well as the stage of moral development.

ELEMENT 4--ASSESS OTHER VALUES

In this phase of the ethical decision process, auditors balance the previously described moral factors against other values. As with elements 2 and 3, the Code-implied model does not recognize that "other-than-moral" factors influence the final decision. In the Rest model, the most closely allied component is to establish moral intent. This part of the four-component model explains why an individual may make a moral judgment that one action is the right thing to do but, primarily due to other self-interest factors, never intends to do the right thing.

Element 4 of the proposed model recognizes that auditors consider self interest such as economic benefits and career advancement as well as placing value on recognition for a job-well-done or on the aesthetics of art, music, or poetry. These values influence auditors' ethical decisions in varying degrees relative to the other elements. For example, recognition of family needs (element 2) could alter an auditor's value placed on an immediate monetary return and vice versa. Element 4 of the proposed model recognizes that different auditors, and the same auditor in different situations, place varying importance on "other-than-moral" values.

ELEMENT 5--MAKE A FINAL DECISION

This model stops short of implementing the final decision made by an auditor. It is not expected that auditors will always perform in a manner consistent with the final decision (moral intent) to do what is right. It is, however, important to distinguish this final decision element from intermediary judgments and to recognize a positive

relationship between the final decision and subsequent actions. This element concludes the decision process being modeled and is not shown as interactive. If all feasible data to understand the situation have been gathered, if the impact on all affected parties has been considered, if intermediary judgments have been modified appropriately, and if associated non-moral values have been weighed, then a final decision is the logical conclusion. The four single-directional arrows pointing to the concluding element 5 indicate that after the auditor has sufficiently considered (often on a cost/benefit basis) the first four elements, the output is a final decision on the ethically correct action.

TESTING THE MODELS

A primary objective of this study is to test and compare the Code-implied and five-element models. In order to operationalize the models, a series of seven ethical dilemma vignettes have been designed to provide variation in the elements to be compared. The operationalized models have been tested by obtaining responses from practicing and student auditors as to:

- 1) what is perceived correct in this situation (yes or no),
- 2) what percentage of peers would decide similarly, and
- 3) a ranking of eight potential reasons for the decision.

The yes/no responses from subjects on each vignette, compared with the respective Code-based decision rules, provide a direct measure of the extent to which auditors follow the Code-implied model. Analyses and comparisons of the decision responses with ranked reasons for the decisions and DIT scores provide an indication of the degree to which the respective elements of the model influence the final decision.

OPERATIONALIZING VIGNETTES

Vignettes are short, concrete stories to which subjects respond in a variety of formats. In auditing, vignettes have been included in numerous case materials and video cassettes for both student and practitioner use. Hunt and Vitell (1986) used vignettes to objectively study marketing ethics. Sociologists have used vignettes to study family life and concluded they have considerable validity (Rossi 1977; Nosanchuk 1972). A comparison of different techniques in the study of business ethics concludes that "as a vehicle for investigating an individual's ethical principles and ethical behavior, vignettes provide significant advantages over other instruments" (Cavanaugh and Fritzsche 1985, 291).

One significant advantage of vignettes is that they permit researchers to control the stimuli presented in a dilemma and receive common responses to the same stimuli. For this study, specific aspects of different auditing dilemmas are controlled and specific categories of reasoning are ranked as to the impact on the final decision. Instruments which use very general questions tend to elicit predictable and morally correct responses (Clark 1966). Unstructured responses to actual respondent dilemmas are difficult to combine into a common framework of reasoning and may introduce bias due to respondents' embarrassment or fear of detection (Rossi 1977). Anonymous responses to vignette situations provide subjects the opportunity to candidly respond to issues that are not linked with specific actions.

Seven different vignettes have been designed to obtain subject responses to a variety of specific situations. Specificity in each vignette is necessary in order to measure differences of opinion between subjects that possess similar training and education with respect to a "professionally correct" response to an ethical dilemma (Ferrell and Gresham 1985). When vignettes are oriented to very specific situations, however, it is necessary to obtain responses to multiple scenarios. Ethical theorists have concluded that commonalities which comprise an individual's ethical orientation need to be measured over a variety of situations and decisions (Murphy and Laczniaak 1981). The seven vignettes designed for this study provide a variety of specific auditor dilemmas, summarized in figure 4. (Figure 4 omitted)

The seven vignettes have been designed by the researchers based on other published cases and discussions with practitioners. The role of the ethical decision maker includes student, staff, in-charge, manager, partner, and internal auditors. The situations are varied with respect to commonality and direct applicability of the Code. The first four vignettes represent commonly encountered situations in which auditors can clearly detect actions that

would violate the Code. The last three vignettes are more nebulous situations not commonly encountered by the responding subjects. Variety is also introduced for the benefactors and type of benefits derived from a decision to break ethical principles. Some vignettes provide direct monetary benefit to the auditor, some benefit colleagues, and the seventh vignette involves environmental protection for the local community. Vignette 1 is presented in an appendix as an example.

The researchers initially designed eight vignettes and tested them with two academic auditors and two practitioners. All eight vignettes were also discussed with a group of 19 staff auditors following the first application of the research instrument. One of the eight vignettes was dropped from the study due to confusion about the vignette situation and the reasons provided for the auditors' decisions. Very minor editorial changes were made to the remaining seven vignettes. The first group responses are included in the results tabulated for staff level auditors and reported later in this paper. The anonymity of the respondents, the hypothetical nature of the vignettes, and the variety of situations presented are assumed to minimize any self-reporting bias or demand effects in the subject responses.

REASONS FOR ETHICAL DECISIONS

Eight potential reasons which may have been important in the decision making process are included in each vignette for participant consideration and ranking. The appendix illustrates the reasons provided for vignette 1. The coded classification in the left margin has been added for this discussion and was not on the instruments completed by the auditors. The design of the eight reasons provided with each vignette is such that two reasons support each of the first four elements in the decision process model and serve to measure respective amounts of influence on the final ethical decision:

Element 1–2 Code-based reasons (CODE)

Element 2–2 external consideration reasons (EXTL)

Element 3–2 decision rationalization reasons (RATL)

Element 4–2 personal utility reasons (PRNL)

The reader may also note that the first four reasons support a positive response and the other four support a negative response. Furthermore, there are an equal number of positive and negative reasons provided within each coding category.

Subjects ranked only the reasons considered relevant to their decision. Because 75 percent or more of the auditors participating in this study ranked four or more reasons on all vignettes, a 16 point symmetrical weighting scheme (7,5,3,1) was applied to quantify the importance of ranked reasons. When analyzing any set of four reasons, a subject score could vary from zero (if none of the four reasons was ranked by the subject) to sixteen (7+5+3+1) if all four of the reasons were ranked by the subject. Each element in the proposed model has been associated with two of the eight reasons. For each set of two reasons the cumulative scoring total could vary from zero (if neither the positive nor the negative reason associated with a model element was ranked) to twelve (7+5) if both reasons were ranked first and second by the subject. If all subjects had ranked four or more reasons as important and all four reason categories were considered equal across the total sample of subjects, then an average score of 4.0 would have been obtained for each category. Because approximately 25 percent of the subjects ranked fewer than four reasons as important, an overall average of 3.6 has been obtained across all reason categories. An individual category score of greater than 3.6 represents above average influence on the final decision while categories with less than a 3.6 average score exert below average influence.

SUBJECTS IN THE STUDY

A total of 358 usable responses provide empirical testing of the two previously described models. Four subgroups of these auditors are recognized in different analyses of the data collected:

- 1) 129 senior class level students in auditing classes,
- 2) 106 staff auditors with one to two years experience,
- 3) 123 audit managers with six or more years experience, and
- 4) 229 practicing auditors formed by combining the staff and manager subgroups above.

All participating subjects responded to a research instrument containing the three-story version of the DIT, the seven vignettes summarized in figure 4, and demographic data. Students completed the instrument as an extra credit audit class exercise. Staff auditors represent five offices of one international CPA firm and completed the instrument while attending in-house training programs in groups of about 20 each held at the individual offices. At each group session for the staff auditors and the university classes, a researcher provided a brief introduction, instructions, and remained with the subjects to observe completion. Because of this experimental data collection approach, a 100 percent response rate was obtained but two of the student and one of the staff auditor instruments were considered insufficient and have been excluded from usable responses. Internal validity checks for DIT scores have also reduced the numbers of valid moral measures as indicated in table 1. (Table 1 omitted) The 123 management-level auditors represent offices from all of the Big Six firms. Selected managers from each office were provided packets including a letter to introduce the project and researchers, the same instrument completed by student and staff auditors, and a return envelope to the researchers. The demographic questions asked practicing auditors varied slightly from those asked students. A 65 percent response rate was obtained from the selected audit managers and only one manager instrument was considered insufficient for use.

STUDY RESULTS

The data collected permit quantification of measures of cognitive moral development, professional ethical dilemma decision ratios for each of seven situations, and reasons for the decisions made by all participating auditors.

MEASURES OF MORAL DEVELOPMENT

Data were obtained from study participants for the purpose of measuring cognitive moral development via the three-story version of the DIT (Rest 1986b) and analyzed with computer macros written by the researchers. Summaries of these data and similar measures from a comparative standardized sample of 1,080 subjects (Rest 1986a) are presented in table 1. Table 2 includes comparisons of DIT scores from this study with those from other studies of accountants. (Table 2 omitted) The DIT score most commonly mentioned in other research is the P index (standing for Principled morality), which is interpreted as the relative importance that subjects attribute to the stage 5 and stage 6 items. The D score is based on scaling theory and includes standardized weighting of all the individually measured stage scores. Both the P and D score measures have been validated as psychometrics of moral reason (Rest 1986a). It should be noted, however, that the DIT has been designed and implemented primarily for the differentiation of a post-conventional level from earlier stage reasoning. In this study, emphasis is also placed on the stage 4 measurement obtained from the DIT.

The first observation of table 1 and table 2 data, consistent across all the research studies, is that the P scores obtained from practicing auditors are lower than those of other professions, college graduates, and undergraduate college students. One interpretation of these data is that auditors, as a group, lag behind other professionals and college-educated society in terms of moral development. This reasoning is inconsistent with the public perception of CPAs' high moral standards (Harris 1986; Touche Ross 1988) and does not reflect all the individual stage components. Stage 4 measures, which reflect right behavior based on performing one's duty, respecting authority, and maintaining social order, are also referred to as a law and order index, but are not included in the P score. Only stage 5 constructs from the DIT, indicative of considerations for individual rights as well as standards agreed upon by society, combined with stage 6 measures, indicative of decisions which are based on more abstract and self-chosen principles, impact the P score. Accordingly, auditors who have developed to a strong stage 4 rule orientation will generate a P score similar to another person with primarily stage 2 or stage 3 orientation, but much lower than persons who follow more abstract self-chosen principles stage 6).

The data in table 1 indicate that practicing auditors have essentially the same average stage 5 scores (34.02) as those of the large standardized sample of college graduate students (33.92). The cause of the difference in P scores is that the college graduates have higher stage 6 scores ($10.93 - 6.74 = 4.19$) while auditors have more stage 4 orientation ($34.91 - 29.95 = 4.96$) which results in the significant P score difference foot-noted in table 2. The differences between the scores of students are beyond the scope of this paper.

VIGNETTE DECISIONS

Results of the responses to the previously described vignettes are presented in table 3. (Table 3 omitted) Attention will first be focused on the decisions made by students versus practicing auditors. The range of student subjects who disagree with the Code-implied decision rule (i.e. the decision ratio) is from 9 percent to 89 percent. Practicing auditor respondents as a combined group range from 20 percent to 92 percent disagreement. These variations, however, must be considered in the context of each individual vignette. Readers are encouraged to review the vignette and decision rule summary provided in figure 4.

The results in table 3 indicate that there is considerable variation in the decisions made by the subjects. In the first four vignette situations, designed to be clearly recognizable and commonly encountered Code violations, the percentages of subjects who indicate they would decide contrary to the Code-implied rules are:

students--9%--43%

staff--18%--34%

managers--21%--30%

As the reader might expect, disagreement with Code-implied rules increases when the vignettes include situations less familiar to the auditors and application of the Code is more nebulous. For these vignettes (5, 6, and 7) percentages of disagreements are:

students-- 22%--89%

staff--41%--93%

managers--40%--90%

Across all seven vignettes, the most notable differences in decision ratios occur between the students and practitioners. In vignette 2 (padding an expense report), vignette 4 (spreading costs to another client) and vignette 6 (softening audit report wording), students are significantly more conservative than practitioners. In vignette 3 (eating time worked) and vignette 5 (negotiating with a client) the practitioners are more conservative than students. Perhaps the most obvious decision data in table 3 are the subjects' decisions regarding whether or not to report on a potentially contaminous chemical dump as presented in vignette 7. This vignette situation has added complexity because the decision maker is an internal auditor. If the auditor were a member of both the AICPA and the Institute of Internal Auditors (IIA), a potential conflict exists between the two codes of ethics. In this study, all students had studied the AICPA Code only, all practitioners were external auditor members of the AICPA, and the primary objective is comparison of the five-element model with the AICPA principles, rules, interpretations, and rulings. With respect to client confidentiality in vignette 7, the primary ethical guidance for auditors' decisions is to maintain confidentiality unless the issue were considered material to current year financial statements. All of the subject groups overwhelmingly (89%-93%) decided to violate the confidentiality rule and report the situation. Apparently, the subjects' concerns for members of the community are more important than a nebulous confidentiality relationship in this situation.

REASONS FOR ETHICAL DECISIONS

It may be recalled that the quantified scoring of two reasons associated with each of the model elements in this study could vary from zero to twelve, with an average 3.6 cutoff used to reflect greater vs. lesser than average influence on the final ethical decision. The quantification of reason importance in table 3 permits numerous observations and insights into the factors affecting auditors' ethical decision making processes. Perhaps the most basic observation is that all of the decision categories are non-zero. This means that within the subgroups of auditors, subjects thought all of the reasons had an important influence on their decision making in all seven vignettes. Another obvious observation is that the relative importance of reasons varies across the different vignettes. For example, all of the subgroups believed concerns for external parties to be the least important in the situation involving a student part-time job (vignette 1) but most important when deciding whether or not to spread costs from one client to another (vignette 4). Code-based reasons are the most important in vignettes 1 and 5, personal utility is the most important in vignette 2, and external considerations are considered most important in vignettes 3, 4, and 7. Additional statistical analyses of these data provide a more objective basis for determining

the significance of the variations.

STATISTICAL ANALYSES

In this section, data from three different sources (DIT scores, decision ratios, and reason scores) are analyzed via three different approaches: (1) significance of differences between groups, (2) significance of differences within groups across vignettes, and (3) correlations between the decisions made and reason scores. These multiple analyses of the data provide evidence that each of the elements in the model of auditors' ethical decision processes has significance as operationalized in this study.

BETWEEN GROUP ANALYSIS

Analyses of the difference measures between the groups of manager, staff, and student auditors are presented in table 4. (Table 4 omitted) The first column of data, labeled "P Value, contains analysis of variance results from testing the null hypothesis that all three subgroups are equal (i.e. $x_{sup 1} = x_{sup 2} = x_{sup 3}$) Using a significance cutoff level of .01, it may be observed that the null hypothesis should be rejected for the P and stage 6 scores from the DIT as well as for all the decision ratios and most of the reason categories from vignettes 2 through 6. For vignettes 1 and 7 the decision and reason differences are not significant. These results are consistent with the observations of raw data in table 3--students seem to make different decisions for different reasons than do the practicing staff and managers in vignette situations 2 through 6.

On a between group analysis, the P scores (including stage 5 and stage 6) for the managers in this study are significantly ($p < 0.05$) greater than those of the students. None of the other DIT score differences between the staff and managers or between staff and students are significant. It may also be noted that the decision ratio and reason scores from vignette 1 (student part-time job) and vignette 7 (internal auditor chemical dump) contained no significant differences. In these vignettes it follows that when the decision does not differ, reasons for the decision also contain no significant differences. In vignettes 2 through 6, however, only three out of the 30 overall measures of difference do not require rejection of the null hypothesis. In these five vignettes more directly associated with ethical situations commonly encountered in the practice of auditing, the practitioners appear to have gone through a socialization process that distinguishes them from students. Out of 50 possible difference measures of staff and managers from students, 35 (including all five decisions) are significant at the .05 level. Of the 25 measures between managers and staff auditors, only two reason rankings and none of the decisions are significantly different.

WITHIN GROUP ANALYSIS

Table 5 contains analyses of the within group rankings of reasons provided for the ethical decisions made in each of the seven vignettes. (Table 5 omitted) The table is constructed such that when significance exists for the difference between one rank and the next lower rank, it also exists for all subsequently lower ranks. For example, if a rank one measure is significantly greater than a rank two measure, significance also exists for ranks three and four.

When the reason groupings are averaged across all seven vignettes, the subgroups display the same rank ordering: Code-based reasons first, external concerns second, personal concerns third, and decision rationalizations fourth. Logically following this rank ordering is the observation that the majority of subgroup decisions across the seven vignette dilemmas are decided primarily on Code-based reasons and concerns for external parties. Several obvious and important exceptions should be noted. In vignette 2 (padding an expense report) personal utility for monetary value is ranked significantly higher than Code-based reasons. In vignette 3 (in-charge eating time), vignette 4 (manager misallocating costs), and vignette 7 (internal auditor reporting on potential contamination), all of the subgroups ranked concerns for other external parties higher than the Code-based reasons. Although Code-based reasons rank first on an overall basis, all of the sub-groups rank personal and external party considerations significantly more important in some situations.

CORRELATION ANALYSES

The first two columns of table 6 compare the decision ratios of the subgroups with the estimated percentage of peers who would decide similarly. (Table 6 omitted) A consistent pattern is observable in these columns. When the

majority of the group (decision ratio $<.4$) has decided not to violate the implied decision rule, all groups of auditors feel that more of their peers would violate the rule. When the group favors violating the rule (decision ratio $>.6$), the perception is that fewer of their peers would have the conviction to violate the rules. When the group is roughly split with respect to decision ratio ($>.4$ and $<.6$), the percentage of peers estimated to break the rule is similar. In terms of the five-element model, this provides some evidence that the eventual ethical actions by auditors may not directly follow the final ethical decision.

The final four columns in table 6 contain the coefficients and levels of significance obtained from correlating the four reason categories with the ethical decisions made in each of the seven vignettes. From an overview perspective, it may be noted that the CODE, PERSONAL, and EXTERNAL reason categories all have two or more vignettes in which there is a strong and significant correlation with the final decision. This provides additional evidence that each of the respective elements in the proposed model influences auditors' ethical decision processes. The table 6 data also indicate that the degree of influence exhibited by model elements varies across vignette situations. There is a strong positive Code-based influence across all subgroups with very low levels of significance in vignettes 1 and 2. In vignette 5 a strong negative correlation with a similarly low level of significance exists. External concerns are negatively correlated across all subgroups for vignette 3. In total, different elements of the model possess differing levels of influence depending on the audit dilemma encountered.

CONCLUSIONS AND IMPLICATIONS

This study provides a basis for numerous conclusions with significant implications for the auditing profession. Discussion will be limited to three major conclusions, direct implications, and recognition of limitations present in this study.

CONCLUSIONS

The first conclusion is that the data collected from over 200 audit practitioners and over 100 audit students support the five-element model of auditors' ethical decision processes. The five-element model better reflects the decisions made and better recognizes reasons for the decisions than the conservative Code-implied model. The auditor decisions to seven ethical dilemma vignettes varied from 18 percent to 93 percent practitioner disagreement with the Code-implied decision rules and from 9 percent to 89 percent disagreement by auditing students. The proposed five-element model includes Code-based rules and principles as one important element, but also recognizes other influences on the decision process. Consideration of personal utility for other-than-moral values, consideration of decision impact on other parties, and differences in cognitive moral development are shown to influence the final ethical decisions made by auditors, but are not recognized in the Code-implied model. The amount of influence from each of these elements varies across different ethical situations, but all three have significant impact on the final decision made in all seven vignette situations measured in this study.

It is further concluded that the third element of the proposed model—judging recognized alternative actions—is influenced by the level of moral development attained by the individual auditor making the moral judgment. In this study, two approaches to recognizing individual attributes of decision makers were measured. One of four sets of reasons ranked by the individual decision makers was designed for the purpose of being a nondescript support or rationalization for whichever decision was desired. Out of 21 measured decisions (students, staff, and managers for seven vignettes), 18 were significantly correlated with the final decision at a .05 level or less. The more direct measure of moral effect was obtained from scores derived from the three-story version of Rest's DIT. The cause of auditor subjects having lower P scores than average college graduates was that the auditors had higher stage 4 and lower stage 6 measures. Higher stage 4 scores for auditors reflect an orientation to internalized compliance with GAAP, GAAS, codes of ethics, and other rules of social order. This is further evidenced by the average first rank ordering of Code-based reasons by subjects in this study. Lower stage 6 scores reflect less willingness to deviate from rules in order to follow more abstract self-chosen principles.

The third conclusion is that a socialization process occurs soon following entry into the auditing profession. The P scores, the ethical decisions made, and the ranked reasons for the ethical decisions differ significantly between

practitioners and auditing students while there are very few significant differences between the staff and manager level practitioners. Because all the staff auditors participating in this study had one to two years' experience, a socialization process appears to be present in the first two years of public accounting experience. Most large CPA firms also experience rapid turnover in the first two years of professional practice. One potential explanation of the socialization process is that students self-select and employers counsel out individual auditors with too low or too high a level of moral development (Ponemon 1991). Another possible explanation is that large firm training programs coupled with rigorous on-the-job experiences serve to quickly implement a decision reasoning process different from that obtained by students in their college education.

IMPLICATIONS

These conclusions have broad implications for auditing practitioners, educators, and students. At the heart of the issue is the question of what type of ethical training is most appropriate for auditors. There is an apparent renaissance of attention to professional ethics by audit practitioners and educators. Both of these groups are in agreement that additional emphasis on ethical education is appropriate. One approach to professional ethics is additional education and training to conservatively follow Code rules and principles. An alternative approach is maximizing moral reasoning as measured by attainment of higher, post-conventional stages. If the socialization process within the auditing profession excludes individuals with either too low (pre-conventional) or too high (post-conventional) a level of cognition, then Code-oriented training to encourage adherence to rules appears more appropriate than a liberal arts orientation toward developing the highest possible level of moral development. The conclusion that Code-based decision rules are commonly violated does not imply that the principles, rules, interpretations and rulings generated via professional codes of conduct are inappropriate. Similarly, the recognition that auditors' P scores are lower than average college graduates does not imply that the auditors are unethical. We believe that these conclusions do imply that it is inappropriate to call for "unswerving commitment" to a set of unenforceable principles as a strict decision rule. An artificial barrier that prohibits or stagnates post-conventional reasoning by members of the profession results in some individuals being hindered rather than enabled to deal with continually more complex ethical dilemmas.

LIMITATIONS

All of the limitations typically associated with a quasi-experimental and survey methodology utilizing a convenience sample of subjects are applicable to this study. The exploratory nature of the research instrument adds potential problems. Although the Rest DIT is validated and subjects with consistency problems have been eliminated from the study, the vignette portion of the instrument has been uniquely designed for this study and has not been validated. It is possible that wording or measurement artifacts in the vignettes generate some unmeasured subject response bias. It is recognized that the two reasons within each of four categories are only partial operationalization of model elements and that subjects' rankings of these reasons may not be representative of the element as a whole. Accordingly, the results for this study should be viewed as emanating from exploratory research requiring validation by means of longitudinal extensions of the same instrument and replication of the methodology through similar instruments.

APPENDIX

VIGNETTE 1

Susan is a junior accounting major who has not yet joined any professional organization with a specific code of ethics, but aspires to a career in auditing. It is necessary for Susan to work part-time in order to attend school. Prior to the current year she worked as a waitress and other similar jobs. This year she has obtained a job helping a secretary in a small business with the bookkeeping functions. The pay is better, the hours are more convenient and she feels the experience is very helpful to her school work and future career.

Susan has noted that the owner-manager regularly removes some of the cash sales receipts from the cash register. She is also aware of high school students who get paid in cash from the cash drawer. None of these transactions are ever recorded. She tried to politely suggest that these procedures were contrary to appropriate accounting and result in the misstatement of revenues, expenses, and employee records. The owner-manager

responded very gruffly and stated that this is the way most small businesses operate. CPAs review his books at the end of each year in connection with preparation of his tax return and have never questioned his accounting. Furthermore, he directly tells Susan if she ever says anything about this to him or anyone else she is fired. Susan is confused whether or not she has any responsibility to inform the IRS, the state employment agency, or the CPAs performing tax services about clearly erroneous financial statements she is helping to prepare. Even though she needs the salary and appreciates the experience, Susan is wondering if she should quit this job. If you were in Susan's place would you quit the job?

YES--NO

The following items may have been important to you in making the above decision. You may have considered both positive and negative aspects in the decision process. Please rank the items you consider important by placing the number "1" in the box next to the one you consider most important, the number "2" in the item second most important, and continue this ranking for all the items you consider important. Place an "X" in the box of any item with which you disagree or do not feel relevant to the decision. If the reason you consider most important is not listed, write in a brief description in the blank provided and rank it number one.

RANK

CODE--Rules and standards of accounting and auditing should be maintained.

EXTL--The profession in general is hurt by any infractions.

PRNL--If subsequently detected this could harm future career development.

RATL--The way to prevent future infractions is never start with items like this.

RATL--The infraction is not sufficiently serious.

CODE--Susan is not yet bound by a code of professional ethics.

EXTL--No one is directly hurt by these infractions.

PRNL--No one else who will ever have significant impact on her career will know whether or not Susan was associated with these practices.

What percentage of students in similar positions do you believe would quit the job?

(Data omitted)

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The ability of public accountants to deal with ethical problems in a cognitively sophisticated way is a crucial element in their ability to understand and deal with the difficulties the public accounting profession faces today. Thus, research in the psychology of moral judgment and behavior is an important new development in the field. The paper by Lampe and Finn addresses an extremely important set of issues facing the public accounting profession.

In addition to addressing problems in the practice of public accounting, research into the psychology of moral judgment and moral behavior by accountants is important and timely from a more purely intellectual point of view. Rest (1986) posits two reasons for this. First, many decisions faced by professionals require reflective deliberation, and require that the professional be able to justify his or her decision by articulating the reasons for it.

Accountants make especially good subjects to advance the theory, since important decisions are either made by a group of people who must discuss the matter and come to agreement, or are subject to review by superiors. In addition, accountants (especially public accountants) are subject to external professional and judicial review of their decisions, requiring the maintenance of working papers in order to be able to justify their decisions. Second, according to Rest (1986), many realistic professional situations present no conflict between the individuals' perceptions of self-interest and their judgment of the morally right thing to do. In this regard, professional accountants, and especially public accountants, seem to be quite different. Accountants appear to find themselves much more often than other professionals in situations where there is a major conflict between their self-interest and what moral principles indicate ought to be done.

Furthermore, because accountants act as members and agents of (often large) organizations, their moral judgment and behavior may be influenced by organizational and institutional factors to a much greater extent than other professionals. So, they provide a rich ground in which to study the influences of both conflicting individual interests and organizational factors. At the same time, since accountants are supposed to act as members of an identifiable profession (with its own identifiable ethos and standards) the existence of these factors may be more clearly delineated than for non-professional members of organizations. The Lampe and Finn study sits squarely in this part of the moral judgment literature.

ETHICS AND THE PUBLIC ACCOUNTING PROFESSION

Research in moral judgment and behavior in the accounting profession is at a very early stage of development. However, enough studies have been done to provide a few preliminary conclusions about the ways in which accountants make moral judgments. Comparison of accountants' DIT scores with other groups is revealing.(1) Figure 1 (based on the numbers reported by Lampe and Finn, and Rest [1982]) shows that their P-scores are significantly lower than other professional groups. (Figure 1 omitted) Instead, they are about the same as adults in general, university students, and Navy enlisted men, but lower than university graduates—and much lower than a number of other professional groups.

The scores reported in tables 1 and 2 of Lampe and Finn reveal that practicing accountants and accounting students select a low proportion of post-conventional (i.e., stages 5 and 6) items, and a correspondingly high proportion of stage 4 (i.e., conventional) items. Furthermore, table 2 shows that this result is stable across a number of studies. On this indirect evidence, and since about 20-25 percent of the adult population is estimated to be at the post-conventional stages, it seems safe to conclude that accountants are, as a group, conventional moral reasoners.

But such a conclusion is a bit too hasty. Lampe and Finn produce data to show that accountants' judgments are often contrary to the implications of the AICPA Code of Professional Conduct. These are reported as the decision

ratios in table 3.(2) If these judgments were translated into behavior, a relatively high proportion of accountants seem to be ready, and perhaps willing and able, to violate rules of the profession, and thus to violate the "law-and-order" focus of stage 4 reasoning.

These results show that the time has come to develop a theory of the psychology of moral judgment and moral behavior which will explain accountants' actions in ethical situations. Such a theory presumably would fit with other theories—e.g., theories about the ways in which accountants make professional judgments in non-moral tasks on the one hand, and theories of moral action on the other.

THE LAMPE AND FINN STUDY

We do not know much about the factors which affect the moral judgment and moral behavior of people (such as accountants) who are making moral judgments, and acting within the context of (a) special occupational roles (such as that of professional accountant), and (b) institutional structures (such as membership in professional associations, and employment by a public accounting firm). As they stand, the theory of moral judgment and measures of moral development do not help much in addressing these issues.(3)

Lampe and Finn have contributed an exploratory study to this literature, which focuses on the relationship between moral judgment and the apparently strong attachment accountants have for following rules. Two recent attempts (Trevino 1986; Jones 1991) to provide a richer theory of moral judgment and behavior build on the basic theory of moral behavior, by introducing additional factors which might affect individuals' moral judgments and actions.

Although Trevino's theory has clear antecedents,(4) I believe that it has potential for explaining moral judgment and behavior of professionals, and could be given an interpretation specifically focused on public accounting. However, before a testable theory can be said to exist it needs to be further developed specifically to the case of public accounting. The reason for this is that public accountants are clearly a special case. For example, in making moral judgments, they have the norms and rules of at least two partially conflicting organizations to take into account; their professional organization (with its Code of Conduct, and other norms) and their employer (with its own separate structure of norms, authority, and so on). In addition, they choose voluntarily to become accountants in the first place, and are allowed to do so via a formal institution of certification and licensing. Through this process they become members of an occupational group which has a certain role, and occupy a highly constrained position defined by a set of role-defined norms of behavior. It would be extremely surprising if such factors did not have a significant effect on their moral judgment behavior.

Unfortunately, having pointed out the need for such a theory of moral judgment for accountants, and having identified two ways in which an expanded theory might be developed, Lampe and Finn do not attempt to develop one. Instead, they develop two empirical models, the simpler rule-based model (according to which accountants will act or choose on the basis of professional standards, and nothing else, in deciding on a course of action in ethical situations), and their own five-element model, which they claim to be a synthesis of the theories of Rest, Trevino, and Jones. Unfortunately, I have significant difficulties with both models, which I will address briefly. As it stands, the rule-based (i.e., code-implied) model presented in this paper is seriously incomplete. It does not predict what accountants will decide in a number of situations, including the following: 1) where a rule appears to apply, but its application is sufficiently unclear as to require judgment in its application; and 2) where two or more rules apply, and judgment is required in order to determine which one should take priority. Lampe and Finn seem to recognize the serious incompleteness of their rule-based model on page 40, but provide no suggestions as to how it might be amended.

It is important that studies be done of the role of rules of conduct in moral judgment and behavior, and whether accountants are in fact inclined to follow them. Whether accountants follow rules is important, but a simple model such as this cannot be considered to be a competitor to a real theory of ethical decision making, such as Rest's (or some version of it). My criticism is not that the code-implied model is not the last theoretical word; the problem is that it doesn't lead anywhere.

In order to make it more complete, the rule-based model would have to be a good deal more complicated, and

probably would have to incorporate the elements of moral judgment which it omits. Furthermore, to provide a real test of the extent to which accountants decide in accordance with the rules in the variety of situations indicated above—which I suspect are both the most common and the most important—it will also be necessary to develop vignettes which incorporate vagueness and ambiguity.(5) Such a study would be very interesting; but it appears to fall under the scope of the Kohlberg-Rest model, rather than as a competitor to it.

The code-implied model is not very important anyway. The real point of it, as I understand it, is to determine whether accountants are inclined to break the rules of their code. Rather than testing this model directly, however, Lampe and Finn compare it to the fuller model examined below, and conclude that the latter is a better model of behavior. In fact, since the code-based model implies that the decision ratios will all be 0.00, it is clear that conventional significance tests cannot even be used. That is, a single instance of disagreeing with the provisions of the Code is sufficient to reject the hypothesis. In any case, it is clear that the respondents are in fact highly disposed to violate the provisions of the Code.

Such a result does not tell us very much, except that even in very simple and straightforward situations, accountants are disposed to violate the rules of conduct. But it does provide a basis for seeking the more complicated explanations suggested by Trevino.(6) The really important question builds on this negative result: When accountants look beyond the rules to determine what action ought to be performed, what kinds of considerations do they take into account, and how? In terms of the stages of moral development, do they move up (towards the moral position of taking into account the interests of other people) or do they move down (in the direction of acting in their self-interest)?

The five-element model is supposed to form the basis for answering these questions, and also to provide the theoretical foundation for the construction of the vignettes in their questionnaire. But it is not sufficiently developed to bear that burden. First, the model is quite vague, and formulated at a very high level of generality. For example, it is stated that:

Element 1 in the five-element model is intended to include all of the code-implied and Rest model considerations plus expansion to include the individual, job, and situation variables (Jones 1991; Trevino 1986) that affect the auditor's understanding of the issues.

From these elements and the explanation of them provided in the paper, one is supposed to derive the reasons for moral judgment which in turn are claimed to provide the testable interpretation of the model. This is clearly too vague to stand on its own as a theory of the moral behavior of auditors; nor does it provide a precise foundation for the empirical interpretation they give to it.

Furthermore, despite claims to the contrary, the model appears to lack theoretical foundations in the work of Kohlberg, Rest, and Trevino. That is, it is not clear how the five-element model is a synthesis of their theories. In fact, I don't see any particular connection between it and them. For example, after stating (as quoted above) that all the "Rest-model considerations" have been included in the first element of their model, it is stated on the following page (with regard to the element 2) that:

In the Rest four-component model, a determination of social impact is considered a subset of the first component in recognizing the moral issue. Auditors' ethical decision making is sufficiently oriented to third parties that it is considered a separate and interactive element [i.e., element 2] in the proposed model.

So, apparently, the expected social impact of a decision is a factor in both of the first two elements of the five-element model.

Another problem is that the five-element model is only one among a number of possible competitors, in the sense that it appears to be a straightforward application of familiar ideas from the theory of rational decision making: i.e., identify the problem, identify alternative courses, gather information about the consequences of alternatives and their value, compare alternatives, pick an optimal course of action, and then carry it out. Since a large number of models of decision making could be easily developed as specifications of the standard approach to rational decision making found in almost any book on the subject, the lack of explicit theoretical foundations makes it unclear why the Lampe and Finn model is superior to any number of possible competitors. An example of such a

model is the seven-stage model of ethical decision making used by the American Accounting Association's Committee on Professionalism and Ethics (shown in figure 2).

The AAA Committee's model is not the last word in either pedagogy (e.g., Armstrong 1990) or the theory of ethical decision making. Nevertheless, it has several advantages in the present context. First, it is generally based on more fundamental ethical theories. Second, since it is compatible with both the psychological theory of moral judgment and the five-element model proposed by Lampe and Finn, it does not do great violence to the general structure of their study. At the same time, the AAA model is more explicit than the five-element model on two counts: (1) the various considerations that are relevant to making a moral judgment, and (2) how that judgment might be accomplished. Third, the AAA model is interesting because it is a normative model, which is currently being advocated as a way for accountants to analyze and deal with moral issues. So, it raises the very interesting empirical question: To what extent do accountants actually make moral judgments in accordance with this normative model?

I suggest that the authors consider replacing their five-element model in future studies with the model of ethical decision making advanced by the American Accounting Association Committee on Professionalism and Ethics (see also Langenderfer and Rockness 1989).

The empirical data are in some ways the most interesting part of the study. Lampe and Finn have succeeded in assembling an impressive sample of both students and practitioners, and constructed an interesting set of vignettes.

The authors draw three conclusions from their study. The first conclusion is that the data support their five-element model better than the code-implied model. This conclusion is probably correct, but neither surprising nor necessarily significant. When the two models are reduced to the basics, they look something like the following:

HYPOTHESIS 1: Decision = f (code rules)

HYPOTHESIS 2: Decision = f (code rules, external considerations, decision rationalization, personal utility)

Although it is quite possible that the two hypotheses could account for the data equally well, it is quite unlikely that Hypothesis 2 (i.e., the five-element model) would do worse than Hypothesis 1 (i.e., the code-implied model). Having already rejected Hypothesis 1, however, the interest of Hypothesis 2 depends on how well it accounts for the data on its own. That is, even if Hypothesis 2 "outperforms" Hypothesis 1, it might still be rejected by some suitable test of significance. The authors should investigate whether there is any way, at this point, of formulating it so that formal hypothesis testing could be performed.

Second, Lampe and Finn conclude that there is a relationship between the ways in which the accountants in the study judge alternative actions and their level of moral development. Unfortunately, they do not say precisely what they think the relationship is. Nor do they say precisely what evidence supports their conclusion. Such evidence would consist of an analysis of the relationship between DIT scores and either the rankings of reasons on the vignettes or the actions chosen, or both. But I find no such analyses, nor anything that seems to address the relationship directly.

Such an analysis might well be more important and interesting than the ones which were presented. We know something about the P-scores of accountants from previous studies, and we think we know that accountants love to follow rules (at least most of the time). But, Trevino (1986) and common sense suggest that the connection between P-score and a tendency to follow rules would be worth knowing about.

Lampe and Finn's third conclusion is that accountants in the study are socialized by their firms into responding similarly to ethical situations. Apparently, the evidence offered for this is the differences between students and practicing accountants in their responses to the vignettes. This conclusion is hasty, for several reasons. First, more attention needs to be paid to the student sample and responses. As figure 1 shows, the P-scores of the students in this study are significantly lower than previous samples of both accounting students and university students in general, as well as of practicing accountants. In fact, the scores are much closer to high school students than to these groups. Without knowing more about the sample and the administration of the questionnaires, I can't conclude whether these are reliable scores (and real differences from other students and

practicing accountants) or an artifact of the testing situation.⁽⁷⁾ This issue has major implications for the current study, for if the student sample is thrown out, most of the statistically significant results reported in table 4 disappear—the manager and staff responses are not very different from each other, and any evidence of socialization disappears.

The existence of some form of socialization and selection of employees is quite plausible, especially in light of the situational moderators identified by Trevino (1986). So, on the assumption that the various accounting firms may socialize their employees differently, Lampe and Finn might try to identify a firm effect in the manager data (which included all Big Six firms). It might also be possible to compare the staff subjects with the managers from the same firm, to see whether there is some relationship between score and rank in firm. Although the overall numbers for staff and managers are not very different, it is possible that differences might appear when firm identity is controlled for.

In order to study socialization or other intra-firm phenomena, one more thing is needed: a sample of partners. For one thing, as-yet-unpublished studies indicate that the DIT P-scores for partners are actually lower than for lower ranks. This is a potentially important finding in its own right, calling for further attention. If the situational and individual moderators identified in Trevino's paper do operate in public accounting firms, then it is almost certain that at least some of them will vary according to rank, thus providing a potential explanation of DIT scores.

FIGURE 2

SEVEN-STEP MODEL OF ETHICAL DECISION

AAA COMMITTEE ON PROFESSIONALISM AND ETHICS)

I. Determine the facts—what, who, where, when, how

II. Define the ethical issue

(A) Identify significant stakeholders

(B) Define ethical issues

III. Identify major principles, rules, values e.g., integrity, quality, respect for persons, profit

IV. Specify the alternatives

V. Compare values and alternatives

Is there a clear decision based on principles, values?

VI. Assess the consequences

Short term vs. long term

Positive vs. negative

To all parties

VII. Make your decision

Balance values and principles against consequences

Select optimal action

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1 Since most of the research has employed Rest's (1986) Defining Issues Test (DIT), which (as opposed to

Kohlberg's Moral Judgment Inventory) is not intended to be used to place individuals at specific stages of moral development, such interpretations of the data must be done with care.

2 It should be noted, however, that earlier studies on independence judgments by Lavin (1976) and Firth (1980) indicate rather high agreement by auditors with official pronouncements.

3 The reason for this is that they are designed to be "context-free." That is, researchers in the psychology of moral judgment have been concerned primarily with two things: the "purely psychological" issue of moral development in humans in general, and as a corollary whether ethical judgment can be taught. As such, the complications which people find in their own lives, especially when they occupy roles which produce conflicts, were given less attention at first. For this reason, a broader theory, i.e., a theory of moral judgment in the context of institutional (i.e., professional and employment) settings, is needed.

4 For example, without developing a more general theory, Rest (1986) describes studies relating to ego strength (p. 15f) and obedience to authority (p. 12f), and other personal and situational factors (chs. 4 and 5). In general, the factors are well known in the literature.

5 In addition, since subjects may be aware of the professional standards to varying degrees, their awareness of the rules must be controlled, e.g., by making their level of awareness an experimental variable or by providing subjects with the rules.

6 It is also a little comfort (to those who believe that moral behavior involves more than following rules) that accountants are apparently not blindly bound to follow the rules--although it is generally recognized that rules serve an important function in regulating and coordinating behavior.

7 If these scores are reliable, then it appears that more replications of DIT studies need to be done on various types of students, in order both to obtain useful norms and to examine the determinants of apparently wide variations in scores among institutions.

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INTRODUCTION

I would like to divide my comments into two parts. First, I will provide reactions to some specific issues raised in the Lampe and Finn paper. Then I want to give you some thoughts on broader matters, and raise some questions, that may lead to more research by these or other researchers.

As an introduction, let me say that I think this research is useful and worthwhile. Many of the things being captured in the proposed "five-element" model are recognized intuitively by experienced practitioners, but organizing them in a logical form and describing the elements of this decision-making process with thoroughness give us a framework for thinking about the process as well as the ultimate decision. I believe making the process and its elements explicit will help us teach people what goes into ethical professional decision making, and help us eventually manage the process more effectively and improve the decisions.

SPECIFIC CONCERNS

DESCRIPTION OF THE AICPA CODE

The paper compares the ethical decision model implied by the AICPA Code of Professional Conduct with other models, in particular a "five-element" model it proposes. One of the things that troubles me most about this paper is the way it categorizes or describes the AICPA Code. Let me say at the outset, I hold no special brief for the AICPA Code--I'm not even a member of the AICPA. But in many respects its Code is very similar to the Code I am familiar with and am committed to abide by, and it seems to me to embody many of the same values. What I think the paper fails to adequately capture about the Code is the values, rather than the rules.

The paper tells us that the AICPA Code implies an exceptionally conservative decision model. It also tells us, though not in so many words, that the decision model is very simplistic. What an auditor has to do to resolve any ethical dilemma in this model as described is: first, know the principles, rules, interpretations and rulings of the AICPA; second, compare the situation to the rules; and third, follow the rules.

We are also told that an auditor's gray area of decision flexibility between the acceptable and unacceptable is progressively reduced by laws, rules and principles, and that if they're following the Code, auditors always make

ethical decisions to avoid breaking laws, rules or principles. The paper then gives us examples of situations in which this presumed Code-implied model has been violated, such as when auditors have willingly incurred legal liability in order not to disclose confidential client information, i.e., violating the Code by breaking the law. And, in contrast, when auditors have disclosed confidential information obtained via an audit, i.e., violating the Code by breaking the client confidentiality rule.

What the paper doesn't acknowledge or discuss is the difficulty auditors encounter when the laws, rules, and principles seem to be in conflict. Then a judgment has to be made about which takes precedence. The AICPA Code, however, provides its members with the following guidance at the principles level: A distinguishing mark of a profession is acceptance of its responsibility to the public. The accounting profession's public consists of clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of certified public accountants to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on certified public accountants. The public interest is defined as the collective well-being of the community of people and institutions the profession serves.

In discharging their professional responsibilities, members may encounter conflicting pressures from among each of those groups. In resolving those conflicts, members should act with integrity, guided by the precept that when members fulfill their responsibility to the public, clients' and employers' interests are best served. (ET Section 53, paragraph .01 and .02, AICPA Professional Standards)

If looked at from the perspective of principles, the seemingly contradictory examples provided in the paper could be seen to be emanating from ethical decisions to follow that precept, that is, following the principles of the Code rather than the specific rules. One of the most widely publicized examples in which auditors refused to follow legal authority in order to protect client confidentiality was resistance to IRS access to audit working papers of the provision for income taxes. The public interest view argues the position in this way.

1. If IRS access to tax working papers where sensitive issues are documented is possible, it will become very difficult for auditors to obtain satisfactory audit evidence to support the financial statement income tax provision.
2. Since the provision is generally material to the financial statements, an inability to audit the tax provision could impair the auditor's ability to opine on the financial statements as a whole.
3. The effective functioning of the capital markets depends on the periodic receipt of audited financial statements.
4. Widespread incidence of qualified or denied audit reports would impair the functioning of the capital markets.
5. Therefore, it is in the public interest that our ability to audit not be impaired, so Mr. IRS, despite your seeming legal entitlement, you can't have access to our papers.

The other example provided in the paper specifically includes the comment that the auditors disclosed the confidential information "when it was considered necessary in order to protect investors from harmful decisions based on erroneous data."

I think seeing the Code in an overly simplistic way detracts from the richness of the paper. For example, it would be interesting to look at the vignettes in which the auditors violated the Code-implied model to see if there's any difference in frequency when the violation is at the expense of the employer, the client or the public. I think looking at the Code this way also helps explain something noted by one of the reviewers, the very strong predominance of Code and external reasons—someone who follows the principles of the Code should be expected to put the external reasons even before the Rules of the Code itself.

In fact, the paper recognizes that "auditors' ethical decision making is sufficiently oriented to third parties that it is considered a separate and interactive element in the proposed model." But the same discussion says "the Code-implied model does not have an equivalent step." I think "Code" in almost all of the discussion in the paper means the Rulings and Interpretations, not the Articles that enunciate the principles. In recognition of this, I think Element 1 should be re-described to discuss only the Rules of the Code. Element 2 should explicitly recognize that there can be conflicting pressures implicit within the Code Rules themselves, and that the Code principles need to be referred to in those situations, as well as in situations when there isn't a rule.

COMMENTS ON THE STUDY VIGNETTES AND INSTRUCTIONS

Now let me spend a little time on the actual study used to test the proposed model. I like the vignettes-the work that went into making them realistic is obvious. As described, they are all true-to-life situations. However, I wish all seven actual vignettes had been included in the paper. I found Vignette 1, included as the example, much richer than the simple description of it in figure 4 and I expect that the same would be true of the others. My particular concern is that, from the detail provided, I was not at all sure I always agreed with the "implied Code-based decision" used as the yardstick. For the vignettes which the authors themselves describe as "less familiar to the auditors and [where] application of the Code is more nebulous," it would be useful to include a description of how the Code-based decision used in the study was determined.

It would also help my understanding of the results if I had access to the reasons the respondents chose from, and how the authors categorized them. I must admit that I find that each element of the proposed model has so many factors and considerations implicit in it that I am not sure about the overlap. For instance, the description of Element 1 states that it is intended to include situation variables that affect auditors' understanding of the issues. Situation variables are stated to include things like job context, organizational culture and characteristics of the work. Yet in the construction of the reasons for ethical decisions, Element 1 is represented only by the Code. In my experience, a decision to "eat time" on any engagement (like the situation described in Vignette 3) is based almost exclusively on organizational culture, or more precisely, on the values of the individuals in charge of an assignment. However, I suspect that in the context of this study, such considerations might have been seen as personal (Element 4) rather than as gaining understanding (Element 1).

Having access to the actual vignette for the first situation proved interesting for another reason. From the instructions to the respondents I found that they were asked to rank by number the items they considered important in making their decisions. They were also asked to mark with an "x" items they disagreed with or considered irrelevant to the decision. To me, this means that implicitly the respondents had to agree with the reason in order to rank it important. Personally, if I had been responding to Vignette 1, I would have found this limiting. One of the more important reasons for my choice is stated in a way I disagree with. By ranking it as important, I don't want you to think I believe the reason as stated, but I can't tell you I think it's important if I disagree with it. I wonder if in further similar studies, the choice matrix could be made more complicated--combining both agreement and disagreement with degrees of importance.

BROADER MATTERS

Now let me turn to some of the broader matters. Reading papers like this makes me think in a new way about things I normally take for granted. They make me wonder about new questions. So, what follows are my "wonderings" about where we could go from here.

A SOLID FOUNDATION?

First, let's start with the model. The proposed five-element model is built on the foundation of Kohlberg's stages of moral development, and Rest's four-component model. But, is Kohlberg the only place to start? Are there any limitations to his model we should be aware of as we attempt to apply it in the professional context and build our own?

In her book *In a Different Voice*, Carol Gilligan makes the following comment:

Kohlberg's (1958, 1981) six stages that describe the development of moral judgment from childhood to adulthood are based empirically on a study of eighty-four boys whose development Kohlberg has followed for a period of over twenty years. Although Kohlberg claims universality for his stage sequence, those groups not included in his original sample rarely reach his higher stages (Edwards, 1975; Holstein, 1976; Simpson, 1974). (p. 18)

The most significant group not included in the sample is obviously women. Gilligan suggests that women's conception of morality is different from men's:

In [women's] conception, the moral problem arises from conflicting responsibilities rather than from competing rights and requires for its resolution a mode of thinking that is contextual and narrative rather than formal and abstract. This conception of morality as concerned with the activity of care centres moral development around the understanding of responsibility and relationships, just as the conception of morality as fairness ties moral

development to the understanding of rights and rules. (p. 19)

I bring this up because it seems to me that many of the moral dilemmas auditors have to resolve arise from conflicts in their responsibilities. And as more and more women enter the profession, I wonder if anything will change. And I also wonder if the authors have the information to be able to see if there is any gender difference in the responses to their questions and the reasons for those responses. I noted from their response to one of the reviewers of the paper that the authors have another paper in process that compares vignette results with DIT-generated P, D, and stages scores. I think that paper will be very interesting, but I think it would be even more interesting if they included some comparison of that same information by gender. In particular, I wonder if there is any gender difference in the DIT, P, D, and stage scores, as well as in the responses.

RELATIONSHIP TO OTHER PROFESSIONAL JUDGMENTS

The second broader issue I wanted to discuss is the relevance of this model for other types of professional decisions. As I first read the paper, I was struck by the similarity between the proposed five-element model and the "Suggested Steps to be Taken by an Auditor Regarding a Significant Accounting or Reporting Judgment Affecting a Client's Financial Statements," set out as Exhibit B to the CICA Research Study, Professional Judgment in Financial Reporting, by Gibbins and Mason. Naturally, because it's talking about professional judgment, it doesn't include consideration of the impact of the judgment on people outside the professional sphere (Element 2), nor does it consider other values (Element 4 of this model), but otherwise it's remarkably consistent.

This similarity leads me to wonder a couple of things. First, since all judgments auditors make in their role as auditor are professional judgments, I wonder if there's something inherently different about ethical judgments from those relating to technical issues. Personally, I don't think there's anything different. I think the final judgments made in the financial reporting process are just as much ethical judgments as the types of situations posed in the vignettes in this study.

If that's true, then I wonder if this model becomes useful in the broader context of all professional judgments, helping us respond to those other influences we all know are there, but that aren't acknowledged in the official professional literature. For example, in practice, Element 4 involves considering the business issues for the firm, and when those issues change the final outcome from what we might otherwise have concluded, we say we've made a business decision. This is implicitly understood to be something other than a strictly technical or professional decision.

Clearly the other factors found in the proposed model are discussed in the semi-official professional literature. The Journal of Accountancy in April 1987 contained an article entitled "ESM: Implications for the Profession." It specifically discussed lessons the ESM fraud had for the profession. One of the lessons was that "CPA firm managements must be sensitive to the pressures confronting their younger partners" (Sack and Tangreti, 1987).

The article goes on to offer the following comments:

The notion that younger, less-established partners might be subject to substantial temptations and that these individual temptations might threaten the firm as a whole is a new concern. ... There is no reliable yardstick, but it seems clear that competitive pressures in the profession are higher today than ever before. ... And all these business pressures are, in the end, pressures on people. (pp. 99-100)

The article calls on firm managements to help their people manage these pressures but concludes with a warning: And, perhaps most important, firm managements can help their people deal with external pressure by being careful that they don't impose excessive internal pressure. ... [A] firm's values are communicated in subtle ways, and what people hear from their leaders isn't nearly so important as what they sense in their environment. (p. 100)

The other thing I wonder in this area is whether the professional judgment model set out by Gibbins and Mason hasn't got something to contribute to the proposed five-element model. One of the central themes of the Research Study is the importance of consultation in making difficult judgment decisions: "Prior research and the research done for this study demonstrates the major role advice from others plays, or should play, in the professional judgment process." They go on to make the following recommendation:

RECOMMENDATION 29: The person exercising professional judgment should consult with others whenever a

better decision, or a better judgment process, may be expected to result. Consultation should ordinarily happen after the person responsible for the judgment has obtained the information and analyzed the alternatives, but before any final conclusion has been reached or any implementation has begun. (p. 154)

I wonder if consultation, which clearly fits into the interactive, iterative kind of process the authors envisage, can be explicitly worked into the model.

ROLE OF STANDARDS AND THE "STAGE 4" AUDITOR

The third broad issue I want to discuss is how we see professional standards of any type fitting into the Kohlberg stages, and the kind of person we want as an auditor. The paper describes Kohlberg's stages 4 and 5 as follows: Stage 4—Right behavior consists of doing one's duty, respecting authority, and maintaining the social order, for its own sake.

Stage 5—Right actions are defined in terms of general individual rights and standards agreed upon by society. Outside of democratically set laws, right is a matter of personal values and opinions.

Are professional standards, which the authors point out at the beginning of the paper go beyond law, part of the social order of Stage 4, or are they recognized as being outside of democratically set laws, since they are not imposed by society but are voluntarily assumed by the professional? It seems to me that professional codes would be Stage 5 constructs, since they go beyond the limits imposed by society. However, by agreeing to be bound by them, professionals give up some right to make judgments based solely on "personal values and opinions." Skinner discussed the issue this way in *Accounting Standards in Evolution*:

We may begin by observing that every accounting standard is a substitute for individual opinion or judgment. That is the point of having a standard. It is to get away from a chaotic situation in which each person's opinion is as good as the next person's. It is an attempt to substitute the collective judgment of the standard-setters (who, it is to be hoped, will reflect the best thinking and evidence available) for that of individuals. (pp. 663-664)

I wonder if by agreeing to be bound by the principles set out in the Code, auditors couldn't be considered to be adopting the Code as "self-chosen ethical principles centering around justice and dignity," as contemplated by Stage 6 of Kohlberg's development model. And whether, in choosing sometimes to substitute their own judgment for the Rules of the Code, they're not so much violating it as substituting their own judgment for the collective judgment Skinner refers to.

There seems to be some unexpressed concern throughout the paper that auditors' P scores are too low to allow them to respond to ethical dilemmas in an appropriate way. But it seems to me that if auditors are Stage 4 rule-followers, then society is getting precisely what it asked for. The incredible proliferation of rules, interpretations, standards and other forms of guidance auditors are supposed to follow looks to me like the profession's protective response to a society that is not prepared to leave anything up to individual judgment, and which pillories anyone who departs from those rules on a judgmental basis. The toughest judgment you have to make in these circumstances is which rule is applicable to the situation—this certainly seems to be what the FASB's Emerging Issues Task Force spends much of its time considering.

At the same time, society demands that individual auditors be able to tell when it isn't enough to follow the rules established by the collective judgment of the standard-setters. For example, the authors of an article in the July 1991 *Journal of Accountancy*, "Lessons Auditors Ignore at their own Risk," include the following comments: Over the years, the courts have made it increasingly clear reliance on GAAP alone is not enough to protect auditors involved with financial statements deemed to be misleading. [And further,] litigation experience should teach auditors to step back and evaluate whether the story presented by a company's financial statements really makes sense. In other words, auditors shouldn't become so immersed in the details, form and reasonableness of some individual transactions they fail to see the whole picture. (Hall and Renner, p. 69)

CONCLUSIONS AND IMPLICATIONS

What do all these comments mean for the conclusions and implications the authors set out in the paper? First, I agree that the authors' model of ethical decision making is more descriptive of what happens in real life than those in the professional literature. I think it would help us to manage the process better if we explicitly acknowledged

that. The recognition ought to be built into the processes we use to socialize our new students to the way we make decisions.

Second, in answering the question, "What type of ethical training is most appropriate for auditors?", I would emphatically cast my vote against more training in the rules. As we move the whole professional accounting curriculum away from teaching today's rules, we can't go the other way with ethics.

I think the most important thing we can do is emphasize the principles people buy into by becoming an auditor, and help them "maximize moral reasoning," as the paper puts it, by helping them learn, first, to recognize those moral dilemmas when following the rules may not serve the principle, and when, and how, in consultation with others to go beyond the rules.

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We appreciate the suggestions of prior reviewers and the comments of the current discussants on the development and testing of a five-element model of auditors' ethical decision processes. The additional discussions provide insightful extensions to the original paper. Our response to the discussants' remarks will be divided between more general comments on the study of accountants' ethics, specific comments on the five-element model, and further examination of the results obtained.

ACCOUNTANTS' ETHICS

There is apparent agreement among both the discussants and the researchers that ethical decision processes are important to accountants' practice and research. It is also recognized by all parties that the proposed five-element model and empirical testing of the model is exploratory, with a focus on stimulating further interest and research. One advancement proposed by the researchers is to identify and measure individual levels of moral development and associate those measures with judgments made in professional ethical dilemma situations.

Both discussants, however, maintain that the searchers have portrayed the AICPA Code-implied decision model too simply and conservatively. Ms. O'Malley asserts that the principles section of the AICPA Code provides a basis for CPAs to break or bend promulgated rules or interpretations in order to comply with a broader principle.

Professor Gaa contends that the AICPA model, as presented, is not sufficiently complex to provide information about decision making when a situation is not specifically contemplated by rules or when rules appear to be in conflict.

The researchers continue to believe that their portrayal of the Code-implied model as both simplistic and conservative is accurate. The wording of the Code and anecdotal evidence collected via informal discussions with CPAs indicate that the principles are intended to add further restrictions, above and beyond the rules and interpretations, rather than providing a basis for using judgment to break any of the promulgations. One clear indicator of the Code's primary rule orientation is that existing interpretations remained unchanged and rules were changed very little when the principles sections of the Code was approved in 1988. The introductory paragraphs of the Code and articles written by the authors of the restructuring (Anderson and Ellyson 1986) further indicate that the intent is primarily rule oriented, with additional conservatism applied via expanded consideration of principles. The fact that some rules seem to conflict with each other and that some certain situations may not be specified by available promulgations support the claim that the Code is not self-sufficient. However, these arguments do not refute the simplistic rule orientation of the Code. The fact that AICPA members voluntarily submit to the Code is

similarly recognized as an interesting influence on ethical decision making. The researchers believe the impact of this voluntary submission and of other influences such as personal moral development is outside the simplistic Code-implied model, but included in the expanded five-element model.

A further observation from both discussants is that the five-element model either is derived from general professional judgment steps (Gibbins and Mason 1988) or is simply an application of rational decision theory. Consideration of this model as a subset of broader professional judgments is interesting, but beyond the scope of this research.

THE PROPOSED FIVE-ELEMENT MODEL

O'Malley and Gaa have raised concerns about the five-element model and the methodology used to test it. Specifically, they question whether the five-element model is representative of auditor decision making, adds to existing literature, and is validated by the data collected and analyzed in this study.

The researchers agree that the model does not develop any new or expanded theory of ethical decision processes. There are two questions of greater importance: 1) are the five elements, as presented in the model, useful to operationalize ethical decision making or too vague or general to be of use, and 2) are other models such as the AAA Professionalism and Ethics Committee seven-stage model (Langenderfer and Rockness 1989) better?

The researchers set out to synthesize three developmentalist-stage-based models into a form directly applicable to ethical dilemmas faced by auditors. In doing this, the researchers synthesized the Rest four-component model with situational (Trevino 1986) and issue-specific (Jones 1991) factors. Within the five-element model framework, each element could be the focus of further study and discussion which would illuminate auditor behavior. The current research tests only a small subset of each element. Whether a different number of elements or a different taxonomy of considerations under each element provides a more accurate description of the actual processes used by auditors is open for further research.

The sequential seven-stage model of the AAA Committee is one alternative that contains similar considerations, but is packaged differently. Prior to adoption by the AAA Committee, this model was presented to numerous business academics via the Arthur Andersen business ethics program (Cooke 1990). The researchers considered the seven-stage model and came to the conclusion that the five-element model better synthesized the stage-based models and provided a more direct basis for empirical testing.

The relative importance of individual elements in the five-element model has been evaluated based on subjects' rankings of reasons in support of decisions made for seven different dilemma situations. An obvious limitation of the current study is that the relationships between the subjects' rankings of decision reasons and the first four elements of the model have not been validated. The use of eight reasons supporting each of seven ethical dilemma decisions is recognized as a partial list out of nearly infinite considerations possible in each element of the model. On the other hand, each of the reasoning categories, consistent between seven different vignettes, has been shown to influence the final decision and to vary in amount of influence depending on the situation.

To operationalize the five-element model, two reasons were chosen to represent each of the first four elements. A total of eight reasons were grouped into four sets of two, consistent across all seven vignettes. The two reasons assigned to element 1 both focus on the propensity of subjects to follow rules. Element 1, gaining an understanding of the situation, involves much more than recognition of rules, standards, principles, or norms associated with the problem. However, the researchers believe that such rules are consistently important to auditors. If rules and professional norms, as a subset of element 1, are shown to affect a variety of decisions, then the entire set of element 1 considerations should have even greater influence. The consistent high ranking of rule-oriented reasons confirms their use to partially operationalize element 1.

Element 2 in the proposed model recognizes that the impact of a situation on the auditor, organization, family and/or other related parties, influences ethical behavior. The two reasons designed to operationalize this element were consistently oriented to recognizing the decision's impact on third party individuals. Similar to element 1, it is recognized that auditors consider more than just the impact on third parties within the total context of element 2—recognition of all decision impacts. Third party considerations provide only a partial operationalizing of element 2.

Data collected in this study, however, indicate that consideration of third parties, as a subset of total element 2 impact, has a consistent and significant influence on auditor decision making across seven varied situations. Therefore, the researchers have concluded that total element 2 considerations are appropriately included in the five-element model.

Element 3, making an initial moral judgment, is measured partially by the DIT and partially by the ranking of two reasons designed to justify the initial moral judgments made by the subjects. The validity of the DIT has been established in prior studies (Rest 1986). The consistently significant correlations between ranked rationalization reasons and final decisions on the vignettes in the current study further support the linkage between moral reasoning and ethical decisions and its position in a model of auditors' ethical decision processes.

The two reasons used in this study to operationalize element 4, consideration of other-than-moral values, are oriented to auditors' personal utility (self interest). Similar to the operationalizing of prior elements, it is recognized that auditor self interest only partially represents all element 4 considerations. These reasons, however, provide a set of alternative values that can be clearly recognized and compared with the relative importance of other element measures.

The methodology for testing the first four elements of the model involves subjects' rankings of four associated sets of two similar reasons for each of seven varied ethical decisions. The four sets of two reasons represent only a partial subset of auditor considerations within each of the first four model elements. However, when a subset of element reasoning is consistently important to auditors' final decisions, the authors believe that the entire element should be considered important. Results of the ranked reasons and DIT responses led the researchers to conclude that each of the elements, as operationalized, influences auditors' ethical decisions. The relative importance between elements could vary if each item were fully operationalized, but partial operationalization is adequate to support the conclusion that each model element exerts influence on auditors' ethical decision making.

EMPIRICAL RESULTS

The discussants and researchers agree that the empirical results obtained from a sample of student, staff level, and manager level auditors provide the greatest contribution of the study. Concerns have been raised, however, about the relationship between the data collected and conclusions reached, about the representativeness of the student sample, and about possible gender bias in the DIT measure of moral development.

EMPIRICAL BASES FOR CONCLUSIONS

The first conclusion reached is that the five-element model better describes auditors' ethical decision processes than the Code-implied model. Professor Gaa articulated this more succinctly than the original manuscript in formula format:

DECISION 1 = f (code rules)

DECISION 2 = f (code rules, external concerns, moral judgment, and self-interest)

The function components of the Decision 2 formula are the four measured reason subsets of the proposed model elements. Whether the functional components are model elements or reason subsets, the formulae indicate the most basic analysis of the data collected. The conclusion is that the Decision 2 formula better represents auditors' ethical decision processes. The researchers consider this to be an essential starting point for increased understanding of these processes and for future research in the area. Providing empirical support that the Decision 2 model outperforms the Decision 1 formula is a simple, but valuable contribution. If it is true that most ethics education in accounting curricula and in formal firm programs are oriented to a rule-based model, then recognition of additional factors is a vital first step in considering whether or not to alter education and training approaches.

The second major conclusion is that a relationship exists between an auditor's individual level of moral development and ethical decisions made as a professional auditor. This conclusion followed from two different measures used to represent moral judgments: 1) quantification of two decision-rationalization rankings for each vignette and 2) DIT scores. Results indicate that most of the decision-rationalization rankings were significantly correlated with the decisions across all subject groups and all seven vignettes. The original paper observed that

lower P scores (stage 5 and stage 6 reasoning) result when individuals have a strong rule orientation represented by higher stage 4 scores. The paper also stated that higher stage 4 scores are associated with more conservative ethical decision making, while high P scores are associated with greater willingness to deviate from rules to follow other more abstract principled reasoning.

Table 1 provides additional evidence on the relationship between DIT measures of moral development and the participants' decisions made on three vignettes in this study. (Table 1 omitted) To estimate the relationship, the table summarizes the decision ratios, the proportion of participants who indicated that they would decide against the Code-implied decision, according to selected subgroupings. The left column separates different categories of participants based on their top quartile scores on various subscales of the DIT. As outlined in the main paper, participants scoring high in different categories of moral development as measured by DIT subscales can be expected to decide ethical situations differently. Participants achieving high scores on one subscale are expected to be oriented to different moral anchors than those scoring high on other subscales. A systematic relationship between those scoring high on the DIT subscales and decision ratios would provide evidence supporting the link between attitude and action. Only vignettes 1, 2, and 3 are used in table 1 because participants generally agreed that these had clear violations of Code-based directives. These three also contained obvious motivations to deviate from the Code. Also, table 1 categorizes the participants by group (student, staff, manager) to allow for detection of group differences.

The testing pertinent to table 1 is intended only to suggest relationships, as this testing was not anticipated in the design of the study and the statistical tests do not control overall error. The table compares only the three decision ratios by high subscale DIT scorers. For example, on vignette 1 the student participants scoring highest on the stage 4 subscale indicated substantially more reluctance to violate the Code-implied solution than did either of the student groups scoring highest on the P score or the stage 3 subscale. This finding offers partial support for the expected relationship between DIT scores and decision making. The overall pattern of data for student and staff participants extends this limited support of the expected relationships discussed in the main paper. However, when the relationships for managers are considered, the patterns are less stable and in some cases in the contrary direction. Overall, this information should assist future researchers' understanding of these relationships.

BETWEEN STUDY SIMILARITIES AND DIFFERENCES

The conclusion that persons undertaking auditing careers "select out" of auditing if their moral development is either too high or too low is based on the significant differences between students and practitioners on DIT measures, decision ratios, and ranked reasons for decisions (table 4 of original paper). These beliefs are similar to those of Shaub (1991) and Ponemon (1991) who relied only on DIT scores. The conclusion is somewhat tentative because of differences between studies measuring student DIT scores. Shaub (1991) and Ponemon (1991) conclude that student P scores are significantly higher than average practitioner scores. This study, however, finds that student P scores are significantly lower than practitioner averages. Accounting practitioner averages are similar between studies and significantly lower than average college graduates in all known studies. Potential reasons for the differences in student P scores, such as geographic location or classroom coverage, merit further investigation. These differences, however, do not exclude the "select out" conclusion. If student DIT scores were ignored in the current study, the decision ratio and rank reason differences between students and practitioners would still support the conclusion that this socialization process exists. The authors conclude that it is this process that leads practitioners to make ethical decisions similarly between levels and between firms but differently from students.

POTENTIAL GENDER BIAS

The final issue raised with respect to empirical results obtained in this study is that of gender differences. Gilligan (1982) criticized cognitive developmental theory on the basis that the higher ranked concepts of justice from the Kohlberg

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