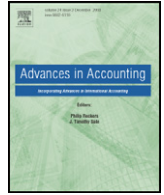




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The role of affect and tolerance of ambiguity in ethical decision making

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ABSTRACT

This research note extends the research on ethical decision making in accounting by examining the effect of two variables, affect and tolerance of ambiguity, on ethics-related decisions made in two contexts: both personal and organizational settings. I conduct an experimental study among undergraduate accounting students and find that tolerance of ambiguity significantly influences ethical decisions in both personal and organizational settings. The results also reveal a significant interactive effect between negative affect and tolerance of ambiguity.

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An auditing profession whose members exhibit high integrity in the service of society is foundational to a fair and efficient capital market. And yet, the flurry of recent corporate reporting scandals has called into question the very ethics of the auditing profession in this country and world-wide (Armstrong, Ketz, & Owsen, 2003; Massey & Thorne, 2006). In response, the US Congress passed the Sarbanes–Oxley reforms (SOX), the National Association of State Boards of Accountancy (NASBA) revised the educational provisions of the Uniform Accountancy Act (mandating ethics education in collegiate accounting curricula) and the Board of Examiners has revised the content of the national CPA examination to include ethics.

Ethical decision-making as an area of accounting research is in its infancy. Significant research outside of accounting has explored the development of moral reasoning in various societies, but the relationship between enhanced moral reasoning and enhanced ethical conduct remains unclear. Recent research has found that personal attributes (such as tolerance for ambiguity) or environmental conditions (such as the decision-maker's affective state) can mediate the relationship between moral reasoning and ethical conduct. Accordingly, additional research centering on these personal attributes and environmental conditions would be beneficial and is the focus of the research reported here.

This paper extends the research on ethical decision making by examining the effect of two variables, affect and tolerance of ambiguity, on ethics-related decisions made in two contexts: both personal and organizational settings. I find that tolerance of ambiguity significantly

influences ethical decisions in both personal and organizational settings. The results also reveal a significant interactive effect between negative affect and tolerance of ambiguity.

This research note is structured as follows: Section 1 motivates the research and develops hypotheses, Section 2 describes the research methodology, Section 3 discusses the results of the experiment, and Section 4 concludes with a discussion of the implications and limitations of the research.

1. Motivation and hypothesis development

1.1. Ethics in accounting

Accountants and auditors have an obligation to practice with integrity and objectivity in the interest of public welfare. The recent spate of corporate accounting scandals has damaged the reputation of the accounting profession, and calls for improved ethical decision-making in accounting have been numerous. Armstrong et al. (2003) observe that “the sheer number of accounting abuses serves as prima facie evidence that something more is needed in terms of accounting ethics,” and also note that “calls for teaching more ethics in accounting education” have come from nearly every source, including the AACSB, AAA, AICPA, AAEC, NCFRR, and IFAC (Armstrong et al., 2003).

Thorne's (1998) model of ethical decision making may be decomposed into two elements: *moral development* (“the cognitive acts of recognizing moral issues and thinking them through”) and *virtue* (“the ethical motivation and intention to act morally and the ethical character to bring that intention to fruition”) (Armstrong et al., 2003). Moral development encompasses what many researchers refer to as moral

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reasoning (or prescriptive, or principled reasoning), while virtue refers to traits such as courage and fortitude that must be present in order for an individual to translate moral reasoning into ethical action.

A number of accounting studies have examined moral reasoning in accounting, usually measured using Rest's (1979) defining issues test (DIT). Rest takes a "cognitive-developmental" approach to moral reasoning by investigating the "problem solving strategies and cognitive structures people use to guide their moral decision making" (Schatzberg, Sevcik, Shapiro, Thorne, & Olusegun Wallace, 2005). Rest's neo-Kohlbergian framework consists of three moral schemas: Personal Interest, Maintaining Norms, and Postconventional. As individuals move from the personal interest level of moral reasoning to the postconventional level, they move from framing moral dilemmas in terms of the impact on themselves to framing moral dilemmas in terms of the impact to society.

Many accounting studies have utilized the DIT to document that moral reasoning can have a significant impact on behavior (e.g. Schatzberg et al., 2005; Ponemon 1992; Ponemon 1993; Ponemon & Gabhart 1990; Windsor & Ashkanasy 1995; Falk, Lynn, Mestelman, & Shehata, 1999; Kaplan, Newberry, & Reckers, 1997; Church, Gaa, Nainar, & Shehata, 2002). However Schatzberg et al. (2005) note that "the findings in these prior accounting studies suggest that the impact of moral reasoning is not always in the predicted direction." For example, Ponemon (1993) found that auditing students with relatively high levels of moral reasoning were more, not less, likely to engage in free-riding behavior than auditing students with moderate levels of moral reasoning (Schatzberg et al., 2005). Schatzberg et al. (2005) extend prior research by simultaneously studying both moral reasoning and economic incentives in an experimental auditing environment. They report once again an inverse relationship between moral development and ethical action. That is, subjects with lower levels of moral reasoning report more truthfully than subjects with higher levels of moral reasoning. The authors conclude that "the relation between economic incentives and moral reasoning is more complex than previously acknowledged in the accounting literature," (Schatzberg et al., 2005) and that missing variables may exist.

Unfortunately, extant research has focused almost exclusively on the moral development aspect of ethical decision making, and ignored other variables of potential consequence, such as environmental conditions (e.g., economic incentives) and personal attributes. Only now are we coming to realize the potential for these other variables to interact with moral development in influencing ethical actions. The failure of past research to control for other variables of importance may explain the mixed and unpredicted findings of the prior literature. This study, which is exploratory in nature, examines two personal attributes, affect and tolerance of ambiguity, which are predicted to impact ethical decision making.

1.2. Affect and ethical decision making

A large body of research has examined the role of affect in decision making. Affect is a construct used to describe moods, and is generally recognized as having two dimensions, Positive Affect and Negative Affect (Clark, Tellegen, & Watson, 1988). Clark et al. (1988) note "Although the terms *Positive Affect* and *Negative Affect* might suggest that these two mood/emotion factors are opposites (that is, strongly negatively correlated), they have in fact emerged as highly distinctive dimensions that can be meaningfully represented as orthogonal dimensions in factor analytic studies of affect" (Clark et al., 1988).

Positive and negative affect may relate to personal disposition (mood) or to a reaction to an environmental event (emotion). The former is more stable (less-transient), the later more transient. Accordingly, researchers can measure naturally-occurring affect or manipulate experimental conditions to induce a desired state of affect, although individuals with different affective dispositions may react differently to environmental stimuli. Bierstaker and Cianci (2006) experimentally manipulated

conditions to induce desired affective states. Their purpose was to explore the impact of positive and negative affect on auditor's technical and ethical judgments. They find that "when auditors were in a negative affective state, they made less ethical judgments;" technical judgments were unaffected (Bierstaker & Cianci 2006).

There are various potential explanations for these findings, all highly speculative at this juncture in the evolution of this research. One possibility is that individuals who experience negative affect can be expected to act in a fashion to alleviate the discomfort of that condition. Sawers (2005), for example, found that many individuals exhibit negative affect when confronted with a difficult decision task. Predictable coping mechanisms included decision delay and avoidance, enhanced reliance on the preferences of others or status-quo bias. One might also analogize a state of negative affect as similar to a loss-frame and predict greater risk-taking behavior per tenets of prospect theory. That is, individuals experiencing negative affect would engage in more risky conduct, such as unethical conduct.

The generalizability of Bierstaker and Cianci's findings is unknown. This is especially the case because the states of negative (and positive) affect in their study were not naturally-occurring. They were induced by experimental manipulations not necessarily common to an auditor's environment. I extend their research by examining the influence on ethical decision making of naturally occurring states of affect in my participant pool.

Because past research indicates that positive and negative affect are separate mood/emotion factors, and that each factor may affect ethical decision making differently in different situations, I examine the effects of both positive and negative affect in a number of different ethical dilemmas at both a personal and organizational level, leading to H1 and H2:

H1. Subjects experiencing relatively more negative affect will make less ethical decisions.

H2. Subjects experiencing relatively more positive affect will make more ethical decisions.

1.3. Tolerance of ambiguity and ethical decision making

Other recent research has examined the effect of cultural differences on ethical decision making. For example, Wong-on-Wing and Lui (2007) examine differences between Chinese and American attributions of morality. However, 5000 ft-level analyses, such as this, leaves much unexplained. This is because cultural differences are made up of several sub-components, which individually or in combination may drive results (Cohen, Pant, & Sharp, 1993). Specifically, Hofstede decomposes cultural differences into four key attributes: Tolerance for Ambiguity (uncertainty avoidance), Masculinity/Femininity, Independence/Collectivism, and Short-term/Long-term Focus. Instead of using culture as a proxy for an individual's personal attributes, I measure personal attributes directly, and focus on the first of Hofstede's four attributes, tolerance of ambiguity (uncertainty avoidance).

Cohen et al. (1993) discuss the ethical implications of differences in tolerance of ambiguity (TOA). They posit that TOA will affect ethical decision making in relation to rule orientation, where individuals with lower TOA will be less willing to break company rules, even when doing so would be in the company or society's best interest, while individuals with higher TOA are more willing to "tolerate the ambiguity of outcomes when going beyond the rules" (Cohen et al., 1993). Individuals with low TOA ascribe an aura of "truth" to the rules which "excludes the possibility of other truths" (Cohen et al., 1993).

This leads to H3:

H3. Subjects with higher tolerance of ambiguity will make less ethical decisions (i.e., be more willing to violate ethical norms personally and less willing to report others who do so).

I hypothesize this will be the case both in circumstances where the individual confronts a personal ethical dilemma and where the issue is

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