

2 Days International Conference on CSIT-2019, ICSD-2019

Mahratta Chamber of Commerce, Industries and Agriculture Tilak Road, Pune (India)



2nd -3rd November 2019

www.conferenceworld.in

ISBN : 978-81-943584-1-1

IDEALISM AND BEHAVIOURAL INTENTION IN THE ACCOUNTING PROFESSION: A STUDY WITH REFERENCE TO PRACTISING CHARTERED ACCOUNTANTS IN KARNATAKA STATE

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ABSTRACT

Professional accountants are faced with many ethical dilemmas involving different ethical issues in the different facets of their working lives. If they must make decisions in a setting of conflicting signals from the clients, other interested parties, and personal beliefs, responsibilities and aspirations, then ethical dilemmas arise. A dilemma exists only when there is a choice or option. Sometimes, the ethical dilemmas are not easy to resolve. If it is not possible to resolve the dilemma fully, one must at least be aware that a compromise is being made. In making that decision (behavioural intention) to choose or to compromise, it is important to recognise the issues germane to the dilemmas. Further, such a decision calls for understanding of a wide range of factors involved in shaping ethical conduct. In the light of this, here, an attempt is made to get an insight into the impact of idealism on the behavioural intention formed by the Practising Chartered Accountants (PCAs) of Karnataka from the perspective of one of the normative factors, viz, idealism.

Keywords: *Accounting profession, Behavioural intention, Ethics, Idealism.*

1. INTRODUCTION

World witnessed a series of accounting scams being uncovered. According to Sujatha (2007 [1]), the 1980s witnessed a culture of conservatism, a culture of aggressiveness prevailed during the 1990s and the year 2002 saw a series of accounting scams being uncovered. The Enron of India surfaced with the collapse of the Satyam. Satyam, like Enron and worldcom, followed “dubious accounting practices” at which the auditors remained mute spectators!! A list of companies, which had adopted aggressive accounting practices for April-June 2008, compiled by Credit Lyonnais Securities (Asia) (CLSA), the global brokerage house, had some of India’s Inc’s brightest stars. The scandals evidenced that auditors (*i.e.*, professional accountants) have stronger incentives to please clients than to serve the investing public that can be disastrous for the public.

Some of the doubtful practices, no doubt are the result of fraud. But, as Bazerman *et al.* (2002 [2]) pointed out, “to attribute most errors to deliberate corruption would be to believe that the accounting profession is rife with crooks – a conclusion that anyone who has worked with accountants knows is untrue”(p.97). Unfortunately, the accounting profession is under pressure to make sure that reported numbers add up to publicly committed numbers. Consequently professional accountants are faced with many ethical dilemmas

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2. CONCEPTUAL FRAMEWORK: THE ACCOUNTING PROFESSION AND THE PROFESSIONAL ETHICS

According to Maurice (1996 [3]) it is more important to have a general acquaintance with the profession itself, and in particular the practising element in the profession so as to understand the ethics of the accounting profession than have an appreciation of ethical theory. Accordingly, here, based upon the concept of profession, an attempt has been made to understand the concept of accounting profession followed by a brief discussion on the issue of the professional ethics.

According to Sekhar (2002 [4]), “[t]he concept of professional has been seen in the light of market systems which is one of the prime and strong features of capitalism” (p.125). Duska (2005 [5]) puts it thus: “It is the nature of the existing free market financial system (its purpose) to improve life by setting up intermediaries to make exchange more efficient” (p.21). In order to maintain professional credibility it is essential that integrity and honesty not be imperiled by the presence of undue influence and conflicts of interest, which means the professional must have as much independence as possible. The profession of an accountant exemplifies in all the attributes required of a profession. Accountants are employed in many types of organizations -public, private and charitable. Salmonson, Hermanson, and Edwards (1977 [6]) state that in our society accountants are generally employed in (1) public accounting (i.e., an independent practising accountant’s profession), (2) private or industrial accounting which includes both practising accountants and other accountants, and (3) not-for-profit sector which also includes both practising accountants and other accountants. As described by Neale (1996 [7]), accountants within organisations (private accounting involving management accounting and financial accounting, and not for profit accounting) are not commonly considered as professionals. Instead, independent professional accountants who are in professional practice or concerned with public accounting are professionals. Independent professional accountants perform a variety of accounting services which fall into two groups: first, auditing, i.e., performing the attest function, the principal purpose of an independent professional accountant, and second, related services including management advisory and tax accounting services. According to Gowthorpe and Amat (2005 [8]), “[a]ccounting is regulated in most countries by two principal means: first,

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local laws relating to corporate and other bodies, and second, a system of accounting regulation in the form of standards. These are often promulgated by non-governmental organisations and foundations. Also, in recent years, a supra-national body, International Accounting Standards committee (IASC) has become more important in setting standards” (p.56).

According to Krishnamoorthy(2003 [9]), “[t]here is no difference between the tenets of ethics applicable to an individual and that of a professional, the only difference being a professional, is having a higher responsibility and accountability to his action or inaction to all segments of society on account of his status and position”(p.1685). Accountancy profession enforces its responsibilities by self-regulation supported by a viable code of ethics. Unlike accounting standards, a code of ethics is not merely a set of technical rules of do’s and don’ts. It contains a set of moral principles, which specify what society expects to be considered in decision making. Thus, professional ethics is one of the dimensions of social responsibility and entails acting in accordance with the morality, *which may be distinguished from the term ‘ethics’ on the basis that morality means human conduct and values while ethics is the study of morality*, of a society that is related to its mores, or the customs that a society or group accepts as being right and wrong, as well as those laws of a society that add legal restrictions on many activities considered to be immoral. Frequently, the general principles come from rationalistic theories (Kantianism or deontological theory, Utilitarianism or teleological theory, and other ethical theories), which propose diverse methods of moral reasoning to apply properly these principles for solving dilemmas. According to Kant (1985 [10]) only when a value can be universally applied should it be considered ethically correct. This criterion of universalisability considers an action only as a set of duties (Melé, 2005 [11]). The utilitarianism theory was developed by England’s Jeremy Bentham and John Stuart Mill (Mill, 1897 [12]; Sidgwick, 1925 [13]). For Melé (2005 [11]) it considers an action “only as the set of *consequences* (Utilitarianism, if they are evaluated in terms of satisfaction or consequentialism, if they are evaluated in terms of other chosen values)” (p.100). Thus, here, ethics means the normative ethical theories such as those above that include values. By values we mean an in-built mechanism representing the basic conviction that a specific mode of conduct is personally or socially acceptable mode of conduct. Krishnamoorthy(2003 [9]) says: “Our inner conscience or soul always pleads and urges to prefer a right course of action over a wrong one”(p.1685). Melé (2005 [11]) added that “[h]umans are responsible for their own acts and, therefore, for their human development, which at the some time produces a good society. It requires following of rules associated with moral goods [values]” (p.103). Values include controlled greed, honesty, trust, trustfulness etc. Value is one of the tools of ethics and ethics is a value based concept.

3. OBJECTIVES

The central purpose of this study is to make an earnest attempt to gain an insight into how the PCAs form the perception of ethical issues and dilemmas in the accounting profession in terms of one of the normative factors, viz, idealism. The specific objectives of the current study are as under:

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3.1. Idealism

An individual, when faced with a dilemma, is influenced by a set of prescriptive factors. So, the study makes an earnest attempt to examine the impact of one of the prescriptive factors, namely, idealism considered to have an impact upon the behavioural intention.

3.2. Intended outcome

As a matter of fact, academic research should positively influence the possible refinements in theory, research, and practice. Accordingly, the last objective is to raise major implications for accounting ethical theories, research, and professional practice of accounting based on the findings of this study.

4. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

An individual's moral philosophy or ethical ideology is a factor that explains differences in ethical judgement (Schlenker & Forsyth, 1977 [14]). Fisher (2004 [15]) pointed out thus: "Normative ethics (sometimes also referred to as moral philosophy) in contrast to describing the values, beliefs and norms that influence actual behaviour, evaluates behaviour by appealing to standards or norms that are independent of custom" (p. 398). Moral philosophy is the extent to which individuals are relativists and/or idealists (Elias, 2002 [16]). Individual differences in approaches to moral judgement may be described parsimoniously by considering two basic factors: idealism and relativism (Forsyth, 1980 [17]). Idealism can be described as the extent to which an individual is concerned for the welfare of others and the avoidance of negative consequences for others (Forsyth, 1980 [17], 1992 [18]). Forsyth (1980 [17], 1981[19], 1992 [18]) conceptualised relativism as reflecting ethical scepticism, a point of view which recognises that there are many different ways to look at morality and which criticises those who attempt to formulate or rely on specific ethical principles. According to Forsyth (1980 [17]), relativism reflects the extent to which individuals reject universal moral principles and rules. High relativists are likely to take a more moderate or neutral position in moral judgement than low relativists (Forsyth, 1981 [19]). This does not mean that relativism is negatively related to the perception of the importance (appropriateness) of ethics. On the contrary, relativists are likely to agree that ethics is important in principle. At the same time, their scepticism makes them likely to agree that there are situations in which "ethics . . . may have to be subordinated," as Etheredge (1999 [20]) says, "if competitiveness, profitability, survival or efficiency are to be maintained" (p. 58). Empirical evidence also supports the recommended idealism – relativism classification system (Forsyth, 1981 [19], 1985 [21]; Forsyth, Nye, & Kelly, 1988 [22]; Forsyth & Pope, 1984 [23]; Rim, 1982 [24]; Stead, Worrell, & Stead, 1990 [25]; Vitell, Lumpkin, & Rawwas, 1991[26]). Forsyth (1980 [17]) suggests that individuals can be grouped into four categories, depending upon their personal moral philosophies of idealism and relativism (Figure 1).

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	High relativism	Low relativism
High idealism	<p>Situationist</p> <p>Rejects application of universal principles. Believes that moral acts have positive consequences for all persons affected by an action or a decision.</p>	<p>Absolutist</p> <p>Approves actions that result in positive consequences for all individuals. Also, believes that actions should conform to absolute moral principles.</p>
Low idealism	<p>Subjectivist</p> <p>Rejects moral rules, and believes that moral decisions are subjective, individualistic judgements. Believes that negative consequences do not necessarily make an action immoral.</p>	<p>Exceptionist</p> <p>Accepts moral rules in principle, but willing to violate moral rules in order to circumvent negative consequences. An action is not condemned automatically because the action involves negative outcomes for some.</p>

Fig 1: Taxonomy of ethical ideologies

Source: Determinants of earnings management ethics among accountants (Elias, 2002 [16], p. 36).

Elias (2002 [16]) put it thus: “In general, research has shown that individuals exhibiting high relativism judge ethically ambiguous situations more leniently than those exhibiting high idealism” (p. 36). Past studies on the ethics of the accountancy profession have used the ethical perception as a dependent variable (e.g., Elias, 2002 [16]; Flory *et al.*, 1992 [27]; McManus & Subramaniam, 2009 [28]; Shafer *et al.*, 2004 [29]). The current study used the behavioural intention as the dependent variable. According to Flory *et al.* (1992 [27]), “intention represents the individual subjective probability of engaging in the behaviour” (p. 295). For the purpose of the current study, the behavioural intention is the likelihood that an individual will engage in the same behaviour as that of an unethical case scenario. The present study applies the previous results from business ethics research. Based on the previous findings, the following hypothesis is developed:

Idealism is negatively related to the behavioural intention

5. RESEARCH METHODOLOGY

The methodology of the study involves the following aspects:

5.1 Sampling procedures: The primary data were obtained from a self-administered questionnaire given to 1210 ICAI members in Karnataka. The questionnaire was also emailed to the PCAs who had agreed to respond by email at the first visit. PCAs were selected from the list of members that contains the names of all the members belonging to southern region¹ as on 1.4.2006 with their membership numbers, status and addresses. Only members in full-time practice² were considered. This is because the main profession of a member in part-time practice is not the profession of accountancy (ICAI, 2006 [30]).

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The Indian State of Karnataka is now divided into 30 districts with 4 administrative divisions (Wikipedia, 2011[31]). The four administrative divisions are as follows:

1. Bangalore division. This comprises 9 districts, namely, Bangalore Urban, Bangalore rural, Chikkabakkapur, Chitradurga, Davanagere, Kolar, Ramanagara, Shimoga, and Tumkur.
2. Belgaum division. There are 7 districts in this region. They are: Bagalkot, Belgaum, Bijapur, Dharwad, Gadag, Haveri and Uttara Kannada.
3. Gulbarga division. This consists of 6 districts: Bellary, Bidar, Gulbarga, Koppal, Raichur and Yadgiri.
4. Mysore division: This is made up of 8 districts: Chamarajanagar, Chikamagaluru, Dakshina Kannada, Hassan, Kodagu, Mandya, Mysore and Udupi.

For the current study, disproportionate stratified random sampling technique was used to collect the information. Each of the above 4 divisions was considered as a stratum. Accordingly, the respondents, *i.e.*, 1210 PCAs (Table 2) were selected from a total population of 3287 PCAs (Tables 1& 2).

TABLE 1: Region wise distribution of the ICAI members as on 1-4-2006

Region		In full-time practice	In part-time practice	Not in practice	Total (2 + 3 + 4)
1		2	3	4	5
Western Region		20753	4025	20135	44913
Southern Region	Other states	10553	1551	10505	22609
	Karnataka	3287*	569	3593	7449
Eastern Region		7181	753	5551	13485
Central Region		11741	855	4423	17019
Northern Region		14511	1912	9048	25471
Total		68026	9665	53255	130946

Source: List of members of ICAI (2006 [30]) as on 1-4-2006.

TABLE 2: Population* and sample size for the current study

Stratum (<i>i.e.</i> , administrative division of Karnataka)	Population* (<i>i.e.</i> , CAs in full-time practice)	Sample size	Effective response rate
Bangalore division	2472	900	221(24.56%)
Belgaum division	295	120	22 (18.33%)
Gulbarga division	125	50	16(32.00%)
Mysore division	395	140	46(32.86%)
Total	3287*	1210	N=305(25.21%)

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Source: List of members of ICAI [30] as on 1-4-2006.

As indicated by Tables 1, and 2 , the sample population involved 3287 CAs in full-time practice from Karnataka and a sample, as reported in Table 2, of 1210 PCAs was used ($\chi^2=1.33$, $p=.723$ NS). The insignificant chi-square (χ^2) value shows that the sample of 1210 PCAs does not differ significantly from the total population of 3287 PCAs. A number of random follow-up calls were made to the PCAs, who had not returned the questionnaire at the first visit, to check if the questionnaire was filled-in, and if the respondent was willing to answer the questions through email. A number of random follow-up calls were also made to the PCAs to request them, who had agreed to respond by email, to expedite the response and most of the replies were in the affirmative.

A total of 305 useable responses were received. This equates to a response rate of 25.21 per cent. On hindsight, a possible reason for the relatively low response rate might be related to the time constraints faced by PCAs due to their hectic schedule.

5.2 Questionnaire design : The questionnaire gathered the information to determine the PCAs' idealism, as an independent variable, using Forsyth's (1980 [17]) Ethics Position Questionnaire (EPQ). And the questionnaire also provided a hypothetical case scenario (adapted from McManus & Subramaniam, 2009 [28]), whereby PCA X discovers improper accounting treatment of research and development expenditure. This treatment is assumed to have significant implications to the financial statement and when the matter is brought to the attention of the audit partner, no action is undertaken with the suggestion that the client (who is also a large and important client) would prefer the matter to be treated as it is.

The current study used 'behavioural intention' as the dependent variable. For the purpose of the current study, the behavioural intention is the likelihood that an individual will engage in the same behaviour as that of an unethical case scenario(adapted from McManus & Subramaniam, 2009 [28]). The respondent recorded his/her subjective probability of engaging in the unethical action by circling/ticking the appropriate number on a five point scale where '1' was 'very low likelihood' and '5' was 'very high likelihood'.

5.3 Descriptive statistics: The descriptive statistics of the independent variable (i.e., idealism) are presented as follows:

TABLE 3: Idealism

Factor	N	Minimum	Maximum	Mean	Std. Deviation
Idealism	305	30.00	49.00	40.3738	4.14355

Source: Field data

Forsyth's (1980 [17]) EPQ consists of two ten-item scales that measure ethical idealism and ethical relativism respectively. Accordingly, the idealism score was obtained by taking the mean of the 10 items from 1 to 10. The descriptive statistics of the dependent variable, viz, 'behavioural intention' (i.e., the likelihood that an average PCA would behave in the same way as that of the improper situation), most respondents indicated fairly low probability on a five-point Likert Scale with the value of 2.2426 for mean.

TABLE 4: Behavioural intention

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Behavioural intention	305	1.00	5.00	2.2426	1.10329

Source: Field data

5.4 Method of analysis: The current study has been made by converting the collected data into measures such as means. For analysing the data, statistical techniques (SPSS, 2000 [32]) like *Karl Pearson's correlation analysis* and *regression analysis* have been used as required in appropriate places. The analysis also utilised the *t-test* procedure. Significance levels of 0.001, 0.01, 0.05, and 0.10 were used.

5.5 Secondary data: Along with the primary data, secondary data have been collected from various published sources like books, journals, etc. by visiting libraries, and the ICAI's Mangalore Branch of Southern India Regional Council (SIRC) and also from internet. The researcher also collected the materials like the list of members of SIRC of ICAI (2006 [30]) from some of the members of Mangalore Branch of SIRC of ICAI.

6. FINDINGS

Correlation analysis reveals that EPQ 'idealism' scores were not significantly correlated with scores on 'behavioural intention' ($r = -0.087$, $p = 0.130$). These results, thus, do not provide initial support for the hypothesis (*i.e.*, idealism is negatively related to the behavioural intention). The EPQ 'idealism' variable did not contribute significantly to the prediction of the 'behavioural intention' ($\beta = -0.084$, $t=-1.467$, $p=0.144$) providing no support for the hypothesis (*i.e.*, idealism is negatively related to the behavioural intention).

7. INTERPRETATIONS

With the lack of significance for 'idealism' in the case of dependent variable: 'behavioural intention', PCAs may not be predisposed to behaving in a certain way. The recent scandals evidenced that auditors (*i.e.*, accountants, the profession of accountancy is said to have professional accountants) have stronger incentives to please clients than to serve the investing public that can be disastrous for the public. Thus, in a sense, the profession of accountancy has become more a typical business. The lack of significance for idealism in the case of 'behavioural intention' may be caused by the limitations of the rationalistic ethical theories, such as Kantianism (normative theory) with which idealism is consistent, based on aprioristic principles of morality. These theories, unlike virtue ethics, do not consider the importance of motivation and habits for correct behaviour. Accountants, as with every professional, have to bear values in mind and have good character as they have to make practical judgements about concrete situations and, above all, have to behave correctly. Ethical judgement can be improved through going beyond merely focusing on ethical principles that are derived from ethical theories and modifying of current law governing the profession of accountancy as the current

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institutional arrangements may be expected to foster relativism, not idealism (Vedava, December 2018 [33]). Thus, the only way of solving dilemmas, in a field like professional accounting involving practical judgements, is the development of virtues, that is, permanent dispositions that favour ethical practice. Such a development of virtues can be achieved through the strengthening of education and the modification of current law governing the profession of accountancy. However, the problem with the concept of virtue is that complete ethical viewpoint cannot be based solely on virtue without the anchor of the ethical theories. Frequently the principles that come from rationalistic theories to serve as a rule's basis provide a broader perspective for ethical behaviour in accounting. Thus, the ethical education in accounting should include more effective teaching of Kantianism, with which 'idealism' is consistent.

8. CONCLUSION

The aftermath of the recent vast scale of accounting scandals, in fact, reflects lack of ethical orientation of personal moral philosophies, especially idealism amongst the accounting professionals. The accounting manipulation adopted by such professionals violates the very basis of deontological principle, according to which process or *means* is more important than *end* or consequence. A number of characteristics of the auditing relationship create substantial opportunities for self-serving bias to influence the judgement. Both the structural aspects of accounting such as ambiguity or flexibility in financial reporting standards, and aspects of human nature such as familiarity, i.e., people are more willing to harm strangers or 'statistical' people than known victims, can amplify unconscious bias. In sum, auditors' judgments are held back from making unbiased judgements because of the often subjective nature of accounting and the tight relationships between accountants and their clients. As a result they are likely to be unconsciously biased in favour of their own and their clients' interests. Young writing in 2003 stated thus: ". . . . Fraud occurs because the culture has become infected. It spreads like an unstoppable virus" (quoted in Rockness and Rockness, 2005 [34], p.47). When culture (corporate governance/business ethics) is infected, the professional accountants are likely to face dilemmas leading to conflict. The only way of solving dilemmas, in a field like professional accounting involving practical judgements, is the development of virtues, that is, permanent dispositions that favour ethical practice. Such a development of virtues can be achieved through the strengthening of education and the modification of current law governing the profession of accountancy. The respect and recognition enjoyed by a profession, to a great extent, is dependent on adherence to the spirit of the code of ethics by self discipline (virtues), not to the letter of the code of ethics by legislation. However, the problem with the concept of virtue is that complete ethical viewpoint cannot be based solely on virtue without the anchor of the ethical theories. The ethical education in accounting should include more effective teaching of Kantianism, with which 'idealism' is consistent.

The ethical perception of a situation is a complex process, involving different factors. Different situations may elicit different and, perhaps, undiscovered elements and future research should include attempts to uncover additional factors if any (Vedava, 2017 [35], November 2018 [36]). Further, the replication of the current study from the perspective of different professional situations should improve understanding of ethical perception in

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the practice of accounting. Such an understanding is essential before ethical practice can be moderated or ethical conduct prescribed.

Notes

¹ The Southern India region comprises states of Andhra Pradesh, Kerala, Karnataka, and Tamilnadu and the Union Territories of Pondicherry and the Lakshadweep Islands (ICAI, 2006).

²The members of the ICAI may be classified as practising and non-practising CAs based on holding certificate of practice.

9.ACKNOWLEDGEMENT

This paper formed a part of my PhD thesis. First of all, I am extremely grateful to my esteemed research guide Dr. P. S. Yadapadithaya, Professor, Department of Post-graduate Studies and Research in Commerce, and Former Registrar, Mangalore University, for his valuable help and encouragement throughout my research work.

My sincere thanks go to all the respondents, that is, the practising chartered accountants (PCAs) of Karnataka who have been kind enough to hear me with a lot of patience and for having responded to the questionnaires during my field study. In particular, I express my sincere thanks to CA Nithin J. Shetty, Nithin J. Shetty & Co., Mangalore, and CA S. S. Kamath, Kamath & Rau, Mangalore for their valuable suggestions and help in framing and administration of the questionnaire including the supply of materials such as the ICAI's code of ethics and the list of ICAI's members. I also thank, in particular, CA. Sujaya D. Alva, Mangalore, CA Prashanth Pai K, Mangalore, and CA Deepak Sharma, New Delhi, for their assistance and cooperation.

I express my gratitude to Professor M. S. Kotian, Associate Professor, Department of Community Medicine, KMC, Mangalore, for his talented assistance and guidance in analysing the data. I express my profound gratitude to Prof. Aruna Rao, Department of Statistics, Mangalore University and Dr. Prakash Pinto, Dean, Department of Business Administration, St. Joseph Engineering College, Mangalore, for their intelligent observations about the analysis and interpretation of the data.

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2nd -3rd November 2019

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ISBN : 978-81-943584-1-1

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