MORAL REASONING OF FINANCE AND ACCOUNTING PROFESSIONALS: AN ETHICAL AND COGNITIVE MORAL DEVELOPMENT EXAMINATION

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CERTIFICATION STATEMENT

I hereby certify that this dissertation constitutes my own product, that where the language of others is set forth, quotation marks so indicate, and that appropriate credit is given where I have used the language, ideas, expressions or writing of another.

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ABSTRACT

MORAL REASONING OF FINANCE AND ACCOUNTING PROFESSIONALS: AN ETHICAL AND COGNITIVE MORAL DEVELOPMENT EXAMINATION

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Corporate America is at the crossroad where ethical and unethical behaviors intersect. After decades of an eroding of regulations to prevent corporate and personal self-serving behavior, the Sarbanes-Oxley Act of 2002 was legislated. However, will prosecution act as a deterrent to prevent further illegal acts and unethical behavior? Empirical research must continue to understand the antecedents of ethical behavior in order to prevent further corruption in the workplace.

Cognitive Moral Development theory states that cognitive ethical reasoning becomes more complex as one matures and gains cognitive processes. This theory assumes anyone with lower-order ethical reasoning is not able to process higher-order ethical reasoning. The theory is another indication that high ethical standards exhibited today do not guarantee the same standards tomorrow. Continuous education and training in what a company or profession considers high ethical standards are necessary to maintain and reinforce moral behavior. Such education and training emerge as even more important as the employee or member of the profession matures, so that his or her values are in alignment with the core ethical values of the company or the profession.

Lawrence Kohlberg developed a system to represent logical ethical reasoning with a model of six stages. James Rest extended the work of Kohlberg by developing a valid, reliable instrument to quantitatively measure logical ethical reasoning. This instrument is called Rest's Defining Issues Test (DIT). Using five ethical dilemmas that Rest created, the DIT determines how people use different processes when resolving a moral situation. Each survey participant rates the five moral dilemmas on a five-point-Likert-type scale. The person that makes moral decisions based on reasoning from ethical principles is at Kohlberg's highest stage, as determined by the DIT. Further, Rest developed a four-component model to describe the process most employees use when making ethical decisions. Rest's four-component process involves: moral sensitivity, identifying the correct course of moral action, determining what action to take when presented with an ethical dilemma, and the execution of the moral plan. Rest believed that moral failure could occur if a person lacked any of the four components.

Kohlberg's and Rest's models are combined with a demographic survey to test the variables of education level, age, gender, and ethical training. Research has proven these variables have an impact on ethical decision-making when surveying a student population. However, these variables have not yet been applied to finance and accounting professionals.

This research finds that the N2 score for the over 35 age group is significant: Subjects older than 35 years had a higher N2 score (m = 25.66, sd = 5.66) than subjects 35 years old or younger (m = 21.39, sd = 7.12). Although the variable for age was not significant, females scored higher for finance, and males scored higher for accounting.

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The relationship between the moral maturity level of finance and accounting professionals and the variable ethics courses and/or ethics training of finance professionals compared to accounting professionals was not supported through this analysis. The results are similar when the moral maturity level of finance and accounting professionals were surveyed on gender, age, and education.

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To all my friends who held up my arms, thank you.

I can do all things through Christ which strengtheneth me.   Philippians 4:13

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CHAPTER I

Introduction

Background of the Problem

Integrity among finance and accounting professionals is essential to the success of any industry. Nowhere is effective management of ethical behavior of greater consequence than in the banking and insurance industries. Finance and accounting professionals have been in recent litigation because the nature of their working relationship has allowed them to share information that should otherwise not have been shared.

The Sarbanes-Oxley Act of 2002 (SOX) is the legislative solution to the recent ethical scandals, such as Enron, ImClone, Adelphia, Tyco, Qwest, Global Crossing, and WorldCom, involving accounting irregularities and fraud. This Act implements extensive changes to public accounting and corporate laws, and also expands corporate governance extending the responsibilities of senior executives and board members. The previous decade has seen an eroding of accounting regulations by Congress under the direction of special interest groups and lobbyists. Now, under SOX, if the company is indicted, the CEO and the board must prove they are directly overseeing and monitoring a comprehensive ethics program, or they will incur stiffer fines. Under these conditions, the whole company must have a program that is compliant with SOX, which would ensure that ethical guidance comes from top management and continually is reinforced.

As an example of a corporation that committed fraud, Enron was in the business of energy trade on an international and domestic basis, and was formed in 1985 with the merger of Houston Natural Gas and InterNorth ("How Did Enron," n.d.). Billions of dollars of debt resulted from years of international and domestic expansion. The debt, fraudulent accounting, and illegal loans were concealed from shareholders through partnerships with other companies. One partnership was known as RADR, a group of entities secretly funded by Enron . RADR would purchase electricity-generating windmills from Enron, and afterward, sell them back with some of the profits going to key Enron executives and their families. To date, the Securities and Exchange Commission (SEC) has uncovered several instances of financial fraud committed by executives at Enron. Many of Enron's executives have been charged with wire fraud, money laundering, securities fraud, mail fraud, and conspiracy ("How Did Enron," n.d.).

Enron's 1999 sale to Merrill Lynch of a seven million dollar stake in three energy-generating barges is an example of financial fraud ("How Did Enron," n.d.). The sale was disguised as a loan, since Enron promised to pay back Merrill Lynch. Enron committed fraud when it booked the loan as $12 million in profit in order to meet earnings estimates while misstating financial statements (Calkins, 2004).

The Securities and Exchange Commission (SEC) investigates such problems, and was formed in 1934. Their focus has been to increase investor confidence by making information on companies and securities publicly accessible. The SEC monitors the securities market and enforces the Securities Act of 1933 and the Securities Exchange Act of 1934 ("What is Securities Fraud," n.d.).

The principles that form the foundation of these two acts are as follows:

- "Companies offering investment opportunities must be open and forthcoming about the status of their business and the stocks they" offer, so that "the investor has the opportunity to judge the information and assess the potential investment risks versus gains" ("What is Securities Fraud," n.d.).

- Persons who sell or exchange securities must perform their business honestly and with fairness. Because a broker-investor relationship involves trust on the part of the investor, the broker (or dealer, or company, as the case may be) must provide reliable information to his customer. ("What is Securities Fraud," n.d.)

The pressure from the SEC and in addition SOX, passed by Congress in response to the Enron and WorldCom scandals, have forced the business strategies of today's companies to change (Oliver, 2002). Strategy concerns the actions of management to meet successful performance objectives; the central business strategy issue is how to build a stronger long-term competitive position, according to Pearce and Robinson (2005). The sweeping reforms to business practices enforced by SOX seek to increase visibility in corporate accounting while penalizing fraud. Increased interest in the company's record of compliance by shareholders, in particular, can be a powerful force of influence on company objectives.

According to Nakata (2004), Citigroup experienced share value downturn from reputation problems in Japan, the United Kingdom., and Europe). In Japan, the problems included providing money to clients who subsequently were prosecuted for stock-price manipulation, defrauding customers of more than 1.8 billion yen in foreign currency deposits, and taking customers' passwords out of the office. The inadequate governance and management resulted in four branches' licenses being revoked (Nakata, 2004).

Chuck Prince, CEO of Citigroup, explains a learning process occurred from the failures ("Citigroup," 2004). According to Prince, the strength of Citigroup's reputation infers responsibilities just as important to success as their financial performance. After apologizing to regulators and shareholders, a need for a new direction became clear. That new goal for Citigroup is to be the most respected global financial services company ("Citigroup," 2004). In order to achieve this accolade, Prince asserts the work ahead will take a global effort. He maintains his priority is to reinforce company values in order to see progress in the evolution of Citigroup's culture. To achieve this result, Prince has initiated a Five Point Plan. Interestingly, corporate image plays a key role as the company legacy is brought forward as a guide to the future ("Citigroup," 2004).

Reinforcing company values is a reoccurring theme heard in the discussion of why the right culture is necessary. The focus has shifted to a long-term strategy; one that does not impact the future for short-term profits. Among perceived soft values, trust is paid homage as business leaders relearn the reason for their success – honest work. The Five Point Plan follows SOX guidelines and includes an independent board for oversight ("Citigroup," 2004).

Specifically, the Five Point Plan is designed to ensure focus. This new direction for Citigroup addresses cultural and behavioral issues, and focuses on ethics training, communications, talent development, performance appraisal/compensation, and controls ("Citigroup," 2004). With quality initiatives falling by the wayside in the new SOX environment, each of the Five Pont Plan initiatives have clearly defined objectives as well as a series of specific steps with timelines for implementation. Michael Porter agrees; the challenge is to refocus on the unique core and realign the company's activities around it (Porter, 1996).

The dual concern of the company's accounting irregularities and the company's record of compliance have escalated the urgency of understanding how to positively influence ethical behavior with education and/or training. To be ethical is to conform to moral standards or to conform to the standards of conduct of a given profession or group

("Webster's New," 1977). Expanded governance of SOX ignores the premise that the scandals were not due to inadequate laws and regulations as much as they were a failure of ethical behavior (Verschoor, 2004).

SOX attempts to govern ethical behavior by hard-and-fast rules, but these attempts are contrary to Cascio's belief, which asserts ethical behavior adapts and changes in response to social norms and in response to the needs and interests of those served by a profession (Cascio, 1998). Can the ethical behavior of an employee who adapts to social norms or culture conform to a new set of rules? Can ethical behavior be dictated in response to a new set of rules?

Decision makers and managers have turned to educators in response to the challenge of developing business ethics training programs. Ethics suggest that when faced with a problem, situation, or opportunity requiring a choice between several alternatives, accounting and finance professionals need to evaluate their moral decisions.

Added to this process of making a decision is the conflict between one's personal moral philosophy and values and the culture of the organization. Organizational culture is the pervasive system of values, beliefs, and norms that exist in any corporation and can encourage or discourage moral decision-making (Gibson, Ivancevich, Donnelly, & Konopaske, 2003).

In order to be effective, ethics will permeate the individual's performance, the group or department's performance, and the organization's performance as a whole. One suggestion by researchers offers the following criteria:

- *Utilitarian outcomes*. This behavior results in the greatest good for the greatest number of people (Cascio, 1998).

Individual rights. Rights of all parties are respected. The basic rights of free consent, free speech, freedom of conscience, privacy, and due process are upheld (Cascio, 1998).

Distributive justice. Behavior that respects the rules of justice. People are treated equitably or fairly (Cascio, 1998).

These criteria easily could be used either in a personal context or for a manager that needs to make a decision within the corporation. The above criteria would be useful to an employee or manager to pre-evaluate decisions in order to avoid situations of manipulation. A process change of any kind may involve manipulation of individuals. Employees who are involved in a change do not have a choice whether to participate or not. This is true particularly when the focus of the change is group and organization performance.

Manipulation can become coercion when the individual must choose between accepting or not accepting the process. For example, if a process is not accepted and the individual is fired, even though the new process is counter-productive. An important question to ask is whether ethics courses and/or training anchor moral decision-making in employees creating a work environment void of manipulation and coercion, particularly where finance and accounting professionals are concerned. How are moral values developed? For example, are there stages that one progresses through? Researchers have reported a need for educators to reinforce moral and ethical values and clarify them for individuals participating in the business environment. Simultaneously, business managers need a method of evaluating competing value systems to develop an ethical framework for guiding decision making (Beltramini, Peterson, & Kozmetsky, 1984). Can a study of the correlation between moral and cognitive development target specific courses for educators and business alike in order to achieve ethical behavior? Only continued research can answer these questions.

Research Question

The background previously presented above leads to this study's seminal research question: Can ethics courses and/or ethics training help develop a more moral finance and accounting employee? In order to answer the question, this study will ascertain whether a statistically demonstrable relationship exists between the moral maturity/cognizance of finance and accounting professionals, based on Kohlberg's Cognitive Moral Development scale as measured by Rest's Defining Issues Test (DIT), and the variables of age, gender, education level, and ethics training.

An extensive search did not reveal any employee research on the application of Kohlberg's theory to accounting and finance professionals. Using Rest's DIT, the research will determine if finance and accounting professionals governed by a code of ethics have a higher DIT score. This objective will be accomplished by surveying a geographically diverse population of finance and accounting professionals from large private universities located in South East Florida, Northern Virginia, and Northern Delaware. The DIT will be distributed and collected by professors of various master's and doctoral finance and accounting classes as well as by the researcher. The research will study how finance and accounting professionals respond within Kohlberg's stages of moral development.

Significance of the Study

At a high level, SOX aims at preventing fraud and audit committee oversights by strengthening boards. SOX describes auditor vigilance and independence in detail. In addition, the CEO and CFO must confirm that the financial statements and disclosures fully comply with the provisions of the Securities Exchange Act. Specifically, section 201 increases auditor vigilance and independence, strengthening internal controls, risk management, and creating accounting-fraud penalties ("Sarbanes-Oxley Act," 2002).

Sections 802 and 1102 address the destruction of corporate documents stating: "Whoever knowingly alters, destroys, mutilates, conceals, or falsifies records, documents or tangible objects with the intent to obstruct impede or influence a legal investigation, shall be subject to fines and or imprisonment" ("Sarbanes-Oxley Act," 2002).

Now, auditors must retain records relevant to the audit or review of financial statements filed with the SEC. These records include work papers and other documents that form the basis of the audit or review, as well as correspondence for a period of five years from the end of the fiscal period in which the audit or review was concluded. The penalty for non-compliance is a fine and or imprisonment not more that 20 years ("Sarbanes-Oxley Act," 2002, § 1102). In addition, Title VIII: Corporate and Criminal Fraud Accountability Act of 2002, states it is a felony to "knowingly" destroy or create documents to "impede, obstruct or influence" any existing or contemplated federal investigation ("Sarbanes-Oxley Act," 2002).

With regard to internal controls and financial reporting, executives must personally certify a public company's financial results ("Sarbanes-Oxley Act," 2002, § 302), and they must evaluate the business's internal controls and financial reporting ("Sarbanes-Oxley Act," 2002, § 404). Further, Title IX: White Collar Crime Penalty Enhancements, has a dual purpose. It addresses a company's auditors and top executives:

> Financial Statements filed with the SEC must be certified by the CEO and CFO. The certification must state that the financial statements and disclosures fully comply with provisions of the Securities Exchange Act and that they fairly present, in all material respects, the operations and financial condition of the issuer. Maximum penalties for willful and knowing violations of this section are a fine of not more than $500,000 and/or imprisonment of up to 5 years. ("Summary of Sarbanes-Oxley," 2005)

Section 304 is directed at corporate executives. It states that a CEO and CFO must reimburse the company for equity-based compensation received during the 12-month period following issuance of financial restatements for noncompliance or misconduct, including:

1. Bonus or other incentive-based or equity-based compensation received during the 12-month period following issuance of the financial statements including restatements.
2. Profits realized from the sale of securities during that 12-month period ("Sarbanes-Oxley Act," 2002).

The Sarbanes Oxley Act has made auditors and company executives accountable for their financial reporting. This new accountability will redefine the soundness and integrity of financial statements of public companies, and thereby restore trust to shareholders.

The credibility of financial statements depends on sound accounting principles, integrity from management implementing the principles, and on the auditor's competence and independence. However, SOX has taken what was previously a private matter between the manager and shareholders, with some state law restrictions, and made structures governing the conduct of the corporation federal law. This includes the adoption of a code of ethics, which used to be under the domain of management, but is now a requirement under SOX.

SOX has changed the current business environment. In the past business ethics was viewed as important. Now, business ethics is mandatory, but where is the map for business managers to follow? SOX mandates ongoing comprehensive ethics programs, but does not give clear exact criteria, leaving the responsibility of education and training employees in ethics up to the organization. Business managers will be relying more on research for direction on how to make the most impact on training programs to positively influence ethical behavior. The research from this study will contribute in this area.

In order to provide all stakeholders in corporate America assurance around ethical behavior, further research is needed. The foundation of this dissertation is Kohlberg's Cognitive Moral Development theory, which will be used to determine whether age, gender, and education influence an individual's ethical decision-making capability.

This study will compare the moral maturity levels of male and female finance and accounting professionals who had ethical training with male and female finance and accounting professionals who have not had ethical training, based on age and education level. The research herein will attempt to ascertain the moral maturity level of finance and accounting professionals, examine personal characteristics of said population, investigate correlations among level of maturity and participant specific characteristics, and report significant findings.

Purpose of the Study

The lesson from the high-profile corporate scandals is that the leaders of the organization set the example for the entire company, so that the remedy needed is not a new procedure, but corporate leaders who can be trusted and who have a record of building a culture for doing the right thing (Verschoor, 2004). The present culture in many corporations could be raising and grooming executives to behave unethically by their expectations. It has been documented, for example, that Fastow, formerly of Enron, said he was following orders (Babineck, 2002). In dealing with Citibank regarding a loan, he manipulated the loan process in order to receive a loan that would have otherwise been denied him based on current financials (Farrell, 2002). This type of behavior puts the down-line supply chain at risk for unethical performance.

Bob Wright, Compliance Officer for General Electric (GE), also recognizes how critical corporate culture is to the organization's success by observing that corporate culture is neither too loose nor too soft to be important (Wright, 2003). The corrupt culture of Enron, he maintains, contributed to the company's downfall. A culture rooted in integrity, on the other hand, leads to success. Future business leaders starting a great company get the right people on board. Asserts Wright, it is necessary to put the right team of people in place before concentrating on strategic plans. To accentuate the point, for the fifth straight year, GE has been named in the newspaper's worldwide survey as the World's Most Respected Company and the company with the most integrity (Wright, 2003).

GE's statement of values corresponds with Citigroup's and reflects the twenty-first century exemplifying the corporate employee blueprint, which looks for unyielding integrity, commitment to performance, and thirst for change (Wright, 2003). Specifically, businesses everywhere will be looking for: (1) People who managers know will make the right ethical choices, (2) People who have a mastery of a skill set that adds value to the company, (3) People with the confidence to challenge the status quo and take risks, (4) People with a commitment to success and a deeply held loyalty to the company (Wright, 2003). Training finance and accounting leaders in ethics begins with formal education and education provided by the employer.

The results of this dissertation research will expand the body of knowledge on whether and how ethical education and/or training contribute to developing finance and accounting professionals whose decision-making reflects ethical behavior. This proposed study will contribute to the research by examining how ethical training can impact the ethical behavior of finance and accounting professionals. Additionally, this new information may lead to business and training programs designed to improve ethical awareness (Ameen, Guffey, & McMillan, 1996).

Organizational Plan

This dissertation is divided into five chapters, including theory development, literature research, and survey administration. The five chapters are as follows:

- Chapter I introduces the topic and the need for the study. The introduction gives the background of the problem, research question, purpose of the study, significance of the study, and organizational plan.
- Chapter II contains all the subject matter research, including the theoretical literature with important concentration on the theory of Kohlberg and the research of James Rest. An examination of the DIT follows the literature review.
- Chapter III explains the design of the survey and instrument, and the exact procedures for administering, collecting, and analyzing the data. The research methodology in this chapter includes the validity and the reliability of the test instrument.
- Chapter IV is the last step of the research process, and gives the results of the scored surveys. This chapter sets forth the research data and interprets and presents analysis. Some comparisons studies are made to emphasize significant results.
- Chapter V of this study takes the data and literature review plus the results of the data scoring and summarizes the findings according to the hypothesis. These results will be compared to similar studies that have used the DIT. The impact and results of this dissertation are examined with implications for future research.

Definition of Terms

In the context of this dissertation the following terms shall apply:

(a) Ethical reasoning – the ability to identify that which is moral among competing options for action (Devereaux, 2003).

(b) Ethics – the study of human conduct, values and morality ("Merriam-Webster OnLine," 2005a).

(c) Finance and accounting professionals – those individuals working as finance and accounting professionals in various industries. Backgrounds of education and experience could vary.

(d) Ethical dilemma – "is a situation that often involves an apparent conflict between moral imperatives, in which to obey one would result in transgressing another" ("Wikipedia," 2006).

(e) Moral judgment – is a process individuals use to decide a course of action in a particular situation is morally right while another course of action is morally wrong (Rest, 1986).

(f) Morality – the study of human conduct, and values, and judgments as to good or bad, and right and wrong ("Merriam-Webster OnLine," 2005b).

(g) Reasoning – the drawing of inferences or conclusions through the use of reason ("Merriam-Webster OnLine," 2005c).

Summary

This research will compare the moral maturity and ethical reasoning abilities of finance and accounting professionals using Kohlberg's scales and Rest's DIT. Chapter II follows with a review ~~of~~ the literature, with an emphasis on the current lack of ethics as manifested by the Enron and post-Enron scandals, ethics theories, and cognitive moral development.

CHAPTER II

Literature Review

Ethical Problems in the Finance and Accounting Professions

Finance and accounting professionals must resolve financial problems with the highest of ethical standards. Both finance professionals and accountants have developed codes or standards for guidance in performing their fiscal duties. The National Commission on Fraudulent Reporting concluded that written codes are important for communicating expectations and that more corporations should adopt a code of conduct (Rich, Smith, & Mihalek, 1990). However, Rich et al. conducted a study of selected respondents from the National Association of Accountants' database. Rich et al. found that for the performance measure net income, there was pressure on the respondents to achieve a targeted net income, and the pressure was greater in companies with a formal code. For a second performance measure, return on investment (ROI), there was pressure to achieve a specific ROI in those companies with a formal code. Since there was no evidence that a written code of conduct helps an individual resolve ethical dilemmas, the authors suggested companies focus on creating an ethical environment.

The inability of a code of conduct to solve ethical behavior problems is evident in the investment profession, specifically regarding insider trading violations. In a study using members of the Financial Executives Institutes, it was found "ethics in the securities markets" is of the greatest concern (Veit & Murphy, 1996). Another survey of members of the Association for Investment Management and Research found almost one-quarter of the analysts either experienced or observed unethical behavior during the previous 12 months (Veit & Murphy, 1996). They found the three most frequent violations are failing to use diligence for recommendations, writing reports with predetermined conclusions, and communicating inside information. Although an analyst observing unethical behavior in the firm will make the violation known to a supervisor, more than one-third of those observing unethical behavior did not report the incident (Veit & Murphy, 1996). In both the finance and accounting professions, these types of ethical violations and their frequency demonstrate decision-makers require direction in order to continuously improve ethical behavior.

Kohlberg's studies are an example of decision-makers' personal values being developed by taking direction from the business environment; Kohlberg posits ethics and values are developed from one's interaction with the environment. Further, individuals form their values dynamically because they interact in an environment that constantly changes. Finance and accounting professionals need to understand that they bring their personal value system to a company that may have a conflicting corporate value system, as reported to exist at Enron. In order to maintain excellence in ethical behavior, values have to be reinforced routinely to have congruency with ethical behavior (Thorp, 2005). Hence, there is a need for ethical education and training to counter one's under-developed personal values and the lack of proper business values.

Training or education should develop fair-minded honest individuals with integrity, self-knowledge, and a deep concern for the welfare of others (Paul & Elder, 2005). These are the values necessary to produce ethical behavior. Likewise, Kohlberg's research places these values in the highest level of moral maturity. To be ethical today takes courage and self-discipline to do what is right. Individuals at Enron, WorldCom, Tyco, and Global Crossing subordinated honesty to personal gain, confirming the failure in ethical behavior in these companies (Duska, 2005).

On December 2, 2001, Enron filed the largest bankruptcy in American history ("Enron Justice," 2004). Verschoor (2004) adds that Enron and the scandals which followed were a failure of ethical behavior and not of inadequate laws and regulations. He emphasizes moral behavior can not be legislated. Corporate leaders should have a record of building a culture for doing the right thing (Verschoor, 2004). Senior leadership set the ethical standards that management will follow. When there is no clear guideline, individual judgment based on personal moral and personal ethical codes are used (Smith & Bain, 1990). The research of Sims and Keon (1999, 2000) support the conclusion that perceived organizational and managerial expectations must match in order to achieve optimal employee ethical decision-making. Their results indicate that the perceived organizational environment is significantly related to the ethical decision of the employee.

Is there financial incentive to continuously train employees to develop positive values in order to promote ethical behavior? According to Tanner, Lamberth, and Goselin (2005), reported settlements by investment banks in the WorldCom litigation have exceeded $6 billion collectively. JPMorgan settled claims for WorldCom and Enron securities litigation for $2 billion and $2.2 billion respectively. Similarly, Citigroup settled its alleged liability for $2.6 billion with WorldCom and for $2 billion with Enron. These are examples of what happens when there is no training or ethical behavior within the organization.

Training and education have taken on more importance as a change agent for ethical behavior because Sarbanes Oxley (SOX) has mandated evidence of codes of behavior and ongoing training programs. Citigroup's Code of Conduct (see Appendix A) is an example of an ethics program meeting SOX requirements. The Code of Conduct serves to outline the principles, policies, and laws that employees must adhere to and that govern the activities of the company. Importantly, it pertains to people who work with or represent Citigroup directly or indirectly. The introduction states, "We must never compromise that integrity either for personal benefit or for Citigroup's purported benefit" ("Code of Conduct," 2004, p. 4). One recent outcome of SOX is ensuring that employees, who are uncertain of a course of action, know whom to contact within the company. For example, if an employee is unsure of a situation, or if a situation seems unethical or improper, additional contacts include the supervisor, Human Resources, and an ethics hotline telephone number found in the employee handbook. New hires sign a copy of the code of conduct and return it to their manager to show compliance.

Similarly, what Ernst & Young has done is another example of the recent reaction to public concern and SOX requirements. Their published Global Code of Conduct expresses their commitment to upholding high ethical standards (see Appendix B). A code of conduct provides a framework that guide employees in their decision-making. Having an ethical framework, employees are expected to make proper decisions while maintaining objectivity and independence, which includes rejecting pressure from clients, being alert for conflicts of interest, and avoiding relationships that may impair objectivity or independence. As a result, ethical behavior is expected to improve; however, as stated, codes of conduct cannot be relied on solely without ethical training and education.

In business ethics, managers use a different reasoning process depending on whether the problem is related to business, a broader societal issue, or personal issues (Elm & Weber, 1994). Hence the need for ethical training, which research has shown can influence adults in ethical decision making and the reasoning process (Mujtaba, 1996). In the business world, ethical behavior is both important and helpful. The environment created is one that is open and supportive of ethical behavior, which provides for growth and compliance to federal legislation. Recently implemented company codes of ethics will guide ethical employee behavior. Ethical behavior always has been at the forefront of good business practice; research has shown it to be good for growth and earnings. General Electric's (GE) chairman Jeffery R. Immelt emphasizes values. He states that to be a great company today means being a good company (Gunther, 2004). More specifically, in the post-Enron era, Immelt wants GE to be conscious of virtue because that would keep the company on top (Gunther, 2004). From a strategic position, he added independent directors to GE's board and encouraged directors to understand GE's operations. As a result, Gunther (2004) reports the company began accounting for the cost of stock options.

Ethics as a set of shared concepts and principles guide one in determining the behaviors that help or harm (Thorp, 2005). Ethics are not social conventions or religious beliefs in that ethical guidelines are not influenced by contrary cultural or religious beliefs. Ethics and beliefs are complimentary as one's ethical behavior flows out of one's values; ethics relate to behavior and values relate to beliefs. "Values are core principles that define for individuals what are ideal personal standards" (Thorp, 2005, p. 1). Foundations for universal ethical principles which form values come from philosophy. Two key philosophical theorists and their contributions will be discussed.

Ethics Theories

Ethics is a branch of philosophy that theoretically and rationally examines right from wrong and moral from immoral behavior (Cavico & Mujtaba, 2005). Ethics establishes rules that govern moral behavior. Two key philosophers that shaped the early development of ethical theories, principles, and their application were Aristotle and Immanuel Kant. Aristotle linked morality to the well-being of the individual. Aristotle created a theory in which the attainment of order, balance, and equilibrium was the ideal and best condition for the individual and the state. Of critical value is the foundation they created for a universal ethical order, higher than civil law and social custom, and is a significant contribution to moral philosophy (Cavico & Mujtaba, 2005).

In the *Doctrine of the Mean*, Aristotle develops a practical, rational way to analyze moral virtue (Cavico & Mujtaba, 2005). According to this doctrine, moral virtues are desire-regulating character traits. The doctrine serves as a guide to determine good from bad and for the achievement of virtue by choosing the mean between more extreme character traits (or vices). The doctrine provides practical rules to attain personal happiness through guidance to become virtuous. Aristotle's conclusion is that it is difficult to live the virtuous life primarily because it is often difficult to find the mean between the extremes. Yet a virtuous individual is known for their actions. Employee excellence therefore is both moral ethical knowledge and practice (Cavico & Mujtaba, 2005).

In the Enron example, using the *Doctrine of the Mean* as a foundation for principled behavior, senior management in particular did not take a virtuous or moral course of action. Creating false accounts exemplified their greed and personal gain at the expense of the employees' retirement funds. Management committed fraud and did not view their employees with respect, for example, when they asked their employees to continue buying Enron stock knowing the company was close to bankruptcy (Thomas, 2002). This action on the part of Enron management lacked Kohlberg's universal ethical-principle orientation. These are universal principles of justice, of the reciprocity and equality of human rights, and of respect for the individual.

According to Cavico and Mujtaba (2005,) another philosopher whose view provides a foundation for ethical behavior is Immanuel Kant. Kant takes an approach that puts reason as the source and basis for morality. Kant claims people, being rational, can make use of their reason . Reason is the faculty of making inferences and of identifying the grounds behind truth. It allows one to move from the particular and contingent to the global and universal. From Kant's perspective, the sole feature that gives an action moral worth is not the outcome that is achieved by the action, but the motive that is behind the action. An action is moral if it is consistently universal and respects the autonomy of human beings. However, Kant knew that the inability to consistently act with self-control to always make the right decision is a human shortfall (Cavico & Mujtaba, 2005). The main contribution from Kantian ethics was to view people with individual rights and as moral beings. Kantian ethics promotes the integrity of society; that is, a society where freedom and dignity for one another is preserved (Cavico & Mujtaba, 2005).

The principles of reasoning and rationality, which are the basis of Kohlberg's theory, are core components of the early theories of the philosophers Aristotle and Kant, and these principles, form the basis of ethics as a branch of philosophy. Business ethics encompasses analysis of ethical theories and principles and the application of this analysis to the behavior of companies and their employees. Managers may be unfamiliar with ethical and moral principles. However, as in many business applications, the link between moral behavior and business performance has become evident as seen by company stakeholder reaction to unethical behavior (Cavico & Mujtaba, 2005). Development of moral principles has been the research of key theorists that will be discussed.

Cognitive and Moral Development

Three key theorists have been instrumental in advancing the field of cognitive moral development: Jean Piaget, Lawrence Kohlberg and James Rest. With their contributions, stages of moral development have been created and linked to theories about how one develops moral principles.

Piaget. Cognitive development refers to a set of assumptions and research strategies which are common to a variety of specific theories of social and cognitive development, particularly the work of Piaget (Piaget, 1965). Jean Piaget was a Swiss psychologist known for his research in developmental psychology. He studied under C. G. Jung and Eugen Bleuler in Zürich and also in Paris at the Sorbonne. There, he worked with Alfred Binet in the administration of intelligence tests to children. Returning to Switzerland in 1921, Piaget began to study intensively the reasoning processes of children at various ages (Piaget, 1965).

Piaget's theory is based on the idea that the developing child builds cognitive structures or patterns of physical or mental actions, schemes, or networked concepts for understanding and responding to physical experiences within the environment (Piaget, 1965). Piaget further claimed that a child's cognitive structure increases in sophistication with development, moving from a few innate reflexes to a highly complex set of mental activities. Piaget's theory identifies four developmental stages and the processes by which children progress through them (Piaget, 1965). The four stages are:

I. Sensorimotor stage (Infancy) intelligence takes the form of motor actions

II. Preoperational stage (Toddler and Early Childhood) intelligence is intuitive in nature.

III. Concrete operations (Elementary and early adolescence) intelligence is logical.

IV. Formal operations (Adolescence and adulthood) thinking involves abstractions.

These four stages represent how one increases in knowledge and comprehension (Piaget, 1965).

Kohlberg. Moral development as an interdisciplinary field researches moral common sense and personal knowledge. It studies how children evolve a sense of right and wrong, good and bad, and how adults improve their abilities to handle ethical issues in day to day situations. Included here would be resolving value conflicts, increasing trust, managing cooperative and tolerant relationships, and setting ethical goals. The focus is on how one uses cognitive thinking skills when confronted with ethical issues and the subsequent actions that follow (Puka, 1994).

Lawrence Kohlberg was a professor at Harvard University where his work became known in the early 1970's. He then moved to the field of moral education as a developmental psychologist. Kohlberg transcends the work of Piaget, distancing himself from the biological emphasis. Puka (1994) states the original study of Kohlberg conceives moral development as a distinct field of research. According to both the Piaget and Kohlberg theories, the child passes through successive stages of moral judgment . Kohlberg points out that the developmental hierarchy of moral judgment is in six stages. Over a period of twenty years of empirical research, the stages have been established as culturally universal (Puka, 1994). The definitions of Kohlberg's Moral Stages are as follows:

I. Preconventional level

   At this level the child is responsive to rules of good and bad. The level is divided into the following two stages:

   Stage 1: Punishment and obedience orientation. Avoiding punishment and unquestioning deference to power are valued. The physical consequences determine the meaning of the action.

Stage 2: The instrumental-relativist orientation. The choice of right action is determined by the satisfying of one's own needs and occasionally the needs of others.

II. Conventional level

At this level, the attitude is of conformity and loyalty to personal expectations and social order.

Stage 3: The interpersonal concordance or "good boy---nice girl" orientation. There is conformity to stereotypes of what is considered normal behavior. Good behavior by being nice pleases and earns approval.

Stage 4: The law and order orientation. Behavior orientation is toward authority and fixed rules and consists of doing ones duty and showing respect for authority.

III. Post conventional, autonomous, or principled level.

At this level, there is effort to define moral values and principles apart from group authority and one's identification with these groups.

Stage 5: The social-contract legalistic orientation. Correct behavior is defined in terms of general individual rights and standards which have been examined and agreed upon by society as a whole.

Stage 6: The universal ethical-principle orientation. These are universal principles of justice, of the reciprocity and equality of human rights, and of respect for the individual (Puka, 1994, p. 3).

The sequential stages detail how moral development is the result of moral experience and not from learning particular teachings. Kohlberg's theory claims individuals prefer the highest stage of reasoning they comprehend, and Kohlberg argues that a higher or later stage of moral judgment is more valued than a lower stage (Puka, 1994).

Rest. Kohlberg's moral judgment model has contributed significantly to the field of moral psychology by giving a starting point for one's internal construction of the social world, emphasizing the individual's moral judgment thinking process (Rest, Narvaez, Bebeau, & Thoma, 1999). However, there has been criticism over the years from psychological and philosophical fields of research stating that moral judgment is only one psychological component of general moral development (Rest et al., 1999). Still, James Rest claims the development of moral judgment is an important part of the psychology of morality as originally stated by Kohlberg (Rest et al., 1999). Further, Rest developed the four-component model as a synthesis of other approaches and different facets of morality. The four-component model suggests various inner psychological processes, which together give rise to outwardly observable behavior (Rest et al., 1999). These four processes are as follows:

1. Moral sensitivity – interpreting the situation and how various actions would affect all parties concerned, imagining cause-and-effect chains of events, and being aware that there is a moral problem when it exits (Rest et al., 1999).
2. Moral judgment – judging which action would be most justifiable in a moral sense by use of the Defining Issues Test (DIT). The DIT has been used to collect data for the last 25 years with validity and reliability (Rest et al., 1999).
3. Moral motivation – the degree of commitment in pursuing the moral course of action, placing higher value on moral judgment over other values, and taking personal responsibility for moral outcomes (Rest et al., 1999).
4. Moral character – persisting in a moral task, having courage, overcoming fatigue and temptations, and implementing behavior that serves a moral goal (Rest et al., 1999).

Rest proposes moral failure can occur because of a deficiency in any of the four components. The components are the processes that Rest developed as an analysis of what is necessary for a person to behave morally (Rest & Narvaez, 1994). Rest states that the concept of moral judgment structure is actively constructed by the individual. The four component model as a theory explains moral behavior determinants and provides the different reasons a person might fail to behave morally (Rest & Narvaez, 1994). Rest's model, which contains core ideas from Kohlberg's theory, appears to compensate for perceived shortcomings of Kohlberg's model, and uses the DIT.

Defining Issues Test. In the 1970's, moral data from participants was gathered by an interview process that was long and arduous (Rest & Narvaez, 1994). Rest worked with Kohlberg to develop a method to access moral reasoning without relying on the participants' verbal skills (Rest et al., 1999). The result is a test that contains six hypothetical dilemmas, or an abbreviated form of the test that uses three dilemmas. Researchers can choose either version to determine an individual's moral reasoning skills. Using a multiple-choice test format, the participant will rate and rank the dilemma questions in terms of their decision-making importance; data is then computer scored (Rest et al., 1999).

Rather than the scoring process classifying responses into Kohlberg's six stages, the DIT analyzes responses as activating three schemas. The scores represent the degree to which a participant uses the personal interest schema, the maintaining norms schema, or the post-conventional schema (Rest, 1993). The schemas are closely related to Kohlberg's stages. Like Kohlberg's theory, the schema scores allege to measure developmental adequacy – how one conceptualizes how it is possible to organize cooperation in a society . Simply stated, the DIT measures the development of concepts of social justice and elicits the person's concept of justice and fairness (Rest, 1993).

Ratings and rankings of the scores are used to derive a participant's final score. The P score is the index used most often. This score is a weighted sum of ranks for the post-conventional scores, derived from Kohlberg's stages 5 and 6. The P score is interpreted as the degree to which the participants think moral considerations are important (Rest et al., 1999). For example, the average P scores for Junior High students are in the 20s, the average P scores for Senior High students are in the 30s, the average P scores for College students are in the 40s, the average P scores for Graduate students are in the 50s, and Moral Philosophers average a P score in the 60s (Rest, 1993).

Over 25 years have passed since the DIT was designed (Rest, Thoma, & Edwards, 1997), establishing reliability and validity (Elm & Weber, 1994). Depending on whether the researcher uses the shorter version DIT or the original DIT, numerous studies have reported reliabilities in the 0.70 to 0.80 range (Elm & Weber, 1994). The three stories in the short form, Heinz, Prisoner, and Newspaper, have the highest reliability of any three-story set out of the possible six-story set. The P score from the short version matched the P score of the six-story version using two different samples, and further has the same properties as the six-story form (Rest, 1993).

Gender. Gender, education, and age are variables that have been found to influence ethical behavior in past research (Galbraith & Stephenson, 1993). The discussion that follows outlines the findings of this research. These variables are used as demographics with the DIT survey which is based on the work of the theorists previously discussed.

Results of a Galbraith and Stephenson (1993) questionnaire involving graduating seniors in a required business policy capstone course show significant differences between male and female ethical value judgments. Gender differences in ethics and in value structures could lead to conflict.

Although Galbraith and Stephenson (1993) say the differences may lead to conflict, other researchers conclusively have not found that there are gender differences in ethical reasoning (Borkowski & Ugras, 1998). Several studies examine ethical differences between men and women in the wok place (Borkowski & Ugras, 1998). These studies survey students, managers, and professionals in business endeavors. A common focus among this research is whether there is a greater predisposition for female business students to exhibit greater ethical behavior than male business students. There is a disparity in the research about whether or not gender can be seen as indicative of ethical or non-ethical behavior. However, most research has led to the conclusion that females exhibit a higher level of ethical behavior (Borkowski & Ugras, 1998). Although this research considers female ethical behavior in one location, research has not considered the effect of multiple geographical locations.

The results of these studies can be summarized into two areas. First are researchers that have examined the relationship between gender and ethical behavior and did not find differences between the attitudes of men versus women (Friedman, Robinson, & Friedman, 1987; Hoffman, 1998; Robin & Babin, 1997; Tsalikis & Ortiz-Buonafina, 1990). For example, Robin and Babin claim there is no difference between male and female professionals in business on ethical judgments. Likewise, Tsalikis and Ortiz-Buonafina investigated differences in ethical beliefs between 175 male and female business students. Using the Reidenback-Robin instrument to measure ethical reactions in four scenarios, they found the two groups have similar ethical beliefs and similarly process ethical information. Friedman, Robinson, and Friedman surveyed 101 college students on four moral dilemmas. Their study found no consistent gender differences on moral reasoning. Personality measures also did not predict gender differences in moral judgments. Hoffman, on the other hand, found that female managers in some situations are more ethical, but in other situations they are not.

The second area of results includes a number of studies that did find a relationship between gender and ethical behavior (Betz, O'Connell, & Shepard, 1989; Cohen, Pant, & Sharp, 1998; Gilligan, 1977; Luthar, DiBattista, & Gautschi, 1997; Ruegger & King, 1992). For example, Luthar et al. studied ethical behavior and gender and found female business students significantly more predisposed to a positive ethical behavior than male business students. Rueger and King found that females are more ethical in their perception of business situations. In a similar study of 213 business students in finance and management classes at the University of Tennessee, Betz et al. found males were twice as likely to say they would engage in actions regarded as less ethical. Their finding supported the gender socialization approach which argues that the difference in values and traits men and women bring to the workplace cause different decisions in the workplace. Men will seek competitive success and are more likely to break rules as they view achievement as competition, while women are more concerned with relationships and are more likely to adhere to rules (Gilligan, 1977).

Similarly, Cohen et al. (1998) focused on the evaluative and intention stages of ethical decision-making. Their results conclude women consistently have different ethical evaluations, intentions, and orientation than men. In their study, undergraduates from four universities in the northeastern United States answered a questionnaire. Of the 645 respondents used in the analysis, 338 were males and 307 were females. However, one limitation noted is that the majority of subjects came from one private university. Cohen et al. point out geographical and cultural location could influence an individual's ethical perspective; a future study of this topic should use a heterogeneous population across a more geographically dispersed area. Lastly, Ford and Richardson (1994) found that in their review of the literature, 14 studies were divided on whether gender has an impact on ethical beliefs.

Education. The influence of college education on ethical behavior has been the subject of several studies (Armstrong, 1987; Armstrong, 1993; Cohen & Pant, 1989; Ponemon & Glazer, 1990). Another area of research that studies ethical behavior is called moral psychology. The theory states ethical or moral reasoning can be differentiated from all other mental processes by three distinct aspects that require: (1) the cognition to be grounded in value and not tangible fact, (2) the judgment to be based upon some issue involving the individual and their associates, and (3) the judgment to be framed around issues of "ought," rather than being based upon simple preference (Ponemon & Glazer, 1990). Ponemon and Glazer found that the moral reasoning of accounting students increases during the college years. Armstrong (1993), similarly, found education to raise the level of moral reasoning. Likewise, Cohen and Pant's survey indicates ethics can be taught. Armstrong (1987) as well, in a test of moral maturity, found college graduates scored higher in ethical reasoning.

Chap (1985) asserts there is theoretical and empirical support for a link between level of education and moral judgment in adulthood. However, in the literature examined by Ford and Richardson (1994), in some instances the type of education and years of education are related to an individual's ethical beliefs and decision-making behavior; in other situations, ethical beliefs and decision-making behavior are independent of education. McCarthy, Phillips, Mills, and Horn (2002) point out in their study that college experience rather than age is the most influential factor in the development of moral reasoning. Similarly, Kohlberg (1973) found that when there is moral discussion in the classroom, the teacher stimulates significant development change – upward stage movement.

Age. Ruegger and King (1992) found that age is a determining factor in making ethical decisions. Their study suggests that those students in the 40 plus years age group were the most ethical, followed in order by the 31-40 age group, the 22-30 age group, and those of 21 years of age and under. However, in an analysis by Ford and Richardson (1994) of a series of eight studies, only three found a significant relationship between older and younger respondents and their ethical beliefs. Further, Ford and Richardson summarize that only in some of their studies did personal attributes relate to an individual's ethical beliefs and decision-making. In a subsequent study by Armon and Dawson (1997), the relationship between age and development was not significant. On the other hand, Mujtaba (1996) asserts that age does have a positive effect on moral development if ethical education and training occur simultaneously.

Ethics education. According to Abdolmohammadi, Read, and Scarbrough (2003), a selection process effect exists in the accounting profession that results in hiring accountants with disproportionately higher levels of the Sensing/Thinking (ST) cognitive style. The ST cognitive style is associated with low levels of ethical reason, implying a need for emphasis on ethical training of accountants. Hegarty and Sims (1979) found that individuals not endowed with high standards of ethical conduct through past training are likely to succumb to unethical behavior.

When considering how a corporation can effectively communicate and implement an ethics policy, Cavico and Mujtaba (2005) propose ethics training programs for both managers and employees. Included in the training would be awareness of the company's ethics policies and their importance, and also the company's expectations of employee commitment to stated policies. The training program would encompass discussion about issues that directly challenge employees and provide information on whom to contact for further assistance if an employee is faced with an ethical situation.

Building on prior research, Griseri (2002) goes on to more deeply examine the characteristics of the learning process of individuals and argues the implications in his study. He contends that values have a dual nature, composed of emotional and cognitive elements. To be successful, the method of teaching would have to account for this dual nature. He explains, for example, if one feels strongly about an issue, it is difficult to agree with an opposing view. Similarly, a rational argument can be used to avoid emotional aspects of an issue. Therefore, Griseri is suggesting that there has to be an integration of the cognitive and emotional elements for the individual to understand the values they hold personally. This understanding is critical when two conflicting business goals have to be satisfied; for example, "we respect our people" and corporate profitability. These two goals can oppose one another, for example, when a manager has to balance between putting value on people resources and downsizing staff. Griseri considers one's personal ethics to be different from one's professional ethics.

Griseri (2002) maintains that learning ethical behavior is a case of personal development more than one of acquiring knowledge. He believes it is even more critical to discuss the role of personal attitude in business ethics. Ethical behavior supports and drives business change, but it is the individual's attitude that has to change, because it involves one's feelings under particular conditions. Griseri maintains that attitudes only can be influenced – not developed – as they are already a part of the individual. For classroom instruction to have a direct impact on business behavior, Griseri posits an effective approach to education would include using emotions in the learning process, examining the person's value system as it relates to ethical issues from life experience, and combining reflection, evaluation, and analysis.

Accordingly, Mujtaba (1996) reports that research shows training adults in ethical decision-making can positively influence an individual's reasoning process. In contrast, Ponemon (1993) did not find evidence that ethics in accounting can be taught. In addition to several limitations given in the study, he found that the methods of teaching were not designed to foster moral development. Interestingly, in a study by Bassiry (1990) the course offerings on ethics and social issues at the graduate level were low in American business curricula. The author finds that many business schools train students for entry–level positions and no further. This explained the narrow focus of only technical coursework and the lack of broader ethical subject matter. Bassiry agrees that increasing awareness of the moral dimension serves as a vehicle for an individual to reflect on their own ethical values. It is this total educational experience that succeeds in implanting the necessary moral constructs to counter-balance the self- serving behavior in corporate decision-making.

Nova Southeastern University Dissertations and the Defining Issue Test

Chavez. Joseph Chavez (2003) examined key characteristics of banking employees that make them a more ethical and moral decision-maker. The DIT-2 survey instrument was given to approximately 300 banking employees in South Florida. The results indicated that banking employees in the South Florida area who have taken ethics courses and/or training, do not significantly increase their levels of moral development as compared to banking employees who have not taken ethical courses and/or training. The results were similar when the relationships among moral development, education, age, and gender of banking employees were surveyed.

Venezia. Chiulien C. Venezia (2004) used the DIT-2 to study accounting students to determine whether there is a difference in ethical reasoning between business students in Taiwan and in the United States. The sample population was 232 students, 114 from the United States and 118 from Taiwan.

Female accounting students were found to have higher levels of ethical reasoning. The results showed that there are no significant differences between the variable of ethics courses and the level of moral reasoning. Similarly, no significant differences were found to result from age or education.

Ariail. Don Ariail (2005) documents a study of moral development with a sample of Certified Public Accountants (CPA). Moral reasoning was assessed using the DIT. He found that there was an unusually low level of moral development for these respondents. The ANOVA results indicated that there was a significant relationship between age, gender, education, and ethics courses, and the moral development of the respondents.

Summary

Theory and understanding of the antecedents to ethical behavior build on continued research. Starting with Aristotle and Kant though Piaget, Kohlberg, and Rest, the field of cognitive and moral development has grown. Theory and philosophy establish the business rules that govern employees in the workplace.

This study will use Rest's DIT to examine the ethical and moral reasoning displayed by finance and accounting professionals. The goal is to gain further understanding of the variables that influence moral decision-making in order to develop improved training in this area. Chapter III, research methodology, will expand on the research question and hypothesis, the test instrument, the population sample, the variables, and data collection.

CHAPTER III

Methodology

Introduction

In this chapter, the research methodology will be described: how the research is to be conducted, the research questions and hypotheses, the test instrument, and the population sample.

Research Questions and Hypotheses

This study will examine the ethical and moral reasoning abilities displayed by finance and accounting professionals who are also students in the masters and doctoral programs at a large private university located in South East Florida, Northern Virginia and small private colleges in Northern Delaware, thus making the population geographically diverse. Is there a difference in their thought process that influences their response to ethical dilemmas? Surveys were distributed and collected by both the professors and the researcher. Various masters and doctoral finance and accounting classes will be surveyed. This research studies how this population responds to ethical dilemmas within Kohlberg's stages of moral maturity using Rest's three-part Defining Issues Test (DIT). The following are research questions for the variables gender, age, education, ethics training, and score differences between finance and accounting professionals.

Research questions. The purpose of this research is to determine and compare the ethical reasoning levels of finance and accounting professionals. Do finance and accounting professionals demonstrate a significant difference in their response to the ethical dilemmas based on gender, age, education, or ethics training? Additionally, do finance professionals have the same ethical reasoning levels as accounting professionals based on Kohlberg's scale using Cognitive Moral Development Theory?

Research hypotheses.

Research Question 1: Is there a relationship between the moral maturity level of finance and accounting professionals and the variable of gender? That is, is there a difference in moral maturity level, as measured by the Defining Issues Test, between female finance and accounting professionals and male finance and accounting professionals?

H_0: There is no difference in moral maturity level scores of female finance and accounting professionals and male finance and accounting professionals.

H_1: There is a difference in moral maturity level scores of female finance and accounting professionals and male finance and accounting professionals.

Research Question 2: Is there a relationship between the moral maturity level of finance and accounting professionals and the variable of age? In other words, is there a difference in moral maturity level, as measured by the Defining Issues Test, between finance and accounting professionals who are 35 years of age and older and finance and accounting professionals who are under 35 years of age?

H_0: There is no difference in moral maturity level scores between finance and accounting professionals 35 years of age and older and finance and accounting professionals not yet 35 years of age.

H_1: There is a difference in moral maturity level scores between finance and accounting professionals 35 years of age and older and finance and accounting professionals not yet 35 years of age.

Research Question 3: Is there a relationship between the moral maturity level of finance and accounting professionals and the variable of post-secondary education? This question examines if there is a difference in moral maturity level, as measured by the

Defining Issues Test, between finance and accounting professionals with post-secondary education and finance and accounting professionals without post-secondary education?

H_0: There is no difference in moral maturity level scores between finance and accounting professionals with post-secondary education and finance and accounting professionals without post-secondary education.

H_1: There is a difference in moral maturity level scores between finance and accounting professionals with post-secondary education and finance and accounting professionals without post-secondary education.

Research Question 4: Is there a relationship between the moral maturity level of finance and accounting professionals and the variable of ethics courses and/or ethics training? Is there a difference in moral maturity level, as measured by the Defining Issues Test, between ethics courses and/or ethics training taken by finance and accounting professionals?

H_0: There is no difference in moral maturity level scores of finance and accounting professionals who have taken ethics courses and/or ethics training.

H_1: There is a difference in moral maturity level scores of finance and accounting professionals who have taken ethics courses and/or ethics training.

Research Question 5: Is there a relationship between the moral maturity level scores of finance professionals compared to accounting professionals?

H_0: There is no difference in moral maturity level scores of finance professionals compared to accounting professionals.

H_1: There is a difference in moral maturity level scores of finance professionals compared to accounting professionals.

Test Instrument

The three-story form of the DIT (see Appendix C), is used as the test instrument and has been the measurement instrument for many studies (Rest et al., 1997). The three-story version takes approximately 20 minutes to complete. The survey comes in two parts: the booklet with instructions and stories, and the computer scored form for penciling in the answer. The survey has three parts: it asks the subject what they would do, it asks how important are the 12 given statements in their decision-making, and it asks the subject to rank the 4 statements most important to them. Contained in the cover letter is a demographic questionnaire, which asks for data that includes gender, profession, age group, ethics training, and ethics courses (see Appendix D). Additional questions ask for type of degree and certifications. The cover letter is pre-assigned with a unique five-digit number to ensure that the DIT score is matched with the demographic scores.

The DIT is ordered from the Center for the Study of Ethical Development at the University of Minnesota. The Center began in the early 1970's and continues today with a focus on empirical research. Once the subjects fill out the DIT and complete the demographic questions (see Appendix E), the surveys will be mailed back to the Center for a report of the scored data. The Center's Scoring Service provides a report that will have the actual (N2) score for each participant. The demographics questionnaire will be scored by the researcher using SPSS.

Test Instrument Validity and Reliability

The DIT is a widely used and well-documented measure of moral judgment based on Kohlberg's theory. The 1,000 studies used around the world have attested to the validity of the DIT (Rest, 1986). Numerous researchers using the instrument have reported reliabilities in the 0.70 to 0.80 range, depending on the use of the abbreviated three-story or original version (Elm & Weber, 1994).

With the collection of attitude data, the measures must demonstrate they are valid and reliable (Sims, 1999). Validity refers to the scale measuring exactly what one plans to measure. Having a scale that has been tested previously, as in the case of the DIT, is important for demonstrating validity (Sims, 1999). Reliability, on the other hand, ensures the data measure can be depended on to yield similar responses with continued use. The DIT has a reference list detailing the work represented by the 1,000 studies previously mentioned (Rest & Narvaez, 1998). For reliability, if the first measure was completed in week one, and the second measure week two, the expected correlation of the two measures would be high; thus confirming reliability of the scale. Internal reliability uses Cronbach's coefficient alpha, which is at least 0.70 for a scale to be reliable in hypothesis testing (Sims, 1999).

One reason the DIT continues to be use in moral development research is that it explores implicit processes and tacit knowledge on human decision-making. Rest and Narvaez (1998) cite over 400 published articles using it. Moreover, the DIT is equally valid for males and females (Rest & Narvaez, 1998). In this study, Armstrong (1987, 1993) used the DIT in connection with moral development, ethics, and accounting education, which was discussed prior. Likewise, Ponemon (1992, 1993) used the DIT to research ethics and reasoning in the accounting field. Additionally, DIT survey data was used in a similar study on accounting education and ethical development (Ponemon & Glazer 1990). Lastly, the prevalent use of the DIT in the literature as a valid and reliable instrument is shown by the research of Rest (1986) and Rest and Narvaez (1994) in the field of moral development and theory.

The Center now explains recent research indicates that a new way of scoring the DIT produces more reliable results (Rest & Narvaez, 1998). Using the same DIT stories, items, ratings, and rankings as before, the new DIT index called New Index (N2) provides more accurate data trends than the usual index, "P." Researchers are encouraged to analyze data both with the P score and with the N index for each subject (Rest & Narvaez, 1998).

Methods of Research Analysis

Kohlberg's and Rest's models are combined with a demographic survey to test the variables of education level, age, gender, and ethics training. Research has proven these variables have an effect on ethical decision-making when surveying a student population. However, these variables have not yet been applied to finance and accounting professionals. This study of finance and accounting professionals attempts to understand whether there is a statistically demonstrable relationship between the dependent variable of moral maturity and the independent variables of age, gender, education level, and ethics courses and training.

The statistical technique, Analysis of the Variance (ANOVA), will be used to identify the differences in the means of all researched variables: In addition, multiple regressions will analyze the data. ANOVA is used when there is one dependent variable and one or more independents variables. In this study, moral maturity is the dependent variable, and gender, age, education, ethics courses and/or ethics training, and scores of finance professionals compared to accounting professionals are the independent variables.

The key statistic in ANOVA is the F-test of difference of group means, testing if the means of the groups formed by values of the independent variable are different enough not to have occurred by chance. If the group means do not differ significantly, then it is inferred that the independent variables did not have an effect on the dependent variable. If the F-test shows that, overall, the independent variables are related to the dependent variable, then multiple comparison tests of significance are used to explore just which values of the independent variables have the most to do with the relationship. Thus, the analysis of variance tests the null hypotheses to observe if group means differ.

Sample

The sample population for this study consists of finance and accounting students, many of whom attend school at night and are working adults, and thus are considered to be professionals in their area. Subjects will be given the DIT three-story version. It is expected that out of 300 DIT surveys, 125 will reflect the correct sample of finance and accounting designated professionals. Moreover, an analysis of the potential dispersed surveys by location is as follows: 25 from Florida, 25 from Northern Virginia, and 250 from Northern Delaware. Since MBA and Doctorate level classes are being asked to complete the survey, it is not known whether other areas of expertise are taking the finance or accounting class. Furthermore, as the survey is computer-scored, all three sections must be completed in entirety to be accepted for scoring. It is expected this requirement will reduce the number of qualified surveys eligible for this study. To minimize a problem of not understanding the survey directions, the cover letter also reiterates the directions for taking the survey.

Data Collection

In Florida and Northern Virginia, professors will distribute the surveys, and in Delaware, both the professors and the researcher will distribute the surveys. Participants from the undergraduate and graduate levels will be given the DIT to complete. Surveys will be distributed to university and college classes in finance and accounting in South East Florida, Northern Virginia, and in Northern Delaware. Subjects will be informed that the data collection is part of the author's dissertation research. In order to assist the Professors in surveying their class, a letter reiterating the instructions was emailed or included with the package of surveys (see Appendix F).

Summary

Chapter III has explained the research design and methodology of this study. Chapter IV will present and discuss the results of the research and statistical analysis of the data.

CHAPTER IV

Analysis and Presentation of Findings

Introduction

Chapter IV examines the results of the moral reasoning abilities of United States financing and accounting professionals in Northern Florida, Northern Virginia, and Northern Delaware. The results of the DIT three-story survey, data collection procedure, and analysis are described and presented. Analytical findings for the five research questions used to evaluate moral maturity among finance and accounting professionals are discussed. Chapter IV will conclude with a summary of the analysis of the results of the DIT survey and a comparison of the results.

Research Instrument - The Defining Issues Test

The short form DIT consists of three dilemmas or stories, and is the first page of the six-story DIT. The three dilemmas of the short form are: (1) Heinz and the Drug: Should the drug be stolen?; (2) Escaped Prisoner: Should the escaped prisoner be reported?; and (3) Newspaper: Should the school newspaper be stopped?

The purpose of the survey is to understand how people think about social problems. Additionally, since people have different opinions about issues of right and wrong, there are no correct answers. The participants are asked to read a story from the booklet provided, and then to mark their answer on the separate answer sheet. For each story, there are three sections that have to be completed. First, they answer if they favor one action or another as it relates to the story. Second, they are asked if the issue is important in making a decision or not. Third, and last, they are asked to rank the four items from most important to least important. In order to rank the data from each section into Kohlberg's six stages, the Center for the Study of Ethical Development creates measures called the "three schema," which are: Personal Interest (stage 2/3), Maintain Norms (stage 4), and Post-Conventional (stage 5 and 6; also referred to as the P score) (Rest & Narvaez, 1998).

Personal Interest refers to those people that consider their own self-interests, while Maintaining Norms refers to people that use codes and rules for direction (M. Bebeau, personal communication, April 4, 2002). The Enron scandal would be an example of management that considered their own interests. On the other hand, accountants have a rigorous set of codes and rules that must be fully adhered to. Post-Conventional thinking would apply to those that use moral ideals for direction when making a decision; and accordingly is a measure of more advanced thinking. The newest score, "N2," refers to the extent a person discriminates among the three schemas (M. Bebeau, personal communication, April 4, 2002). The N2 score tells what proportion of the responses the participant chose Post-Conventional arguments (M. Bebeau, personal communication, April 4, 2002). The DIT is a measure of a person's development of social justice concepts. Rest and Narvaez (1998) state the DIT is significantly linked to positive behaviors and to desired professional decision-making.

Data Collection

The Center for the Study of Ethical Development at the University of Minnesota was contacted to order 325 DIT surveys. A Guide and a Supplement to the Guide were included with the survey stories and answer sheets. The answer sheet has to be separated since only three stories are being used.

To maintain anonymity, the author assigned a matching five-digit identification number to the cover letters and surveys. The author used the first place of the digit to distinguish finance professionals from accounting professionals, 0 and 1 respectively. Whether the author or designated professor solicited by the author gave out the questionnaire, the three-story DIT instructions, answer sheets, and a cover letter with demographics were given to each participant. The survey was distributed to finance and accounting students enrolled in graduate programs in a large private university located in Southeast Florida, Northern Virginia, and small private colleges in Northern Delaware. Since some of the professors asked that the whole class be included, non-finance and non-accounting surveys were included, but were removed from the sample by this researcher.

The author mailed the DIT survey to a professor at a university in Florida. who asked professors of finance and accounting to survey their students. In addition, surveys were mailed to a professor in Northern Virginia. In Northern Virginia, since the DIT requires 20 minutes, students completed the surveys outside the classroom. The response rate was 100% because they were given extra credit to complete the survey. In Northern Delaware, the author delivered surveys to professors for distribution to their students for classroom completion and also for outside the classroom, again with extra credit given. The author also conducted the survey for several classes. After reviewing the inaccuracy of the returned surveys, it became apparent that greater care in explaining the instructions had to be given to ensure the survey and demographics were being completed in entirety. The author began to notice foreign students requiring substantially more time (40 minutes) to complete the DIT and demographics.

The total number of finance surveys collected was 61, and those collected for accounting were 60. Each computer-scored sheet and demographic questionnaire were reviewed for stray marks and ink versus pencil (pencil was instructed for computer scoring). One hundred and fifty-eight students did not complete either the answer sheet or the demographic information or sample criteria. Only 121 surveys met the finance or accounting professional sample criteria and completed both the DIT and demographics. Forty-six had a professional background other than finance or accounting, and an additional five were dropped for lack of identification. The total number of surveys used was 116 (see Table 1). Further details of the demographics are given in Table 2.

Table 1

Data Collection Information: Number of Surveys

	Finance	Accounting	Total
Participants	160	165	325
Mailed for scoring	61	60	121
Used for analysis	59	57	116

Table 2

Sample Sizes for the Demographic Information

		Finance (n=59)	Accounting (n=57)	Total (n=116)
Gender	Female	28	31	59
	Male	31	26	57
Degree	Bachelors	37	44	81
	More than bachelors	22	13	35
Age	35 or under	49	44	93
	Older than 35	10	13	23
Ethics	Taken	52	48	100
	Not taken	7	9	16

Table 3

Descriptive Statistics of the P Score by Variable

		Finance			Accounting		
		mean	*sd*	n	*mean*	*sd*	n
Gender	Female	24.06	12.65	27	27.57	12.75	31
	Male	22.87	14.85	29	27.75	14.26	26
Degree	Bachelors	24.07	14.99	36	28.67	14.08	43
	More than bachelors	22.33	11.35	20	25.64	10.13	13
Age	35 or under	22.05	13.22	47	27.23	14.17	44
	Older than 35	30.74	14.79	9	29.08	10.39	13
Ethics	Taken	23.46	13.85	50	27.97	13.44	48
	Not taken	23.33	13.82	6	25.93	7.70	9

Table 4

Descriptive Statistics of the N2 Score by Variable

		Finance			Accounting		
		mean	*sd*	n	*mean*	*sd*	n
Gender	Female	21.20	6.97	27	22.29	7.29	31
	Male	21.70	7.62	29	23.77	6.25	26
Degree	Bachelors	21.72	7.92	36	23.14	7.27	46
	More than bachelors	20.98	6.04	20	23.23	4.65	13
Age	35 or under	20.48	7.06	47	22.36	7.14	44
	Older than 35	26.51	6.31	9	25.01	5.33	13
Ethics	Taken	21.47	7.42	50	23.03	6.73	48
	Not taken	21.35	6.22	6	22.60	7.70	9

Data Scoring

The Center for the Study of Ethical Development at the University of Minnesota mailed and emailed the three-story DIT scoring results. The DIT data analysis is provided on a floppy diskette and a printed report. The floppy diskette contains the raw data for use in SPSS while the report summarizes the data by variable. The email was requested as a backup of the scored data.

The results indicate DIT data, scores for each of the participants, and if the ID's exceeded the Meaningless Items (M) score check. The check for consistency indicates missing data and also declares that survey result unreliable. Furthermore, included is a report that provides summary statistics, means, and standard deviations for each variable. The P score and N2 score for each individual is reported as well.

Table 3 contains the descriptive statistics of the P score by variable. The P score, converted to a percent, can range from 0 to 95. Reported DIT analysis uses the P score, the number which most research analyses is based (Rest, 1998). The P score is the relative importance that subjects give to moral concerns indicated with stage 5 and stage 6. Stage 5 and stage 6 are the highest; accordingly, the P score is the degree a person's thinking matches that of moral philosophers (Rest, 1998). These two stages are combined because they are similar. Recently, the Center for the Study of Ethical Development created a new index called the "N2" score, which is highly correlated with the P score.

Table 4 contains descriptive statistics of the N2 score by variable. N2 scores contain two parts and are almost identical to the P score (Rest, 1998). The first part of the N2 score represents the degree to which Post-Conventional items receive higher ratings (higher stage responses), and the second part is the degree to which Personal Interest items (lower stage items) receive lower ratings. "The N2 score is nested within a series of summary scores that begins with the P score, then in order: Stage23, Stage4p, N2raw and finally N2score" (S. Thoma, personal communication, April 4, 2006). The raw data contains several variables listed as N2, however N2score is the one to use for analysis (S. Thoma, personal communication,, April 4, 2006). "N2raw" is an intermediate variable that forms the basis of the N2score, but is not typically used. There are also "story N2" scores that are sometimes used to assess internal consistency (S. Thoma, personal communication, April 4, 2006).

Tests of moral judgment give a "window" into the reasoning process a person uses to arrive at a judgment of moral behavior. Important to note is moral judgment research does not indicate the sensitivity of a person to notice or identify a moral issue (Rest, 1993). Research can not explain the course of action a person would choose (Rest, 1993). It does explain why certain people believe one action is right, and another person believes the same action is wrong (Rest, 1993).

Reliability Checks

The Center determines if a DIT response is reliable by checking the following (Rest & Narvaez, 1998):

(1) if there is a consistency in rating and ranking the items

(2) if the response is not meaningful to the dilemma; which can occur if the response is to wording and not the meaning

(3) if too much data is missing

(4) if using the same number for all answers

The cover letter also contained a demographic questionnaire to gather information related to the hypotheses and was reviewed for completion.

Five surveys were dropped, two from finance and three from accounting. A total of 116 surveys were used in this research (59 finance and 57 accounting).

Data Analysis

The results of the mean P score and N2 score on the Defining Issues Test indicate the ethical reasoning abilities and level of moral maturity of finance and accounting professionals. Statistical product and service solutions (SPSS) is a comprehensive program for statistical analysis and is commonly used for scientific research (Sims, 1999). SPSS version 13.0 is used to prove significance of the hypothesis variables. Significance is determined by comparing the probability to an established cutoff. The cutoff must be less than, or equal to, 0.05 for each of the hypotheses to be accepted (Sims, 2002).

Analysis Findings

Hypothesis 1

H_0: There is no difference in moral maturity level scores of female finance and accounting professionals and male finance and accounting professionals.

H_1: There is a difference in moral maturity level scores of female finance and accounting professionals and male finance and accounting professionals.

A 2 (group) × 2 (gender) between subjects factorial ANOVA was calculated comparing the *p* score for subjects in finance or accounting and subjects who were males or females. The main effect for the group was not significant ($F(1,109) = 2.65, p > .05$). The main effect for whether the subject was male or female was not significant ($F(1,109) = 0.04, p > .05$). Finally, the interaction also was not significant ($F(1,109) = 0.07, p > .05$). Thus, it appears that neither being in finance or accounting, nor the gender of the participants has any significant effect on the *p* score. H_0, the null hypothesis, consequently is not rejected.

Table 5

Analysis of Variance for P Score by Group and Gender

Source	*df*	*F*	*p*
	Between subjects		
Group	1	2.65	.11
Gender	1	0.04	.84
Group × Gender	1	0.07	.79
Within group error	109		
Total	113		

Hypothesis 2

H_0: There is no difference in moral maturity level scores between finance and accounting professionals 35 years of age and older and finance and accounting professionals not yet 35 years of age.

H_1: There is a difference in moral maturity level scores between finance and accounting professionals 35 years of age and older and finance and accounting professionals not yet 35 years of age.

A 2 (group) × 2 (age) between subjects factorial ANOVA was calculated comparing the *p* score for subjects in finance and accounting and for subjects 35 years old or younger, and those older than 35. The main effect for the group was not significant ($F(1,109) = 0.30, p > .05$). The main effect for the subject's age was not significant ($F(1,109) = 2.65, p > .05$). Finally, the interaction also was not significant ($F(1,109) = 1.11, p > .05$). Thus, it appears that neither being in finance or accounting, nor the age of the participants has any significant effect on the *p* score. H_0, the null hypothesis, consequently is not rejected.

Table 6

Analysis of Variance for P Score by Group and Age

Source	*df*	*F*	*p*
	Between subjects		
Group	1	0.30	.59
Age	1	2.65	.11
Group × Age	1	1.11	.30
Within group error	109		
Total	113		

Hypothesis 3

H_0: There is no difference in moral maturity level scores between finance and accounting professionals with post-secondary education and finance and accounting professionals without post-secondary education.

H_1: There is a difference in moral maturity level scores between finance and accounting professionals with post-secondary education and finance and accounting professionals without post-secondary education.

A 2 (group) × 2 (post-secondary education level) between subjects factorial ANOVA was calculated comparing the *p* score for subjects in finance and accounting and subjects who had a bachelors degree or higher level of education. The main effect for the group was not significant ($F(1,108) = 1.91, p > .05$). The main effect for the subjects having a bachelors degree or a higher degree was not significant ($F(1,109) = 1.19, p > .05$). Finally, the interaction also was not significant ($F(1,109) = 0.05, p > .05$). Thus it appears that neither being in finance or accounting, nor the post-secondary education of the participants has any significant effect on the *p* score. H_0, the null hypothesis, consequently is not rejected.

Table 7

Analysis of Variance for P Score by Group and Post-secondary Education

Source	*df*	*F*	*p*
	Between subjects		
Group	1	1.91	.17
Post-secondary	1	1.19	.31
Group × Post-secondary	1	0.05	.82
Within group error	108		
Total	113		

Hypothesis 4

H_0: There is no difference in moral maturity level scores of finance and accounting professionals who have taken ethics courses and/or ethics training.

H_1: There is a difference in moral maturity level scores of finance and accounting professionals who have taken ethics courses and/or ethics training.

A 2 (group) × 2 (having ethics training) between subjects factorial ANOVA was calculated comparing the *p* score for subjects in finance and accounting and subjects who had or did not have ethics courses and/or training. The main effect for the group was not significant ($F(1,109) = 0.85$, $p > .05$). The main effect for the subjects who had or did not have ethics courses and/or training was not significant ($F(1,109) = 0.08$, $p > .05$). Finally, the interaction also was not significant ($F(1,109) = 0.06$, $p > .05$). Thus, it appears that neither being in finance or accounting, nor having or not having ethics courses and/or training has any significant effect on the *p* score. H_0, the null hypothesis, consequently is not rejected.

Table 8

Analysis of Variance for P Score by Group and Having Ethics Courses and/or Training

Source	*df*	*F*	*p*
	Between subjects		
Group	1	0.85	.35
Training	1	0.08	.78
Group × Training	1	0.06	.80
Within group error	109		
Total	113		

Hypothesis 5

H_0: There is no difference in moral maturity level scores of finance professionals compared to accounting professionals.

H_1: There is a difference in moral maturity level scores of finance professionals compared to accounting professionals.

An independent-samples t test was calculated comparing the mean score of subjects in finance or accounting. No significant difference was found ($t(2) = 1.65$, $p > .05$). The mean of subjects in finance ($m = 23.45$, $sd = 13.72$.) was not significantly different from the mean of subjects in accounting ($m = 27.65$, $sd = 13.34$.). H_0, the null hypothesis, consequently is not rejected.

Table 9

Group Statistics P Score

	Group	n	Mean	Std. Deviation	Std. Error Mean
P score	Finance	56	23.45	13.72	1.83
	Accounting	57	27.65	13.34	1.77

Table 10

T test for P Score by Group

Source	*t*	*df*	*p*
P score	1.65	111	.10

Similarly, Table 11 shows the mean of subjects in Finance ($m = 21.46$, $sd = 7.25$.) was not significantly different from the mean of subjects in accounting ($m = 22.97$, $sd = 6.82$.). No significant difference was found ($t(2) = 1.13, p > .05$).

Table 11

Group Statistics N2 Score

	Group	n	Mean	Std. Deviation	Std. Error Mean
N2 Score	Finance	56	21.46	7.25	0.97
	Accounting	57	22.97	6.82	0.90

Table 12

T test for N2 Score by Group

Source	*t*	*df*	*p*
N2 Score	1.13	111	.61

In Table 4, the results from the Descriptive Statistics of the N2 Score by Variable show that male finance and accounting professionals have higher N2 scores than female accounting professionals by 1.98. The N2 score increased for higher education for accounting professionals. The graduate accounting subjects have higher N2 scores than the finance subjects by 2.25. For all respondents, the N2 score increases with age. The "older" finance and accounting subjects have higher N2 scores than the "younger" finance and accounting professionals by 8.68. All respondents who have taken ethics training and/or ethics courses have higher N2 scores than those who have not taken ethics training and/or ethics courses by .55. Higher N2 scores correspond to the higher stages on Kohlberg's stages being used for ethical decision-making.

Analysis of Variance for the N2 score for age did find a significant main effect for the subject's age ($F(1,109) = 7.04$, $p < .05$). Subjects older than 35 had a higher N2score ($m = 25.66$, $sd = 5.66$) than subjects 35 years old or younger ($m = 21.39$, $sd = 7.12$).

Overall Findings and P Score Comparison

For comparison, Table 13 lists the mean P scores for this study, three previous studies, plus scores for moral philosophers and seminarians for comparison.

Table 13

Comparative P Scores

Financed and accounting professionals	25.57
USA accounting students (Venezia, 2004)	26.14
Banking employees (Chavez, 2003)	27.37
Certified public accountants (Arial, 2005)	33.5
Moral philosophers and seminarians*	65.1

*P score from Rest, 1993.

This research compared the moral maturity abilities between finance and accounting professionals using Kohlberg's scale and Rest's DIT.

Table 14

P score and N2 score for Finance and Accounting Sample

	N	Minimum	Maximum	Mean	Std. Deviation
Post conventional (P score)	113	.00	60.00	25.5679	13.63393
N2 score	113	4.86	36.39	22.2199	7.04777
Valid N (listwise)	113				

Table 14 indicates the finance and accounting sample P score and N2 score. The mean P score for all subjects is 25.57 (SD=13.63), and the mean N2 score for all subjects is 22.22 (SD=77.04).

Summary

This research found that there was no significant difference between finance and accounting professionals regarding levels of ethical reasoning. The findings for the P score show there are no significant differences for gender, age, education, or ethics courses and/or ethics training, although those respondents who had taken ethics courses and/or training did have higher N2 scores than those that did not. Additionally, Analysis of Variance for the N2 score for age is significant. Subjects older than 35 had higher N2 scores (m = 25.66, sd = 5.66) than subjects 35 years old or younger (m = 21.39, sd = 7.12).

This chapter presented the results of the research conducted for this study. The final chapter will make certain conclusions based on the results, point out the limitations of this study, and also will suggest areas for future research.

CHAPTER V

Summary and Conclusions

Introduction

This study was undertaken to address the state of both the finance and accounting professions after numerous scandals, particularly Enron. The objective of this study endeavored to understand empirically if there were differences in the moral maturity level of finance and accounting professionals in terms of gender, age, education, and having taken ethics courses and/or ethics training. The outcomes from this research were presented by the statistical technique of ANOVA. Chapter IV examined the research results from the Defining Issues Test, in which the moral maturity level of the finance and accounting professionals taking part in this study were evaluated. The research study was structured to have one dependent variable and five independent variables. The dependent variable was defined as the moral maturity level of finance and accounting professionals, and the independent variables were defined as gender, age, education, and taking ethics courses and/or ethics training.

Chapter V, the last chapter of this dissertation, discusses the results of the information collected, and draws conclusions that can be surmised from the data relationships. Each of the research variables will be presented, and the results for each variable will be discussed. Implications for finance and accounting professionals will be addressed. Lastly, Chapter V will end with research limitations, a recommendation for future research, and the conclusion.

Discussion of Results

Research Question 1: The main focus of this study is to look at the moral maturity levels of finance and accounting professionals. The relationship between the moral maturity level of finance and accounting professionals and the variable gender was not supported through this analysis. Prior research, for example Friedman et al. (1987) found no differences in a study on gender. This study found similar results as the data show no significant differences between males and females. However, most interestingly females scored higher for finance, and males scored higher for accounting. This result agrees with Gillian's (1977) criticism of Kohlberg's model being gender biased toward males.

Research Question 2: The relationship between the moral maturity level of finance and accounting professionals and the variable age (35 years of age and older or under 35 years of age) was not supported through this analysis. This research found that age does not have a significant impact on ethical decision-making ability. The findings indicated there is no difference in the moral maturity level of finance and accounting professionals according to age. Although the relationship between age and higher P scores is not significant, Kohlberg's idea that adults experience growth in ethical reasoning levels as they mature is evident by the higher scores of the over 35 age group. The new N2 score is significant, however; subjects older than 35 had a higher N2 score (m = 25.66, sd = 5.66) than subjects 35 years old or younger (m = 21.39, sd = 7.12).

Research Question 3: The relationship between the moral maturity level of finance and accounting professionals and the variable post-secondary education was not supported through this analysis. The results of this research show that education does not have a significant effect on the moral maturity levels of finance and accounting professionals. Rest (1986) argues education is the strongest predictor of cognitive moral development; although this study confirms high P scores, they do not increase with higher education degrees above bachelors.

Research Question 4: The relationship between the moral maturity level of finance and accounting professionals and the variable ethics courses and/or ethics training was not supported through this analysis. This research of 2006 indicates that the variable of finance and accounting professionals who have taken ethics courses and/or ethics training has no significant effect on moral maturity levels. Research continues to look at this variable as Ponemon (1993) did not find that business ethics courses improve the moral reasoning skill of accounting students; yet Griseri (2002) suggests other effective approaches to successful business ethics teaching.

Research Question 5: The relationship between the moral maturity level scores of finance professionals compared to accounting professionals was not supported through this analysis. This study found no significant difference between the moral maturity level scores of finance and accounting professionals.

Implications of the Findings for Finance and Accounting Professionals

According to a summary of studies showing the effect of college on DIT scores, the gains in moral judgment are among the largest; and the most impressive gains of all tested variables were those influenced by the college experience (Rest, 1986). Further, Rest conveys that people who develop in moral judgment love to learn, to seek challenges, and intellectually stimulating environments. They are reflective individuals who make plans and set goals, plus take risks. These people see themselves in larger social contexts of history, institutions, and broad cultural trends, and take responsibility for themselves and the world around them (Rest, 1986). Therefore, one reason formal education is a powerful predictor of moral judgment is that individuals who choose to go to college are more invested in their own development, which in turn stimulates and reinforces development (Rest & Narvaez, 1994). Education, whether in the business context or academic context, would appear to influence positive moral reasoning abilities.

On the other hand, moral failure can occur because of a deficiency in any of Rest's four moral components (moral sensitivity, moral judgment, moral motivation, moral character) which are determinants of moral action. These four components comprise a logical analysis of what is needed to behave morally. In the example of Enron, executive management compromised moral values and the company's own code of ethics completely. Enron also is an example of what occurs when company personnel are "de-motivated" to put moral values higher than other values like protecting one's organization and furthering one's self-interest. The continuous ethical training Sarbanes-Oxley mandates will improve the public trust, and accordingly provide professionals with continuous exposure to Rest's four moral components.

Limitations of the Study

There are certain limitations of this research. First, the population size was limited to 116 surveys of finance and accounting professionals. Thus, the research findings may not represent the total population of finance and accounting professionals.

The second limitation of this study is that although this study focused on the variables age, gender, education, and taking ethics courses and/or ethics training, other possible personal characteristics were not available to the participant. Since cognitive moral development is related to several personal characteristics, this limited list of variables could have an undue influence on results.

In addition, participants were surveyed only at selected geographic areas as well as at selected university and college locations. This could be a limitation even though the sample was diverse.

The short-form DIT was chosen because of the need to take as little class time as possible where class time was used. Also, the three-story DIT takes less time to complete than the six-story version. It is possible the additional information from DIT2 could influence results. The three-story DIT takes approximately 20 minutes to complete, whereas the six-story DIT takes approximately 30 minutes to complete.

Recommendation for Future Research

Future research can expand the sampling population to include a larger set of finance and accounting professionals. To minimize the influence of other personal characteristics, other variables such as length of work experience, job satisfaction, compensation, and length of time in position could be tested. Research could determine if there is a particular ethics program that achieves higher scores for ethical behavior. This would be important for other educational programs.

Further study may compare one type of certification to another type of certification, including ethical training through formal education and through the company. It is important to note that the ethics variable in this research did result in high morality scores, though not at the level of statistical significance.

ANOVA for the mean of the N2 score for age (p = .01) is significant, thereby indicating further research to compare this result with other samples of finance and accounting professionals. Subjects older than 35 had a higher N2 score (m = 25.66, sd = 5.66) than subjects 35 years old or younger (m = 21.39, sd = 7.12).

Lastly, since the descriptive statistics in Table 4 show that male finance and accounting professionals have higher N2 scores than female accounting professionals, this fact could be an important variable to look at with additional samples and further study. Similarly, for the P score, females scored higher for finance and males scored higher for accounting, which is a very thought-provoking result. Additional research, therefore, could determine if these gender differences are significant with larger samples.

Conclusion

The major contributions of this dissertation are the implications for the continued improvement of ethical behavior among finance and accounting professionals. Sarbanes-Oxley has set in motion the importance of maintaining a high level of ethical behavior in a corporation. If education on all levels improves the ethical behavior of both finance and accounting professionals, society's trust of finance and accounting professionals will improve. Previous studies have shown building values and ethics into the organization is achieved through a continuous process of making decisions that add to the ethical framework of the organization (Joyner, Payne, & Raiborn, 2002). John Adams wrote, "The preservation of liberty depends upon the intellectual and moral character of the people" (Smith, 2003, p. 49). Benjamin Franklin wrote, "Only a virtuous people are capable of freedom" (Smith, 2003, p. 49). Sarbanes-Oxley has "forced the hand" of corporations to uphold ethical behavior. Training and educational programs are needed to instill the kind of behaviors that support business environments where integrity is the norm across the organization.

Appendix A

Citigroup Code of Conduct

Code of Conduct

citigroup

executive summary

The Citigroup Code of Conduct outlines the principles, policies and laws that govern the activities of the company, and to which our employees and others who work with, or represent us directly or indirectly, must adhere. All employees of Citigroup Inc., its subsidiaries and their affiliates ("Citigroup") are required to read and follow the Citigroup Code of Conduct. The Citigroup Code of Conduct offers guidance for professional conduct under six main headings, which include the following key points:

1. Responsibilities to Citigroup

- Employees are responsible for maintaining ethical standards, including appropriate accounting controls;
- We expect our businesses, employees and other representatives to comply fully with appropriate laws and internal regulations;
- Employees and other Citigroup representatives who suspect or become aware of violations of law, regulation or Citigroup policy should communicate their suspicions to the appropriate internal representatives. A telephone hotline number has been established for this purpose;
- We must identify, surface and resolve ethical issues with great speed;
- Citigroup assets (physical, financial and intellectual) may be used only for proper Citigroup purposes;
- We must exercise good judgment and standards of good taste when creating Citigroup records, such as e-mail;
- We must maintain Citigroup records accurately and retain them in accordance with law.

2. Workplace Responsibilities

- The diversity of our employee population is central to Citigroup's success;
- We are committed to fair employment practices and a workplace free from any kind of discrimination, harassment or intimidation of employees;
- We are committed to a workplace free from drug use or sale;
- We are committed to the safety of our employees and all others on our premises.

3. Representing Citigroup to Customers and Other External Constituencies

- We treat our customers, suppliers and competitors fairly;
- When we act as a fiduciary, we are committed to meeting these responsibilities;
- Publications, speeches, media interviews and other public appearances in connection with Citigroup must first be approved internally;
- Accepting and giving gifts is not permitted, except as governed by strict internal regulations;
- We fully support the objectives of the Foreign Corrupt Practices Act and have strict control over the giving of anything of value to any government official;
- Lobbying on behalf of Citigroup requires prior approval. We encourage employees to take an interest in government, but most political activities must be undertaken as a private individual, not as a Citigroup employee.

4. Privacy/Confidentiality

- We protect proprietary and confidential information at all times in accordance with applicable law;
- We keep customer information secure at all times, as a sacred trust given to Citigroup by our customers, and have adopted the Citigroup Privacy Promise for Consumers to communicate additional protections that we provide to our consumer customers around the world;
- We establish information barriers, when appropriate, to separate employees engaged in lending, investment banking or merchant banking activities—and who have access to confidential customer information—from employees who trade in securities or engage in investment management (public-side activities).

5. Investments and Outside Activities

- Trading in the securities of Citigroup or any company while in possession of material nonpublic information is illegal;
- Employees of certain Citigroup businesses are subject to additional insider trading restrictions;
- We must avoid real or perceived conflicts of interest in areas such as investments or outside business activities, among others.

6. Other Key Legal/Compliance Rules and Issues

- **Fair and Free Markets** We will not tolerate attempts by any representative of Citigroup to manipulate the markets or prices of securities, options, futures or other financial instruments;
- **Tied Business Dealings** "Tying" arrangements whereby customers must purchase or provide a product or service as a condition for another being made available are, in certain instances, illegal. Employees should consult their business or bank regulatory counsel for advice;
- **Antitrust Compliance** Employees must comply with antitrust laws;
- **Commitment to the Environment** We are committed to doing business in an environmentally responsible manner and identifying environmental risks that may arise out of our operations;
- **Anti-Money Laundering Compliance/Know Your Customer** Employees are expected to comply with our Global Anti-Money Laundering Policy, which requires that Citigroup businesses develop and implement effective anti-money laundering programs;
- **Suspicious Activity Reporting** Employees must report suspicious activity—for example, suspected insider trading, fraud, misappropriation of funds and money laundering—through proper channels to government authorities;
- **Financial Holding Company Restrictions** Citigroup employees must consult with internal counsel on activities such as acquisitions, investments, divestitures of businesses or assets, and new products and services, in order to ensure that we comply with the U.S. Bank Holding Company Act and other banking laws;
- **Antiboycott Laws** U.S. law prohibits us from taking actions or entering into agreements that support an unsanctioned boycott of a country deemed friendly to the U.S.;
- **U.S. Embargoes and Sanctions** We fully comply with U.S. economic sanctions and embargoes restricting individuals, corporations and, in some cases, foreign subsidiaries from doing business with countries, groups and individuals associated with terrorist activity or narcotics trafficking;
- **Structured Finance** Employees are responsible for understanding and complying with the Citigroup Structured Finance Policy, which is designed to promote greater transparency in the disclosure of these transactions and to protect our investor franchise and our reputation as the leading global financial institution.

introduction

Citigroup expects all of its representatives to act in accordance with the highest standards of personal and professional integrity in all aspects of their activities and to comply with all applicable laws, regulations and company policies. We must never compromise that integrity, either for personal benefit or for Citigroup's purported benefit. In accepting a position with Citigroup or any of its subsidiaries, each of us becomes accountable for compliance with the law, with this Code of Conduct and with the policies of our respective business units.

This Code of Conduct applies to all Citigroup representatives, including its directors, employees, temporary workers, independent contractors and consultants. This Code should be read in conjunction with the policies applicable to your particular business unit. It is your responsibility to become familiar with these policies and any supplemental policies applicable to your business unit.

If you have any questions about these policies or about any supplemental policies, you should discuss them with your supervisor; your business unit's internal counsel, Compliance Officer, Human Resources Representative, or other person designated by your business unit; or with the Citigroup Global Compliance Office ("Global Compliance"). If there appears to be a conflict between this Code and local laws, or if you have questions regarding the interpretation of applicable laws, you should contact your business unit's internal counsel. As a general matter, when there is a difference between internal policies that apply to you or between jurisdictions in which you conduct business, the more restrictive policy will prevail. Waivers generally may be granted only by your business unit's internal counsel or Global Compliance; however, any waiver of this Code for executive officers or directors may be made only by the Board of Directors or a Board committee and must be disclosed promptly.

Citigroup expects you to act in full compliance with the policies set forth in this Code and in a manner consistent with the highest ethical standards. Failure to observe these policies may result in disciplinary action, up to and including immediate termination of employment or other relationship with Citigroup. Furthermore, violations of this Code may also be violations of the law and may result in civil or criminal penalties for you, your supervisors and/or Citigroup.

This Code of Conduct neither constitutes nor should be construed to constitute a contract of employment for a definite term or a guarantee of continued employment.

responsibilities to citigroup

Raising Ethical Issues

Maintaining ethical standards, including appropriate accounting and internal accounting controls, is the responsibility of every member of the Citigroup family. Early identification and resolution of ethical issues that may arise are critical to maintaining our commitment to world-class business practices.

Citigroup personnel and other representatives are expected to treat compliance with ethical standards as a critical element of their responsibilities. Although this Code endeavors to address a wide range of business practices and procedures, Citigroup cannot anticipate every issue that may arise. If you are unsure of what to do in any situation, you should seek additional guidance and information before you act. You should use your judgment and common sense; if something seems unethical or improper, it probably is. If you have any questions regarding the best course of action in a particular situation, or if you suspect or become aware of a possible violation of a law, regulation or Citigroup ethical standard, you should promptly contact any of the following:

- Your supervisor
- Your Human Resources Representative
- Your business unit's internal counsel
- A Compliance Officer
- An employee Ethics Hotline telephone number established by your business organization for this purpose (and typically found in an employee handbook or similar publication)
- An appropriate person in Corporate Audit (Audit & Risk Review)
- The Citigroup Ethics Hotline maintained by Global Compliance. You can reach the Ethics Hotline by e-mailing ethicsconcern@citigroup.com, or by calling 212-559-5842 or 800-559-5842, or by fax at 212-793-1347.

Further contact information is provided at the back of this Code. You should feel free to contact either someone in your business unit or someone at the corporate level, whichever you believe is more appropriate. You may choose to remain anonymous. If you raise an ethical issue and you do not believe the issue has been addressed, you should raise it with another of the contacts listed above.

Citigroup has established business practices committees, at the corporate level and in each of its business units, which work to ensure that our most senior executives regularly scrutinize our practices and products, and potential conflicts of interest; that our policies are appropriate; and that our basic values are emphasized at every level throughout the organization. The business unit committees identify business practices that may raise these concerns, subject them to rigorous scrutiny and present them to senior executives to decide whether changes are required. You may raise issues for consideration by the business practices committees by contacting the Citigroup Ethics Hotline.

Citigroup strongly encourages its personnel and other representatives to raise possible ethical issues. Citigroup prohibits any retaliatory action against any individual for raising legitimate concerns or questions regarding ethics, discrimination or harassment matters or for reporting suspected violations.

Investigations

You are required to cooperate fully with any appropriately authorized internal or external investigations, including but not limited to those involving ethical issues or complaints of discrimination or harassment. Making false statements to or otherwise misleading internal or external auditors, Citigroup counsel, Citigroup representatives or regulators is grounds for immediate termination of employment or other relationship with Citigroup and may also be a criminal act that can result in severe penalties. You must never withhold or fail to communicate information that raises ethical questions and thus should be brought to the attention of higher levels of management.

In addition, you are required to report suspected insider trading, fraud or attempted fraud, and any mysterious disappearance of funds or securities immediately. You may do so by contacting any of the persons listed above or Citigroup Corporate Security and Investigative Services ("CSIS"). You may call the CSIS Hotline at 718-248-1253 or e-mail csis@citigroup.com.

Protecting Citigroup Assets

You are responsible for safeguarding the tangible and intangible assets of Citigroup and its customers, suppliers and distributors that are under your control. Citigroup assets may be used only for proper company purposes. Assets include cash, securities, business plans, customer information, supplier information, distributor information, intellectual property (computer programs, models and other items), physical property and services.

Misappropriation of Citigroup assets is a breach of your duty to Citigroup and may constitute an act of fraud against Citigroup. Similarly, carelessness or waste in regard to Citigroup assets is also a breach of your duty to Citigroup.

Citigroup's telephone, e-mail, voice-mail and computer systems are primarily for business purposes. You may not use these systems in a manner that could be harmful or embarrassing to Citigroup. Personal communications using these systems must be kept to a minimum. You must follow Citigroup's Electronic Communication Policy and Citigroup.net Terms of Use.

All Citigroup employees are required to disclose and assign to Citigroup all interest in any invention, improvement, discovery or work of authorship you make or conceive that arises out of or in connection with your employment with Citigroup. If your employment is terminated, all rights to property and information generated or obtained as part of your employment relationship remain the exclusive property of Citigroup.

Copying, selling, using or distributing information, software and other forms of intellectual property in violation of license agreements is prohibited.

Accuracy of Records and Reporting

The records, data and information owned, collected, used and managed by Citigroup must be accurate and complete. You are personally responsible for the integrity of the information, reports and records under your control. Records must be maintained in sufficient detail as to reflect accurately all Citigroup transactions. Financial statements must always be prepared in accordance with generally accepted accounting principles and fairly present, in all material respects, Citigroup's financial condition and results.

You must use common sense and observe standards of good taste regarding content and language when creating business records and other documents (such as e-mail) that may be retained by Citigroup or a third party. You should keep in mind that at a future date, Citigroup or a third party may be in a position to rely on or interpret the document with the benefit of hindsight and/or the disadvantage of imperfect recollections.

Individual business units have policies relevant to retention of records; records should be retained in accordance with the policies. You are prohibited from destroying any records that are potentially relevant to a violation of law or any litigation or any pending, threatened or foreseeable government investigation or proceeding.

Citigroup is also committed to accuracy in tax-related records, and to tax reporting in compliance with the overall intent and letter of applicable laws. Tax returns must be filed on a timely basis and taxes due paid on time.

Financial Holding Company Regulatory Restrictions

The U.S. Bank Holding Company Act and other banking laws impose various requirements and restrictions on the activities of bank holding companies and financial holding companies (e.g., Citigroup) and their subsidiaries. To ensure compliance, you should consult with internal counsel and/or Citigroup bank regulatory counsel in connection with proposed new acquisitions, investments or the divestiture of businesses or assets, as well as new products or services.

Antiboycott Laws

U.S. law prohibits U.S. persons from taking actions or entering into agreements that have the effect of furthering any unsanctioned boycott of a country that is friendly to the U.S. This prohibition applies to persons located in the U.S. (including individuals and companies), U.S. citizens and permanent residents anywhere in the world, and many activities of U.S. subsidiaries abroad.

In general, these laws prohibit the following actions (and agreements to take such actions) that could further any boycott not approved by the U.S.: (1) refusing to do business with other persons or companies (because of their nationality, for example); (2) discriminating in employment practices; (3) furnishing information on the race, religion, gender or national origin of any U.S. person; (4) furnishing information about any person's affiliations or business relationships with a boycotted country or with any person believed to be blacklisted by a boycotting country; or (5) utilizing letters of credit that contain prohibited boycott provisions. Citigroup is required to report any request to take action, or any attempt to reach agreement on such action, that would violate these prohibitions.

You should understand the policies of your business unit that are designed to ensure compliance with these laws. You should also be alert to the fact that boycott-related requests can be subtle and indirect.

U.S. Embargoes and Sanctions

Citigroup complies fully with U.S. economic sanctions and embargoes restricting U.S. persons, corporations and, in some cases, foreign subsidiaries from doing business with certain countries, groups and individuals, including organizations associated with terrorist activity and narcotics trafficking. Economic sanctions prohibit doing business of any kind with targeted governments and organizations, as well as individuals and entities that act on their behalf. Sanction prohibitions also may restrict investment in a targeted country, as well as trading in goods, technology and services (including financial services) with a targeted country. U.S. persons may not approve or facilitate transactions by a third party that the U.S. person could not do directly.

Structured Finance

Citigroup has instituted polices to strengthen market transparency and to help define higher standards for how structured finance is done. Each of our clients must commit to disclose promptly to the public the net effect of any financing transaction proposed to be executed by Citigroup that is material to the client and not intended to be accounted for as debt in the client's financial statements. If a client does not commit to make the disclosures required by our policy, Citigroup will not execute the covered transaction.

Questions regarding the Citigroup Structured Finance Policy may be directed to your business unit's Risk Department or Compliance Department.

* * * * *

We at Citigroup aspire to the highest standards of moral and ethical conduct—working to earn client trust, day in and day out. In the thousands of decisions we make and actions we take every day, we affirm our commitment to this Code of Conduct and to deliver value to our customers, our people, our shareholders and our communities.

useful addresses and telephone numbers

Global Compliance
399 Park Avenue, 3rd Floor
New York, NY 10043
212-559-2115

Audit & Risk Review
111 Wall Street, 7th Floor
New York, NY 10043
212-657-3078

Environmental Affairs
388 Greenwich Street, 38th Floor
New York, NY 10013
212-816-6677

Corporate Governance
425 Park Avenue, 2nd Floor
New York, NY 10043
212-793-7601

Corporate Public Affairs Office
399 Park Avenue, 2nd Floor
New York, NY 10043
212-559-9446

Government Affairs Office
1101 Pennsylvania Ave. NW, Suite 1000
Washington, DC 20004
202-879-6800

Corporate Security and Investigative Services
One Court Square, 16th Floor/Zone 3
Long Island City, NY 11120
718-248-1253

Anti-Money Laundering Unit
399 Park Avenue, 3rd Floor
New York, NY 10043
212-793-0655

Investor Relations
399 Park Avenue, 3rd Floor
New York, NY 10043
212-559-2718

General Counsel
399 Park Avenue, 2nd Floor
New York, NY 10043
212-559-5152

Citigroup Ethics Hotline
In U.S., call 800-559-5842
Outside U.S., call 212-559-5842 (collect)
e-mail: ethicsconcern@citigroup.com
Fax: 212-793-1347

Available 24 hours a day, 7 days a week
All calls may be made anonymously.

("Code of Conduct," 2004)

Appendix B

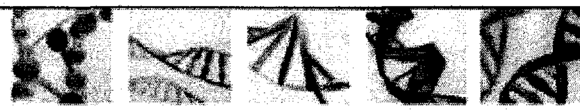
Ernst & Young Global Code of Conduct

SEPTEMBER 2004

ERNST & YOUNG

Quality In Everything We Do

Global Code of Conduct



The Ernst & Young Global Code of Conduct provides the ethical framework on which we base our decisions—as individuals and as members of our global organization. The Code is anchored in our values and beliefs, and underpins all that we do.

Our Global Code of Conduct is organized into five categories containing guiding principles that should be used by everyone within Ernst & Young[1] to guide our behavior across all areas of our activity:

1. Working with One Another
2. Working with Clients and Others
3. Acting with Professional Integrity
4. Maintaining our Objectivity and Independence
5. Respecting Intellectual Capital

We expect everyone who works in Ernst & Young to behave in accordance with the principles contained in the Global Code of Conduct. If you do not understand the principles contained within the Code, you should consult with an appropriately-qualified colleague to get your questions answered.

[1] Ernst &Young is a network of professional services firms. References made in this Code to "our" and "we" are references to the individual professionals who are partners, principals, officers, or employees of these separate firms.

- We build relationships with each other based on a shared trust and confidence that each of us has a personal and professional commitment to do the right thing.
- We are commited to communicating openly and honestly.
- We are committed to working in teams and are personally accountable to other team members for the contribution we make.
- We nurture integrity, respect, and teaming.
- We consult with each other and value the perspectives of those who are different from us, as well as those who challenge our own point of view.
- We embrace multicultural experience and diversity as strengths of our global organization. As such, we respect one another and strive for an inclusive environment free from discrimination, intimidation, and harassment.
- We encourage and support the professional development of our colleagues and promote individual achievement and continuous learning.
- We expect and deliver feedback regularly, candidly, and constructively.

No client or external relationship is more important than the ethics, integrity, and reputation of Ernst & Young.

Working with Clients ...

- We commit ourselves, as professionals, to uphold the trust placed in us by others.
- We are committed to delivering quality services that reflect our professional capabilities and are appropriate to the specific issues and needs of our clients.
- We are robust and courageous in our challenge to clients and are not afraid to deliver unwelcome information to them.

Working with Regulators ...

- We uphold the professional rules applicable to us, and our firms actively work with the regulators who oversee our professional conduct to ensure that rules and standards meet the continuously changing needs of the market.

Working with Others ...

- We avoid working with clients and others whose standards are incompatible with our Global Code of Conduct.
- We coordinate, as appropriate, with other members of our profession in matters of public interest.

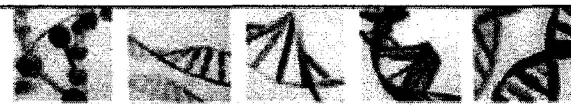
3. Acting with Professional Integrity

Our Professional Integrity ...

- We comply with laws, regulations, and standards that apply to us in our professional conduct.
- We promote a culture of consultation. We address questions of ethics and consult appropriately to help resolve them. We do not hide from or ignore issues.
- We provide ethics hotlines to deal with sensitive ethical issues.
- We understand and comply with Ernst & Young policies and procedures.

Our Competitive Approach ...

- We recognize that our competitive advantage is achieved through the excellence of our professional advice and the quality of our service delivery.
- We compete energetically and vigorously, and recognize the need to be honest in our competitive behavior.
- We reject unethical or illegal business practices in all circumstances.
- We do not offer personal inducement to secure work.



Here are some of the places where you can go for advice and guidance:

- Quality and Risk Management Leaders, who have been appointed at the Global, Service Line, Area, and Country level
- The People Team at all levels within the global organization
- The Office of the General Counsel or Legal Counsel in your Area or Country
- Professional Practice Directors
- Global, Area, and Country policies and procedures, including online resources and databases
- Ethics Hotlines and Ethics Oversight Teams

1 Have I consulted appropriately with colleagues?

2 Are my actions legal and in compliance with the standards of our profession?

3 Am I compromising my integrity or the integrity of Ernst & Young or our clients?

4 Am I upholding the values of Ernst & Young?

5 Am I treating others the way I expect others to treat me?

6 Is my choice of action the most ethical among the possible alternatives? Do I feel good about my choice?

7 If I document my decision, would a reviewer agree with the action I have taken?

8 Would my actions damage the reputation of Ernst & Young?

GLOBAL CODE OF CONDUCT 21

("Americas Code," 2004)

Appendix C

DIT Stories

INSTRUCTION BOOKLET

DIT

DEFINING ISSUES TEST

University of Minnesota

Opinions about Social Problems

The purpose of this questionnaire is to help us understand how people think about social problems. Different people have different opinions about questions of right and wrong. There are no "right" answers to such problems in the way that math problems have right answers. We would like you to tell us what you think about several problem stories.

You will be asked to read a story from this booklet. Then you will be asked to mark your answers on a separate answer sheet. More details about how to do this will follow. But it is important that you fill in your answers on the answer sheet with a #2 pencil. Please make sure that your mark completely fills the little circle, that the mark is dark, and that any erasures that you make are completely clean.

The Identification Number at the top of the answer sheet may already be filled in when you receive your materials. If not, you will receive special instructions about how to fill in that number.

In this questionnaire you will be asked to read a story and then to place marks on the answer sheet. In order to illustrate how we would like you to do this, consider the following story:

FRANK AND THE CAR

Frank Jones has been thinking about buying a car. He is married, has two small children and earns an average income. The car he buys will be his family's only car. It will be used mostly to get to work and drive around town, but sometimes for vacation trips also. In trying to decide what car to buy, Frank Jones realized that there were a lot of questions to consider. For instance, should he buy a larger used car or a smaller new car for about the same amount of money? Other questions occur to him.

We note that this is not really a social problem, but it will illustrate our instructions. After you read a story you will then turn to the answer sheet to find the section that corresponds to the story. But in this sample story, we present the questions below (along with some sample answers). Note that all your answers will be marked on the separate answer sheet.

First, on the answer sheet for each story you will be asked to indicate your recommendation for what a person should do. If you tend to favor one action or another (even if you are not completely sure), indicate which one. If you do not favor either action, mark the circle by "can't decide."

Second, read each of the items numbered 1 to 12. Think of the issue that the item is raising. If that issue is important in making a decision, one way or the other, then mark the circle by "great." If that issue is not important or doesn't make sense to you, mark "no." If the issue is relevant but not critical, mark "much," "some," or "little" — depending on how much importance that issue has in your opinion. You may mark several items as "great" or any other level of importance — there is no fixed number of items that must be marked at any one level.

Third, after you have made your marks along the left hand side of each of the 12 items, then at the bottom you will be asked to choose the item that is the <u>most</u> important consideration out of all the items printed there. Pick from among the items provided even if you think that none of the items are of "great" importance. Of the items that are presented there, pick one as the most important (relative to the others), then the second most important, third, and fourth most important.

SAMPLE ITEMS and SAMPLE ANSWERS:

GREAT	MUCH	SOME	LITTLE	NO	FRANK AND THE CAR ● Buy new car ○ Can't decide ○ Buy used car
①	②	③	④	●	1. Whether the car dealer was in the same block as where Frank lives.
●	②	③	④	⑤	2. Would a used car be more economical in the long run than a new car.
①	②	●	④	⑤	3. Whether the color was green, Frank's favorite color.
①	②	③	④	●	4. Whether the cubic inch displacement was at least 200.
●	②	③	④	⑤	5. Would a large, roomy car be better than a compact car.
①	②	③	④	●	6. Whether the front connibilies were differential.

Most important item	①②③④●⑥⑦⑧⑨⑩⑪⑫
Second most important	①●③④⑤⑥⑦⑧⑨⑩⑪⑫
Third most important	①②●④⑤⑥⑦⑧⑨⑩⑪⑫
Fourth most important	●②③④⑤⑥⑦⑧⑨⑩⑪⑫

Note that in our sample responses, the first item was considered irrelevant; the second item was considered as a critical issue in making a decision; the third item was considered of only moderate importance; the fourth item was not clear to the person responding whether 200 was good or not, so it was marked "no"; the fifth item was also of critical importance; and the sixth item didn't make any sense, so it was marked "no."

Note that the most important item comes from one of the items marked on the far left hand side. In deciding between item #2 and #5, a person should reread these items, then put one of them as the most important, and the other item as second, etc.

Here is the first story for your consideration. Read the story and then turn to the separate answer sheet to mark your responses. After filling in the four most important items for the story, return to this booklet to read the next story. Please remember to fill in the circle completely, make dark marks, and completely erase all corrections.

HEINZ AND THE DRUG

In Europe a woman was near death from a special kind of cancer. There was one drug that doctors thought might save her. It was a form of radium that a druggist in the same town had recently discovered. The drug was expensive to make, but the druggist was charging ten times what the drug cost to make. He paid $200 for the radium and charged $2,000 for a small dose of the drug. The sick woman's husband, Heinz, went to everyone he knew to borrow the money, but he could only get together about $1,000, which is half of what it cost. He told the druggist that his wife was dying, and asked him to sell it cheaper or let him pay later. But the druggist said, "No, I discovered the drug and I'm going to make money from it." So Heinz got desperate and began to think about breaking into the man's store to steal the drug for his wife. Should Heinz steal the drug?

ESCAPED PRISONER

A man had been sentenced to prison for 10 years. After one year, however, he escaped from prison, moved to a new area of the country, and took on the name of Thompson. For eight years he worked hard, and gradually he saved enough money to buy his own business. He was fair to his customers, gave his employees top wages, and gave most of his own profits to charity. Then one day, Mrs. Jones, an old neighbor, recognized him as the man who had escaped from prison eight years before, and whom the police had been looking for. Should Mrs. Jones report Mr. Thompson to the police and have him sent back to prison?

NEWSPAPER

Fred, a senior in high school, wanted to publish a mimeographed newspaper for students so that he could express many of his opinions. He wanted to speak out against the use of the military in international disputes and to speak out against some of the school's rules, like the rule forbidding boys to wear long hair.

When Fred started his newspaper, he asked his principal for permission. The principal said it would be all right if before every publication Fred would turn in all his articles for the principal's approval. Fred agreed and turned in several articles for approval. The principal approved all of them and Fred published two issues of the paper in the next two weeks.

But the principal had not expected that Fred's newspaper would receive so much attention. Students were so excited by the paper that they began to organize protests against the hair regulation and other school rules. Angry parents objected to Fred's opinions. They phoned the principal telling him that the newspaper was unpatriotic and should not be published. As a result of the rising excitement, the principal ordered Fred to stop publishing. He gave as a reason that Fred's activities were disruptive to the operation of the school. Should the principal stop the newspaper?

Appendix D

Survey on Ethical Reasoning

Identification Number matching answer sheet ______

Finance and Accounting Professional Survey on Ethical Reasoning

Dear Finance and Accounting Professional:

Your participation (which could take approximately 15 minutes) is very important because you will contribute to the research and advancement in the field of ethical studies. *Please note for the purpose of this study, finance and accounting professional is defined as a person that is working or has worked in the finance or accounting field.* Your responses to the survey as well as the demographic questions in the Participant Information section below are anonymous.

First, read only the three short stories: **Heinz and the Drug, Escaped Prisoner, and Newspaper**.

Second, please complete all three sections of the survey for each story:

1. What would you do?
2. How important are the 12 statements in your decision making?
3. Rank the 4 statements most important to you.

Participant Information

Please provide the following demographic information by circling the appropriate number and filling in the blanks if applicable, and please be aware that all responses will be held in the strictest confidence.

1. If you are female:	**1**
If you are male:	**2**
2. If you are a Finance Professional:	**1**
If you are an Accounting Professional:	**2**
Other:________________	
3. Highest earned degree is Bachelors:	**1**
Highest earned degree is higher than a Bachelors:	**2**
Type of degree beyond the Bachelors obtained (MBA, MACC, etc.):________	
4. If you are 35 or under:	**1**
If you are over 35:	**2**
Age: ______	

5. If you have had ethics training as part of a corporate/professional program: 1
If you have not had ethics training as part of a corporate/professional program: 2

6. If you have had ethics courses as part of an academic curriculum: 1
If you have not had ethics courses as part of an academic curriculum: 2

7. If you have a certification (CPA, CIA, CFE, CISA, CFA, Other): 1
Type of Certification: ________________

If you do not have a certification (CPA, CIA, CFE, CISA, CFA, Other): 2

8. If you are governed by a professional code of ethics: 1
If you are not governed by a professional code of ethics: 2
Type of professional code: ______________

If you have any questions regarding this investigation, or if you would like to see the results of my research, please contact me at dgalla3@yahoo.com. Thank you for taking the time to complete this survey.

Best regards,

Donna Galla
Doctoral Candidate, Business Administration
H. Wayne Huizenga School of Business and Entrepreneurship
Nova Southeastern University
Ft. Lauderdale, Florida

Appendix E

DIT Survey

DEFINING ISSUES TEST
University of Minnesota

IDENTIFICATION NUMBER

GREAT MUCH SOME LITTLE NO

HEINZ AND THE DRUG: ○ Should Steal ○ Can't Decide ○ Should not steal

1. Whether a community's laws are going to be upheld.
2. Isn't it only natural for a loving husband to care so much for his wife that he'd steal?
3. Is Heinz willing to risk getting shot as a burglar or going to jail for the chance that stealing the drug might help?
4. Whether Heinz is a professional wrestler, or has considerable influence with professional wrestlers.
5. Whether Heinz is stealing for himself or doing this solely to help someone else.
6. Whether the druggist's rights to his invention have to be respected.
7. Whether the essence of living is more encompassing than the termination of dying, socially and individually.
8. What values are going to be the basis for governing how people act towards each other.
9. Whether the druggist is going to be allowed to hide behind a worthless law which only protects the rich anyhow.
10. Whether the law in this case is getting in the way of the most basic claim of any member of society.
11. Whether the druggist deserves to be robbed for being so greedy and cruel.
12. Would stealing in such a case bring about more total good for the whole society or not.

Most important item ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫
Second most important ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫
Third most important ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫
Fourth most important ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫

GREAT MUCH SOME LITTLE NO

ESCAPED PRISONER: ○ Should report him ○ Can't decide ○ Should not report him

1. Hasn't Mr. Thompson been good enough for such a long time to prove he isn't a bad person?
2. Everytime someone escapes punishment for a crime, doesn't that just encourage more crime?
3. Wouldn't we be better off without prisons and the oppression of our legal system?
4. Has Mr. Thompson really paid his debt to society?
5. Would society be failing what Mr. Thompson should fairly expect?
6. What benefits would prisons be apart from society, especially for a charitable man?
7. How could anyone be so cruel and heartless as to send Mr. Thompson to prison?
8. Would it be fair to all the prisoners who had to serve out their full sentences if Mr. Thompson was let off?
9. Was Mrs. Jones a good friend of Mr. Thompson?
10. Wouldn't it be a citizen's duty to report an escaped criminal, regardless of the circumstances?
11. How would the will of the people and the public good best be served?
12. Would going to prison do any good for Mr. Thompson or protect anybody?

Most important item ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫
Second most important ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫
Third most important ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫
Fourth most important ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫

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GREAT MUCH SOME LITTLE NO

NEWSPAPER: ◯ Should stop it ◯ Can't decide ◯ Should not stop it

◯◯◯◯◯ 1. Is the principal more responsible to students or to parents?
◯◯◯◯◯ 2. Did the principal give his word that the newspaper could be published for a long time, or did he just promise to approve the newspaper one issue at a time?
◯◯◯◯◯ 3. Would the students start protesting even more if the principal stopped the newspaper?
◯◯◯◯◯ 4. When the welfare of the school is threatened, does the principal have the right to give orders to students?
◯◯◯◯◯ 5. Does the principal have the freedom of speech to say "no" in this case?
◯◯◯◯◯ 6. If the principal stopped the newspaper would he be preventing full discussion of important problems?
◯◯◯◯◯ 7. Whether the principal's order would make Fred lose faith in the principal.
◯◯◯◯◯ 8. Whether Fred was really loyal to his school and patriotic to his country.
◯◯◯◯◯ 9. What effect would stopping the paper have on the student's education in critical thinking and judgment?
◯◯◯◯◯ 10. Whether Fred was in any way violating the rights of others in publishing his own opinions.
◯◯◯◯◯ 11. Whether the principal should be influenced by some angry parents when it is the principal that knows best what is going on in the school.
◯◯◯◯◯ 12. Whether Fred was using the newspaper to stir up hatred and discontent.

Most important item ①②③④⑤⑥⑦⑧⑨⑩⑪⑫
Second most important ①②③④⑤⑥⑦⑧⑨⑩⑪⑫
Third most important ①②③④⑤⑥⑦⑧⑨⑩⑪⑫
Fourth most important ①②③④⑤⑥⑦⑧⑨⑩⑪⑫

GREAT MUCH SOME LITTLE NO

DOCTOR'S DILEMMA: ◯ He should give the lady an overdose that will make her die ◯ Can't decide ◯ Should not give the overdose

◯◯◯◯◯ 1. Whether the woman's family is in favor of giving her the overdose or not.
◯◯◯◯◯ 2. Is the doctor obligated by the same laws as everybody else if giving an overdose would be the same as killing her.
◯◯◯◯◯ 3. Whether people would be much better off without society regimenting their lives and even their deaths.
◯◯◯◯◯ 4. Whether the doctor could make it appear like an accident.
◯◯◯◯◯ 5. Does the state have the right to force continued existence on those who don't want to live.
◯◯◯◯◯ 6. What is the value of death prior to society's perspective on personal values.
◯◯◯◯◯ 7. Whether the doctor has sympathy for the woman's suffering or cares more about what society might think.
◯◯◯◯◯ 8. Is helping to end another's life ever a responsible act of cooperation.
◯◯◯◯◯ 9. Whether only God should decide when a person's life should end.
◯◯◯◯◯ 10. What values the doctor has set for himself in his own personal code of behavior.
◯◯◯◯◯ 11. Can society afford to let everybody end their lives when they want to.
◯◯◯◯◯ 12. Can society allow suicides or mercy killing and still protect the lives of individuals who want to live.

Most important item ①②③④⑤⑥⑦⑧⑨⑩⑪⑫
Second most important ①②③④⑤⑥⑦⑧⑨⑩⑪⑫
Third most important ①②③④⑤⑥⑦⑧⑨⑩⑪⑫
Fourth most important ①②③④⑤⑥⑦⑧⑨⑩⑪⑫

PLEASE DO NOT WRITE IN THIS AREA

Appendix F

Letter to the Professor

September 30, 2005

School Name
Address
City, ST Zip Code

Reference: Finance and Accounting Professionals Survey on Ethical Reasoning

Dear Professor,

Thank you for helping with the survey of Finance and Accounting professionals.
Please note that, as the cover letter indicates, the word 'professional' is broadly defined as a person that is working or has worked in the Finance or Accounting field.

A #2 pencil is to be used, and is supplied. Also please note that because the survey will be computer scored, it cannot be folded.

Your assistance is greatly appreciated, and please do not hesitate to contact me if you have any questions.

Sincerely,

Donna Galla
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