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Abstract

Taking into consideration the fact that nowadays ethics regarding the accounting profession constitutes one of the most discussed issues all over the world this paper aims to study the impact of organizational variables in the ethical decision-making process of Albanian accountants. Based on the previous researches made mainly in developed countries and as in Albania researches regarding this discipline are extremely rare in this study four organizational variables will be considered: Code of Ethics, industry type, organization size and ethical climate. A sample of about one hundred management accountants who work in Albanian organizations was chosen and they were asked to fill a questionarie regarding these variables and their impact in the ethical decision-making process. Data were entered and processed in SPSS and concluded that these factors have no significant impact in the ethical decision-making process of the accountants. This study represents a simple contribution for our country as we have an emerging economy for which understanding the factors that influence the ethical decision-making process is crucial.

Keywords: ethical decision-making process, organizational variables, management accountants, Albania

Introduction

During the recent decades, each of us has been witnessing a great number of scandals of popular companies across the globe. Prestigious companies like Enron, Arthur Andersen, WorldCom in USA or that of Parmalat in Italy, OneTel in Australia etc, went into bankruptcy as a result of financial frauds and unethical decisions based on which they built the future of their activity. Normally, all these events contributed to the loss of public confidence in the accounting professionals who were previously regarded as people who exercised their occupation according to the ethical principles of their profession. Facing such a climate, scientific researchers in the ethic, accounting and business field were obliged to take measures in order to normalize such a situation and bring back the faith and the deserved dignity to this profession from the whole society.

Immediately after the scandals, it was noticed a boom in the scientific, qualitative as well as quantitative researches in relation to this issue. An evident aspect is that it was paid a special attention to the ethical issue of business in general and particularly to the ethic of accounting, trying to improve the accounting students’ education and meanwhile the arrangement of accountant’s profession.

The future of a business unit depends on the accounting professionals just because of the simple fact that these individuals have the duty to provide the financial information in relation with the economic activity of the business unit. On the other hand, it should be emphasized that even the financial information is a useful mean in the process of decision-making regarding the different issues which have to do with the economic activity of a business unit. The power of taking economic decisions based on the financial information prepared by the financial accountants belongs to the management accountants where the success and the performance of business unit directed by them is trusted in. There is a fair connection between the performance of a business unit and the decision-making process. The existence of an ethical decision-making process which is in accordance with all rules and economic objectives that a business unit has ensures the realization of a better performance and normally positive financial results. For this reason, understanding the process of ethical decision-making of management accountants makes it a very important element for the accounting profession.
There are many ethical decision-making models but the earliest of them is the model proposed by Rest in 1986, which constitutes the theoretical foundation regarding this issue and is used by several researchers not only in the field of accounting but also in management, marketing etc. Other researchers in the following years mastered this model adding and integrating in it also the factors that affect each stage of the ethical decision-making process.

There are three most important studied groups for the factors that affect an individual, who is facing the obligation to make a decision upon a certain issue: the individual factors, the planning factors and the characteristics of ethical issue in relation with the decision should be taken. The three groups introduce a special importance but the main purpose of this paper is to provide the management factors and their influence in the ethical decision-making process as it aims to see the organization role in the process of ethical decision-making for the management accountants.

Literature review

The process of ethical decision-making

The process of ethical decision-making is defined “as a process through which individuals use their moral base to determine whether a certain issue is right or wrong” (Carlson et al. 2002, p 16). On top of theoretical models related to this process, there is the theoretical framework compiled by Rest (1986) which has widely been used in many researches over the process of ethical decision-making within organizations. According to this model, the process of ethical decision-making goes through four stages or phases which are ethical recognition, ethical judgment, ethical purpose and ethical behavior. According to Rest, each of these stages is conceptually different and the success in one of them doesn’t necessarily provide success even in the following stage. This model was mastered even more from other researchers in the following years, starting from Trevino (1986) to John (1991).

Trevino (1986) offered an interacting model of ethical decision-making, influenced by the Theory of Kohlberg (1969), which went through three phases and was affected from the individual factors as well as the organizational ones. According to it, the process of ethical decision-making is a result of an interaction between individual and organizational factors in relation with the way of thinking for the individual who makes this decision to solve the ethic dilemma.

Based on the Rest’s model (1986), Jones (1996) proposed a model directed by the characteristics of the ethical issue itself. He claimed that the features of ethical issue are the main determinants of the process of ethical decision-making and according to him; this makes a good reason to integrate them in the process of ethical decision-making.

Based on the current literature regarding the process of ethical decision-making, it is firstly noticed that the majority of researching related to this issue is made in the developed countries and in developing ones and this field is unexplored. Secondly, almost all the current studies support and use the theoretical frame compiled by Rest (1986) and they have explored one or two stages of Rest’s model as depending variables whereas the factors that influence on them as depending variables.

The organizational factors will be the focus of this paper as well as their impact in the process of ethical decision-making. The majority of researchers support the fact that organizational factors influence the decision-making of employees in relation to specific ethical issues. The organizational factors’ group constitutes all those elements that are not related to decision-maker as an individual and at the same time are not related to the decision’s alternatives (Ross & Robertson, 2003). The Code of Ethics, the ethic climate, the organization size, the managing structure, the organization culture and also the reward and punishment systems are part of this group of factors. A considerable number of studies are focused on the impact of ethic climate and Ethics Code of a company which is in the process of ethic decision-making for its employees. These studies concluded that there is a considerable impact of these elements in the ethical decision-making process in different areas like marketing, accounting and management, especially in the developed countries.

However, a limited number of studies have been made in relation to management accounting in general and moreover in relation to the impact of these elements in these individuals during the decision-making.

Code of ethics
The Code of ethics is considered as one of the most important elements in the group of managing factors. It is said that it could have a considerable impact to individuals during the ethical decision-making process.

Stevens (1994, p.64) defines Code of ethics as “written documents through which corporations hope to shape employee’s behavior and produce change by making explicit statements as to desired behavior”. Another interesting definition for the Code of ethics is given by Langlois and Schlegelmilch (1990), wherein Code of ethics is a document which defines corporate principles, ethics, behavioral rules, practical code or company’s philosophy, by taking into consideration the responsibility of employees, shareholders, consumers and as well as the background and society.

According to Singh, Carasco, Svensson, Wood & Callagan (2005), the Code of ethics improves the reputation of the company and its trademark image. By stressing the fact that there is not a certain model in relation to the content of the Code of ethics is a mean that changes from one corporation to another, since it is compiled in accordance with objectives and philosophy of each organization and this is achieved by stressing the fact that there is not a certain model in relation to its content.

A considerable number of studies (Singh et al., 2005; Woturba, Chonko, Loe, 2001) concluded that Code of ethics influences positively in the ethical behavior within organization. On the other hand, there are some other researchers who claim that Code of ethics itself is not enough to ensure that employees in corporate would make ethic decisions when they face ethic situations.

Ethical climate

Ethical climate has been considered as an important and influencing factor in the ethical decision-making process of individuals within the organization from a large number of studies. We should not forget to mention the fact that theoretical basis regarding this factor date back to 1987 in the studies conducted by Victor and Cullen. According to them the ethical climate is defined as “the prevailing perceptions of typical organizational practice and procedures that have ethical content”.

Inside the organization based on the theories of moral philosophy and the moral of psychology Victor and Cullen (1987) composed the Ethical Climate Questionnaire (ECQ) in order to identify the ethical climate of a specific organization or group. This questionnaire starts from the perceptions of individuals from the same organization in relation to the acting manner of individuals in cases when they face up ethical dilemmas.

Victor and Cullen (1988) concluded that ethical climate inside the organizations changes on the basis of two dimensions, which are three classes of the ethical theory and three loci of analysis. Based on what is said above, they concluded that an organization may have nine types of ethical climates.

Only four of them will be the focus of this paper: the interest of the organization, the personal morality, law and fiscal code and social responsibility. This is because these types have been the most studied and they are supposed to be found in the Albanian companies. An additional reason for the involvement of these factors in my study is that the literature regarding their impact on the process of ethical decision-making is very poor, and the empirical data that will be received will provide a modest contribution in this area.

Industry type

there are some studies that support the fact, that the type of industry in which a certain organization operates has an important impact on the individuals’ ethical behavior (Oz, 2001).

It should be noted that ethics literature of business continues to produce mixed and inconsistent results regarding the influence of the industry type and ethical decision. Meanwhile, regarding the type of industry, most studies conclude that this factor has an important impact on ethical decision.
Hypothesis

Since the current searches reach almost to the same result, so they support the fact that the presence of the Ethics Code is positively related to ethical decision-making (Loe et al.,2000: O’Fallon and Butterfield,2005: Kaptein,2011: McKinney et al,2010), the first hypothesis of this paper will be:

H1: The presence of the Code of ethics is positively related to the ethical recognition, judgement and intention.

As regarding the ethical climate of the organization which is also the second factor the recent researches (Beeri et al. 2013: Elango et al., 2010: Lu and Lin,2013) support the positive relationship that exists between the ethical climate and the stages of the ethical decision-making process. Taking into consideration these results the second hypothesis of this paper would be:

H2: The ethical climate types have got an important impact on the ethical recognition, judgement and intention.

Following the same line of reasoning the third hypothesis is as follows:

H3: The ethical recognition, judgement and intention vary depending on the type of industry.

Methodology

As it is mentioned earlier the focus of this paper is to determine the influence of organizational factors in the first three stages of the ethical decision-making process. Give that Albania is part of the developing countries; the number of the companies operating in our country is not very large. Moreover the function of ethical decision-making is a function which should be exercised by the management accountants but in our country in the majority of cases it is delegated to the financial accounts or to the financiers of the company. These conditions allow us to include only big companies in our study. These companies in our country should have no less than 50 employees. There were randomly selected 150 of such companies and their accountants were asked to answer a questionnaire. It was sent by e-mail and 120 of them answered it.

The questionnaire consisted of two parts. The first part had three questions through which we collected information for the organizational variables. The categories were determined according to the type of industry. This last one based on the Register of Enterprises for 2014 published by INSTAT. In order to collect information regarding the ethical organization climate we used the Ethical Climate Questionnaire developed by Victor and Cullen in 1987. It was understandably a reduced version because in the focus of this paper are four types of ethical climate out of nine that exist.

The second part has to do with collecting the information connected to the first three stages of the ethical decision-making process. In this part the interviewees were given four scenarios related to the cases of ethical dilemas that the accounts are facing. For each of the cases there were three questions for the three stages of the ethical decision-making process.

In order to measure the ethical recognition of the individuals they were asked if the situation presented in each of the scenarios involved or not an ethical issue. The ethical judgement is measured by the answers that the interviewees give when they are sked if they agree with the decisions that the individuals take in each scenario. As for the ethical purpose it is measured by the answers given to the question whether they agree or disagree writh the stakeholders’ actions in each scenario.

The collected information was processed in SPSS by using independent samples tests and one-way independent samples ANOVA tests for the categoric variables: the size of the organization, the industry type and the ethic code as well as for the continuing variables such as the ethical purpose and the ethical climate of the organization for which were used a hierarchical multiple regression.

Results

The results of the SPSS processed data show that in terms of the first hypothesis which assumes that the code of ethics affects the first three stages of the ethical decision-making process is not verified. It is noticed, that even though individuals...
recognize the ethical issues in each scenario, they judge them as unethical and do not intend to behave unethically regardless whether they work in companies that have or not an ethical code. There are significant differences between management accountants and their decision-making process and this as a result of the presence or not of the Code of Ethics.

As mentioned before to examine the impact of ethical climate types on the ethical decision making process it was used hierarchial linear multiple regression. The second hypothesis regarding the results of the analysis found limited support. The values of the standardized regression coefficient $\beta$ of the four types of ethical climate within Albanian companies revealed very limited support for their impact in the ethical recognition stage. There were found only two significant results, one of them related with law and code in scenario 4 [$\beta = .135, p < .05$] and the other was related with personal morality in scenario 1 [$\beta = .32, p < .05$].

In the stage of ethical judgement the situation seems to be the same. It must be mentioned that there were only a few significant results. Law and professional codes had only one positive significant relationship in scenario 3 [$\beta = .31, p < .05$], social responsibility had similar results in scenario 1 [$\beta = .26, p < .05$], and personal morality had negative result in scenario 1 [$\beta = -.19, p < .05$].

The same situation was for the stage of ethical intention. It was found only one negative significant result related to personal morality in scenario 1 [$\beta = -.17, p < .05$].Thus in total the second hypothesis regarding the positive influence of ethical climate in the ethical decision making process was rejected.

The third hypothesis is also rejected because means scores regarding this issue revealed that on average all participants recognize the ethical issues in each of four scenarios as the mean scores of them are 3.4 or above. They also judged them as unethical issues as the mean scores of them are 3.2 or above and in the same time they have no intention to behave unethically as the mean scores of them are 3.1 or above. Thus the results show no significant results in the mean scores of the three stages of ethical decision making process based on the type of the industry in which operate the company they work for.

Table 1. Hypothesis summary

<table>
<thead>
<tr>
<th>Organizational variables &amp; EDM stages</th>
<th>Ethical recognition</th>
<th>Ethical judgment</th>
<th>Ethical intention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Code of ethics</td>
<td>No support</td>
<td>No support</td>
<td>No support</td>
</tr>
<tr>
<td>Ethical Climate</td>
<td>Low support</td>
<td>Low support</td>
<td>No support</td>
</tr>
<tr>
<td>Type of industry</td>
<td>No support</td>
<td>No support</td>
<td>No support</td>
</tr>
</tbody>
</table>

In summary it can be said that there were no significant differences in ethical decision making based on code of ethics and industry type. Knowledge of the existence of a code is a necessary prerequisite for its effectiveness, but the results here suggest that those management accountants who perceive that their company has a code are not significantly different from those who do not (whether the company has a code or not). This might be a particular concern in Albanina and other developing countries that have not yet made much progress in developing an accounting profession with a strong code of ethics. There are many possible reasons for this result. One is that the content of the code is limited or, in this case, is not particularly relevant to the work of the management accountants.

Laczniak and Inderrieden (1987) claim that a code of ethics may be associated with the process of ethical decision making only when combined with sanctions. Rottig and Heischmidt (2007) suggest that a code of ethics should be systematically and empirically examined in conjunction with additional determinants of ethical decision making such as ethical training. The results of this study suggest that managers of Albanian companies should check that the content of their code of ethics is up to date and relevant, communicated to staff and supported appropriately.

Also four types of ethical climate were examined, and limited significant results were found.
Only personal morality was found to have a significant relationship with the ethical decision-making stages in only one scenario and law and professional codes only had one significant relationship with ethical recognition and one with ethical judgment, each in a different scenario. Empirical research has shown similar results, with ethical climate having limited or no significant relationship with ethical decision-making stages (e.g. Buchan 2005; De-Coninck and Lewis 1997; Shafer 2008). Briefly, the environment surrounding Libyan companies (i.e. public sector) or the other types of ethical climate may be better predictors of ethical decision-making scores.

Conclusions

This study investigated the role of organizational variables in the ethical decision making of management accountants in an Albania, an emerging country.

The results revealed few significant results in relation to the organizational variables and the three ethical decision-making stages. The apparent lack of impact of company codes of ethics suggests that companies should pay more attention to their content and to how they are supported, especially in the case of management accountants.

References


