

Moral character: challenges for auditors in serving public interest

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ABSTRACT

The purpose of this research is to examine how auditors' moral character influences their ethical decision making when faced with an ethical dilemma situation. Organizational ethical climate and the intensity of competition in a public accounting firm are used as a moderating variable. The results of this study have implications as ethical decision quality can be obtained and carried through increased moral character. By identifying the potential drivers for improving auditors' moral character, this research can inform the discussions and strategies of professional bodies, regulators and government on improving the audit quality of financial reports. The intensity of competition in a public accounting firm may have an impact on improving the quality of auditing services, but on the other hand, also have an impact on ethical issues. This research lays the foundation for competition among public accounting firms being recognized as a major issue in industrial policy in auditing services.

ABSTRAK

Tujuan penelitian ini adalah untuk menguji bagaimana karakter moral auditor berpengaruh pada pengambilan keputusan etis mereka ketika menghadapi situasi dilema etika. Iklim etika organisasional dan intensitas persaingan dalam perusahaan akuntan publik digunakan sebagai variabel moderasi. Hasil penelitian ini memiliki implikasi sebagai kualitas keputusan etis dapat diperoleh dan dilakukan melalui peningkatan karakter moral. Dengan mengidentifikasi potential driver dalam meningkatkan karakter moral auditor, penelitian ini dapat memberikan bahasan dan strategi badan-badan profesional, regulator, dan pemerintah untuk meningkatkan kualitas audit laporan keuangan. Intensitas persaingan di kantor akuntan publik mungkin berdampak pada peningkatan kualitas layanan audit, tetapi di sisi lain, juga berdampak pada masalah etika. Penelitian ini meletakkan dasar untuk persaingan di antara perusahaan akuntan publik yang diakui sebagai masalah utama dalam kebijakan industri di bidang jasa audit.

1. INTRODUCTION

Independence and ethics in the accounting profession have always been a concern of society. Public attention towards the accounting profession is very large due to the discovery of corporate financial scandals involving accountants. This shows the empirical fact that independence and ethics in the accounting profession are an important concern. Auditors are often faced with a dilemma that they cannot be independent in their work (Finn, Chonko and Hunt, 1988; Bazerman, Morgan and Loewenstein, 1997; Kaplan, 2004). Clement et al. (2012) state that an auditor inherently has a conflict of interest when interacting with clients.

Auditors are required to work in a professional manner and must be independent of the client, but at the same time their survival depends upon the client through contract and fees received from the client. The auditor-client relationship situation often leads auditors to a dilemma situation. This dilemma situation will continue to cause conflict if the audit findings, and the work of the auditor, are not in accordance with what is expected by the client (Knapp, 1985; Tsui, 1996; Tsui and Gul, 1996). Kaplan (2004) refers to the relationship between the auditor and the client as the main causes of conflicts of interest in the accounting profession.

In audit conflict, the auditor faces moral di-

lemmas. Auditors have an ethical dilemma because they are in a situation that requires them to decide between the choices and the ethical impact charged to various parties. This ethical dilemma situation occurs because many parties are involved in the activities of auditors, and each side has a wide range of different interests. Each party is, either directly or indirectly, affected by the decision made by the auditor. Furthermore, as a consequence of wanting to keep their interest, they also will seek to influence the decisions made by the auditor. Dolgoff & Skolnik (1996) stated that the situation of the ethical dilemma is a situation where one is dealing with two or more relevant choices, but the choices are mutually contradictory, and when any alternative option is taken, this may have an adverse effect on one or more other persons.

Research on the topic of decision making has included a lot of disciplines of accounting, particularly auditing (Solomon and Shields, 1995; Solomon and Trotman, 2003). This study examines the ethical decision-making process of auditors in ethical dilemma situations. Research on ethical decision making in auditing is important to explain and predict when the auditor makes decisions in situations of ethical dilemmas. Ethical decision making in the area of auditing needs to be investigated because it will provide an explanation of a) the behavior of auditors in the process of making decisions, and b) how to improve decision-making for the best audit quality.

This research is based on a model of ethical decision making by Trevino (1986), which states that an ethical decision is an interaction between individual and situational variables. When a person is faced with an ethical dilemma situation, the individual variables will interact with situational factors beyond the individual's control. Trevino (1986) model postulates that ethical decision-making within an organization is based on the interaction of individual and situational moderators, Trevino's model uses Kohlberg's stages of moral development in the cognition stage in providing a basis from which to examine the individual ethical decision making. The environmental aspects in this research is the ethical climate of the organization and the intensity of competition among public accounting firms.

Several studies have revealed a wide range of variables that influence ethical decision making (Ford and Richardson, 1994; Loe, Ferrell and Mansfield, 2000; Paolillo and Vitell, 2002; O'Fallon and Butterfield, 2005). The review summarizes the results of research on a large range of ethical deci-

sion making in a variety of disciplines and a broad variety of situations. An important finding in the study is the main variable in ethical decision-making variables that are uniquely associated with individual decision-makers and variables that are the result of the process of socialization environmental factors. The characteristic unique variables are variables that are inborn traits such as gender, age, and nationality; whereas an environment variable is, such an organization, work environment and professional environment.

Fritzsche & Oz (2007) state that an individual factor that is often referred to as being very influential in ethical decision making is moral character. Libby & Thorne (2007) and Vitell & Ho (1997) stated that although there have been studies that examine personal values in ethical decision making, more research is needed on what is meant by moral character and the important moral character ethical decision-making process. As a continuation of these studies, this research empirically examines the effect of individual variables on the moral character of the auditor's ethical decision making.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This study explores the ethical decision-making process of public accountants in ethical dilemma situations. The approach used in this study is a quantitative positivist approach using the survey method as a means of data collection. The use of this approach has been on the phenomenon of ethical dilemmas faced by public accountants as real and concrete and can be observed as a variable that can be measured (Swan and Martin, 1994). The purpose of this study was to test the theory that there is a causality test through empirical data, so the research was conducted to test the hypothesis by testing the effect of the studied variables.

Moral Character in Ethical Decision Making

Character comes from the Greek, character, which literally means 'impression' or 'characteristic' as seen on coin currency. In the development of the modern era, the term 'character' of human personality is also often referred to as the upper one. Moral characters are two interrelated words, 'character' and 'moral'. Moral is the spirit of the character, without morals character is weak. Bebeau et al. (1999) state that the morality of a person is made up of four components, namely 1) moral sensitivity 2) moral decisions 3) moral motivation and 4) moral character. Bebeau et al. (1999) further explained that the first three components are important, but

without the last component, moral character, then one will fail to behave ethically. An important component of moral character is contained in the moral character of glory, which is a strength of character that allows individuals to develop with complete moral integrity. The glory of the individual will be to apply practical wisdom. Practical wisdom is the ability to know when and how best to implement the behavior with a more moral perspective.

Francis (1990) states that the auditor's moral character is essential to protect the public, because the auditor is a moral agent who carries the mandate of the public trust. Moral character is needed because the main role of the auditor is to protect the interests of the community (Libby and Thorne, 2007). The quality of the auditor's moral character is a prominent factor to make professional and ethical decisions in accordance with the expectation of public confidence in the auditor. Moral character also becomes influential when auditors are faced with the pressures of work activities (Windsor and Ashkanasy, 1995; Lord and Dezoort, 2001)

Moral character is complex, and a multidimensional variable (Peterson and Park, 2006; Wright and Goodstein, 2007). A one-dimensional character is spirituality (Gavanagh, Bandsuch and Cavanagh, 2002; Maxwell, 2003). Lapsley & Lasky (2001) state explicitly that the dimension of moral character is idealism. Walker & Pitts (1998) called it a principle-idealistic that has integrity and trustworthiness. Kidder (2005) states that the dimension of moral courage is one important dimension of moral character. Other dimensions are perspective-taking, the altruistic nature by virtue of seeing the interests of others rather than self-interest (Underwood and Moore, 1982). The following is an explanation of each dimension of moral character:

Spirituality

Burkhardt (2010) states that modern culture has long been dominated by the materialistic life and the process of secularization has turned into the important dimensions of spirituality in life. Research conducted by Freshman (1999) and (Wagner-Marsh and Conley, 1999) on spirituality suggests that values honesty and spirituality can improve a person's self-confidence. Furthermore, research conducted by Saroglou & Munoz-Garcia (2008) also states that a person's level of spirituality will determine one's ethical stance. Furthermore, research by Giacalone & Jurkiewicz (2003) also state that a person's spirituality affects their perceptions of unethical actions when conducting busi-

ness. Robinson (2008) states that spirituality, in its broadest sense, is a reflection of the central and ethical response. As an element of moral character, spirituality can be used as a frame of mind in responding to ethical issues.

Idealism

Forsyth (1980) states that individuals have an ethical orientation difference. Ethical orientation is an individual's ability to evaluate and consider the ethical values in an event. One's ethical orientation shows the view adopted by individuals when faced with situations that require problem-solving and ethical settlement in an ethical dilemma. Idealism is forming the moral character of the auditor's ethical decision-making process.

Moral courage

Moral courage is courage in a moral hazard. Moral courage is not only the courage to face physical challenges, but there is a moral and mental load. Kidder (2005) states there are five (5) major components of moral courage, namely: honesty, respect, responsibility, fairness and compassion which is an important component of moral character. Christensen et al. (2007) stated that in the process of ethical decision making, it is moral courage to not carry out a decision. For auditors, in the process of auditing activities, moral courage becomes an important factor at this time when many pressures are faced on the job. Moral courage in the face of pressure will help prevent behaving unethically (Gibbs et al., 1986; Christensen, Barnes and Rees, 2007). Moral courage is a virtuous action in the face of moral challenges (Sekerka, Bagozzi and Charnigo, 2009).

Perspective-taking

Hogan (1973) states that one of the characters is forming moral empathy or a 'moral point of view'. Perspective-taking is an essential part of one's empathy (Davis, 1980). Empathy is one of the indispensable individual abilities when interacting with others. Perspective-taking is an individual's ability to analyze the situation from the point of view of others, as well as a person's ability to perform a sophisticated cognitive process of seeing things from another person's perspective (Epley and Caruso, 2009). Ferrell & Gresham (1985) stated that the ability of a person who saw the orientation of the 'perspective of others' can categorize moral character as a unique variable in the process of ethical decision-making models. Someone with a degree of perspective-taking that is high, would see

himself, often from the point of view of others and see others from the standpoint of himself, so that the individual will have an advantage in coordinating actions when interacting with others or when making decisions in the face of a complex situation.

H1: The auditor's moral character influence the ethical decision making

Environment on Ethical Decision Making

Individuals in performing an act do not stand alone and apart from the social environment, but always in the context of the surrounding public influence. As a result of an individual's social interaction with the social environment, the ethical or unethical behavior in a particular situation is also the result of the interaction between the characteristics inherent to the circumstances surrounding the individual (Trevino, 1986). Fritzsche (1991) also stated that the combination of social environmental influences on ethical decision-making result in significantly different impacts than just the personal factors of the individual alone. There are two environment variables of concern in this study related to the auditors when faced with an ethical dilemma, namely the organizational ethical climate of public accounting firms and the intensity of competition among public accounting firms.

Organizational Ethical Climate

The ethical climate of an organization is a system of ethical values that exist within an organization. This value system resulting from the process of acculturation of the various values exists both from within and from outside the organization. The ethical climate of the organization, or the ethical environment within an organization, is composed of a variety of practices that are run by management and members of the organization, and the values attached to them (Victor and Cullen, 1988).

Ethical climate as a major component of an organization's culture is a direct reference member within an organization in the face of the internal and external environment. The climate is formed from individual ethical values and both formal and informal management when faced with ethical issues within the organization (Hunt, Wood and Chonko, 1989). It can be used to specify everything that is done in the organization as 'good' or 'ethical', or otherwise, 'not good' or 'unethical'.

Some of the findings of the study explained that the ethical asset value of the organization is directly or indirectly an important factor determining ethical behavior organizational members

(Deshpande, 1996; Adam and Rachman-Moore, 2004; Stevens, 2008; Deshpande and Joseph, 2009). Although there are research findings stating that the ethical climate is in touch with one's moral consciousness, in general, the ethical climate of the organization affects the ethical behavior of members of the organization (Elm and Nichols, 1993). This study also empirically examined the moderating variables of the influence of organizational ethical climate and the moral character of the auditor's ethical decision-making process.

H2: The ethical climate of the organization is moderating variables influence to the moral character of the auditor's ethical decision making.

The intensity of competition among public accounting firms

Maher et al. (1992) stated that the audit services industry, like other industries, is filled with competition and does not escape the increasing competition between providers of audit services, namely between public accounting firms. Some studies also have shown empirical evidence of the existence of a competitive market in the audit services industry (Simunic, 1980; Francis, 1984; Tonge and Wootton, 1991; Pearson and Trompeter, 1994; Morello, 1997; Choi and Zeghal, 1999; Kostant, 1999; Wolk, Michelson and Wootton, 2001).

Shleifer (2004) states that unethical behavior is often a result of the market being full of competition. If in the market there are high levels of competition it raises the propensity of unethical behavior among market participants (Hegarty and Sims, 1978). According to (Dubinsky and Ingram, 1984), the high intensity of competition will be the reason and impact pressures are very strong against the organization in an effort to maintain its survival. The intensity of competitive market influences the ethical behavior of elements that deal with the organization. A market with intense competition can be an incentive or otherwise an impediment to the organization. Intensity of competition in a tight market means several parties may be violating the rules or standards for self-gain (Kreuze, Luqmani and Luqmani, 2001). This study empirically tested the variable intensity of competition among public accounting firms and their influence on the moral character of the auditor in ethical decision making.

H3: The intensity of competition among public accounting firms is moderating variables influence to the moral character of the auditor's ethical decision making.

The focus of this research is the influence of the

moral character on the auditor's ethical decision making when faced with an ethical dilemma situation. Organizational ethical climate and the intensity of public accounting firm competition are used.

3. RESEARCH METHODS

The questionnaire was distributed to public accountants in the Indonesian Institute of Certified Public Accountants (IICPA). This study used a non-probability sampling by distributing questionnaires directly during the meeting of accountants in Surabaya and Jakarta. This method brings advantages with rapid response time and can be directly observed by researcher. This method was also selected because the questionnaire return rate higher than using a mail survey.

Questionnaires were returned from a number of meetings, IICPA 48 in Surabaya and 81 obtained from IICPA meeting in Jakarta, making a total of 129 respondents who were processed and analyzed in this study. The demographic description of respondents indicate that the accounting profession in Indonesia is dominated by males with an average age of 55 years. This can be a clue as to how public accountant is not an option for graduates majoring in accounting, especially for women.

Questionnaires are used to measure the individual variables of the public accountant and the moral character and ethical decision-making variables (see Exhibit 1). Moral character variable is a multidimensional variable measured through dimensions: spirituality, idealism, moral courage and level-dimensional perspective-taking. Furthermore, the organization is also studied for environmental variables to get an explanation of the influence on individual decision making in the context of the organizational environment. There are two environment variables investigated, namely the ethical climate of the organization and intensity of competition among public accounting firms. This environment variable will be tested as a moderating influence on the moral character of ethical decision making.

Measurement

The instrument in this study of using a questionnaire was adapted from several previous studies on the grounds that the measuring instrument in the form of statements in the questionnaire truly reflects the concept and content validity as well as the dimensionality and internal validity. Before being disseminated, a questionnaire has been tested to

some accountants to obtain face validity and content validity, as well as an understanding of the words that are understood by accountants.

This study uses 48 indicators to measure 4 variables in the study. Variable moral character consists of 4 dimensions: spirituality, idealism, and moral courage, perspective-taking. There are two environmental variables studied, namely the organizational ethical climate variable and the variable intensity of competition. Measurement of ethical decision-making used 5 pieces of ethical scenarios. Furthermore, each of the indicators was measured by a 5-point Likert scale for degree of agreement.

Moral Character.

Character is defined as an individual's ability to behave consistently in a variety of forms of situations (Pervin, 1994). Moral character is consistent individual behavior to be noble (virtue) to the benefit of our fellow human beings with full moral idealism and courage, reflecting the shape of the ideal and desired by the community (MacIntyre, 2007). Variable moral character is complex, and a multi-dimensional construct (Peterson and Park, 2006; Wright and Goodstein, 2007). Second order confirmatory used to measure the moral character variable. The dimensions in moral character in this research are spirituality (Maxwell, 2003), idealism (Walker and Pitts, 1998; Lapsley and Lasky, 2001), moral courage (Kidder, 2005) and the dimensions of perspective-taking (Underwood and Moore, 1982).

Spirituality.

In this study, the level of spirituality is defined as a person's perceived level of closeness in relation to God and the level of self-perception of the existence or whereabouts of the purpose of life in this world. This operational definition refers to the definition of spirituality by (Paloutzian and Ellison, 2009) that spirituality has two dimensions, namely religiosity and existence of man. Dimensions of religiosity describe the attitude of personal religiosity in relation to God. The existence dimension is the attitude of individuals in understanding the meaning of the purpose of human life in this world. The spirituality measurement levels of CPAs were adapted from an instrument developed by Paloutzian & Ellison (2009). These indicators are often used to measure the level of spirituality because it has a high degree of validity (Hill and Maltby, 2009).

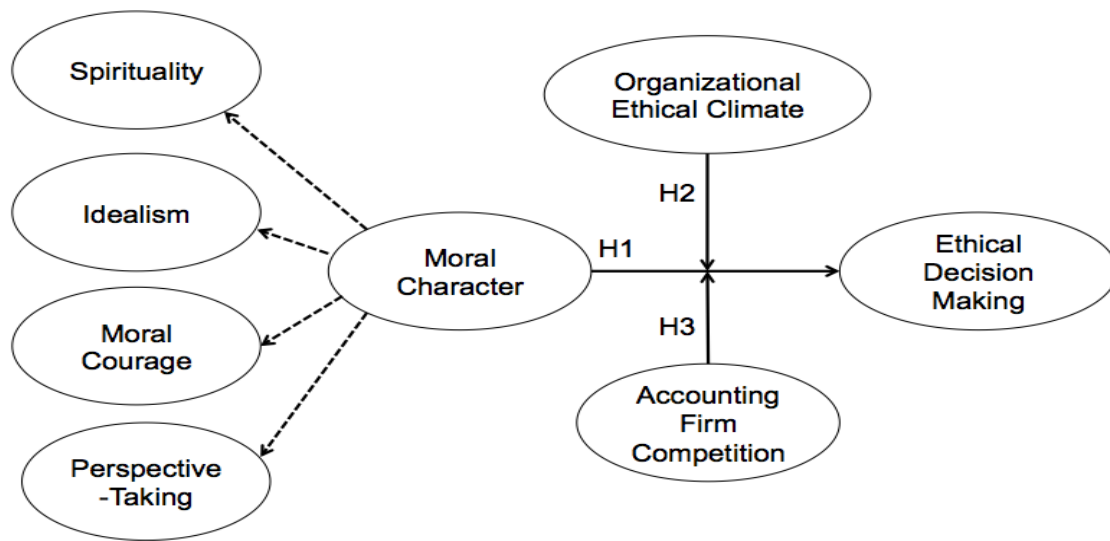


Figure 1
Research Model

Table 1
Respondent's Demographic Description

No	Variables	Description
1	Sex	92.2% Male 7,85% Female
2	Age	Average 56,16 years old (with deviation standard 5,488 years)
3	Education	Undergraduate = 80,6%, Master = 18,6%, Doctor = 0,80%
4	Accountant License	96,9% Licensed 3,1% Non-Licensed
5	Years of Experience	Average 14,31 years (with deviation standard 4,8 years)
6	Affiliation with International Accounting Firm	45,7% Affiliated 54,3% Non Affiliated

Idealism.

Idealism is defined as an individual's perceived level of best actions realized by the fact that the slightest action should not harm others and have positive consequences. Idealism shows the confidence that the desired effects of a decision can be obtained without breaking the noble values of morality (Forsyth, 1980). Individuals with high ideals believe that ethical actions should have positive consequences and will not adversely impact the other person no matter how small. The idealism variable in this study was adapted from the instrument developed by (Forsyth, 1980) in the Ethics Position Questionnaire (EPQ).

Moral Courage.

Moral courage is a challenge in virtuous action. Virtuous courage is not only the courage to face physical challenges, but there is also an ethical component and mental courage (Kidder, 2005). In this study, the level of virtuous courage is defined as the perception of public accounting consistency level of one's courage in the face of moral challenges. The moral courage dimensional measurement in this study was adapted from Gibbs et al. (1986).

Perspective-Taking.

Perspective-taking is an essential part of one's empathy (Davis, 1980). Individuals whose perspective-

taking ability is high will evaluate the conscious process in view of any action to be performed from the perspective of another person. In this study, the level of perspective-taking is defined as the perception of the level of the individual's ability to analyze the situation from the point of view of other people, as well as the ability to conduct evaluations and be aware of processes in view of the action from the viewpoint of others. Dimensional perspective-taking in this study was adapted from the instrument developed by (Davis, 1980). This dimension measures the individual viewpoints of a situation or condition. The higher a person's level of perspective-taking, the more diverse the viewpoint and not just from the perspective of himself alone.

Organizational Ethical Climate

Organizational ethical climate is defined as a system of ethical values that exist in the organization and the values and practices that are run by management and members of an organization when facing ethical issues within the organization (Hunt, Wood and Chonko, 1989). The ethical climate of an organization is often referred to as the ethical environment within an organization or ethical work climate. The climate is composed of habits and practices that are run by members of the organization and its management and ethical values that exist in the present and future.

The ethical climate as a major component of an organization's culture is a direct reference to the ethical behavior of members of the organization in the face of the internal and external environment. The Organizational ethical climate variables are measured by adapting the item's indicators of Corporate Ethical Value (Hunt, Wood and Chonko, 1989). This measure describes the level of perception of ethical climate of an organization, and how organizational members perceive and pay attention to the ethical issues within the organization itself.

The Competition among Public Accounting Firms

The intensity of competition in an industry can be reflected as a form of perception of the concept of the industry competition structure proposed by (Porter, 1980). The use of perception measuring the intensity of this competition helps individuals or practitioners in the assessment and understanding of the structure of competition in an industry. In this study, the levels of intensity of competition among public accounting firms are defined as the perception of auditors' views of the intensity of competition in the industry.

The intensity of competition in a public accounting

firm is measured by adapting item measurements compiled by Pecotich et al. (1999) and (O'Cass and Ngo, 2007). This variable describes the individual's perception of the existing competitive environment. These include the individual's perception that there is competition in the industry (competition among public accounting firms), the influx of newcomers (the emergence of a new public accounting firm) to the industrial and bargaining power of buyers/clients.

Ethical Decision Making Scenario

Hunt & Vitell (1986) define an ethical decision as the most ethical choice among alternatives or the most ethical alternative. Hunt and Vitell (1986) stated that in order to test a model of ethical decision making, it was very important that there should be a situation or scenario that can be perceived as containing ethical charges in the situation. Ethical decision-making variable in this study was measured by compiling an ethical dilemma scenario approaching the actual job situation of an accountant. Usage scenarios for research ethics in order to describe the situation have actually been done by many researchers (Claypool, Fetyko and Pearson, 1990; Cohen, Pant and Sharp, 1996; Sims and Keon, 2000; Mumford et al., 2006). Scenarios will help to standardize the social stimulus of respondents and at the same time a larger picture in the cognitive process of ethical decision-making.

This study uses a 5-case scenario situation ethical dilemma faced by accountants. In the early stages of their responses the respondents were asked whether they agreed in every scenario. Furthermore, respondents were asked to state their level of agreement on the possibility of action in the scenario which is a reflection of ethical decision making. Stages in this measurement were in accordance with the first two stages in the process of ethical decision making by Rest (1986). The first stage is the presence or absence of an understanding of the ethics charge and the second stage is the ethical decision-making itself. Testing the validity of the respondents to a situation in the scenario, the third question is whether there is the possibility a third party (co-partner) will also take a similar ethical decision. These measurements in research ethics are often called social desirability response bias, the bias that occurs because they want to show they are ethical and moral for their colleagues (Paulhus, 1991).

Results

Validity and reliability of moral character

WarpPLS 3.0 software used to test the research model as well as for the validation of the measurement model and the structural model is the use of structural equation modeling techniques with Partial Least Square (PLS). The initial phase of the analysis was to test the validity of the indicators forming moral character, the dimension of spirituality, idealism, moral courage and taking perspective. There are 27 indicators testing validity.

Furthermore, to assess the reliability, the value of Composite Reliability (CR), Cronbach's Alpha (Alpha) and Average Variance Extracted (AVE) are used. Testing the reliability of each variable, Composite Reliability coefficient values greater than 0.70, namely 0.916 (for spirituality), 0.897 (idealism), 0.891 (moral courage), and 0.879 (perspective-taking) were achieved. While the values of Cronbach's alpha coefficient were 0.898 (for spirituality), 0.861 (idealism), 0.846 (moral courage), 0.834 (perspective-taking). Furthermore, the values of AVE (Average variances extracted) of each variable were 0.524 (spirituality), 0.593 (idealism), 0.623 (moral courage), 0.547 (perspective-taking). It can be concluded that the indicators can measure the dimensions of moral character.

Validity and reliability of research variables

Further analysis was to test the validity of the study variable indicators. In this study, there are four variables, namely moral character, ethical climate of the organization, the intensity of competition and the public accounting firm of ethical decision making. Moral character variables were used for confirmatory factor analysis of the two levels (second order confirmatory factor analysis), which consists of four dimensions: spirituality, idealism, moral courage and perspective-taking. Testing moral character was through two levels, the first analysis of the dimension's latent constructs to the indicators of each dimension, the second stage, the latent constructs, namely moral character variables to construct dimensions. After the two-level confirmatory factor analysis, the variables are formed for moral character.

4. DISCUSSION

Moral Character in Ethical Decision Making

Public accountant relationship with the client should be that the responsibility to the public is not limited to the relationship between public accountants and their clients only, but goes beyond it. The public accountants provide assessment reports on

the financial statements of the company. Many people are interested in the work of public accountants. Many parties interested in the report include not only the client or the company, but also investors, potential investors, government, creditors and interested parties. Either directly or indirectly, the public is very concerned over the work of the public accountant to support economic progress. Public accountants have a function of not only serving the interests of creditors and shareholders, but also as "a public watchdog."

Parties interested in the results of the work of public accountants want to always affect the outcome of the work to keep their interests in various ways. The amount of interest in the work of public accounting audit is often a conflict. When dealing with conflict, the auditor often faces ethical dilemmas because auditors are in a situation that requires them to decide on the choices and the impact charged to various parties. Auditors are often in a situation of ethical dilemma because various kinds of parties, and a wide range of interests are affected by decisions made by the auditor. Bebeau et al. (1999) stated that without moral character, one will easily fail to behave ethically. An important component of moral character is the strength of character that allows individuals to develop with complete moral integrity. Public accountants have to work professionally and still maintain independence. Ability to work professionally and independently not only requires technical expertise, but a moral character and the mental strength to face various pressures.

This study describes the moral character consisting of four dimensions, namely spirituality, idealism, moral courage and perspective-taking. This is in contrast to Murphy (1999) who states that there are 5 elements of moral character, integrity, fairness, trust, respect and empathy. Some of it is actually the same implicit moral character in this study. The concept of idealism is the concept of integrity, fairness, and trust, respect and empathy; while implicitly embodied in the concept of perspective-taking public accountants who have high perspective-taking, will see the point of view of others and see others from their standpoint, so it would give an edge when coordinating actions when dealing and interacting with others. Public accountants who have high perspective-taking also make decisions easier when faced with complex situations and circumstances.

Emphasis on the importance of perspective-taking for a public accountant is on the grounds that it would reduce public accountant egocentric

behavior that puts their interests first. Additionally, this study proposed two other important concepts forming moral character and moral courage that is spirituality. Spirituality, in its broadest sense, is a reflection of the attitude and response of the central ethics. Spirituality as a moral character element can be used as a frame of mind in responding to ethical issues by public accountants when faced with the pressures of a wide range of interests. In the process of ethical decision making, ethical decision itself is important but not enough, moral courage is needed to carry it out. Moral courage becomes an important factor at this time with many pressures being faced by auditors in their work. Moral courage in the face of pressure will help prevent unethical behavior.

This study also proves that idealism is a key element of moral character, besides spiritualism, moral courage and perspective-taking. Idealism in performing their duties is a virtue that allows one to be a noble individual (virtuous agent) when challenged with ethical issues and facing the temptation to do wrong. A public accountant with high ideals will be predictable and reliable in acting consistently with moral values as the full charge accountant duties require individuals who have strong moralities, are honest, trustworthy and honorable.

This study analyzed a few things about the practice of public accounting daily, which is about the noble task of public accountants recognizing and addressing ethical dilemmas in their professional practice. CPAs often find it difficult to make decisions when in a tricky ethical situation in practice. This study shows that personal factors are very important in ethical decision making. This study empirically proves the importance of moral character in ethical decision making. Public accountants who have the moral character to hold an ethical principle are not subject to duties and obligations of the deontological, ethical principles.

Public accountants whose moral character also do not depend on how to behave normative and ethically. Teleology always considers the consequences of decisions taken. Accountant with moral character act on by considering self-development as for being a noble man or virtuous agent. Violation of professional standards, lack of independence and omission of audit procedures found in the practice are the challenge to strengthening the moral character of public accounting. An accountant who has the knowledge and technical skills of good accounting, but does not have the quality of good moral character, will have pressure in the face of

ethical issues. Moral character becomes very important when making decisions in stressful ethical dilemmas and conflicts.

Organizational Ethical Climate and Ethical Decision Making

Environmental organizations are all elements within the organization that may affect part or all members of the organization. The findings of this study stated that the organizational climates that uphold ethical values are the driving force for individuals to take a more ethical decision. In daily practice in the organization, upholding ethical values can be run in many ways. These ways, among others, are through training or code of ethics, leadership models that support positive ethics, or through strengthening and other ethical approaches. These methods greatly contribute to the company's ethical climate in the engagement of ethical issues.

Practicing organizations that run these methods ultimately enhance the ability of individual members of the organization to properly identify, evaluate, and act in a more ethical way. The results of this study also support research by Craft (2012), Loe et al. (2000) and O'Fallon & Butterfield (2005) which states that the context of the organizational ethical climate influences the auditor's ethical decision making.

The ethical climate of an organization is a set of basic assumptions and beliefs held by members of the organization, then developed and passed on to address ethical issues in the internal organization.

The results of this study along with the idea that the context of organizational ethical climate may influence the ethical decision-making process has been studied extensively and put in research conceptual models. A strong organizational ethical climate can improve organizational performance when faced with ethical issues. These results also support the several studies that claim and state that the organization's ethical stance is also supported, and facilitated by the organizational climate (Hunt and Vitell, 1986; Trevino, 1986; Dubinsky and Loken, 1989; Ferrell, Gresham and Fraedrich, 1989).

In view of the model of individual interaction with the surrounding circumstances, Trevino (1986) argued that ethical decision-making in the cognitive stage of ethical reasoning is determined by a variety of individual and situational factors, including organizational ethical climate. Each individual develops a unique set of experiences and relationships with others in an organization. This experience will further impact on ethical decision making depending on the climate and the atmosphere in

the surrounding organization. Ethical decision-making ultimately become an ethical behavior learned through social interaction, especially in a set of roles or groups within the organization. Individuals who are in the same company will develop an understanding of each other affected by the condition and situation of the organizational ethical climate in which they are located.

The ethical climate of an organization is a system that directs the behavior of individuals in answering ethical problems that occur. In the public accounting firm, the determinant of an organization's ethical climate is the head office. In terms of determining the ethical climate of the organization, management must be able to change themselves first. Leadership of the organization must be willing to accept responsibility in order to change the culture. Climate change is impossible in an instant of time but is gradual and takes time. The leading figure in the public accounting firm should not make a mistake in the phase of the program's ethical culture in the workplace, because when it happens, it can be a bad example for the organization and undermine morale and undermine confidence in subordinates.

The existence of several public accounting firms with ethics violation cases shows that the attitude and behavior of members of the organization reflect the ethical climate and atmosphere of an organization when facing problems (Kish-Gephart, Harrison and Trevino, 2010). The ethical climate of an organization is also the difference between an organization's ethical climates compared to other organizations. When the individuals in the organization acting to face ethical issues, they reflect the ethical climate of the organization where it is located. This study has been able to prove empirically that this affects the organizational ethical climate in the ethical decision making of public accountants.

Intensity of Competition between Public Accounting Firm and Ethical Decision Making

In the context of public accounting firm competition, to reduce the influence of management when selecting a public accountant, the role of the audit committee should be strengthened. Steps to strengthen the accountability of an external public accountant include giving more power to the audit committee to select the external public accountant. This includes the provision that only the audit committee can negotiate and approve the audit fees and scope of audit work, start the auction process, make recommendations for the appointment of a public accountant and to authorize a public ac-

counting firm to conduct audit services. Making the tender offer rules of audit services more frequent would force incumbent public accountants to compete and keep up.

Banker et al. (2003) showed that the high level of competition in the audit industry impacts on the earnings in the public accounting firm. The competition among the firm also impacts some public accounting firms to merge to keep the revenue. Mergers give better economies of scale in the face of competition among accounting firms. Many small accounting firm have not been able to compete with large ones, due to limited resources and competence. An alternative proposal is to merge several small accounting firm. This merger, in addition to building a broader network in order to increase the amount of revenue, is also to face competition among public accounting firms.

The finding of this study is that the level of competition among the public accounting firms, influences public accountant's ethical decisions. The influence of the intensity of this competition is to weaken the influence of the moral character of the decision-making. However, if the variable level of competition among public accounting firms is viewed simultaneously with the ethical climate of the organization, it becomes insignificant. This means that the level of competition among public accounting and organizational ethical climate variables is mutually exclusive (counter-effect). This means there is a power struggle between the influence of organizational ethical climate and the level of competition among public accounting firms. If the levels of competition among public accountants are very tight and high and organizational ethical climate is weak, then the variable level of competition is a more dominating influence on the moral character of ethical decision making and vice versa. This study has been able to prove empirically the influence of environmental variables on ethical decision making.

Research Implications

Outside the field of accounting science, research on ethical decision making has been widely studied (Ford and Richardson, 1994; Loe, Ferrell and Mansfield, 2000; Paolillo and Vitell, 2002; O'Fallon and Butterfield, 2005). This study describes the process of ethical decision making by public accountants when faced with an ethical dilemma. This study states that ethical decision making is the result of the interaction of personal and environmental factors. This study empirically proves the theory that ethical decision making is influenced by indi-

vidual factors and environmental factors.

The results provide an explanation that the personal variable that influences ethical decision making is moral character. There are two situational factors examined in this study, namely the ethical climate of the organization and the intensity of competition of public accounting firms. Research shows that the situational variables are ethical organizational climate and intensity of competitiveness in public accounting firms. The empirical evidence of this study is that the ethical climate of the organization will support the individual to produce a more ethical decision. The intensity of the tight competition will affect the individuals to take unethical decisions. These results also support previous studies on the factors that influence ethical decision making.

Accountants are often faced with many different interests in an ethical dilemma situation. The public accountant working in ways and beliefs in the process of auditing activities when dealing with ethical issues, should be more sensitive and increase ethical awareness by strengthening the moral character values as a form of professional responsibility. In the practice of public accounting, this study implies that increased professionalism is not just limited to improving the quality of technical competence, but also the quality of ethical decision making. The results of this study have implications for ethical decision quality obtained and carried through increased moral character.

In terms of organization of public accountants, this study provides direction on the importance of the organizational ethical climate. In order to improve the ethical climate of the organization of public accounting firms, this study provides feedback that the public accounting firm as an organization, should be required to have ethical guidelines and maintain an ethical culture well. This is important to guide the members of the organization in public accounting firms when practicing in the field. Work climate in a public accounting firm can pursue an ethical climate that can be institutionalized in the organizational culture of firms. Organizational ethical climate is very important because the issue of ethics is not a matter only for the individual and personal responsibility, but also the responsibility of the organization.

The results of this study can be a guide in decision-making in the service industry audit and accounting profession and auditing practices in Indonesia. An implication of this research is to prioritize the importance of enforcement of codes of professional conduct by the Indonesian Institute of Ac-

countants and the Institute of Certified Public Accountants of Enforcement of ethics should be a major issue in the accounting profession in Indonesia. The pressures of various kinds of interests faced by the public accounting decisions often require a full ethical charge. In the face of such an ethical dilemma accountants need integrity. Individuals of integrity have a high moral character.

In the future, the requirements regarding moral character, credibility and integrity in maintaining ethical principles should also be an important component as a requirement to practice becoming a professional accountant. Some states in the United States have set the requirements to become a public accountant with professional ethics required to pass the exam with a passing grade of at least 90%. In the future, in addition to the main technical competence in the field of accounting and auditing, the concern about the competence of CPAs when facing ethical situations will be an important condition for the public accountant.

The intensity of competition in a public accounting firm may have an impact on improving the quality of auditing services, but on the other hand, also an impact on ethical issues. This research showed that competition among public accounting firms should be a major issue in industrial policy in audit services. For that, regulation needs to be designed with consideration of ethical issues that govern the industry audit services by the parties concerned within the accounting profession.

History has recorded evidence of a wide range of financial scandals involving public accountants. When working, the focus of public accounting is not only on the technical aspects of accounting. Public accountants are often criticized for not being sensitive to technical accounting as well as ignoring the ethical aspects of the job. Today, it is a necessity of a public accountant to use ethical considerations in any decision-making job. Public accountants must use ethical principles that serve as a guide in making decisions. Ethical consideration by a public accountant is very important because of the many parties interested in the results of the work. Every decision made by a public accountant must be accounted for from the beginning of the ethical conduct of the audit engagement with the client. Ethical accountability is not only because the decision was important for clients only, but also by the realization that the decision will have an impact on many other parties involved.

A decision taken based on economic considerations or considerations of law does not mean it does not involve ethical considerations. A public ac-

countant must be aware that all sorts of decision-making, better legal decisions, business or economic and ethical decision-making is a decision which is not separate. Being sensitive to ethical issues is an important characteristic that needs to be imparted to every public accountant who is ethically responsible. Furthermore, as a public accountant, it is often a very easy thing to focus only on taking consideration of economic or financial aspects of the formal legal procedures alone.

In the process of ethical decision making, this research also developed empirical Ethical Decision Making theory, especially in the disciplines of auditing, in the form of empirical evidence about the influence of personal variables, namely the moral character of the ethical decision making of public accountants, and environmental variables of the ethical climate of the organization and the variable intensity of competition in ethical dilemma situations.

In order to improve the ethical climate of the organization of public accounting firms, this study provides feedback on the public accounting firm as an organization, which should be required to have ethical guidelines and maintain an ethical culture well. Ethical climate of the organization serves as guidelines to the members of the organization when practicing in the field: from the working climate in a public accounting firm into an ethical climate that can be institutionalized in the organizational culture of public accounting firms. This is very important because the issue of ethics is not just a matter of individual and personal responsibility, but also the responsibility of the organization.

CONCLUSION, LIMITATION, IMPLICATION, AND SUGGESTION

Conclusion

Moral character idealistically consists of integrity, fairness, and trust, respect and empathy; while implicitly it is embodied in the concept of perspective-taking public accountants who have high perspective-taking. It deals with how they see the point of view of others and see others from their standpoint. From this, they can provide a right decision when coordinating actions and dealing and interacting with others. Public accountants who have high perspective-taking also make decisions easier when faced with complex situations and circumstances.

In the context of organizational ethical climate, this can also affect the ethical decision-making process as it has been studied extensively and conceptually. Yet, on the level of competition among the public

accounting firms, the level of competition also affects public accountant's ethical decisions. The effect of the competition intensity, anyhow, can weaken the effect of the moral character of the decision-making. However, if the level of competition among public accounting firms is viewed simultaneously with the ethical climate of the organization, it is not so significant.

Implication

The results provide an explanation that the personal variable that influences ethical decision making is moral character. There are two situational factors examined in this study, namely the ethical climate of the organization and the intensity of competition of public accounting firms. Research shows that the situational variables are ethical organizational climate and intensity of competitiveness in public accounting firms. The empirical evidence of this study is that the ethical climate of the organization will support the individual to produce a more ethical decision.

Work climate in a public accounting firm can pursue an ethical climate that can be institutionalized in the organizational culture of firms. Organizational ethical climate is very important because the issue of ethics is not a matter only for the individual and personal responsibility, but also the responsibility of the organization. The results of this study can be a guide in decision-making in the service industry audit and accounting profession and auditing practices in Indonesia

In the process of ethical decision making, this research also developed empirical Ethical Decision Making theory, especially in the disciplines of auditing, in the form of empirical evidence about the influence of personal variables, namely the moral character of the ethical decision making of public accountants, and environmental variables of the ethical climate of the organization and the variable intensity of competition in ethical dilemma situations.

Suggestion

For further research, it is important for the researchers to get more respondents with more public accountant offices. For the demographic characteristics, the more varied respondent characteristics, especially in relation to education level, it would be much better when including some other level of education such as master degree and those with the undergraduates. Managerially, it is advisable for the accountants to have more experience not only in the offices but also by leveling proceed-

ing their higher education levels. The company should improve the working climate because this factors affect the decision making.

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Exhibit 1: Sample of Questionnaire

Spirituality

- I don't find much satisfaction in private prayer with God (N).
- I don't know who I am, where I came from, or where I'm going (N).
- I believe that God loves me and cares about me.
- I feel that life is a positive experience.

N = Negative item questionnaire

Idealism

- A person should make certain that their actions never intentionally harm another even to a small degree.
- Risks to another should never be tolerated, irrespective of how small the risks might be.
- The existence of potential harm to others is always wrong, irrespective of the benefit to be gained.
- One should never psychologically or physically harm another person.

Moral Courage

- I always defend the truth even if it is not going to be liked by others.
- I will defend the people who are treated unfairly although not know him.
- I am a person who always consistently hold my principles.
- I only agree on things that are generally well supported by others (N).

Perspective Taking

- I always tried to see both sides of viewpoints in every problem I faced.
- I am hard to see things from another person's viewpoint (N).
- In assessing someone, I try to feel what if I were in his position.
- I see a problem that is not black or white, it often is in between.

Organizational Ethical Climate

- The people in my office are very sensitive to ethical issues in business.
- In my office, it is unclear whether a behavior in the company classified ethical or unethical (N).
- It is common if an employee did not act ethically for the benefit of the company (N).
- Everyone in my office is always holding the principles of good business ethics.

Accounting Firm Competition

- Competition between Public Accounting Firm are very strict in order to maintain market share.
- Clients of the Public Accounting Firm very limited.
- In the audit industry, the role of client is a very powerful and determines.
- The new Public Accounting Firm is very difficult to get clients.

Ethical Decision Making Scenario

An auditor examines the financial statements of a company that is experiencing financial difficulties. The company is trying to obtain credit assistance in Bank X. The X's bank credit manager knows well and have a personal relationship with the auditor.

Action: The auditor informs the company's financial condition to the Bank X's credit manager.

Ethical approval:

All procedures performed in studies involving human participants were in accordance with the ethical standards of the institutional and/or national research committee and with the 1964 Helsinki declaration and its later amendments or comparable ethical standards.

For this type of study formal consent is not required.