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Recommended Citation

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Truth or Consequences: A Study of Critical Issues and Decision Making in Accounting

Annetta M. Gibson
Albert H. Frakes

ABSTRACT. This study applies a theoretical framework, the theory of reasoned action, to the examination of unethical decision making in job-related situations encountered by CPAs. A survey methodology was employed in which respondents were asked to use both self-reported and randomized response techniques for reporting unethical behavior. The results indicate that individuals are unwilling to accurately report either unethical behavior or intention, particularly in situations where there is no question as to the unacceptability of the action or the potential penalty as presented in the AICPA Code of Professional Conduct. Implications for the accounting profession and research are discussed.

Introduction

Ethical conduct in business has been explored, documented, and examined over the last 30 years, primarily within the management, marketing, and accounting disciplines. Within accounting, the examination has sometimes been in response to Congressional investigations, such as the Dingell Committee, sometimes by way of professional response to outside pressure, such as the AICPA's Cohen Commission, and at other

times via research into ethics within the accounting academic community.

This study continues the line of earlier research in ethics in accounting which concentrated on documenting the existence of unethical behavior among accountants (i.e., violations of the AICPA Code of Professional Conduct) and dysfunctional audit behaviors such as premature sign-off of audit steps and underreporting of time. Most of the earlier research, however, has not attempted to use a theoretical base for explaining behavior. When a theory base is lacking, research is limited in its explanatory power both for the situation examined, and more importantly, for other similar situations. Thus, if an appropriate theory can be found which will explain ethical behavior, it is possible to extend the frontiers of understanding to a greater extent.

One important theory of intention and behavior which has received substantial support across a number of behavioral domains (Ajzen, 1989) is Fishbein and Ajzen's (1975) theory of reasoned action. While this theory from social psychology has been found to possess strong overall predictive utility (Sheppard *et al.*, 1988) in a number of situations, it has been used only rarely in ethical decision making (Randall, 1989), with three exceptions: a study of ethics in marketing (Dubinsky and Loken, 1989), a study of cheating in college (DeVries and Ajzen, 1971), and a study of tax refund error and church avoidance (Gorsuch and Ortberg, 1983). The findings of these studies support the concept that individuals' ethical intentions and behavior are similar to other types of intention and behavior actions.

Generally, the study of ethical/unethical behavior requires reliance on self-reported data

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since the observance of such behavior is not possible. The theory of reasoned action also relies on self-reported behavior. It is, however, unclear if researchers can “trust” self-reports of unethical conduct. Previous research has shown that individuals generally wish to present a favorable picture of themselves (Selltiz *et al.*, 1976; Randall and Fernandes, 1991). Therefore, it was anticipated that respondents might be unwilling to self-report unethical behavior accurately.

This may be particularly true in accounting where the penalty for violating the AICPA Code of Professional Conduct demeans the profession as a whole in the eyes of the public (Finn *et al.*, 1988), has been linked to audit failures (Pearson, 1987), and carries the threat of expulsion from the profession. It is therefore important that while using a theory such as the theory of reasoned action, which can assist in the explanation of intention and behavior, we also ensure that we get “accurate” responses when self-reported data must be relied upon.

Prior research (Buchman and Tracy, 1982; Stem & Steinhorst, 1984) has found an increase in the frequency of self-reported unethical behavior when the randomized response technique (RRT) was used. The purpose of this paper is twofold: (1) to determine if the theory of reasoned action can help explain unethical behavior in situations encountered by accountants, and (2) to compare the traditional “direct response” self-report methodology against a randomized response technique.

Background

The first reported study of ethical conduct in business was Baumbart’s survey of business executives in 1961 (Baumbart, 1961). Subsequent studies have appeared with increasing frequency, particularly over the last decade (see Randall and Gibson, 1990, for a review of ethics research). The accounting profession has also focused more attention on ethics as a result of investigation and criticism by Congressional committees and various professional organizations. The profession’s responses have included the revision of the AICPA Code of Professional Conduct and an

increased emphasis on ethics education, including the development of casebooks, readings books, and seminars.

Two early researchers who took seriously the problem of accounting ethics were Loeb (1971) and Rhode (1978). Loeb (1971) studied violations of the professional code of ethics and related these violations to CPA attitudes and the size of the firm in which the CPA practices. Several researchers (e.g., Armstrong, 1985; Shaub, 1989) have extended Loeb’s work by using Kohlberg’s (1969) model of cognitive moral development. Rhode (1978) examined the influence of environmental factors on the auditor’s professional performance. His documentation of the existence of premature sign-off of audit steps and under-reporting of time has sparked several studies (e.g., Buchman and Tracy, 1982; Kelley and Sieler, 1982; Margheim and Pany, 1986) which have documented the existence of these types of dysfunctional behaviors in several different settings.

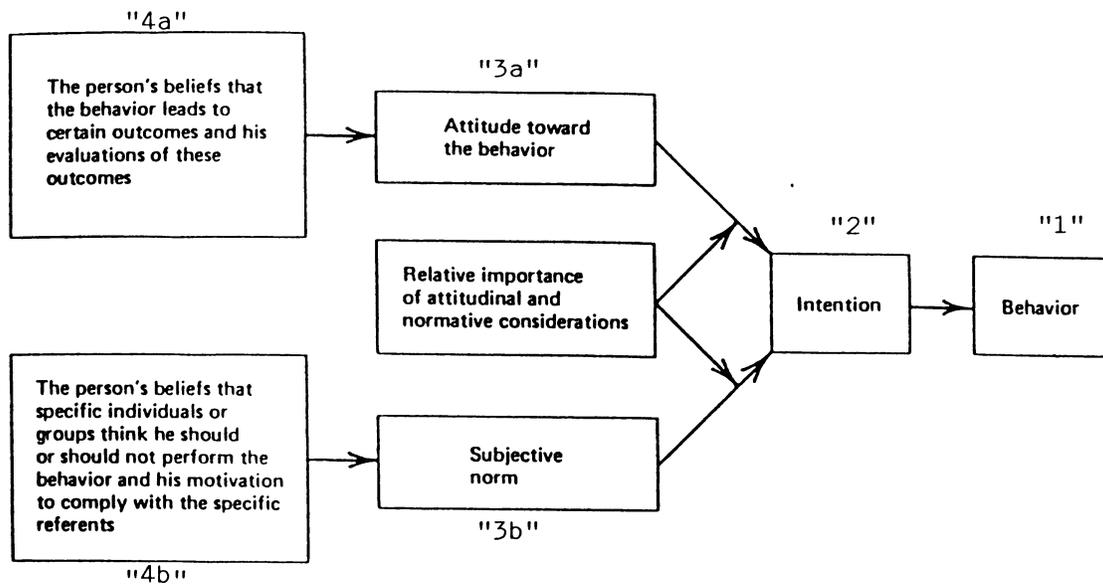
However, most of the work done has lacked the guidance of either a solid ethical theory or a well-developed model of ethical and unethical behavior. This study, therefore, extends research in the field of accounting ethics by applying a well-known theory of intention and behavior from social psychology, the theory of reasoned action, to explain unethical decision making in certain situations encountered by CPAs.

Theoretic framework

The theory of reasoned action

The theory of reasoned action (Ajzen, 1989) is a parsimonious model which assumes that human beings are quite rational and make systematic use of the information that is available to them. The model views an individual’s behavior as following logically from this information. The major goal of the theory is to understand and predict a person’s behavior.

According to the theory, which is summarized in Fig. 1, the immediate determinant of behavior (see “1,” Fig. 1) is the person’s intention to perform (see “2,” Fig. 1). Behavioral intention,



Note: Arrows indicate the direction of influence.
Source: Ajzen and Fishbein (1980, p. 8).

Fig. 1.

in turn, is a function of attitude toward performing the behavior (see "3a," Fig. 1), the individual's judgment concerning whether engaging in a certain behavior is good or bad, and a subjective norm (see "3b," Fig. 1), the individual's perception of whether others important to the individual think he or she should engage in the behavior. Subjective norm is the social influence/pressure placed on the individual to perform or not perform the behavior.

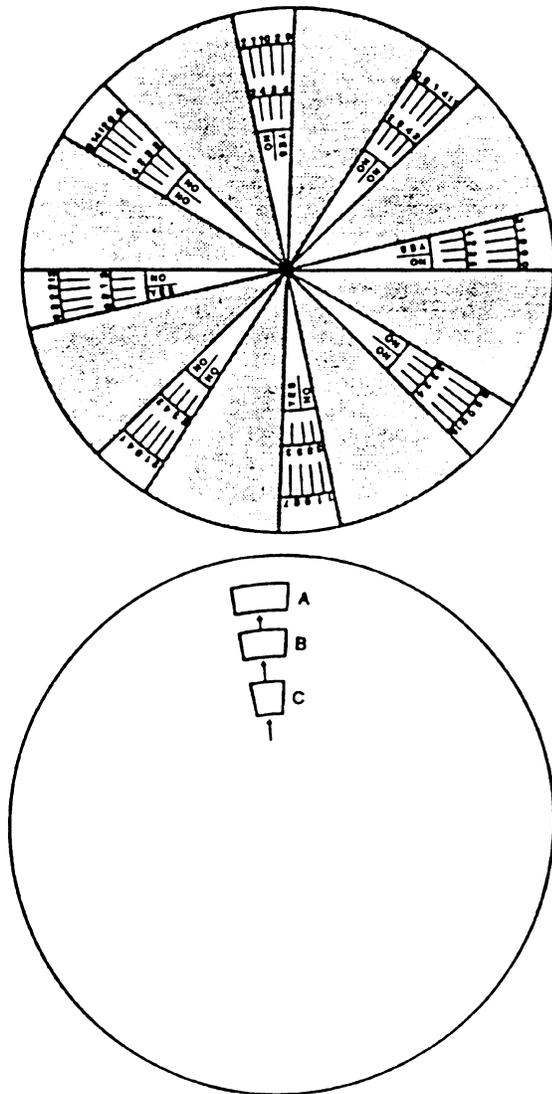
According to the theory, beliefs are the ultimate source of attitudes and norms. To explain intention, one must examine underlying beliefs. For example, the beliefs underlying attitude toward performing the behavior (see "4a," Fig. 1) are one's salient behavioral beliefs about performing the behavior and the evaluation of those outcomes. The beliefs underlying subjective norm (see "4b," Fig. 1) are normative beliefs about whether salient referents think the individual should engage in the behavior, and the individual's motivation to comply with those referents.

Randomized response technique

Because of the sensitive nature of accounting ethics and the punitive consequences of unethical behavior for accountants, a social desirability response bias was likely to make it difficult to obtain accurate measures of unethical behavior. It was anticipated that more unethical conduct would be self-reported using a randomized response technique (RRT) than using a direct question technique.

A number of randomized response techniques (RRT) exist. One particularly useful device was developed by Stem and Steinhorst (1984). The device consisted of a two-part spinner (see Fig. 2).

The bottom circle of the spinner contained gray areas covering 70% of the surface area which was alternated with white areas comprising the other 30% of the surface area. A top disc covered the gray and white areas and had a window that was used to answer yes/no questions regarding actual behavior in the given situation. If the arrow landed on the shaded area, the respondent was asked to answer the sensitive question truthfully. If the arrow landed on the white area, the



The following instructions were included on the base of the randomization device.

1. Place the spinner in front of you on a flat surface such as a table.
2. With one hand holding down the spinner, flip the disk with the other hand hard enough to make it spin rapidly.
3. Each question on the questionnaire will indicate which window to use for that particular question. When the disk stops, look in the window assigned for that question.

If the arrow lands on a shaded area, enter your actual answer to the question on the questionnaire.

If the arrow lands on a lettered or numbered area, enter the randomly assigned answer. (YES, NO, 1, 2, 3, etc.)

If the answer lands on a line, answer according to the numbered, lettered or shaded area to the left of the line (counterclockwise).

4. When you repeat the process for the next question, always start from the last stopping point. (Do not spin from the same starting point each time.)

Source: Stem and Steinhorst (1984, p. 556).

Fig. 2.

respondent was asked to answer as directed by the spinner, thus providing a surrogate response which was randomly assigned. Thus, a "yes" answer may reflect either a randomly assigned "yes" answer or an affirmative answer to the sensitive question.

Research design

Methods

The theory was tested in a field setting using a mail survey. The questionnaire used the standard measures of intentions, attitudes toward behaviors, subjective norms, behavioral beliefs, outcome evaluations, normative beliefs, and motivations to comply, developed by Ajzen and Fishbein (1980).

Four scenarios depicting unethical situations encountered by CPAs in the workplace were provided as hypothetical situations for the respondent to use in answering the questions. The four dilemmas depicted were premature sign-off of audit steps (scenario I), confidentiality of workpapers (scenario II), independence as illustrated by continuing to audit a banking client who was giving preferential loans to the firm's employees (scenario III), and accepting an engagement for which the auditor is not qualified (scenario IV). These scenarios were developed using ethical/unethical dilemmas identified in prior research (Loeb, 1971; Claypool *et al.*, 1990; Alderman and Deitrick, 1982).

Two versions of the questionnaire (each containing two scenarios to reduce respondent fatigue) were mailed to 800 subjects randomly selected from the Washington State Society of CPA's membership directory. Thus, 400 subjects received version 1 of the questionnaire which included the premature sign-off of audit steps and the confidentiality of working papers issues. The remaining 400 subjects received version 2 of the questionnaire which included the issues of independence and accepting an engagement for which the auditor was not qualified. In addition, each of the two versions was further divided in half, with 200 subjects being asked to respond to the questions regarding intention and actual

behavior by using the randomized response method (i.e., the spinner device). The other half (200 subjects) answered all questions directly, without using the spinner device.

Of the 800 questionnaires mailed, 220 (31.3%) were returned by the respondents (96 were undeliverable). Of those returned, 32 were not completed because the individuals were in industry, tax, or government accounting rather than in auditing. Usable responses numbered 188 (26.7%). While this response rate is lower than one would hope to achieve, it is comparable both to similar ethics studies (see Randall and Gibson, 1990, for a review) and to the response rate achieved (25%) by a WSCPA survey of Washington State Society members in October, 1991 (*The Washington CPA*, 1991). The majority (64.4%) of the respondents were from small, non-Big 6 firms (with 1–4 partners) and had worked for 11 or more years (59.0%).

Measures

As noted above, the components of the theory of reasoned action were measured using standardized measures set forth by Ajzen and Fishbein (1980). Although the use of scenarios meant that the researcher could not actually observe behavior, respondents were asked to self-report behavior (either directly or by using the randomized response technique) by answering the following questions: “How frequently have you been in a situation similar (to the one described in the scenario)?” and “Did you ever perform (the unethical behavior depicted in the scenario)?” The first question was answered by noting the number of times the respondent had been in a similar situation while the second question required a yes/no response (see “1,” Fig. 1).

Intention was measured by two questions answered on 7-point, fully anchored, scales. One question asked: “How much would you want to (perform the unethical behavior described in the scenario)?” with 1 = very much and 7 = not at all. The second question asked: “How likely is it that you would (perform the unethical behavior described in the scenario)?” with 1 =

extremely likely and 7 = extremely unlikely. (See “2,” Fig. 1).

Attitude toward performing the behavior (see “3a,” Fig. 1) was assessed directly by four items. Using 7-point, fully anchored scales, respondents were asked whether they believe performing the unethical behavior described in the scenario is good/bad, wise/foolish, ethical/unethical, and useful/useless. To compute attitude toward performing the behavior in accordance with the theory, the four measures were summed to create a single scale.

Attitude toward performing the behavior was alternatively assessed as a function of behavioral beliefs and outcome evaluations (see “4a,” Fig. 1). To measure behavioral beliefs, respondents were asked to assess the likelihood (using a 7-point, fully anchored scale) that a particular outcome will occur as a result of performing the unethical behavior depicted in the scenario. Each questionnaire had a different number of specific behavioral beliefs identified through the literature review, interviews, pilot test, and pretest. For example, in the questionnaire using the scenario depicting a premature sign-off of audit steps, ten specific behavioral beliefs were used (e.g., “I believe signing off on the audit steps would enhance my job security with the firm”).

To measure outcome evaluations, respondents were asked to rate on a 7-point scale how good or bad the outcome is, where 1 = extremely good and 7 = extremely bad. An outcome was listed for each behavioral belief. Thus, for the questionnaire using the scenario depicting the premature sign-off of audit steps, respondents were asked their perceptions of how good or bad the ten outcomes were (e.g., “Feeling secure about your job with the firm”). Following the Fishbein and Ajzen methodology, each pair of behavioral belief and evaluation outcome measures were multiplied together and the products were summed to arrive at a single score representing an indirect measure of attitude toward performing the behavior (see “4a,” Fig. 1).

The respondent’s subjective norm toward performing the unethical behavior (see “3b,” Fig. 1) was assessed directly in global fashion by asking the question: “Most people who are

important to me would probably think I should (perform the unethical behavior described in the scenario)" using a 7-point, fully anchored scale from strongly agree to strongly disagree. An alternative measure of subjective norm (see "4b," Fig. 1) was computed as a function of normative beliefs with respect to specific referents and the motivation to comply. Significant others were identified through the literature review, interviews, pilot test, and pretest. For example, for the questionnaire using the scenario depicting premature sign-off of audit steps, six referent others were used (e.g., The audit supervisor would probably think I should sign-off on the audit steps"). A 7-point scale was provided for responses with 1 = extremely likely to 7 = extremely unlikely.

Motivation to comply (see "4b," Fig. 1) was assessed by asking the respondents to rate their desire to comply with each of the referent others. Thus, for the questionnaire using the scenario depicting premature sign-off of audit steps, respondents were asked, "Generally speaking, I want to do what my audit supervisor thinks I should do." Respondents were asked to rate their responses on a 7-point scale, where 1 = extremely likely to 7 = extremely unlikely. Following the Fishbein and Ajzen methodology, each pair of normative belief and motivation to comply items were multiplied together and the products summed to arrive at a single subjective norm score.

To test the reliability of the scales used to measure intention and attitude, Cronbach coefficient alphas were computed for each of the scenarios. The alpha coefficients for all measures were above 0.75.

Results

The theory of reasoned action and its two components, attitude toward the behavior and subjective norm, explained a significant portion of unethical intention (see "2," Fig. 1) in the study of accounting situations ($p < 0.001$ for all scenarios except scenario IV for subjective norm, where $p < 0.01$). The results also found that beliefs were the ultimate source of attitude

toward performing the behavior (see "3a, 4a," Fig. 1) and subjective norm (see "3b, 4b," Fig. 1) ($p < 0.001$ in all cases).

The theory of reasoned action states that the stronger the intent to perform an unethical act, the more likely the individual will engage in the unethical behavior. Past empirical research has indicated a strong positive relationship between intent to behave and behavior (Sheppard *et al.*, 1988). However, in this study differences between the mean intention of those who engage in the unethical behavior and those who do not engage in the unethical behavior (see "1", Fig. 1) could not be tested for scenarios I and III because no respondents self-reported performing the unethical act. Moreover, the computed t-statistics for scenarios II and IV were not significant. This result may be attributed, in part at least, to the lack of power due to the small number of individuals self-reporting unethical behavior for these scenarios.

The difference between the direct responses and the RRT responses was tested for each scenario by computing "Z" statistics to compare the proportion of "yes" responses received from the RRT respondents to the behavior question with those obtained from the direct "yes" responses to the same question. The proportion of "yes" responses from the RRT questionnaires was adjusted to remove the expected surrogate responses (Buchman, 1983; Buchman and Tracy, 1982).

As shown in Table I, the differences between RRT responses and the direct question responses were significant for three of the four scenarios (scenarios I, II, and III), indicating a tendency toward more honest responses (i.e., more admission of unethical behavior) from those using the RRT device than from those responding to the direct question regarding unethical behavior.

Not only were there significant differences between the RRT and direct responses with respect to self-reported behavior, but differences were also found with respect to self-reported intention when the respondents were asked whether they intended to perform the depicted unethical act. When a strong level of intention *not* to perform the unethical act was reported, significant differences were found between the

TABLE I
Self-reported behavior direct response vs. RRT response

	RRT response	Direct response	Z score	Confidence level that "Performed Act" responses higher with RRT
<i>Scenario I</i>				
Performed Act	6	0	1.96	97.5%
Did not Perform Act	28	37		
Total	34	37		
<i>Scenario II</i>				
Performed Act	8	2	2.31	99.0%
Did not Perform Act	27	35		
Total	34	37		
<i>Scenario III</i>				
Performed Act	10	0	2.58	99.5%
Did not Perform Act	28	46		
Total	38	46		
<i>Scenario IV</i>				
Performed Act	15	12	1.13	87.0%
Did not Perform Act	23	33		
Total	38	45		

direct and the RRT responses for scenarios I and III, but not for scenarios II and IV. As noted earlier, scenarios II and IV dealt with issues which lend themselves to more liberal interpretations and justifications of actions with respect to the Code of Professional Conduct, but scenarios I and III dealt with dilemmas which are clearly against the Code. No differences between RRT and direct answer respondents were found when examining the intention data on the end of the scale indicating a weak intention *to* perform the unethical act. As a social desirability bias indicates that individuals would tell the truth in this area, this finding could be anticipated. That is, there is no incentive to state that one intends to perform an unethical act when in fact, one does not intend to perform such an act.

Discussion and implications

Additional insight into the reasoning the subjects used as they responded to the scenarios was

gathered in the "comments" section of the questionnaire. These insights are particularly interesting in view of the results previously discussed.

As noted above, scenarios I (premature sign-off of audit steps) and III (independence as depicted by continuing to audit a banking client who was giving preferential loans to the firm's employees) were the most difficult to justify unethical actions in view of their explicit prohibition in the Code of Professional Conduct. This may explain, to some extent, the noted unwillingness of the respondents to directly (as opposed to RRT) report unethical actions in response to the depicted situations. In the other two scenarios (scenario II dealing with confidentiality of working papers and scenario IV regarding accepting an engagement for which the auditor was not qualified), it was possible, to some extent, for the respondent to justify his/her actions in a manner which could be interpreted as not violating the Code. The differences between the scenarios observed in the examina-

tion of the data were confirmed by the written responses to the question "What do you believe a fellow CPA would do in this situation?" Interestingly, but not surprising, in discussing the above question, the respondents generally indicated that even though *they* would not perform the unethical act, they believed their fellow CPAs would.

In scenario II, while 5% of the direct questionnaire respondents stated that they had granted access to audit files in instances such as this without the client's permission, 33% of those answering the question stated a belief that their peers would grant access. Other individuals suggested calling a small number of clients and obtaining their permission to show their file, and then granting access to only those files. Others indicated that since other CPAs are bound by the Code of Professional Conduct, it would be acceptable to show them the files: "Confidentiality among professionals can be maintained."

Scenario IV may have best illustrated the pressure to "keep the client" while still doing quality audit work. Eighty-seven percent of those commenting stated that a fellow CPA would audit the unfamiliar segment of the business. Almost all qualified their answer by indicating that the fellow CPA would perform the audit because he/she would either (1) take the necessary steps to become familiar with the mining segment, (2) hire staff with the required expertise, (3) contract with another CPA firm with mining expertise to do that part of the audit, or (4) consult an expert. Scenario IV is the only scenario in which a significant difference was not found between the RRT and the direct responses. It may be that this scenario was seen as one dealing with the CPA's competence at least as much as it dealt with ethical issues.

Scenario III also illustrates the pressure that exists to keep a client. While 83% believed that a fellow CPA would discontinue the audit of the S&L, most were not willing to lose the audit without first making some effort to resolve the situation and thus ultimately retain the client. The most frequently mentioned resolution was to ask the bank to discontinue the loan arrangement. Then, only in the event that the bank refused to do so, would the client be dropped.

Some respondents suggested requiring the employees involved to refinance existing loans at another institution, with the CPA firm assisting with the refinancing costs.

In scenario I, even though no direct response participants admitted to premature sign-off of audit steps, 22% of those who answered this question stated they believed fellow CPAs would sign off on the audit step without doing the work. In addition, respondents suggested other options to sign-off, such as taking work home but not reporting the time, and reducing the work on a particular audit step. These options are mentioned in the literature (Alderman and Deitrick, 1982; Kelley and Margheim, 1987; McDaniel, 1991) as other dysfunctional behaviors exhibited by auditors when faced with time pressure situations.

Implications for accounting practice

Managers of CPA firms who wish to encourage ethical conduct among their employees will find the results of this study useful. The finding that intention to behave unethically is a function of both attitude toward performing the behavior and social pressure, as well as the beliefs behind these constructs, is important if one wishes to influence intentions and ultimately behavior. Employees' intentions to engage in a particular behavior increase when they believe that the behavior will lead to a desirable outcome. In cases where the chosen behavior might be unethical, the employer must change the belief that the behavior leads to a desirable outcome if he/she wishes to change behavior.

Management can go further by clearly communicating to employees any potential negative consequences that will result from engaging in various unethical behaviors, and correspondingly, to communicate positive consequences that will result from engaging in ethical behaviors. This may not directly change the evaluation of such outcomes by the individual, but it should influence beliefs by reinforcing the belief that ethical behavior is good and desirable.

This study also indicated that individuals' intentions and behavior are influenced by others

who are important to them. Recognizing this, if managers wish to encourage ethical conduct, they must insure that consistent messages regarding the importance of ethical conduct come from all potential important others. This study found that important others included authority figures, fellow staff and peers, family, and regulatory bodies. Since management has easy access to several of these significant referents (authority figures, fellow staff and peers), there is ample opportunity to encourage these referents to support ethical behavior. For example, management may make significant referents into role models by providing public recognition for ethical actions.

In general, respondents indicated they intend to do quality work and are willing to take the necessary steps to keep up-to-date and knowledgeable. However, few recognized any potential limits to the acquisition of necessary knowledge. While such confidence is necessary to succeed as a CPA, overextending that confidence could lead to situations where substandard work is performed, with potential consequences of public embarrassment and lawsuits.

As noted above, scenarios III and IV generated comments which clearly illustrate the intense pressure that exists in the profession to "keep the client." While keeping clients is essential for the firm's success, there is an inherent danger that the client will be kept at any cost, including the cost of associating with clients and being involved in situations which may lead to violations of the Code of Professional Conduct and unsavory legal and professional sanctions.

Implications for research

The results of the study indicate that, when comparing the direct with the RRT responses, individuals appeared to be unwilling to accurately report unethical behavior. This finding is consistent with prior research (e.g., Buchman and Tracy, 1982). It may be that direct self-reports of unethical activity are understated, particularly in situations where the unethical nature of the behavior or the interpretation of the Code of

Professional Conduct is not ambiguous. Since research on ethical/unethical behavior usually must rely on self-reported data, it appears preferable to use a randomized response technique when asking questions of a sensitive nature.

Indeed, a natural extension of this study is to test the theory of reasoned action by using RRT to gather data on the "intentions" variable. However, one warning is appropriate before such an extension is planned. Fox and Tracy (1984) note that a test using only the RRT approach necessitates a fairly large sample size (250–500) in order to reduce the standard error of the parameter estimates because the model would need to be formulated as a measurement error model. Usual multivariate procedures would then be applied to the data.

In discussing the results of this study, the following limitations should be kept in mind. The generalizability of this study is limited because the majority of the respondents were from small, non-Big 6 firms and had worked for 11 or more years. In addition, the low response rate should be considered in generalizing the results beyond the respondents. Although this study used scenarios, as is often done in business ethics research (e.g., Baumbart, 1961; Murphy and Laczniak, 1981; Fritzsche and Becker, 1983), scenarios can create problems in the areas of relevance (Fredrickson, 1986) and realism (Randall and Gibson, 1990).

Conclusion

The theory of reasoned action provides a useful theoretical explanation for unethical behavior among CPAs in the state of Washington. An accountant's intention to behave unethically is a function of both attitude toward performing the behavior and social pressure, as well as the beliefs behind these constructs. Accountants appear to be unwilling to accurately report either unethical behavior or intention, particularly in situations where there is no doubt as to the unacceptability of the action or the potential penalty as presented in the AICPA Code of Professional Conduct.

The comments on the dilemmas presented in

the scenarios revealed two particularly troubling problems for the accounting profession. First, while the respondents indicated their willingness to do quality work and to please the client, the lack of stated limits as to the extent of their confidence in their abilities is of concern to the profession. Second, the pressure that exists to keep a client may, at times, lead CPAs to justify actions which may be in harmony with the letter, but not the spirit, of the Code of Professional Conduct. In either case, there exists the possibility that the CPA may either perform inadequate work and/or expose the individual and/or the firm to potential liability suits.

Of concern to researchers is the possibility that self-reported unethical behavior may be understated due to the social desirability bias against reporting unethical behavior, particularly in situations where sanctions are clearly in place. Until techniques, such as RRT, are utilized frequently by researchers, the accounting profession may never know the true extent of unethical behavior that occurs.

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