

# Ethics in Management Accounting: Moving toward Ethical Motivation

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## Abstract

In today's business environment, the role of accountants is significant. Managers and other decision makers base their decisions mainly on information that accountants provide. Since accuracy of decisions depends on the reliability of accounting information, the ethical dimension of the profession has gained considerable attention recently. In fact, management accountants are required to make ethical choices in many settings. Base on the Rest's model that is an ethical decision making's model, 4 inner psychological processes (ethical sensitivity, judgment, motivation and character) together give rise to outwardly observable behavior. Professional organizations like IMA<sup>1</sup> support management accountants in recognizing and solving specific situations or dilemmas which management accountants may encounter by preparing codes of ethics and teaching them. But, ethics education solely does not lead to a success in the emergence of ethical behavior. An individual's willingness and motivation has been recognized as a crucial factor in engaging in ethical decision making. With regard to the importance and position of motivation in ethical decisions it requires to special attention, nonetheless most of the studies have been concentrated on two first dimensions, ethical sensitivity and judgment. Therefore, this paper is intended to recognize some of important and influential factors on ethical motivation of management accountants and to explain the relations between these factors and also relationship between these factors with the motivation in rest' model. It's noticeable that organizations have a critical and basic role in ethical motivation of their own employees. finally, in order to ethical motivation of management accountants, guidelines will be presented that implementing and performing these recommendations by organizations can result in motivation and consequently ethical intention of management accountants.

**Keywords:** Management accounting, Ethical decisions, Rest' model, Ethical motivation

## 1. Introduction

In the business reality of the 21st Century, where knowledge management and intangible assets are key sources of competitive advantage, the individual behavior of employees from to management to front-line workers can make or break an organization's reputation. This has a significant impact on share value, the ability to attract and retain clients, investors, employees, or customers, and the risk of compliance violations (IMA 2008). In today's business environment, the role of accountants is significant (Zengin, et al 2009). The information they provide is crucial in aiding managers, investors and others in making critical economic decisions. Accordingly, ethical improprieties by accountants can be detrimental to society, resulting in distrust by the public and disruption of efficient capital market operations (Williams & Elson 2010). Experiment of companies such as Enron, WorldCom and Martha Stewart are samples of these scandals (IMA 2008). Thus, due to the importance of the information supplied by management accountants, there is an agreement that a successful management accountant in addition to general business skills (such as understanding the strategy of an organization) and people skills (such as motivating other team members) as well as technical skills (such as computer knowledge, calculating costs of products, and supporting planning and control decisions) should observe certain professional ethical standards (Taicu 2007; Amat, et al 1991). In fact, Management accountants are required to make ethical choices in many settings, some of which are transparent to them and some that are less clear which place in gray zone (Shaub, et al 2005) Professional management accountant

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organizations worldwide have developed professional ethics standards. The Institute of Management Accountants (IMA) is the most important management accountant professional organization in the USA. IMA has developed “Standards of ethical conduct for compliance with four basic principles: competence, confidentiality, integrity and objectivity for Management Accountants” (Larsen 1997, Capture 1).

With respect to the importance and position of ethics in management accounting, there are many debates about “whether can ethics teaching be useful in emergence of ethical behavior?” (Brands 2010). Proceedings of researches have shown ethics is an important necessity in management accounting profession. But, ethics education lonely is not causing a success in the emergence of ethical behavior. In the other wise, ethics education is necessary in engaging ethical decision making, but it’s not enough (Hajjawi 2008; Armstrong 2003; Zengin et al 2009). Many studies have been done around ethics such as: what goals and methods should be best to teach business ethics, who should teach ethics in accounting courses and etc, while, the role of individual’s motivation and willingness in engaging in ethical decisions is an important and crucial factor that it has received less attention (Armstrong 2003; Brands 2010). Thus, the main objective of this paper is to recognize some of important and influential factors on ethical motivation and to explain the relations between these factors and also relationship between these factors with the motivation in rest’ model. Base on the Rest’s model 4 inner dimensions ethical sensitivity, judgment, motivation and character together give rise to outwardly observable behavior. Studies mainly have noticed to two first dimensions (sensitivity and judgment). Therefore, this paper will be concentrated on third dimension of Rest’s model, “Ethical motivation”. Finally, the role of organizations in ethical motivation of management accountants will be noticed and also, guidelines for ethical motivation will be recommended.

## **2. Rest’s model of ethical decision making**

The basic idea behind Rest’s four-component model is that “various (four) inner psychological Processes together give rise to outwardly observable behavior.” The four processes are as follows:

### **2.1 Moral sensitivity**

Interpreting the situation, role taking how various actions would affect the parties concerned, imagining cause–effect chains of events, and being aware that there is a moral problem when it exists (Rest 1986). The ethical decision process begins when the decision-maker recognizes that a particular situation will affect the welfare of others, and thereby identifies the moral content of the issue. Before one can act ethically, one must understand that an ethical issue exists (Armstrong 1993). The results of empirical studies have shown that accounting students who had been exposed to the ethical settings of IMA perceived ethical issues more frequently than other accounting students in a given scenario (Flumer & Cargile 1987). It must be noticed that exposure to ethical issues may be necessary, but not sufficient, to change students’ ethical behavior.

### **2.2 Moral judgment**

Judging which action would be most justifiable in a moral sense (Rest 1986). After understanding of ethical issue, one judges about that. Understanding this issue which conduct is true or false, means ethical judgment (Reidenbach & Robin 1990). The second component of Rest’s model, prescriptive reasoning, leads to ethical judgment and is the critical-thinking component of the model and the component that has received the most attention by academic accountants (Armstrong 2003). Prescriptive reasoning of a person is her/his evaluation from thing that he/she reality believes that in order to solve especial ethical problem it must be done. Prescriptive judgment is the result of ethical reasoning and it shows positional factors that result in using of specialized cognitive structure. To use every which of these structures is limited to level of individual’s ethical growth. One ethically judges about every act and finally he/she choices an act which is good ethically (Royae & Mohammadi 2011). Several approaches to teaching prescriptive reasoning have been advocated in the literature: the psychology of moral development, classical philosophical theories, case analyses, codes of conduct, and virtue. There is a distinction between normative ethics (what one should do) and descriptive ethics (how people, in fact, make moral decisions). For centuries, philosophers have investigated questions of good and bad, right and wrong. So, their theories are typically normative. Developmental psychologists are more concerned with finding out how people actually make moral choices than with philosophical issues, such as what one should do. Their work is empirical and descriptive; hence, their work is more relevant to accounting researchers than to accounting educators (Kohlberg 1984). Several textbooks in accounting ethics present classical normative ethical theories to construct a foundation for applying ethics to accounting (Minz 1992). Also, codes of ethics have been presented by IMA and other administrations.

### 2.3 Moral motivation

The degree of commitment to taking the moral course of action, valuing moral values over other values, and taking personal responsibility for moral outcomes (Rest 1986).

Ethical motivation is an individual's willingness to place the interests of others ahead of his or her own (Armstrong 2003). This stage involves designing of options in order to solve ethical problem and choosing an option that a person motivates to do it. A person recognizes various activities that he/she has opportunity to do them and determines results that are produced for all involved people. It is possible that constructed options about moral problem not be consistent with realistic option of person completely. But, finally an individual must willing to do ethical act until it be done (Royae & Mohammadi 2011, pp 98-113). There is a view that an individual's ethical motivation is a reflection on his or her moral virtue (Thorne 1998). One of professor of ethics and philosophy exhorts students and readers to take charge of personal ethics in their everyday lives and to develop virtuous character traits, which will ultimately lead to personal fulfillment and mastery of one's own destiny. His formula for achieving ethical excellence is as follows (Gough 1998):

Thoughts → Act → Habit → Character → Destiny

This, in turn, suggests that individuals who are morally virtuous are more motivated in their intention to act ethically than less morally virtuous individuals (Thorne 1998).

### 2.4 Moral character (action)

Persisting in a moral task, having courage, over-coming fatigue and temptation, and implementing subroutines that serve a moral goal (Rest 1986).

The fourth component of Rest's model is ethical character, which leads to ethical behavior. Rest has pointed out that courage is an essential virtue in component four. Courage enables one to go from ethical intention to ethical behavior (Armstrong 2003). The goals of ethics education in accounting, including one to "set the stage for" a change in ethical behavior. Indeed, this fourth component is probably beyond accounting educators' abilities. Educators "set the stage for" ethical behavior by increasing moral sensitivity, moral reasoning and moral motivation, but students must take that last step themselves. To do so, they must acquire the necessary instrumental virtues (e.g. courage, fortitude, perseverance), and such virtues are acquired through practice and repetition, while the individual is sustained and encouraged in a nurturing community (Loeb 1988).

Figure.1 Rest's model of ethical decision making

## 3. Influential factors on ethical motivation of management accountants

Ethical education that includes dimensions of ethical sensitivity and judgment of the Rest' model; necessarily cannot result in ethical behavior (Hajjawi 2008; Armstrong 2003; Zengin et al 2009). Increasing moral sensitivity is necessary for ethical behavior, but it's not enough. In the context of ethics in management accounting, Majority studies have concentrated on ethical sensitivity and judgment, while an individual's willingness that is a crucial factor in engaging in ethical decision making has received little attention. Therefore, more need for exploring ways which develop ethical motivation, third dimension of Rest's model, has been understood (Armstrong 2003). Perceiving this problem what factors are contributed in ethical motivation of management accountants is so important.

Results of researches (Shaub et al 2005) have recognized that 3 important factors affect on ethical motivation of management accountants. These important and influential factors and explanations of the relations between them and also relationship between these factors with the motivation in rest' model is presented in following:

### 3.1 Motivated self-interest

A significant body of research, as well as casual observation, strongly supports the idea that people act in their own self-interest. This view, which provides the essential support for market economic theory, has been explored in the accounting literature through the study of "expectancy theory." Under expectancy theory, people calculate in their minds the likelihood that various outcomes will occur from their behavior and the probabilities of those outcomes (Grant & Ashford 2008). People generally choose to engage in actions or behaviors that maximize positive outcomes and minimize negative ones. Self-interest is inherently recognized in using incentives to motivate management behavior. Although money is among the most common rewards people seek, it has the ability to induce both positive

and corrupt behavior. Beyond money, accounting research reveals that individuals value other externally generated rewards, such as status, job security, and promotion potential (Royae & Mohammadi 2011; Shaub et al 2005). Self-interest is an important element in motivation of management accountants.

### 3.2 Concern for others

Though motivated self-interest is an important force in choices, there's evidence that people don't uniformly act in their self-interest, something that has intrigued researchers in many disciplines. Of course, considering the interests of others is at the heart of ethics (Mathenge 2012). Most ethical decision-making theories include a component that goes beyond a calculation of external rewards or consequences to an internal evaluation based on a sense of duty or a religious teaching. This is consistent with the argument that individual morals may also influence work motivation and, thus, should be incorporated into expectancy models (Shaub et al 2005). Concern for others involves a person's connectedness with and compassion for others, including the ability to trust and be trusted. Concern for others is opposite self-interest. In one hand, there is personal interest and in the other hand, concern for others. The interest conflict in decision making result in constructing challenge and decision maker must make a choice, self-interest or other-interest.

### 3.3 Direct and indirect pays off

Pay off is a focal variable that reinforces the individual's willingness to engage in questionable or unethical financial and accounting decisions (Shaub et al 2005). Studying companies that their management accountants have decided unethically such as Enron, WorldCom and Martha Stewart have shown that pay off has had an important role in forming unethical conducts. Thus, pay off and its role in emergence unethical behavior has been perceived as an undeniable factor.

## 4. The relations between mentioned factors together and with motivation in Rest's model

Result of a study that has been done in order to explore the relationships between self-interest and concern for others with direct and indirect pay off (Shaub et al 2005), has revealed how these factors are relevant together. Self-interest is related to both payoff types, positively. It means, individuals with a high motivated self-interest are more likely to engage in unethical behaviors. Interestingly, the coefficient paths are higher when related to indirect payoffs. Concern for others, however, mitigates tendencies to make unethical decisions. Concern for others is negatively associated with questionable behaviors involving both direct and indirect payoffs to them. Thus, individuals with high levels of concern for others are increasingly unlikely to commit these unethical acts.

Influential factors on ethical motivation and relations between them and also the relations between these factors and motivation in Rest' model have been presented as follows:

Figure2. Influential factors on ethical motivation of management accountants in Rest's model

## 5. The role of organizations on ethical motivation of management accountants

Ethics is an important necessity in management accounting profession. But, ethics education lonely is not causing a success in the emergence of ethical behavior (Hajjawi 2008; Armstrong 2003; Zengin et al 2009), and it cannot be claimed when educated students encounter with dilemmas and recognize ethical solution of the dilemmas, they treat morally certainly. While professional organizations such as IMA have concentrated on preparing and teaching profession ethical standards, the role of organizations in ethical decision making of management accountants that is an important factor, has received little attention. IMA programs at the undergraduate and graduate levels, in corporate settings, and in continuing professional education can reinforce standards that society values and that are important to the operation of our capital markets (Bampton & Cowton 2002). Codes of ethics provide guidelines and occasionally bring clarity to specific situations and establishing and enforcing a code of ethics is an important role of the IMA (Hajjawi 2008). The important issue that has been ignored is the role of organizations in ethical motivation of management accountants. It must be noticed that organizations like IMA have the opportunity to provide leadership in this difficult and delicate area of professionalism. The accounting profession wrestles with whether values can be taught once someone joins an organization or whether the organization must rely on internal controls to prevent and detect unethical behavior (Shaub et al 2005). There is ongoing discussion of the importance of personal, corporate, and professional values that has the potential to make a long-term difference in management

accountants' ability to reject unethical behavior (IMA 2008). Organizations can play vital role in motivation of management accountants. Based on the explained influential factors above, in order to ethical motivation of management accountants, guidelines that can be implemented by organizations are explored. These recommendations are as follows:

- 1) Organizations must recognize that motivated self-interest affects all of people, including management accountants. The most fundamental reason people engage in unethical behavior is that it benefits them in some way. When management accountants aren't emotionally or financially detached from engaging in certain behaviors, self-interest can be expected to affect their choices (Shaub et al 2005). Thus, organizations must try to satisfy their management accountants emotionally and financially.
- 2) Three things have an effect: internal values, organizational values, and professional values (IMA 2008) Personal values, particularly an individual's concern for others, make that person less likely to engage in unethical behaviors (Shaub et al 2005). Employers should encourage management accountants to consider the implications of their decisions for others, both inside and outside the organization. They should also encourage the development of personal values that would restrain unethical and promote ethical behavior in the organization (Armstrong 2003).
- 3) Adopting organizational values that are broadcasted by sets of ethics, policy statements, speeches and journals (Royae & Mohammadi 2011) can reinforce the idea that something other than motivated self-interest matters has the potential to prevent employees from engaging in unethical behavior (Shaub et al 2005; Mathenge 2012). For that to happen, the organization must do at least four things:
  - Clearly articulate ethical values to employees (Mathenge 2012).
  - Understand its employees' values well enough in the hiring and promotion process to ensure that there is an adequate correlation between individual and corporate values (IMA 2008).
  - One of organizational key resources is the degree of organization leaders' commitment to ethical leadership (Royae & Mohammadi 2011). Set an example at the top with leaders acting consistently with the company's stated values rather than contradicting them with their actions (Armstrong 2003).
  - Reward employees who uphold those values, and punish the ones who undermine them with a public enough enforcement that everyone clearly gets the message (Shaub et al 2005; IMA 2008).

## 6. Conclusion

Due to the importance of the information supplied by management accountants, there is an agreement that they should observe certain professional ethical standards. Professional organizations like IMA have responded to this need by preparing and reinforcing ethical standards of management accounting profession. In the context of management accounting, ethics education always has been emphasized while; ethics education lonely is not causing a success in the emergence of ethical behavior. Based on Rest's model of ethical decision making, ethical motivation has an undeniable role in the emergence of ethical conduct. With respect to the importance and position of motivation in ethical decision making, this paper concentrated on ethical motivation. In the framework of a model, influential factors on motivation were explored and also it was explained how these elements are related together and with the ethical motivation in Rest' model. Organizations like IMA have the opportunity to provide leadership in ethical motivation of their own management accountants by creating organizational values. In this paper, the role of organizations in their own management accountant's ethical motivation was noticed and also, in order to ethical motivation of management accountants, recommendations and exhortations were presented to organizations.

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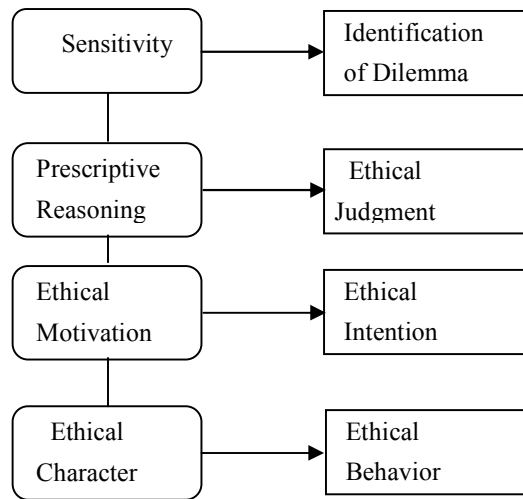


Figure 1. The Rest's model of ethical decision making

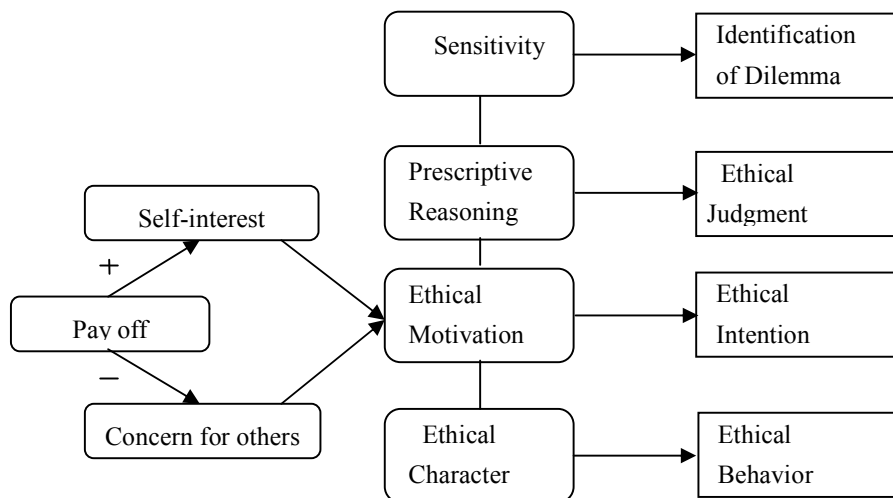


Figure2. Influential factors on ethical motivation in Rest's model

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