Objectivity: A Redundant Dimension of The Management Accountants' Code of Ethics

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Abstract

A Hallmark of any profession is the presence of a Code of Ethics which can be defined and defended. The National Association of Account ants' Code of Ethics sets standards for practicing management accountants and students aspiring to become management accountants. This study empirically evaluated the content validity of the current code of ethics. Using Flanagan's Critical Incident Technique, interviews were held with 25 Certified Management Accountants from major corporations. The data from the interviews were assembled into a mail questionnaire. Based on responses to the questionnaire, six ethical categories and 191 specific behaviors describing the categories were identified and validated. The results provide empirical support for the current code of ethics, with the exception of the "Objectivity" category. There was a lack of consensus regarding behaviors to be classified to the "Objectivity" category. The results indicate that the "Objectivity" standards of the current code are obscure and tend to repeat the "Integrity" standards. Such results raise the question "Are the "Objectivity" standards of the current code of ethics necessary?"

Introduction

The implementation of the Certified Management Accountant (CMA) examination in 1972 represented the beginning of increased concern for ethics in management accounting. This concern was further stimulated by the enactment of the Foreign Corrupt Practices Act of 1977. Such ethical considerations grew in magnitude until a climax was reached in 1983 when the National Association of Accountants (NAA) and the Institute of Certified Management Accountants (ICMA) adopted a code of ethics for management accountants. The current code of ethics is expected to provide guidance to practicing management accountants. This study empirically evaluated the current code to determine if its contents, in fact, coincide with the actual ethical dilemmas confronting management accountants. The results provide support for the current code, with the exception of the Objectivity section.

Design of the Study

Lambert (1973), Sheldahl (1979) and the NAA (1983) developed the elements of a code of ethics for management accountants. Lambert prepared a code of ethics and surveyed industrial accountants regarding the code she prepared. Sheldahl developed a conceptual/methodological framework for codes of professional ethics in general, then identified specific ethical standards for management accountants. A committee of the NAA, after an extensive study, developed a code of ethics which was adopted by the ICMA as well as the NAA.

For this study, ethics for management accountants are assumed to be made up of multiple dimensions and specific behaviors that operationally define each dimension. It was further assumed that practicing management accountants are reasonable sources regarding ethical issues in management accounting. More specifically, Certified Management Accountants (CMAs) were assumed to be at the forefront of the management accounting profession. Therefore, CMAs were chosen to serve as respondents.

The study involved two phases--using both interviews and survey questionnaires based on prior consultation. The methodology combined Flanagan's Critical Incident Technique (1954) (FCIT) and Smith and Kendall's Retranslation of Expectations Technique (1967)(S&K). FCIT originally was a methodology that focused on

critical actions (incidents) that were either effective or ineffective in accomplishing a task. Since its conception, FCIT has been used for various purposes. For example, Lander (1981) used FCIT to develop a common body of knowledge for management accounting.

Time constraints precluded direct observation of management accountants. Instead, management accountants were asked to recall illustrations of ethical and unethical management accountants' behavior. According to Wallace et al. (1975) and Campion, Greener, and Wernli (1973), having expert judges observe actual behavior rather than asking them to recall events does not significantly improve the judges' agreement on the assignment of incidents to dimensions.

Smith and Kendall (S&K) expanded Flanagan's method because of their concern for comparability from judge to judge and/or occasion to occasion, either in level or in dimension.1 S&K's modification revolved around the use of ratings as criteria for validation of tests and as indices of effectiveness of educational, motivational, and situational changes.

Flanagan's technique does not obtain a valid consensus among all the members of the relevant population. Input is only gathered from the individuals utilized in the interview process. Therefore, unless the participants selected for the interviews are representative of the population, the resulting content is not valid across the population. Smith and Kendall's procedure takes Flanagan's technique a step further. After personal interviews determine the dimensions in the interviewee's own terminology and examples (behaviors) which define the dimensions, the data gathered is subsequently reallocated by the rater's peers to ensure a high degree of content validity for the items and the scales. In this study, the ethical dimensions and specific behaviors obtained in the initial interviews were organized in a questionnaire used to allow a large number of CMAs to reevaluate and reassign the behaviors to dimensions.

Initial Interviews

Twenty-nine Certified Management Accountants (CMAs) located in Indiana and Kentucky were sent a letter which explained the research topic and requested the individual's cooperation in serving as an interviewee. Twenty-five of the twenty-nine CMAs who were sent letters participated in the study. Four of the twenty-nine could not be reached after the initial contact letter was sent.

Fourteen organizations were involved. The types of organizations with which the interviewees were affiliated included universities, a holding company, various international companies, and several national businesses. Only two such entities employed more than two interviewees.

Both were international businesses and each employed five of the interview participants.

The twenty-five interviewees represented a diverse group. Their years of experience ranged from one to thirty-five and many had previously worked in public accounting. Three of the respondents were university professors and twenty-two were currently practicing management accountants at various levels in their business organization. Several of the interviewees were Certified Public Accountants (CPAs), in addition to holding a Certificate in Management Accounting (CMA).

The interviews were unstructured to prevent unnecessary influence on the interviewee by the interviewer. The interviews were designed to elicit two types of data from the respondents: (1) the categories of ethics for management accountants and (2) specific ethical and unethical behaviors by management accountants within each category. The expert interviewees were asked to think back over their own experience and describe illustrations of highly ethical and unethical behaviors by management accountants. They were also asked how they would categorize such behaviors. Each interview lasted approximately one hour and was tape recorded when feasible.

The interviewer entered each interview with a list of possible categories of ethics for management accountants which the researcher anticipated as being part of the operational definition of ethics for management accountants. This list consisted of the categories in the current code of ethics and new categories provided by previous interviewees. When the interviewee exhausted the categories and behaviors (s)he could initially recall, the researcher would stimulate further discussion by introducing new categories from the list. Table 1 shows the ten categories of ethics obtained during the interviews.

The Mail Survey

Phase two (the retranslation phase) involved the mailing of survey instruments, which included the behaviors and categories obtained in the interviews, to a sample of CMAs in order to empirically assess the degree of agreement among the CMAs. The respondents were asked to match each the behaviors to one of the categories. In addition, the respondents were asked to rate the extent to which each behavior is ethical or unethical using a seven interval scale.

The population consisted of members of the Institute of Certified Management Accountants (holders of the Certificate in Management Accounting). The population was stratified to assure a representative sample in the retranslation phase. The stratification was based on years of experience, and practicing versus non-practicing status. The samples were drawn from the stratified population

proportionately.

The responses to the survey instruments were statistically analyzed to assess the degree of agreement among the population of CMAs regarding the categories and behaviors that constitute an operational definition of ethics for management accountants. The results are the categories and behaviors which the CMA respondents highly agreed represent the content valid definitions of the dimensions of ethics for management accountants.

Utilizing statistical analyses, high agreement among the CMA respondents was discovered regarding six ethical dimensions and 191 specific behaviors. All six ethical dimensions had twenty-one or more specific behaviors assigned to them. The six categories with a brief description of each are presented in Table 2.

The Questionnaire

After the ten categories and 330 behaviors were obtained by interviews, the information was incorporated into six mail survey questionnaires. Each questionnaire was sent to two hundred CMAs (1200 total). The number of behaviors (330) prevented the use of a single instrument. Using six questionnaires instead of one long questionnaire minimizes the fatigue effect and increases the response rate (Lander, 1987, 269). Each questionnaire included all seven of the categories and sixty behaviors. The sixty behaviors include fifty-five unique behaviors (and five common behaviors sent to all potential respondents) from the 330 as a means of comparing responses across the six instruments.

Pilot Study

A pretest of the six questionnaires was conducted to assess (1) the time required to complete the survey instrument, (2) clarity of the questionnaire, (3) the content of the responses to the instrument and (4) the response rate. Each of the six questionnaires were mailed to two non-CMA colleagues and five CMAs. After considering the pretest results, one of the six instruments were sent to fifty CMAs to help assess the response rate and the content of the responses.

The average time required to complete the questionnaire was twenty minutes. The responses regarding the clarity of the questionnaires were limited. Only one change was suggested regarding the wording of the questions in part 1 of the questionnaire. In addition, minor editing of a few of the behaviors in part 2 was recommended. All such changes were implemented. There were no comments regarding the format of the questionnaires. Fifteen CMAs out of fifty who received the pilot mailings questionnaire completed and returned that questionnaire. This represented a 30% response rate. The responses to the pilot questionnaire was analyzed to assess their content. The pilot study results did not reveal any problems with the methodology or the content of the responses.

Reliability

The overall response rate to the mail survey was 32%. Non-response bias was statistically tested by comparing early respondents with late respondents (Oppenheim, 1966, 34). The results indicated no significant differences ($< .05$) between early and late respondents. This and the typical response rate suggests that there is no significant non-response bias associated with this study.

Responses to each of the six questionnaires were randomly divided into two groups. Spearman rank-order correlation coefficients were computed to assess the degree of agreement between groups. The coefficients for all seven categories exceeded .758. Such high correlation between the two groups provides additional evidence of the reliability of the survey instrument.

Validity

Based on the pretest and the reasonably high response rate, the questionnaires have been found to be conceptually clear and have achieved face validity. (Nunnally, 1978, 98-101; Layman, 1978, 28-29). The use of FCIT, a pilot study, and S&K's Retranslation of Expectations Technique assured content validity by (1) defining as stringently as possible the (categories) under investigation (2) testing the measuring device in a pilot study, and (3) revising the scale of the data (Layman, 1978; Taylor, 1968).

Results

Table 3 provides an illustrative comparison of the categories obtained in this study with the categories indicated in the current code of ethics. A perusal of the standards within each category of the current code of ethics allowed the matching of categories. For instance, the category "Competence" of the present code includes standards regarding legality such as ". . . perform their professional duties in accordance with relevant laws. . ." This suggests that both the "Competence" and "Legality" categories obtained in the current study can be matched to the category "Competence" of the current code.

Similarly, the category "Integrity" of the current code includes standards involving conflicts of interest. One of the standards explicitly states "avoid actual or apparent conflicts of interest..." Therefore, the categories "Integrity" and "Conflicts of Interest" of this study were matched to the "Integrity" category of the current code of ethics. This study found a lack of agreement among CMAs regarding the category "Objectivity," which is included in the present code of ethics.

Table 1

Categories of Ethics Obtained in Interviews

1   Supervision - Behaviors related to the way a management accountant treats
     subordinates.
2   Internal Control - Behaviors related to employees using company property
     for personal use.
3   Confidentiality - Behaviors concerning proprietary information.
4   Reporting - Behaviors involving the concealment of information.
5   Objectivity - Behaviors associated with bias.
6   Integrity - Behaviors involving company policies.
7   Legality - Behaviors related to violations of law.
8   Competence - Behaviors regarding one's ability to perform effectively.
9   Human Relations - Behaviors associated with understanding what members of
     an organization need.
10   Conflicts of Interest - Behaviors involving potential conflicts.

Table 2

Categories of Ethics After Retranslation Phase

1   Supervision - Behaviors related to the way a management accountant treats
     subordinates.
2   Confidentiality - Behaviors concerning proprietary information.
3   Integrity - Behaviors involving company policies.
4   Legality - Behaviors related to violations of law.
5   Competence - Behaviors regarding one's ability to perform effectively.
6   Conflicts of Interest - Behaviors involving potential conflicts.

Table 3

Comparison of Results with Current Code of Ethics

Categories in the Current Code	Categories found in this study that matched to the Current Code
Competence	Competence, Legality
Confidentiality	Confidentiality
Integrity	Integrity, Conflicts of interest
Objectivity	---

Table 4

Phase 2 Classification of the 86 Objectivity Behaviors

Behaviors Not assigned to any Category	50
Behaviors Assigned to Integrity Category	28
Behaviors Assigned to Legality Category	7
Behaviors Assigned to Competence Category	1
TOTAL	86

Lack of Agreement Regarding the Objectivity Dimension

The first phase of this study, the interviews, resulted in seven categories and 330 related behaviors. The "Objectivity" category had 86 behaviors assigned to it by the interview respondents. However, none of the 86 behaviors were assigned to the Objectivity dimension in the second phase. In the second phase, Smith and Kendall's Retranslation of Expectations Technique required each category to have behaviors consistently assigned to it. Each specific behavior was matched to the category receiving the most frequent (modal) assignment. If a category had no specific behaviors modally assigned to it, then that category was eliminated from future consideration. A category that had several modally assigned behaviors was considered an agreed upon category of ethics for management accountants. The "Objectivity" category had no specific behaviors modally assigned to it.

The fact that the CMAs involved in the interview portion of the study classified 86 of the 330 behaviors to the Objectivity category could have been due to the format of the interview process. When the interviewee was at a loss for a category, the interviewer would suggest the list of categories used by other interviewees. Because some of the interviewees were familiar with the current code of ethics the Objectivity category came out early in the interview process.

When all of the potential categories were presented simultaneously to those who received the questionnaires in phase 2, the respondents were able to match behaviors to categories with limited presentation bias. More importantly, a high degree of agreement among the respondents was required before a behavior or category was retained. Hence, lack of consensus regarding the 86 behaviors initially identified as belonging to the Objectivity category in the interview phase caused the Objectivity category to be dropped.

Integrity Versus Objectivity

The lack of agreement regarding the "Objectivity" category could have been caused at least in part by its abstract nature. Table 4 displays where the 86 behaviors, originally assigned to Objectivity, finally were assigned during phase 2. Note that 50 of the 86 behaviors were not assigned to any category due to a lack of agreement among the CMA respondents. Below are the two standards under "Objectivity" in the current code of ethics.

Management accountants have a responsibility to: 1. Communicate information fairly and objectively; 2. Disclose fully all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, comments, and recommendations

presented. The two standards are general. The lack of specific detail leaves this part of the code vague. Many, behaviors that seem to fit in one of the two Objectivity standards also fit in elsewhere in the code. For instance, behaviors relating to "communicating information fairly and objectively" could be assigned to the category "Integrity."

In fact, 28 of the 86 behaviors were assigned to the Integrity category in phase 2. The Integrity category, like the Objectivity category, is one of the four categories included in the National Association of Accountants' Code of Ethics. This suggests that the two categories (Objectivity and Integrity) are redundant and the Integrity category is more dominant. Table 5 includes a list of the 28 behaviors assigned to the Integrity category.

Conclusion

The results of this study support all the category classifications of the current code with the exception of one -- "Objectivity." The standards of the Objectivity category of the current code tend to be abstract and vague. Many behaviors seem to overlap the Integrity and Objectivity categories. Due to the abstract nature of the Objectivity category and the more specific standards in the Integrity category, CMAs are unable to agree on behaviors belonging to the Objectivity category. The code of ethics for management accountants is in it's infancy. This study provides some insight regarding the content of ethics for management accountants. However, further research is important to address the many questions that remain unanswered.

Footnote

1.   The Science Citation Index and the Social Sciences Citation Index note that the S&K article has been cited in over 70 publications, making it one of the most cited papers in the social science literature. [Institute of Scientific Information, 1983]

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Table 5

Behaviors Reclassified to the Integrity Category in Phase 2

RATING*	BEHAVIOR
6.4	MA adjusts the budget of a particular division to allow a particular manager to get a higher bonus.
4.65	Management doesn't give enough information to the MA for the MA to make a full analysis so MA includes the "lack of information" as part of the report. Boss takes "lack of information" out. MA does nothing.
1.95	Management doesn't give enough information to the MA for the MA to make a full analysis so MA includes the "lack of information" as part of the report. Boss takes "lack of information" out. MA resigns.
5.8	MA over-estimates future returns on a capital budgeting project to get the equipment.
5.65	Management wants to defer costs (unacceptable accounting method) to show a higher profit and MA believes the deferment is improper. MA does what management wants.
5.7	Management wants to use an unacceptable accounting principle and MA allows it.
5.85	Management wants to explain poor results (Company experienced an unfavorable period) with incorrect reasons in a report. MA allows it.
5.65	Management wants to use unacceptable accounting to inflate earnings. MA complies.
6.00	Management wants to use an unacceptable accounting method (not acceptable GAAP) to increase profits and MA agrees.
1.85	Management wants to defer costs (unacceptable accounting method) to show a higher profit and MA believes the deferment is improper. MA does it the most proper way.
2.00	Management wants to use unacceptable accounting principle and MA refuses.
1.5	Management says to file incorrect report; MA refuses.
1.6	Management wants to use an unacceptable accounting method to increase profits and MA says no.
2.55	Management wants to use an acceptable accounting principle to one extreme and MA believes it should be used more conservatively. If amount is material MA should resign.
6.65	MA biases an analysis of a capital purchase because of a bribe from the salesman.
6.35	MA reports incorrect data to creditors to increase company's credit capacity.
6.2	MA gives false information on credit applications.
5.95	MA alters data that is to be presented by MA to management to show a rosier picture of the MA's cost containment.
6.25	MA alters the account ($) numbers of actual results to show better performance in certain account expenses.
5.8	MA allows sales to be recorded in territories where he knows the sales were not made.
5.95	MA mistakes data on a report to make the results look favorable to satisfy management.
5.9	MA fulfills the bosses wishes by incorrect reporting, analyzing, etc.
6.3	MA distorts a financial report of a division to make the division look better.
6.05	MA biases the information of a report (negatively) in an attempt to make himself, the MA look good (MA found problems in the company).
6.15	MA files incorrect income statement to show a better picture to satisfy the boss.
5.95	MA (Division Controller) conceals information from corporate headquarters (reports).
5.35	MA who discovered that management deleted negative information from a report prepared by himself did nothing.
2.75	MA who discovered that management deleted negative information from a report prepared by himself went to someone higher in the organization.

*Rating scale from 1 to 7. One (1) meaning highly ethical and seven (7) being highly unethical.

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