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A Decline in Ethical Sensitivity of Accountants: A Conceptual Review with Kohlberg's Theory of Moral Development Approach

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Abstract

Public trust in the accounting profession depends on the accountant's ability to work honestly, objectively, and independently. However, ethical violations continue to recur despite strengthened codes of ethics and regulations. The fundamental problem lies in the initial stage of the moral process, namely ethical sensitivity, when accountants recognize that a situation has an ethical dimension. This study aims to explain the decline in accountants' ethical sensitivity through Kohlberg's theory of moral development. The method used is a qualitative literature study, through a thematic synthesis of books, journal articles, and professional documents. The results of the study indicate that the decline in ethical sensitivity gradually occurs through rationalization, the normalization of deviant practices, and a focus on formal compliance. This condition is influenced by rules-based accounting education, workplace socialization, commercial and client pressures, adherence to rules alone, weak ethical enforcement, and individual factors that restrain moral reasoning at a conventional level. This study also formulates four theoretical propositions for empirical testing. The implication is that the decline in ethical sensitivity weakens audit quality, financial reporting quality, and public trust. Therefore, dilemma-based moral reasoning training, consistent ethical enforcement, and exemplary leadership are needed.

Keywords: Accountants, Ethical Sensitivity, Kohlberg's Theory

INTRODUCTION

Public trust is the main foundation of the accounting profession. Financial statements, audit opinions, and other assurance services are only meaningful if the parties who compile and examine them are trusted to act honestly, objectively, and independently. When that trust collapses, the impact does not stop at a specific individual or entity, but extends to the decisions of investors, creditors, regulators, and the public. However, the recurrence of

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ethical violations in accounting practice over time shows that understanding of the code of ethics is not always followed by ethical behavior (Nurhikmah & Sisdianto, 2024).

Various efforts have been made to maintain professional ethical standards, ranging from the drafting of codes of ethics, strengthening regulations, to supervision by professional organizations and authorities. However, violations still occur, so the problem does not seem to lie solely in the lack of rules. The more fundamental problem is at an earlier stage, namely whether accountants are able to realize that a situation contains an ethical dimension. In the four-component model of moral behavior that is presented (Rest, 1986), this consciousness is called moral sensitivity (moral sensitivity), which in the literature on accounting ethics is commonly called ethical sensitivity. This component is the entry point for the other three components, namely moral considerations, moral motivation, and moral character. Accountants who do not recognize the existence of ethical dilemmas are less likely to start the process of moral reasoning, no matter how complete the rules are.

This is the problem that this article is concerned about, namely the decline of ethical sensitivity. A decrease in ethical sensitivity refers to a condition when a situation that should be recognized as an ethical dilemma is slowly seen as normal, routine, or part of the demands of the job. In the literature, this process is associated with a number of factors, including pressure to achieve targets, permissive work culture, relationships with clients or superiors, and deviant habits that are gradually normalized (Hartanti et al., 2025). At a certain point, deviant decisions are no longer perceived as violations, so the individual's internal control mechanisms are not activated. Therefore, the decline in ethical sensitivity should be understood as a matter of development and reasoning, not just a matter of bad intentions (Utami et al., 2025).

To understand the phenomenon, this article uses Kohlberg's theory of moral development as an analytical lens. (Kohlberg, 1981) explains that individual moral reasoning develops through three levels, namely preconventional, conventional, and postconventional, each of which consists of two stages. This theory is relevant because it emphasizes the way individuals reason when faced with dilemmas, not just the decisions made. Thus, it has the potential to explain why some accountants remain sensitive to the ethical dimensions of a situation, while others do not. It should be noted that Kohlberg's theory essentially explains the components of moral considerations, not moral sensitivity. Therefore, this article makes the conceptual argument that the dominant reasoning stage forms the framework that accountants use to interpret a situation, thus influencing whether the ethical dimension of the situation is recognized in the first place. For example, individuals who reason at the conventional level tend to make loyalty to the group and adherence to rules as the primary references, making them more vulnerable when group

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norms or demands of authority shift away from ethical principles. However, Kohlberg's theory is also inseparable from criticism, including from Cilligan (1982) which highlights the dominance of justice orientation and ignores the ethics of care, as well as criticism of cultural bias. These criticisms will be discussed in the conceptual review section so that the use of theory is carried out critically.

Based on this description, the purpose of this article is to explain the decline in ethical sensitivity of accountants through the theoretical approach of Kohlberg's moral development. More specifically, this article seeks to answer the question: how do Kohlberg's stages of moral development explain the decline in ethical sensitivity of accountants? To answer this, this article examines the literature on ethical sensitivity and moral development, maps Kohlberg's stages in the context of the accounting profession, and formulates theoretical propositions that can be tested in future research.

This article is expected to make two contributions. Theoretically, this article offers a conceptual framework that links the stages of moral reasoning, professional environmental factors, and ethical sensitivity, thus enriching the development of accounting ethical theories. Practically, this article provides input for accounting education, ethics training in professional organizations and firms, as well as policy formulation that not only emphasizes adherence to rules, but also fosters and nurtures ethical sensitivity from an early age.

THEORETICAL STUDIES

Ethical Sensitivity in the Accounting Profession

Rest (1986) views moral behavior as the result of four distinct and relatively separate psychological processes. They do not have to take place in a rigid sequence, but each is necessary for moral action to be realized. In this article, the terms moral sensitivity and ethical sensitivity are used interchangeably with the same meaning.

1. Moral sensitivity: the ability to interpret a situation, recognize that there are affected parties, imagine possible actions, and estimate the consequences of each action against these parties. This component involves cognitive and affective aspects, including empathy and the ability to take the point of view of others.
2. Moral judgment: the determination of which actions are most morally justifiable. This component is most fully developed in Kohlberg's theory.
3. Moral motivation: the willingness to prioritize moral values over other values, such as personal gain, group acceptance, or career security.
4. Moral character: determination, perseverance, and the ability to carry out moral decisions despite obstacles and pressure.

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Failure in one component can thwart ethical behavior, and each component can fail even if the other component is going well. One can have sophisticated moral reasoning, but not see the existence of a dilemma (fail in sensitivity), see a dilemma but be more concerned with the position (fail in motivation), or be motivated but not dare to act (fail in character). Ethical sensitivity is the entrance to the whole set (Ardiwisastra & Supardam, 2024).

For accountants, ethical sensitivity carries special weight because accounting and auditing work is loaded with technical-looking professional considerations. The selection of estimates of allowances for uncollectible receivables, determination of when to recognize income, valuation of assets and impairments, and decisions on what to disclose are often gray areas, i.e. regions where standards leave wide room for interpretation. In such areas, ethical dimensions do not emerge with clear labels (Fasya, 2025).

Accountants must be able to see that technically legitimate choices can mislead users of financial statements when used for a specific purpose, such as raising profits to meet bonus targets or covering declining performance. This ability is unwritten and cannot be completely replaced by technical guidelines, so it needs to be trained and maintained intentionally throughout the career (Hita Darmawan, 2023).

This sensitivity is directly related to the five basic principles of professional accountant ethics in the IESBA code of ethics adopted by the Indonesian Institute of Accountants, which are as follows.

1. Integrity: be straightforward and honest in all professional and business relationships.
2. Objectivity: not allowing bias, conflicts of interest, or influence of others to override professional judgment.
3. Professional competence and prudence: maintain knowledge and skills and act carefully according to technical standards.
4. Confidentiality: respecting the confidentiality of information obtained from professional relationships.
5. Professional conduct: obeying laws and regulations and avoiding actions that damage the reputation of the profession (Titania & Setiawan, 2026).

These principles can only be enforced if the accountant first realizes that a situation threatens compliance with them. The code of conduct identifies five categories of threats, namely personal interests (self-interest), personal study (Self-review), advocacy (Advocacy), proximity (Familiarity), and intimidation (Bullying). Long-term relationships with clients, for example, pose a threat of proximity to objectivity. The threat will not be managed, either through security or denial of assignment, if it is not recognized as a threat from the outset (Adi Saputra et al., 2023).

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Kohlberg's Theory of Moral Development

Kohlberg (1969, 1981) developed a theory that states that individual moral reasoning develops through successive stages. These stages are grouped into three stages, each consisting of two stages.

1. At the preconventional level, morality is determined by consequences for oneself. The first stage is oriented towards punishment and obedience: actions are judged to be right if they avoid punishment. The second stage is oriented towards rewards and instrumental exchanges: actions are judged to be right if they benefit oneself or there is equal reciprocity.
2. At the conventional level, morality is determined by the expectations of the social environment. The third stage emphasizes interpersonal expectations and the desire to be a good person in the eyes of the group, superiors, or co-workers. The fourth stage emphasizes laws, rules, and social order: the right action if it fulfills obligations and keeps the system running.
3. At the postconventional level, morality is defined by principles that can be rationally accounted for, regardless of a particular rule or group. The fifth stage is oriented towards the social contract and the rights of the individual, with the recognition that rules can be criticized and changed for the sake of the common good. The sixth stage is oriented towards universal ethical principles such as justice and respect for human dignity (Vanady & Wahyuningsih, 2025).

The main assumption of this theory is that development is gradual and sequential, the individual does not skip the stage and the higher stage provides more adequate reasoning. Development is also influenced by education, role-taking experience, as well as the social environment. Consequently, development can stagnate when the environment does not provide stimulation for higher reasoning. Kohlberg's theory itself views the sequence of stages as irreversible, so the term decline in ethical sensitivity in this article is understood primarily as developmental stagnation, or the absence of the highest reasoning capacity, when the environment pressures individuals to conform to lower norms. It is this understanding that makes Kohlberg's theory relevant to explain the decline in ethical sensitivity (Hanafiah, 2024).

METHODS

This research uses a qualitative approach with the type of library research (literature study). This approach was chosen because the main purpose of the research is to explore,

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analyze, and synthesize theories. This research does not involve experiments or field data collection, but relies on secondary data in the form of relevant and credible scientific sources (Assayakurrohim et al., 2023).

The data sources consist of textbooks, scientific journal articles, and professional documents such as accountants' codes of ethics. Literature search was carried out through journals that include Google Scholar, Scopus, or Garuda. The analysis was carried out through thematic synthesis techniques that went through three steps: (1) identifying key concepts of ethical sensitivity and Kohlberg's stages of moral development; (2) mapping the Kohlberg stages on the factors behind the decline in ethical sensitivity in accounting practice; and (3) formulating theoretical propositions from the mapping results (Assayakurrohim et al., 2023).

RESULTS AND DISCUSSION

A decline in ethical sensitivity rarely appears as a dramatic reprehensible decision. It is more often a gradual process that can be recognized by several indicators. First, rationalization, which is the tendency to justify problematic actions on grounds such as 'everyone did it', 'no one was harmed', or 'the client already agrees'. Rationalization allows a person to maintain one's image as a moral person while still committing deviant actions (Hartanti et al., 2025).

Second, the normalization of deviant practices, when habits that were initially considered awkward turn into commonplace because they occur repeatedly without consequences. Small and gradual shifts are difficult to notice because each step appears to differ only slightly from the previous step. Third, the focus on formal compliance, when the question 'is this right?' is replaced by 'is this allowed?'. This shift in the question reflects reasoning that stops at adherence to the rules (Zahara et al., 2022).

Concept Ethical Fading, that is, the fading of the ethical color of a decision because it is framed as a business, legal, or technical issue. Moral release mechanism (Moral disengagement) that allows people to commit adverse acts without feeling that they are violating their own moral standards, among other things through moral justification, refinement of terms (Euphemistic labeling), transfer of responsibility to superiors, distribution of responsibility to groups, and obscuration or minimization of consequences for others. In accounting practice, terms such as 'adjustment', 'reclassification', or 'optimization' can serve as a refinement of terms that mask the true nature of the action (Putri et al., 2025).

Causal Analysis through Kohlberg Lens

Accounting education. The accounting curriculum is generally rules-based (Rule-basedStudents learn standards, procedures, and calculations, while ethics is taught as a

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small part of a specific course or simply memorize the code of ethics. This pattern trains Stage 4 reasoning, which is compliance with laws and rules, but lacks Stage 5 and 6 reasoning that require the ability to weigh the goals of the rules, the public interest, and the underlying principles (Wijoyo et al., 2026).

Assessments that emphasize one correct answer according to standards also form the habit of thinking that accounting problems always have definite technical answers. Graduates who are used to looking for 'correct' answers according to rules will find it difficult to recognize dilemmas when rules are silent or multi-interpreted, and tend to consider ethics as a matter outside of their technical competence.

Socialization in the workplace. Public accounting firms and corporations often emphasize target hours, income, loyalty to the team, and adherence to hierarchy. Such culture encourages Stage 3 reasoning, when people want to be accepted and viewed favorably by superiors and colleagues, and Stage 2, when career safety and rewards are key considerations. Prevailing norms in the workplace are learned through observation: what behaviors are rewarded, tolerated, or punished (Yunita, 2025).

Junior auditors who see their superiors ignoring the findings learn that raising ethical issues is risky to their careers, so over time they stop seeing the issue as an issue. This mechanism is in line with Ponemon's (1992) socialization-selection hypothesis, although the study measured moral reasoning, not ethical sensitivity directly. Time pressures and high workloads, such as during the audit season, reinforce this process because they reduce the opportunity to reflect on the moral implications of a decision (Ponemon, 1992).

Commercial and client pressures. Economic relationships with clients, fee competition, and the threat of losing clients create incentives to sacrifice objectivity. Auditors are paid by the parties they audit, so there is a structural clash between the economic interests of the office and obligations to the public interest. In the Kohlberg framework, this pressure shifts the orientation towards the instrumental (Stage 2): what is profitable and safe for me or my office.

When this onboarding is dominant, information that could potentially disrupt the relationship with the client is less likely to go unnoticed or be interpreted softly. This phenomenon is amplified by the sale of nonaudit services to the same client and long-lasting assignment relationships, which foster closeness and decrease critical distance.

Compliance with the rules alone. The statement 'what matters by the standard' reflects the reasoning of Stage 4 that stops at compliance. This approach is important because the rules provide certainty, but they become problematic when the rules are treated as the minimum limit that is used to the fullest. Transactions that are designed to meet the

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conditions formally but are substantially misleading can get away with being detected as a moral dilemma.

The cases of profit management and transaction engineering show that formal compliance can go hand in hand with a loss of sensitivity to the substance and interests of the report's users. An accountant who reasons at a postconventional level will ask the purpose of a rule and whether its application in a particular case is still in line with that purpose.

Weak enforcement of ethics and leadership examples. Organizational norms are shaped by what is truly valued and punished, not by what is written in the code of ethics. If violations are not acted upon, the whistleblower is not protected, or the leadership itself shows compromising behavior, then tone at the top sends the message that ethics is optional. This message is more convincing to the organization's members than any official statement.

In Kohlberg's framework, such an environment lowers the incentive to reason at a higher level and reinforces the orientation to sanctions avoidance (Stage 1) as well as the exchange of interests (Stage 2). In addition, when enforcement is weak, individuals who actually have higher reasoning capacity tend to adjust their behavior to the prevailing norms for their own safety (Kohlberg, 1981).

Individual factors. Age and experience can increase sensitivity because individuals have been exposed to a variety of situations, but experiences in a permissive environment can dull. Gender, religiosity, and control loci in a number of studies play a role as moderators. Individuals with internal loci of control, for example, tend to feel responsible for the consequences of their actions and are more sensitive, although empirical results on these variables are not always consistent.

The characteristics of the issue itself, which he calls moral intensity, affect whether an issue is recognized as an ethical issue. Moral intensity is influenced, among other things, by the magnitude of the consequences, the social consensus that the action is wrong, and proximity to the affected parties. Issues whose impact seems far, indirect, or spread to many parties, such as the presentation of figures in reports read by thousands of investors, will be more difficult to recognize than issues whose impact is concrete and immediate.

Overall, the six factors work in a mutually reinforcing manner, rather than standing alone. Education forms accountants strong on rule compliance, the work environment holds them at the conventional level, commercial pressures pull them into instrumental orientation, and weak ethical enforcement eliminate corrections that should restore direction. Individual factors determine how vulnerable or resistant a person is to these sets of influences.

The result is a narrowing of the perspective that makes the moral dimension no longer visible. The decline in ethical sensitivity is thus more appropriately understood as a symptom of the system that shapes accountants, rather than merely as a weakness of

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individual character. This understanding is important because it shifts the focus of improvement efforts from blaming individuals to improving education, organizational culture, and incentive structures (Sulistiyo et al., 2025).

Theoretical Propositions

Based on the above analysis, this article formulates four propositions that can be tested in future empirical research.

1. The higher the level of moral reasoning of an accountant, the higher his ethical sensitivity in recognizing the ethical dimension of a seemingly technical situation.
2. Accounting education that focuses on rule compliance is concerned with Stage 4 reasoning dominance and lower ethical sensitivity to situations when rules are unclear or multi-interpreted.
3. Commercial pressures, a work culture that emphasizes loyalty, and weak ethical enforcement moderate the relationship between the accountant's moral reasoning capacity and the ethical sensitivity he or she demonstrates in practice, so that the relationship is weakened when pressure is high and ethical enforcement is weak.
4. The moral intensity of the issue moderates the recognition of ethical dilemmas: issues with diffuse, indirect, or much more difficult to recognize as ethical dilemmas than issues with concrete and immediate impacts.

Implications of Decreased Ethical Sensitivity

The first implication concerns audit quality. Quality audits require auditors to be not only technically competent, but also able to recognize situations that have the potential to lead to material misrepresentations, either due to errors or fraud. Auditors with low ethical sensitivity tend to interpret ambiguous evidence in the client's favor, accept management explanations without adequate testing, and are less critical of accounting estimates and unusual transactions, such as transactions with related parties or adjustments towards the end of the period (Zahara et al., 2022).

This directly weakens professional skepticism, which includes a questioning mind and a critical assessment of audit evidence. Skepticism cannot work if the auditor is not aware that there is something questionable. In addition, independence of mind (Independence in Mind) become vulnerable due to threats such as personal interests (self-interest threat) and close relationships (Familiarity Threat) is not recognized as a threat. As a result, an audit opinion may be issued on financial statements that actually contain misrepresentations, so that the audit function as an external oversight mechanism does not run as it should. (Irwanda & Kuntandi, 2024).

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The second implication concerns the quality of financial reporting. Accountants who work within companies occupy decisive positions because they are the ones who prepare figures, compile estimates, and compile disclosures. When ethical sensitivity declines, aggressive accounting choices, profit management practices (Earnings Management), and minimal disclosures tend to be seen as a reasonable business strategy, rather than as potentially misleading to report users (Silvera, 2024).

As a result, financial information becomes less reflective of economic substance (faithful representation) and loses the qualitative characteristics that underpin its usefulness in decision-making, namely relevance and accurate representation. In the long run, this kind of practice also harms the company itself because it accumulates hidden risks, which ultimately emerge as a negative surprise for investors and creditors.

The third implication concerns public trust, which is the bedrock of the accounting profession. Each scandal reinforces the perception that financial statements and audit opinions cannot be fully trusted. This perception can increase information asymmetry in the market, drive up the cost of capital as investors demand higher risk premiums, as well as prompt regulators to set stricter and more expensive rules to adhere to, as was the case after the birth of the Sarbanes-Oxley Act of 2002 (Fasya, 2025).

Thus, low ethical sensitivity at the individual level does not stop as a personal problem. It can shift into an organizational problem, then a systemic problem that erodes the legitimacy of the profession. This explains why strengthening ethical sensitivity needs to be seen as a public interest, not just an internal affair of the profession.

Prevention and Strengthening Efforts

Education. Accounting education needs to shift from teaching codes of ethics as memorization materials to systematic moral reasoning training. The approach that is in line with Kohlberg's theory is a discussion of moral dilemmas, where students are faced with a case that does not have a single answer, are asked to take a stance, and then face arguments from different perspectives. Exposure to one-stage reasoning above its own level is believed to encourage cognitive restructuring, so that reasoning skills at a higher level can develop (Putri et al., 2025).

In addition, ethics needs to be integrated into all core courses, such as auditing, financial accounting, management accounting, and taxation, so that students are accustomed to recognizing the moral dimension in seemingly technical issues. Real-life case studies of financial reporting scandals, simulations of pressure situations from superiors or clients, and stakeholder identification exercises can be used to train sensitivity, which is the first component of the Rest model. Teachers also need to direct the discussion to the goals and

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objectives of a standard, not just the sound of the article, and provide an assessment that tests the quality of ethical arguments, not just the accuracy of the answers.

Organizations, public accounting firms and corporations need to view ethical development as an ongoing process, not an annual formality. Ethics training should be case-based that is close to day-to-day work, involves all levels, and provides space for junior staff to raise doubts without fear of being judged negatively. This kind of training helps shift group norms from passive obedience to moral vigilance (Danamik et al., 2026).

Violation reporting channels (Whistleblowing) must be secure, independent of the chain of command involved, and accompanied by real safeguards against whistleblowers, including identity confidentiality protection and retaliation prevention. Performance appraisal, compensation, and promotion systems need to include ethical behavior as indicators, so that revenue targets or hours worked are not the only measure of success. Finally, leaders are required to set an example because organizational norms are more strongly shaped by visible behavior and tangible consequences than by written documents. In Kohlberg's framework, this combination of steps creates an environment that supports reasoning at a healthy conventional level while paving the way to a postconventional level (Mosso, 2026).

Professions and regulators. Professional organizations and regulators have a role in setting minimum standards while maintaining the credibility of their enforcement. The code of ethics needs to be continuously updated to follow the development of practice, accompanied by operational implementation guidelines, especially for situations that pose a threat to compliance with basic principles. Sanctions for violations must be consistent, proportionate, and appropriately announced, as the uncertainty of enforcement weakens the deterrent effect and undermines the belief that ethics are truly valued (Hidayat & Lutfi, 2025).

Oversight of the quality control of public accounting firms, including a review of culture and ethical governance, needs to be strengthened. Certification exams and continuing professional education programs should not only test knowledge of the rules, but also the ability to reason with dilemmas, for example through case-based questions. Credible supervision ensures that ethical choices do not become career-detrimental choices, so that ethical behavior can be sustainable (Zhafiri et al., 2026).

Criticisms and Limitations of Kohlberg's Theory

The use of Kohlberg's theory needs to be accompanied by an awareness of its limitations. Gilligan (1982) criticized that this theory emphasizes the ethics of justice and individual rights, while the ethics of care (Ethic of Care) that emphasizes relationships and responsibilities towards others is less accommodated (Pattiwaellapia, 2026). As a result, relational-

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oriented reasoning can appear 'inferior' simply because it is judged by a measure of justice. This theory has also been criticized for its cultural bias: it thrives in an individualistic Western context, so it does not necessarily fully capture moral reasoning in societies that uphold collective and religious values. Other critics argue that there is a gap between reasoning and behavior, because high moral reasoning does not automatically result in ethical action, as Rest's four-component model also affirms (Wibowo, 2023).

In the Indonesian context, religious, familial, and social harmony values influence the way people understand right and wrong. Loyalty to superiors or groups, for example, can be considered a virtue as well as potentially an obstacle to the courage to voice violations. Therefore, the application of Kohlberg's theory to Indonesian accountants should be complemented by local perspectives and other approaches, such as caring ethics and religious values, and tested empirically with contextually appropriate instruments (Santoso, 2023).

CONCLUSIONS AND SUGGESTIONS

Conclusion

The decline in the ethical sensitivity of accountants is a problem rooted in the way accountants are educated, socialized, and pressured in practice, not solely the problem of lack of technical knowledge. Ethical sensitivity occupies an early position in the moral process according to Rest (1986), so that failure in this component makes consideration, motivation, and moral character not get the opportunity to work in the situation in question.

Through the lens of Kohlberg's theory, the decline can be understood as a result of moral reasoning being held back at the conventional level, even shifting to an instrumental orientation when commercial pressures and weak ethical enforcement meet an organizational culture that emphasizes compliance and loyalty. Rules-based curriculum, workplace socialization, client pressure, formal compliance, lack of leadership example, and individual factors reinforce each other, so that the moral dimension in accounting work becomes invisible. Decreased ethical sensitivity impacts audit quality, financial reporting quality, and public trust in the profession.

This article has limitations. As a literature-based conceptual study, this article has not empirically tested the relationship between constructs. Moreover, the use of Kohlberg's theory to explain ethical sensitivity is still a theoretical argument, as it basically explains moral considerations and not moral sensitivity.

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Suggestions

For further research, the formulated propositions need to be tested empirically, for example by measuring the moral reasoning and ethical sensitivity of accountants simultaneously using instruments that are appropriate to the Indonesian context, as well as considering the ethical perspective of caring and religious values. For educational institutions, professional organizations, and accounting firms, this study suggests strengthening dilemma-based moral reasoning training, improving ethical enforcement, and leading examples.

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