

Cognitive Moral Development, Organizational Situation and Ethical Decision Making in Business and Accounting

Abdul Hamid Habbe¹, Andi Kusumawati¹, Alimuddin¹, Yohanis Rura¹ & Iskandar Muda²

¹ Department of Accountancy, Faculty of Economics and Business, Universitas Hasanuddin, Makassar, Indonesia

² Department of Accountancy, Faculty of Economics and Business, Universitas Sumatera Utara, Medan, Indonesia

Correspondence: Iskandar Muda, Department of Accountancy, Faculty of Economics and Business, Universitas Sumatera Utara, Medan, Indonesia.

Received: May 20, 2020

Accepted: July 10, 2020

Online Published: September 21, 2020

doi:10.5430/ijfr.v11n5p93

URL: <https://doi.org/10.5430/ijfr.v11n5p93>

Abstract

This study examines the effect of the interaction between cognitive moral development (pragmatic, accommodating, and autonomous) and an organizational situation (agency and stewardship) in business ethical decision making (earnings management and expropriation). This research employed a laboratory experiment design of full factorial factor 3x2 between-within subjects. There were 97 postgraduate students of Hasanuddin University that acted as participants. Data were analyzed by ANOVA and t-test. The results showed that the level of cognitive moral development is positively related to the degree of ethical decisions in accounting and expropriation. The higher the level of cognitive moral development, the more managers act ethically in decisions relating to accounting and expropriation. Meanwhile, the agency and stewardship situation have no effect on the differences in ethical decision making both in accounting and expropriation. Similarly, the exposure to an organizational situation has no impact on the relationship between levels of cognitive moral development and ethical decision making. The assumption stating that cognitive moral development of each participant has been an anchor and not easily changed to the different or the opposite situations is empirically proven.

Keywords: cognitive moral development, agency situation, stewardship situation, ethical decision, anchor

JEL Code: D23, D81, L21

1. Introduction

The relationship between moral value and ethical behavior is interesting to investigate when it involves external influences such as situational factors. Particular factors that are being experienced by someone will interact with his/her moral value which in turn influences his/her ethical orientation. Both situational and environmental variables can justify his/her judgment to behave more ethically or not. The interaction between individual or personal values and situational factors in influencing ethical decision-making behavior had been investigated by Trevino and Youngblood (1990) in their study. They termed this interaction as bad apples in bad barrels.

It is attributed that the manager with a pragmatic and opportunistic character will tend to behave more unethically in a massive agency problem environment. Conversely, a manager that places high value on idealism would be expected to behave ethically in a favorable situation. However, it is important to question the ethical orientation of an individual with a pragmatic opportunistic disposition in a sound condition as well as those with a high cognitive moral being in a contrary situation. It is assumed that both would not easily change; the former would not become more ethical while the latter would not turn out to be less so. Bad apples will remain bad despite being in a good barrel, and vice versa. Consistently, Habbe *et al.*, (2019) states that a cognitive morality would be rooted in a person as he/she grows up in terms of age, education, experience, social interaction, and cultural environment. Therefore, a cognitive morality tends to be a personal character (fundamental belief) which cannot easily change despite being in a contrary condition.

The relationship between internal and external factors could be reciprocal in nature. Individual factors or personal values will influence the ethical decision of a person while the ethical decision in an organization will affect personal ethical behavior in decision making (Trevino, 1986; Ferrel and Gresham, 1985, and Prabowo *et al.*, 2017). Moreover, Hunt and Vitell (1986) suggested that the ability to understand and be sensitive to ethical problems in a professional