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# Teaching Business Ethics: A Quandary for Accounting Educators

Gary Frank, Emeka Ofobike, and Suzanne Gradisher
*The University of Akron, Akron, Ohio, USA*

The authors discuss the pressures that accounting educators face in meeting expectations to include ethics in the accounting curriculum. Most schools still do not require discrete ethics courses for accounting students; ethics coverage is on a course-by-course basis. However, not all professors are equally comfortable or knowledgeable of models of ethics. To aid professors in that position, the authors present illustrative material that can serve as a starting point for discussion of professional ethics. They summarize 17 years of board actions taken by the Ohio State Board of Accountancy in the context of Kohlberg's theory of development of moral reasoning.

***Keywords:*** Accounting ethics, Business ethics, Ethics, Teaching ethics

The accounting profession believes that ethics should be taught in accounting curricula and that intervention activities can impact students' moral-reasoning ability. However, many accounting professors are ill prepared or uncertain about how best to teach accounting ethics. In the present article, we develop a practical illustration by presenting Ohio State Board of Accountancy disciplinary outcomes over a 17-year period. The consequences of code violations are placed within a broader academic discussion to provide accounting instructors with sufficient background on accounting ethics research. Kohlberg's (1981, 1984) model of ethical development is discussed in relation to the illustrations developed in the present article. Finally, we consider the limitations of this exercise.

## EMERGENCE OF ETHICS AS A TEACHING CONCERN

In the 20 years since the release of the Bedford Committee report of the American Accounting Association (AAA, 1986), accounting professors have been challenged to prepare students for a changing accounting profession. The report concluded: "Professional accounting education must not only emphasize the needed skills and knowledge, it must also instill the ethical standards and the commitment of a professional" (p. 179). Similarly, in 1987 the National Commission on Fraudulent Financial Reporting called for broad integration of ethics in the accounting curriculum. The accrediting body for schools of business, the American Assembly of Collegiate Schools of Business (AACSB), revised its accreditation standards in 1988 to include ethics coverage at all levels and majors. The American Institute of Certified Public Accountants (AICPA, 1988) included ethics in its proposed 150-hour accounting curriculum. How this ethics coverage was to be achieved was not specified by any of these authoritative bodies.

A variety of efforts were made to encourage self-responsibility of practitioners, not limited to strict code adherence. The Bedford Committee stressed the importance of lifelong learning and adaptability to new demands, placing heavy responsibility on individuals (Bedford & Shenkir, 1987). Nevertheless, the process of socialization into the profession begins with the educational experience of accounting students. The AAA (1994) published an ethics casebook to provide course content for professors, but it had limited adoption. In their analysis of the adoption problem, Gunz and McCutcheon (1998) studied articles in accounting journals and concluded that market demand for ethics research was weak and that professors had little interest in ethics. The market for ethics took a decidedly bullish turn after the widely publicized audit and accounting frauds of the late 1990s. Molyneaux (2004) identified this as the causal factor of an attitudinal ground shift within the profession toward teaching ethics.

Correspondence should be addressed to Gary Frank, The University of Akron, School of Accountancy, 302 Buchtel Common, Akron, OH 44325-4802, USA. E-mail: gfrank1@uakron.edu

TABLE 1
Disciplinary Hearings by Accountancy Board of Ohio 1990—2006

| | OUTCOMES | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| YEAR | Number of Hearings | Certificate Revoked | Firm's Registration Revoked | Certificate and Firm Registration Revoked | Suspension | Voluntary Surrender | Censor | Revoke and Fine | Fine + CPE+ Other | Fine + CPE | Fine Only |
| 1990 | 3 | 1 | | | 2 | | | | | | |
| 1991 | 2 | | | | 2 | | | | | | |
| 1992 | 4 | 1 | | | 3 | | | | | | |
| 1993 | 5 | 3 | | | 2 | | | | | | |
| 1994 | 3 | | | | 1 | 1 | 1 | | | | |
| 1995 | 3 | | | | | | | 3 | | | |
| 1996 | 8 | 6 | | | | | | 2 | | | |
| 1997 | 3 | 3 | | | | | | | | | |
| 1998 | 4 | 4 | | | | | | | | | |
| 1999 | 1 | 1 | | | | | | | | | |
| 2000 | 1 | 1 | | | | | | | | | |
| 2001 | 10 | 7 | | 3 | | | | | | | |
| 2002 | 28 | 5 | 1 | 3 | | 2 | | | 1 | | 16 |
| 2003 | 39 | 10 | | 1 | | | | 1 | 1 | 2 | 24 |
| 2004 | 28 | 10 | | 3 | 1 | | | | | 1 | 13 |
| 2005 | 39 | 10 | | 5 | 2 | 1 | | | 1 | 1 | 19 |
| 2006 | 32 | 9 | | 3 | 1 | | | | | | 19 |
| **Total** | **213** | **71** | **1** | **18** | **14** | **4** | **1** | **6** | **3** | **4** | **91** |

## Kohlberg's Model in Assessment and Curriculum

Geary and Sims (1994) addressed the issue of whether ethics could be learned; if ethics are derived from innate characteristics and cannot be taught and learned, the issue of teaching accounting ethics becomes moot. They determined that ethics instruction can impact student awareness of ethical issues, but more effective instruction was required along with methods for assessing outcomes. To successfully teach ethics, professors need an organizing paradigm and Kohlberg's (1981, 1984) model of moral reasoning seems well suited to this task. Cohen and Bennie (2006) asserted that ". . . the dominant tool to study ethical decision making especially in auditing has been the moral development model" (p. 3).

Kohlberg's (1981, 1984) model of moral reasoning has gone through multiple revisions, but the formulation most generally accepted in accounting ethics research was summarized by Reinstein, Moehrle, and Reynolds-Moehrle (2006) as the following:

*Level/stage*

*Preconventionl level—focus on self*

Stage 1 Avoid breaking rules backed by punishment; avoidance of punishment

Stage 2 Follow rules if they are in own interest; to serve one's immediate interest

*Conventional level—focus on the group*

Stage 3 Living up to what is expected by people; need to be a good person in the eyes of others

Stage 4 Fulfilling agreed-to duties and obligations; to keep the social institutions going

*Post conventional level—focus on inner self*

Stage 5 Upholding non-relative obligations first; obligation to law before social contracts

Stage 6 Follow self-chosen ethical principles; belief in ideal as a rational person (p. 427).

This hierarchical model presumes progress through stages of moral development. Individuals advance their ethical reasoning from avoidance of punishment to an external focus seeking approbation and finally to achieving a level of awareness in which ethical behavior is ingrained and ethical reasoning drives action.

Rest's Defining Issues Test (DIT; 1979) has been used in numerous validation studies in the form of pre- and posttests of intervention efforts (Bay, 2002). Welton, Lagrone, and Davis (1994) were among the first to study the impact on accounting students of written and video ethics cases. Relying on Rest's (1979) DIT scale, they found significant changes in moral reasoning levels subsequent to student exposure to ethics cases. They concluded that it would be appropriate to broadly integrate ethics issues across the curriculum. A contrasting view is demonstrated by Dellaportas (2006), who proposed an accounting ethics course, including

TABLE 2
Ohio Revised Code Section 4701.16(A) Violations of Paragraph*

| Year | [1] | [2] | [3] | [4] | [5] | [6] | [7] | [8] | [9] | [10] | [11] | Default on Child Support | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1990 | | | | | 3 | | | | | | | | 3 |
| 1991 | | | | | 2 | | | | | | | | 2 |
| 1992 | | | | | 4 | | | | | | | | 4 |
| 1993 | | | | | 5 | | | | | | | | 5 |
| 1994 | | | | | 3 | | | | | | | | 3 |
| 1995 | | | | | 2 | | | | | | | | 2 |
| 1996 | | | | | 6 | 1 | 1 | | | | | | 8 |
| 1997 | | | | | 2 | 1 | | | | | | | 3 |
| 1998 | | | | | 1 | | | 3 | | | | | 4 |
| 1999 | | | | | 1 | | | | | | | | 1 |
| 2000 | | | | 1 | | | | | | | | | 1 |
| 2001 | | | | 1 | 5 | | | | | | 4 | | 10 |
| 2002 | | 1 | | 6 | 1 | | 1 | 1 | | | 20 | | 30 |
| 2003 | 3 | 1 | | 11 | 3 | | | | 5 | 2 | 22 | | 47 |
| 2004 | 3 | | 1 | 14 | 3 | | | 2 | 5 | 2 | 9 | 1 | 40 |
| 2005 | 7 | | 5 | 18 | 3 | | | 1 | 6 | | 14 | 1 | 55 |
| 2006 | 3 | | | 16 | 4 | | 1 | 2 | | 1 | 15 | | 42 |
| **Total** | **16** | **2** | **6** | **67** | **48** | **2** | **3** | **9** | **16** | **5** | **84** | **2** | **260** |
| **%** | **6** | **1** | **2** | **26** | **18** | **1** | **1** | **3** | **6** | **2** | **32** | **1** | **100** |

SUBSECTION KEY *
[1] Fraud or Deceit in Obtaining an Ohio Permit or in Obtaining a License
[2] Dishonesty, Fraud or Gross Negligence in the Practice of Public Accounting
[3] Unlawful Practice, Violation of any of the Provisions of Section 4701.14 of the Revised Code
[4] Violation of a rule of Professional Conduct Promulgated by the Board Under the Authority Granted by this Chapter
[5] Conviction of a Felony Under the Laws of any State of the United States
[6] Conviction of Any Crime, an Element of Which is Dishonesty or Fraud, Under the Laws of Any State or of The United States
[7] Cancellation, Revocation, Suspension or Refusal to Renew Authority to Practice as a Certified Public Accountant, a Public Accountant, or a Public Accounting Firm by Any Other State for Any Cause Other Than Failure to Pay Registration Fees in that State
[8] Suspension or Revocation of the Right to Practice Before Any State or Federal Agency
[9] Failure of a Holder of a CPA Certificate or PA Registration to Obtain an Ohio Permit or an Ohio Registration or the Failure of a Public Accounting Firm to Obtain a Firm Registration
[10] Conduct Discreditable to the Public Accounting Profession or to the Holder of an Ohio Permit, Ohio Registration, or Foreign Certificate
[11] Failure of a Public Accounting Firm to Comply With Section 4701.04 of the Revised Code

lecture–tutorial instruction, written and video cases, collaborative learning, and a self-directed computerized learning exercise.

Other authors have been less sanguine in their assessment of ongoing impact of ethics education. In an experimental study, Hiltebeitel and Jones (1991) found that students who were exposed to intervention efforts did revise how they approached ethical dilemmas of a professional nature, but that this was not generalized as a change in how they resolved other personal dilemmas. Chan and Leung (2006) differentiated between internal and external accounting students. Their conclusion was the following: *Internal* accounting students, who perceive an event being contingent on behavior, are more capable of recognizing ethical issues than are *external* accounting students, who perceive an event as the result of outside forces or from others' behavior.

## Limits on Impact of Instruction in Ethics

While Kohlberg's (1981, 1984) model has been widely applied in studies of development of accounting ethics, it has inherent limitations. Kohlberg concluded that most individuals never move beyond the law and order stage (Reinstein et al., 2006) and this supposition has been validated in numerous studies (Dellaportas, 2006). Despite this somewhat disheartening situation, those same studies have indicated that education is to be a force for development of higher levels of moral reasoning. Mintz (2006) addressed this responsibility in his discussion of reflective learning as an approach for developing moral reasoning ability. He proposed a course designed to use reflexive learning to develop virtue ethics—a mindset in which students do the right things for the right reasons. Although commendable, the course is

TABLE 3
Violations of Section 4701.16(A)(5) Conviction of a Felony Under the Laws of any State of The United States

| | | OUTCOMES | | | | |
|---|---|---|---|---|---|---|
| Year | Total Hearings | Revoke Certificate | Indefinite Suspension | Censored By Board | Voluntarily Surrendered License | Number of Subsequent Reinstatement |
| 1990 | 3 | 1 | 2 | | | |
| 1991 | 3 | | 2 | | | 1 |
| 1992 | 6 | 1 | 3 | | | 2 |
| 1993 | 5 | 3 | 2 | | | |
| 1994 | 4 | | 1 | 1 | 1 | 1 |
| 1995 | 2 | 2 | | | | |
| 1996 | 9 | 6 | | | | 3 |
| 1997 | 2 | 2 | | | | |
| 1998 | 1 | 1 | | | | |
| 1999 | 1 | 1 | | | | |
| 2000 | | | | | | |
| 2001 | 5 | 5 | | | | |
| 2002 | 1 | | | | 1 | |
| 2003 | 3 | 3 | | | | |
| 2004 | 4 | 2 | 1 | | | 1 |
| 2005 | 3 | 3 | | | | |
| 2006 | 4 | 4 | | | | |
| **Total** | **56** | **34** | **11** | **1** | **2** | **8** |
| **%** | **100** | **61** | **20** | **2** | **4** | **14** |

Aiding in a bribery conspiracy
Aiding in preparation and presentation of false tax returns
Attempted child prostitution
Bank fraud
Conducting an illegal gambling business
Conspiracy to commit a crime against the United States
Conspiracy to defraud the Internal Revenue Service and filing a false tax return
Conspiracy to engage in a pattern of corrupt activities
Embezzlement and forgery
Failure to file an income tax return and attempting to evade or defeat tax
False statements or entries
Filing a false claim against the government
Grand theft, aggravated theft
Gross sexual imposition
Income tax evasion
Mail fraud
Making a false statement on an income tax return
Providing false statements on a bank loan application
Receiving stolen property
Rendering false and fraudulent statements to the Internal Revenue Service
Securities fraud
Selling unregistered securities
Theft
Theft and forgery
Theft of public money, property or records

unlikely to be included in accounting curriculums because of time limitations. However, accounting professors who default on ethics content do a disservice to their students and may actually fall short of their students' expectations. Recently, Adkins and Radke (2004) studied the importance perceptions of accounting ethics and ethics education held by accounting students and faculty members. They found that students placed higher import on both than did faculty members.

Limited coverage of ethics models is achieved in accounting curriculums because codes of ethics are considered in virtually all auditing courses (Madison & Schmidt, 2006; Misiewicz, 2006), and auditing is part of the required curriculum for accreditation. This approach has been somewhat

TABLE 4
Violation of a Rule of Professional Conduct Promulgated by the Board Under the Authority Granted by This Chapter

| Infraction | | OUTCOMES | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Fine $500 or Less | Fine $500 to $1,500 | Fine $1,500 -$3,000 | Fine > $3,000 | Fine Plus CPE | CPE Only | Revoke | Surrender | Total |
| Failure to Respond to Board Communications | | 9 | 11 | 2 | 2 | | | 10 | 1 | 35 |
| Failure to Comply with CPE Verification | | 6 | 5 | 1 | | | | 11 | 1 | 24 |
| Violation of Attestation Standards | | | | | | | 1 | | | 1 |
| Issuance of Substandard Review Report | | | | | | | 1 | | | 1 |
| Failure to Comply With Professional Auditing Standards | | | | | | 1 | | | | 1 |
| Violation of the Auditing Standards | | | | | | | | 1 | | 1 |
| Failure to Return Client Records in a Timely Manner | | 1 | | | | | | 1 | | 2 |
| Failure to Exercise Due Care in the Performance of a Public Accounting Engagement | | 1 | | | | | | | | 1 |
| Failure to Properly Register as an Attest Firm | | 1 | (Plus Register as an Attest Firm and Complete Peer Review) | | | | | | | 1 |
| | **Total** | **18** | **16** | **3** | **2** | **1** | **2** | **23** | **2** | **67** |
| | **%** | **27** | **24** | **4** | **3** | **1** | **3** | **34** | **3** | **100** |

viable as assessed by Green and Weber (1997) who supported the hypothesis that exposure to the code of conduct would have a positive effect on moral reasoning and decision making. The present article is an effort to enrich the experience of accounting students who are exposed to the code of professional conduct. The assumption is that active learning exercises have greater impact on development of moral reasoning and that students internalize the consequences of code violations through exposure to the experience of accounting professionals who have failed in ethical behavior.

### Ohio Disciplinary Action

Of the 54 boards of accountancy, Ohio's board is the only one to disseminate detail of disciplinary hearings and outcomes on the internet. This allows consideration of board actions over the period 1990–2006. It should be noted, however, that identified individuals do not constitute the full population subject to disciplinary action as cases that are resolved short of board hearings are excluded. The primary role of the board is to encourage high professional standards. Most disciplinary issues are resolved through administrative sanctions that require continuing professional education; extended disciplinary actions occur when practitioners fail to adhere to administrative discipline or when they have very serious violations of conduct.

The disciplinary actions of the board are summarized in four tables. Table 1 presents the aggregate statistics of the hearing board from 1990–2006. Table 2 details violations of subsections of the code; totals do not reconcile with Table 1, as offenders may violate more than one code subsection. Table 3 presents the sanctions imposed for felony convictions and provides a listing of crimes leading to felony convictions by practitioners in Ohio during the period considered. Table 4 displays sanctions related to violation of board rules of professional conduct.

As shown in Table 1, students identify that different levels of sanctions are applied based on the severity of the offense. However, students may not recognize that publication of an offender's name causes the professional to be held up for discredit in the eyes of the profession and the public; by itself, this is a significant punishment and a deterrent. Table 1 shows an increase of disciplinary hearings in recent years. Some students may view this to reflect a more rigorous enforcement environment, whereas others may consider it to reflect greater ethical laxity. Neither view can be empirically substantiated, but this reported trend generates significant student discussion.

Table 2 disaggregates the disciplinary issues by code subsection. Students should readily identify subsections 1–3, 5, 6, and 8 to represent violation of trust and actions of moral turpitude. If students question the serious nature of these violations, a review of felony convictions identified as violations of subsection 5 is provided in Table 3. Other subsection violations, especially those associated with subsection 4 of board rules, often are viewed by students to be technical violations. Professors should be asked why communication with the board is important or why firm registration issues are significant. This provides an opportunity to discuss the role of continuing education and why it is important for the profession to hold practitioners accountable for maintaining knowledge; it also allows the instructor to consider issues such as peer reviews conducted under board auspices. Students can then be directed to Table 4, in which different infractions of subsection 4 generate different levels of sanctions. The table clearly shows how technical violations may result in revocation or surrender of license, but that is unusual and normally results when multiple code violations exist. More commonly, those types of violations lead to fines of increasing severity or requirements for additional training. Conversely, violations related to the conduct and performance of engagements are far more likely to be dealt with harshly.

The discussion of disciplinary actions and consequences is designed to gain student attention. Accounting students are highly career motivated during the latter stages of their education because they are typically searching for jobs at the time they take the required auditing course. The philosophical discussion of principles, rules, and interpretations underlying ethics coverage in most auditing texts fails to energize students. However, knowing that failure to maintain ethical standards may result in sanctions, including the loss of professional certification is a powerful attention getter. This type of learning should have positive effect in furthering students' moral development.

## CONCLUSION

The teaching illustration presented in this article supports reflective learning. It requires students to assess consequences in which professionals have been held accountable and found to be lacking. When students consider the impact of faulty moral reasoning, they view accounting ethics as something other than just an intellectual exercise. Loss or suspension of certificate or firm registration is analogous to capital punishment, and students recognize it is not an action that the board of accountancy will impose lightly. But through the illustrations students come to understand that lesser sanctions still are effective in deterring actions deemed not in the public interest.

This recognition and student response corresponds to movement through stages one through four of Kohlberg's model. Initially, students may consider following rules to avoid punishment and then to serve their own interests, which corresponds to Kohlberg's first two identified stages. Then students are led through consideration of what is necessary to live up to what is expected and what is necessary to keep social institutions functioning, which corresponds to stages three and four.

This exercise is neither intended nor likely to raise students to the highest levels of moral reasoning. It certainly is a goal of the accounting profession that its practitioners internalize moral reasoning in accounting practice, but higher levels of moral reasoning develop slowly and not universally. Kohlberg, as interpreted by Lovell (1997), argued that it was unlikely for individuals to attain higher moral reasoning ability until their late 30s or beyond as a result of life experience. The proper role for accounting professors is to assist in this developmental process. The quandary accounting professors face is how to accomplish this objective given stringent time constraints and limited grounding in formal ethics models. This article provides some support and guidance for the challenged professorate.

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