

**Ethical Reasoning and Judgment of IPO Accountants,  
Those Assumed Likely to Manage Earnings**

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ABSTRACT

This study investigates the moral awareness, reasoning, and intentions of thirty-nine internal accounting staff actively engaged in preparing financial information for an initial public offering (IPO) by each of four companies. These accountants have incentives to manage earnings for their IPOs, as each will benefit from stock price increases. Each accountant is subjected to the IPO culture with its unique ethical orientation created after the Private Securities Litigation Reform Act of 1995.

The results find IPO accountants ethically recognize, but are not adverse to choosing procedures to manage earnings. Generally these choices are found not (linearly) related to their level of moral reasoning as measured by the Defining Issues Test (DIT-2), but explained by ethical orientation. We find reliable prediction of ethical conduct requires additional variables beyond those of reasoning, such as found here and by others in the constructs of the Multidimensional Ethics Scale. Since orientation influences moral reasoning (Rest, Narvaez, Bebeau and Thoma 1999), these results invite greater investigation of ethical orientation for predicting behavior in ethically challenged environments.