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## **Moral Development of Accounting Students: Opportunities and Challenges**

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### **ABSTRACT**

*Business schools are under scrutiny today as accreditation agencies, professional organizations, and employers hold them accountable for the ethical training of future professionals. This literature review explores how the understanding of Kohlberg's moral development theory can help accounting educators in their commitment to develop the ethical competencies of students. Lawrence Kohlberg's stages of moral cognition are explained as well as James Rest's contributions to the field of moral psychology. This paper synthesizes research findings specifically related to the moral development of accounting students and proposes possible explanations for these results. While the potential to morally develop students of higher education has been established through prior research, today's accounting educators are challenged to implement research and pedagogical strategies that will enable them to actualize this potential.*

The resurgence of interest in ethics in recent years is not surprising given the numerous stories of unethical behaviors in the business and political settings that have dominated the American news media. Of particular concern to higher education administrators nationwide is the societal expectation that colleges and universities should be held accountable for the ethical education of students. Such an expectation is consistent with the primary goal of this country's early colleges and universities which was to develop character and ethical responsibility (Felton and Sims, 2005). While many universities include lofty ethics goals in their mission statements, institutions of higher education are now being held accountable to accomplish these goals. Business schools and accounting programs, in particular, are currently under scrutiny from accreditation agencies such as the Association to Advance Collegiate Schools of Business (AACSB), professional organizations such as the American Institute of Certified Public Accountants (AICPA), and employers to attain similar goals as they prepare young accountants for a complex and ethically challenging business environment. The original debate as to whether ethics can be taught to college students has now transcended into debates about how this should be done. The most challenging question facing business educators today is how to assess whether they have accomplished their ethical training goals.

Most would agree that the ethical development of accountants and other professionals is a worthy goal. Rest and Narvaéz (1994) pointed out that concern about the morality of professionals is not about the fundamental or primitive elements of morality but rather the ethical dilemma of having to choose between two conflicting values, each having merit. An example might be a classroom teacher who must decide whether giving extra time to one student with a learning disability is fair to the other twenty students in the room. In the accounting discipline,

the moral issue might be whether an auditor's interaction with a certain party would create a conflict of interest and impair independence (Ponemon and Gabhart, 1994). The challenge for educators is to develop the moral competencies of students so that they can confront these complex ethical dilemmas that await them as they graduate from institutions of higher education and begin their professional careers.

## Moral development theory

As educators continue their commitment to the ethical preparation of students, it is appropriate to consider how moral development actually occurs. The discipline of moral psychology and the work of Lawrence Kohlberg and others provide meaningful information for those who are assigned the task of providing ethical training. Although the discipline of moral psychology takes most accounting educators out of their comfort zone and into unfamiliar territory, it does allow them to consider what opportunities and barriers accompany their efforts to develop the ethical side of students.

The field of moral psychology is rooted in the work of Jean Piaget which focused on the development of cognitive skills in children. Cognition considers how a person uses thinking skills to construct reality and meaning. Although Piaget recognized moral reasoning as one aspect of cognition, it was Lawrence Kohlberg who is credited with moral development theory (Halliday and Franits, 2006). While the socialization advocates argued that it was society that determines right and wrong, Kohlberg focused on the individual and claimed that it was the individual who ultimately defines right and wrong. His work planted the seed that it is possible to be morally wrong when following social norms or prescribed laws (Rest, 1994). This idea is particularly relevant to professionals, including accountants, who should expect to confront such ethical dilemmas in their professional work.

Similar to the work of Piaget, Kohlberg's theory of moral development is represented by developmental stages through which individuals progress. Each stage of moral development has a unique perspective on the path to moral development. Through time and social experiences, the moral side of an individual is developed. The same ethical issue will be evaluated differently by individuals who function at different stages of development. The social perspective associated with each stage provides the reason *why* individuals perceive moral situations as they do. Thus, Kohlberg's moral development theory is considered to be focused on moral reasoning, also called moral judgment.

With each additional stage of development, the scope of human interaction widens as does the ability to morally process increasingly complex social situations. Therefore, moral development can be described as "a sequence of logically more complex mental organizations" (Rest, 1994, p.5) where each sequential step is an elaboration of the stage that preceded it. "Progress comes from the realization that one particular level is not sufficient to handle the complexities and contradictions thrown up by the world" (Halliday & Franits, 2006, p.83). This is not to say that all persons progress through all stages of moral development but that moral growth occurs when moral disequilibrium occurs, according to Hartwell (2004).

Specifically, Kohlberg concluded that individuals can potentially move through three levels of moral development, with each level containing two stages of moral reasoning. He furthermore determined that the progression through the stages is universal (Kohlberg, 1981). While social norms and practices vary greatly among cultures, the framework for human morality is innate and has world wide application. Furthermore, Kohlberg's studies showed that

age and education both contribute to development into the highest or Post-Conventional Level. The six stages of moral development (Kohlberg, 1981) can be summarized as follows:

**Preconventional Level:**

Stage 1: Obedience to rules to avoid punishment

Stage 2: Satisfy one's own self-interests but must also account for the self-interests of others, incorporating ideas of equality and reciprocity

**Conventional Level:**

Stage 3: Concern for the approval of others so one should follow rules and expectations

Stage 4: Concern for doing one's duty in society with adherence to societal and legal rules

**Post-Conventional Level:**

Stage 5: Upholding basic rights and values even when they conflict with concrete laws

Stage 6: Morality based on universal principles and ideal cooperation with each individual having an equal claim to benefits of cooperation; Doing what is right simply because it is right

James Rest suggested that the six stages are ultimately about "how to organize cooperation" (Rest, 1994, p.5). Cooperation at Stage 1 would simply occur when an individual obeys to avoid punishment. At the self-centered Stage 2, cooperation occurs when the individual can recognize his (her) own self-interest and the self-interests of others so that there is an exchange of favor for favor. Stage 3 moves the individual beyond short-term favor for favor exchanges to longer relationships, including friends and family. At this stage cooperation is achieved by loyalty and caring. Stage 4 extends the individual's concern for family and friends to a concern for the broader society and the laws that create cooperative order within a society. Stages 5 and 6 focus on the ideal level of cooperation in a society where universal moral principles apply. Determining what is right at Stage 4 is based on law while at Stages 5 and 6 what is morally right is "that which best furthers the principle" (Rest, 1994, p.7).

Rest found that moral reasoning, the essence of Kohlberg's work, was insufficient in explaining moral action (Halliday and Franits, 2006). Specifically, he concluded that this phenomenon is multi-faceted and moral action cannot be explained only by Kohlberg's theory of moral reasoning. The result was Rest's Four Components Model which identified the following four elements that collectively impact how moral decisions are made by individuals (Rest, 1994):

1. **Morality Sensitivity** – Also called ethical awareness or moral imagination and represents a person's ability to recognize that a situation has moral content
2. **Moral Reasoning** – Also called moral judgment and relates to the ability to apply reason based upon one's social perspective to a moral situation (Kohlberg's work)
3. **Moral Motivation** – Also called moral willingness and describes the individual's resolve to place moral values above other values
4. **Moral character** – Also called moral action and represents the ability of an individual to carry out what is believed to be the moral course of action.

The other major contribution of Rest was his development of the Defining

Issues Test (DIT) in 1979 at the University of Minnesota. It has been used more than any other tool to measure moral development and has been used in over 40 different countries, confirming Kohlberg's universality claim (Rest, 1994). It was developed after Kohlberg's own instrument, the Moral Judgment Interview (MJI), was found to be difficult to code and score. The DIT is a non-interview instrument and measures the presence of Stage 5 and 6 ethical perspectives. In other words, it determines whether an individual generally views ethical issues at the Pre-Conventional, Conventional, or Post-Conventional stage through the use of a self-administered questionnaire. The questionnaire presents six hypothetical moral conflicts. Participants are asked to rank issues that they believe most significantly influence resolution of the conflicts. The percentage of Stage 5 and 6 responses is then measured using a P-score that ranges from 0 to 95. Results from the DIT uphold Kohlberg's theory that age brings an increase in moral reasoning. Of greater interest is that Rest's 10-year longitudinal study of the DIT showed that "education is a far more powerful predictor of moral judgment development than merely chronological age" (Rest, 1994, p.15). The 1991 meta-analysis of Pascarella and Terenzini (as cited in McNeel, 1994, p. 28) confirmed that students of college age are particularly responsive to moral education.

## **Limitations of Kohlberg's theory**

Academicians today find Kohlberg's theory to be limited in its usefulness because it addresses only moral reasoning but overlooks moral sensitivity, moral willingness, or moral character which is reflected through action. More specifically, a business college's overriding goal for its ethics training efforts is to provide employers with employees who *behave* ethically. Moral reasoning skills, which are expressed in developmental stages by Kohlberg, may be irrelevant without moral action. Mamburg (2001) raised this issue when he explored the connection between moral reasoning, ethical attitudes (moral willingness) and behavior. Mamburg determined that a linear relationship between moral reasoning and moral action cannot be assumed.

Nielson (1998) shared a similar opinion when he differentiated between moral understanding, emotional concern, and moral action. Nielson emphasized that it is quite possible to possess moral understanding (a cognitive phenomenon) void of emotional concern, which ultimately stifles moral action. Furthermore, Nielson stressed that one cannot assume that even when moral understanding is combined with emotional concern that moral action will always result. Damon (1999) emphasized that moral development must be a private rather than a social phenomenon. Damon used the term "moral identity" to describe the integration of moral convictions and self-identity. The phrase "I should tell the truth" is remarkably replaced by "I want to be truthful." When this integration occurs, the individual defines himself (herself) in terms of moral goals and the odds are great that moral action will result.

Although it is obvious that Kohlberg's basic ladder of moral reasoning has valid limitations because of the narrowness of its scope, it is still worthwhile for accounting educators to having a working knowledge of the levels of moral reasoning. It is particularly valuable for educators to

understand the necessity of creating moral disequilibrium in our ethical training efforts so that students have the opportunity to move up the moral ladder.

## **Research results using the DIT**

The accounting education literature is rich with studies of business and accounting students whose moral development was measured using Rest's DIT instrument. For example, the research of Kracher, Chatterree, and Lundquist (2002) involved a study of business students and business professionals in the United States and India. Supportive of the findings of Kohlberg and Rest, this study confirmed that education significantly affects DIT scores although further research was recommended to determine why this is true. Kohlberg's theory that moral development has a cross-cultural application was also upheld in this study. These findings should offer encouragement for accounting educators who teach in multi-cultural classrooms within an environment that is conducive to moral development. However, the general conclusion of Ponemon (1993) was much less encouraging for accounting educators. After considering multiple studies in which accounting students who had received ethics training and practicing accountants were given the DIT, Ponemon found that these two groups generally had not reached the moral development described as Post-Conditional or Stages 5 and 6. Specifically, he found that items representing lower stages of moral development dominated the DIT responses including the avoidance of punishment, the seeking of reward, and the concept of reciprocity. On the contrary, similar studies conducted in the professional schools of law, medicine and dentistry showed an encouraging number of responses in Stages 5 and 6. McNeel (1994) who conducted longitudinal research at Bethel University alarmingly found that business students showed lower growth in moral reasoning during their academic experience than all other majors combined. Do these findings indicate that accounting education does very little to morally develop students? In a worst case scenario, is it possible that accounting education could actually stifle the moral development of students?

## **Interpretation of research findings**

It is important to avoid drawing quick conclusions and focus rather on possible explanations for the DIT results of accounting students. The research contribution of Elm and Weber (1994) may offer some consolation to accounting educators. Their study focused on the similarities and differences between Rest's DIT and Kohlberg's Moral Judgment Interview. While the MJI has been adapted so that its dilemmas are in the business context, the largely used DIT has not been similarly adapted and contains broader, societal issues. This causes a lack of face validity because business students taking the DIT likely participate in the test as a person in the larger society rather than as a businessperson (Elm and Weber, 1994). It is also important to recognize that while the DIT is intended to measure the presence of Kohlberg's Stages 5 and 6 of moral development, Kohlberg's interest was in the study of the life-span development of moral reasoning whereby an appropriate question would be: How is the moral cognition of a four-year old different than that of a 64-year old? Kohlberg's research was never intended to describe the change in an accounting student's moral development after having a course in ethics. Transposing a life-span concept into a short-term measurement may not be appropriate. Ponemon agreed that the DIT "may be too crude a measure to capture accounting students' ethical reasoning" (Ponemon, 1993, p.205).

Another possible explanation for the disappointing DIT results of accounting students may be related to the faculty who provide the ethics training. Penn (as cited in McNeel, 1994, p. 41) advocated that logic skills, reasoning skills, and ultimately ethical reasoning skills must be explicitly taught to students. In other words, it is a mistake for educators to assume that students will discover these skills on their own. These pedagogical expectations may require faculty members to be trained in two disciplines in order for them to “provide more powerful developmental experiences for their students” (McNeel, 1994, p. 43). Hartwell (2004) also acknowledged that faculty members from “thinking” (versus “feeling”) fields such as law and accounting may not be pedagogically intuitive in regard to what is needed in the classroom to move students up the moral ladder.

Ponemon (1993) further studied the effect that the moral atmosphere of an institution of higher education can have on the moral development of students. Specifically, this ethical climate can either promote or inhibit a student’s moral development and could skew the DIT results. Bok (1988) insisted that a university affects the moral growth of students by the way the institution addresses its own ethical issues, how it administers institutional policies, and even how its athletic programs are coached. Weber (2006) suggested that “business schools generally ignore the call for greater attention toward building an ethical culture” (p. 23).

The content and nature of an accounting program may offer yet another explanation for the lower DIT scores of accounting students. Hartwell (2004) considered this same subject from the perspective of law school instead of an accounting program. However, many of his points seem to be applicable to the field of accounting education as both lawyers and accountants generally receive a “rule-based” education. Hartwell argued that such an education “tends to limit students to what is called conventional (Kohlberg’s Stages 3 and 4) thinking and hinders them from attaining postconventional (Stages 5 and 6) moral thinking” (p.2). Stage 6 moral reasoning is based on theories of justice and basic human rights which take priority over laws or regulations (Abdolmohammadi and Baker, 2006). Hartwell (2004) suggested that if law students had chosen to study literature, philosophy, or a “softer” discipline than they would have graduated at a higher rung on Kohlberg’s moral development ladder. To experience moral growth as an accounting or law student, Hartwell also asserted that moral disequilibrium must be created in the classroom. Values of the students must be “challenged by conflicted thinking about right and wrong, a challenge which the students cannot resolve at their current level of moral thinking” (Hartwell, 2004, DIT research section, para.3).

It is also important to reconsider Nielson’s conviction that authentic moral action often occurs after an emotional response or an emotional concern felt by an individual (Nielson, 1998). Both accounting professors and students logically analyze problems from a rules perspective and most individuals in this discipline would prefer thinking over feeling. Moral growth demands that individuals move out of their comfort zone. Tools that they made need in order to morally grow simply may not be in their toolbox.

## **Implications for improvement and future research**

Ethical behavior is an important component in the set of skills the business world wants business schools graduates to possess. Otherwise, there would not be so much pressure from many fronts to provide ethics training for business students. The common student perspective that “most employers desire to have an ethical organization” is based on social morality and may not appeal to students who operate at a relatively low level of moral development. However, the



recognition that “*my* future employer wants *me* to act ethically when I graduate and enter the workplace” should have a much stronger impact because it relates to personal morality and self-interests. It can be reasonably assumed that students want to enter the workplace with the skills expected of them by their future employers. It is critical for educators to emphasize to business students that employers are looking for those graduates whose skill set includes ethical competencies.

Another easily overlooked area for improvement is the ethical culture that exists at the departmental, college, and institutional levels in higher education. While educators need to give curricular attention to the subject of ethics, they must also consider that the moral development of students is affected by the ethical culture that exists in the academic setting. A case study at Duquesne University (Weber, 2006) demonstrated the importance of educational leaders’ commitment to ethics initiatives and willingness to devote resources to such initiatives. Weber’s model or blueprint of an ethics initiative program provides valuable information for business educators seeking to improve the ethical climate of their college or academic department.

While educators continue their efforts to find the best pedagogical strategies for developing the ethical competencies of students, it is important that administrators encourage and support the professional development of faculty so that they are equipped to fulfill their responsibility of providing ethical training to students. The moral growth of students is at least partially dependent upon experiencing moral disequilibrium through carefully constructed ethical cases and activities in the college classroom. A prerequisite to being able to design such classroom experiences is the faculty member’s understanding of why such disequilibrium creates the opportunity for moral growth. The discipline of moral psychology may appear to be distantly removed from a college of business yet faculty members’ understanding of how moral development occurs can positively affect efforts to meet ethical education goals. Furthermore, accounting programs may need to incorporate course materials and pedagogical approaches from the educational psychology and philosophy disciplines in order to morally develop accounting students. An inter-disciplinary approach may offer many advantages and lessons can be learned from the ethics training efforts of other disciplines including medicine, nursing, and information technology.

Continued research will be necessary to better understand the relationship between moral cognition and moral action. The Personal Ethical Threshold assessment instrument developed by Comer and Vega (2008) is an attempt to better understand the gap that exists between moral reasoning and moral behavior. The influence of accounting students’ value preferences on moral reasoning (Abdolmohammadi and Baker, 2006) is another area that deserves additional research efforts. For example, Abdolmohammadi and Baker found that a value preference for conformity is negatively correlated to performance on the DIT and may impede an individual’s ability to move beyond rule-based reasoning. This is a significant finding as this condition can limit the future accountant’s ability to deal with complex ethical dilemmas. Future research might consider whether other value preferences may be related to one’s moral reasoning as well. As educators gain a better understanding of the psychological complexities which affect moral development, they should be better equipped to provide an education which prepares students to withstand ethical pressures in their future workplaces.

It is critical that accounting educators and educators from all disciplines of higher education recognize both the opportunities and challenges created from moral psychology research. The work of Kohlberg, Rest, and others confirm that both age and education affect moral development. It is also important to remember that DIT scores which measure moral

development have the potential to increase as long as formal education continues but tend to plateau when formal education ceases (Rest, 1994). This offers reassurance to educators that college students have the potential to develop to a higher moral stage but also places a responsibility on educators to “transform students’ interpretive frames” (Colby, 2008, moral judgment and interpretation section, para.5) while they are in our classrooms. According to Rest (as cited in Rest, 1994, p.15) educators can be assured that those students who move to the higher levels of moral development have a better chance for finding fulfillment in their chosen fields. This moral growth also moves individuals toward a greater interest in the larger society and in serving their communities. This transformation process equates to a “better life” represented by ongoing intellectual stimulation and continued growth. Could there be any greater goal for higher education?

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