EXPOSURE TO UNETHICAL BEHAVIOUR: DOES IT CHANGE ACCOUNTING FIRMS' ETHICAL STANCE?

Connie Zheng*, Soheila Mirshekary*

Abstract

Decisions to implement ethical policies and practices at the organizational level are assumingly influenced by two key factors: (1) the extent to which businesses are exposed to prevalent unethical behaviours; and (2) change of business owner/manager's personal attitudes toward unethical behaviours. Based on the theories of planned behaviour (TPB) and reasoned action (TRA), it is hypothesised that exposure leads to changed personal attitudes of individual business owners/managers, which in turn determine the potential actions taken by them to implement ethical policies and practices in their respective firms. Using a sample of 209 Australian small accounting firms, we test these hypotheses. Path analysis results indicate close relationships between the exposure and firm owners/managers' personal attitudes towards unethical behaviour; and between the exposure and firms' decisions to implement ethical policies. Increased exposure to unethical behaviour is nonetheless a concern as it triggered stronger personal attitudes towards accepting unethical behaviour. However, more exposure to unethical behaviour creates motivates owners/managers of small accounting firms to take actions and implement more ethical policies and practices at firm level. Policy implications of these results and future research directions are discussed.

Keywords: Ethics, Exposure to Unethical Behaviour, Personal Attitudes, Policy and Practice, Accounting Firms, Australia

** Senior Lecturer, Graduate School of Business, Faculty of Business & Law, Deakin University, 70 Elgar Road, Burwood, VIC 3125, Australia*
Email: connie.zheng@deakin.edu.au
*** Senior Lecturer, Graduate School of Business, Faculty of Business & Law, Deakin University, 70 Elgar Road, Burwood, VIC 3125, Australia*
E-mail: soheila.mirshekary@deakin.edu.au

1. Introduction

Following many corporate scandals and financial crises of the past decade (Baron et al., 2010), a significant number of researchers (eg. Alas, 2006; Martin, 2007; Vyakarnam et al., 1997) have devoted to examine the issues of business ethics. The unethical practices exhibited by a number of well-known large accounting firms and investment banks such as Andersen Consulting, PricewaterhouseCoopers, Enron, Lehman Brothers and Morgan Stanley (Duska, 2004) pose an intriguing question as to 'whether small accounting firms are likely to be in the position of following the examples of bad apples?' (Gino et al., 2009). Alternatively, if they did not follow the bad examples, what measures do small firms take to fight against the contagious ethical misconducts?

Much of the extant research on ethical behaviour tends to concentrate on large accounting firms (e.g. Buchan, 2005; Misiewicz, 2007; Cowton, 2009; Zheng and Li, 2010), less on examining ethical practices of small accounting firms (Mankelow, 2008). It is believed that accountants, mostly those managers of small accounting firms can have a strong influence on the practices of their clients through the advice they provide or the audits they conduct. However, in practice, it appears that many accountants working for the large fallen firms had encountered ethical dilemmas but failed to make ethical decisions on their corporate conduct (e.g., Tourish and Vatcha, 2005). The reasons for such failure can be two-fold. One, it is likely that individual accountants succumbed to the existing organisational ethical climate and culture (e.g., Kulik et al., 2008); and second, it is likely that decision-making of individual accountants in charge of corporate finance and accounting was strongly influenced by the practices and pressures of charismatic leaders or critical clients (Tourish and Vatcha, 2005). Yet, so far we are not particularly clear about the decision-making process of small accounting firms in implementing ethical policies and practices at firm level. The current research intends to reduce this gap.

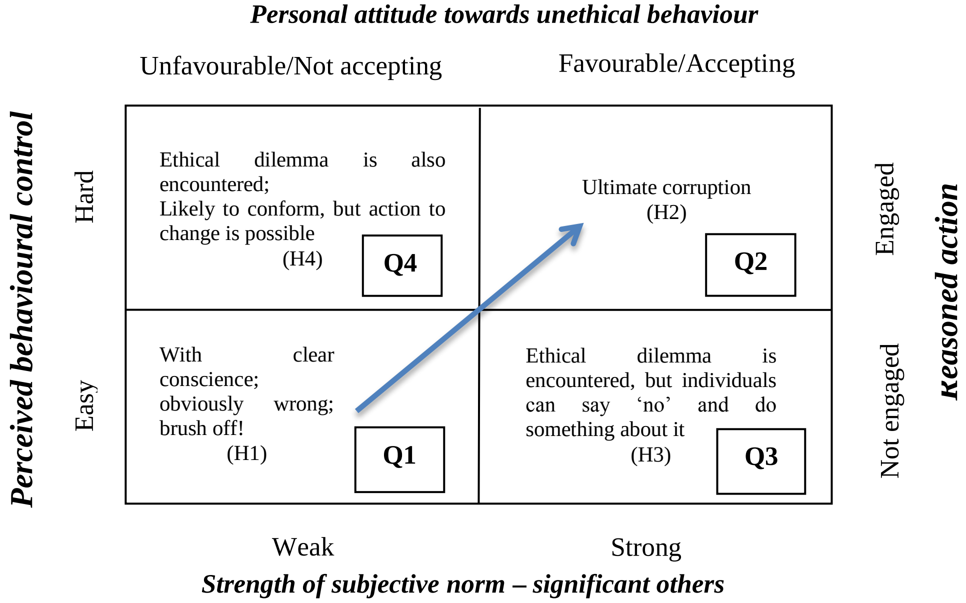
There are additional reasons for selecting small-scale accounting firms for the current study. First, small accounting firms are important because they provide advice for other small and medium-sized enterprises (SMEs) especially in the area of earnings management. Earnings management behaviour has long been a concern of standard-setters, regulators and the accounting profession (Elias, 2002). Thus, with the collapse of significant numbers of firms as a result of unethical earnings management during the 2008 financial crisis, it is imperative that we understand the extent to which exposure to unethical behaviour has influenced the ethical practices of small-scale accounting firms. Second, there is a dearth of literature focusing on examining ethics among accounting firms (e.g., Buchan, 2005; Misiewicz, 2007; Turpen and Witmer, 1997), but little has been devoted to investigating the integrated impact of exposure to unethical behaviour on changing small business managers' personal attitudes and their accounting firms' response to implementation of ethical policies and practices. Third, most Australian accounting firms are small in scale, and run privately by individual qualified accountants. Both the attitudes and actions of these individuals representing small accounting firms' views towards ethical issues are important because they can directly influence not only the practices of their own firms but also of those SMEs they serve. Hence, in this paper, we extend the work of Buchan (2005), which was grounded in large public accounting firms, to further investigate personal attitudes of owners/managers of small scale accounting firms in Australia and the actions they might have taken to address potential ethical dilemmas in the workplace.

2. Literature Review and Hypothesis Development

Prediction of ethical behaviour is grounded in psychological theories such as the theory of planned behaviour (TPB) and the theory of reasoned action (TRA) (Ajzen, 1985; 1989; 1991; Ajzen and Fishbein, 1980; Fishbein and Ajzen, 1975). The TPB purports that behavioural intentions are a function of three main constructs: (1) '*attitude toward the behaviour*', measuring how an individual values favourable behaviours over unfavourable ones; (2) '*subjective norms*', referring to how individuals are expected to choose the behaviours that are strongly encouraged by 'significant others' over those that are not encouraged; (3) '*perceived behavioural control*', assuming that individuals perceive behavioural change on two levels, easy and hard, and would be inclined to opt for an easier option if it is necessary to change their behaviour (see Kulik et al., 2008). The TRA stresses the importance of the rational reasoning undertaken by individuals (behavioural intentions) before they decide to engage or not engage in a particular decision or action.

Based on these two theories, a combined matrix (Figure 1) is developed to indicate several potential options individuals could take in reaching ethical decisions. Earlier models are based either on the TPB (see Ajzen, 1991; 2006) or on the TRA (Fishbein and Ajzen, 1975), but not combined as we have depicted in Figure 1. Here we consider four important constructs relating to individuals' personal attitudes, perceived behavioural control and influences from outside norms, that is, subjective norms (Ajzen, 1991), as well as internalised reasoning (Fishbein and Ajzen, 1975). These four constructs are theoretically grounded, and are used to support the development of hypotheses in the current study.

Figure 1. Possible relationships between individual attitudes and ethical dilemmas



It is posited in Figure 1 that as small businesses are operating in a changing world with an increasingly competitive environment; individual small business managers are likely to encounter many questionable practices and unethical behaviors in the workplace and in society generally (Kulik et al., 2008; Gino et al., 2009). However, reaction towards these questionable practices and unethical behavior can be measured by two axes: attitude (horizontal) and action (vertical). Both axes representing the ethical decision making process in organisations are fundamentally determined by two elements: people (this includes self and others) and situation (this includes both organisations' internal and external environment) (see Trevino, 1986).

When exposed to unethical behavior, individuals are likely to have one of two attitudes, without being influenced by others: (a) being favorable (accepting unethical behavior and practices *per se*); or (b) being unfavorable (not accepting the exhibited unethical behavior and practices). Based on TPB, it is possible that the changing magnitude of individual attitude toward unethical behavior and practice is affected by the strength of subjective norm, that is 'significant others'. The stronger the influence is instigated by 'significant others', the more likely individuals would be encouraged to accept unethical behavior. In contrast, the less influence by the peer, the more individuals would hesitate to accept questionable behaviour (see the experiment by Gino et al., 2009). Longenecker et al. (2006) also argued that situational factors such as institutional, environmental and organisational, and agency effects are important, representing 'significant others' who either have weak or strong influences on individual attitudes towards unethical behavior and practice (Longenecker et al., 2006; see also similar lines of discussion in Trevino et al., 1998).

Similarly, based on TRA, when encountering unethical behavior, individuals can have two choices in deciding whether they would take action to engage or not to engage in such unethical practice. This choice is nonetheless subject to the strength of individuals' 'internal locus of control', which was defined by Longenecker et al. (2006) as the small business managers' belief in their own power to change situational factors. The easier the perceived locus of control means a greater power to resist unethical behavior imposed by the situational factors. Contrarily, the harder the perceived locus of behavioral control tends to lead individuals to accept unethical behavior and subsequently even engage in unethical practices, when such practices benefit individuals financially (Gino et al., 2009).

Four quadrants suggested in Figure 1 are interactively influenced by four constructs: *person* (measured by personal attitude), *situation* (exposure to unethical behavior originated from situational factors), *perceived locus of control* (measured by accepting or not accepting unethical behavior) and *reasoned action* (measured by the number of ethical practices small scale accounting business managers chose to implement). These quadrants are explained next with the development of several hypotheses for this study.

Quadrant 1 (Q1) is determined by a weak influence from the 'subjective norm', easy locus of control, personal attitude towards not accepting unethical behavior and not being engaged in unethical practices. It is clear that individuals in this quadrant possess a clear conscience. When exposed to questionable practices or unethical behavior, it is easy for individuals to reject (brush-off) the unethical behavior and to choose not to engage in the questionable practices. Some previous studies appear to support the point made in Q1. For instance, the outcomes from Quinn (1997), although made in the context of linking personal ethics to business ethics, show interestingly, that respondents in the religious group, who are members of organisations with the most explicitly ethical dimension to their constitutions, expressed overall high concern on ethical issues than did members of the business group. This could be interpreted as the religious group with easy perceived behavioural control and weak influence (in this case perhaps secular group are the 'significant others') would likely identify unethical behaviour when exposed to it and reject it outright. Therefore, it is proposed that: *Hypothesis 1: The amount of exposure to unethical behaviour is positively correlated to personal attitudes towards not accepting unethical behaviour.*

Quadrant 2 (Q2) appears to be the most troublesome, because it has interactions with strong influence by 'subjective norm' and perceived difficulty in 'locus of control'. Consequently, there appears to be a relationship between the amount of exposure to unethical behaviour and personal attitudes towards accepting the unethical behaviour, and subsequently engaging in unethical practices, which can be phrased as 'ultimate corruption'. A study by Feudtner et al. (1994) appears to support this prognostication. It is found that medical students who 'reported witnessing unethical behaviours were more likely to have acted unethically themselves' (Feudtner et al., 1994, p. 677). In other words, more exposure to unethical behaviour reinforces attitudes of accepting such unethical behaviour, especially if there is a strong influence by peers. Based on the social-identity theory (Tajfel, 1982), in-group members tend to engage in increased unethical behaviour themselves when they observed unethical behaviour by their peers (Gino et al., 2009). The recent downfall of several firms such as Enron, Andersen Consulting and Morgan Stanley also signifies how easily individuals can yield to dishonest behaviour when the in-group conditions become strong 'subjective norms'. Failure to resist 'significant others' is also due to the difficulty individuals perceived themselves to have power in exercising their internal locus of control when working under competitive and peer pressure (e.g., Kulik et al., 2008; Tourish and Vatcha, 2005; Gino et al., 2009). The medical students surveyed in Feudtner et al.'s (1994) study expressed their conformity to unethical behaviour because of their 'fear of poor evaluation' by their superiors and of 'not being able to fit in with the team' (p. 670). Thus, against the proposition set in the Hypothesis 1, it is likely that: *Hypothesis 2: The increasing amount of exposure to unethical behaviour positively influences personal attitudes towards accepting unethical behaviour.*

Quadrant 3 (Q3) represents the ethical decision-making process strongly influenced by 'significant others', nonetheless with individuals having perceived themselves to have power in controlling unethical behaviour. Therefore, despite the increasing pressure from subjective norms set by those 'significant others', individuals could have a personal deposition towards accepting unethical behaviors but they choose not to engage in unethical practices. Instead the findings from Morris et al. (2002) suggest that some entrepreneurs in small firms used both formal (e.g., a written code of conduct, ethics-related training) and informal mechanisms (e.g., casual conversation about ethics issues) to address unethical behavior and ensure that their firms' ethical standards are consistently implemented. Hornsby et al. (1994) and Vyakarman et al. (1997) reported a more pragmatic view of the ethical dilemmas faced by small firms, which are closely in line with the logic explained in this quadrant. Often small businesses are epitomized by profit motives, overwhelming demand for business development, money-related theft and conflict of personal interests with business needs. However, individual entrepreneurs and small business managers under these exemplified circumstances could still choose not to engage in unethical behavior. Rather they attempt to balance the competing demands and solve the dilemma by institutionalizing some ethical practices (Morris et al., 2002). Based on this line of argument, it is possible that: *Hypothesis 3: The amount of exposure to unethical behaviour increases the number of firm responses to implement ethical policies and practices.*

Quadrant 4 (Q4) is an interesting one. Individuals initially would not accept unethical behaviour when they encounter it, because there is no strong force pressing them to accept unethical practices. However, perceived behavioural control is hard, that is individuals perceive inherent difficulty in rejecting or resisting such unethical behaviours and in fact choose to engage in unethical practices. In the case of small accounting firms servicing large corporations, several reasons offer explanation as to why it is possible for individuals to encounter this type of ethical dilemma. First, large corporations already engaging in unethical behaviour (e.g., earning mismanagement) and their rewards, rules and codes are likely to influence individuals from small accounting firms to follow suit. Second, engaging in unethical behaviour could help meet small business needs (e.g., profit generation) (Hornsby et al., 1994). Third, individuals might have a relatively low internal locus of control. This would result in unstable ethical understanding (Vyakarnam et al., 1997) which leads small managers to engage in unethical practices. Based on these discussions, it is proposed that: *Hypothesis 4: Personal attitude towards accepting unethical behaviour decreases the number of small firm responses to implement ethical policies and practices.*

Both Q3 and Q4 contain potential ethical dilemmas, however, Q4 is more problematic than Q3 because of individuals having different attitudes towards accepting unethical behaviour. It would be dangerous if individuals see their own locus of control as weak, and perceived changing behaviours as difficult or implausible, as presented in Q4. In such cases, unethical behaviours could take hold and eventually become the norm. To reduce the possibility for small accounting firms to fall into the trap of Q4, we need to understand how the extent of exposure affects personal attitude and organisational response to ethical practices.

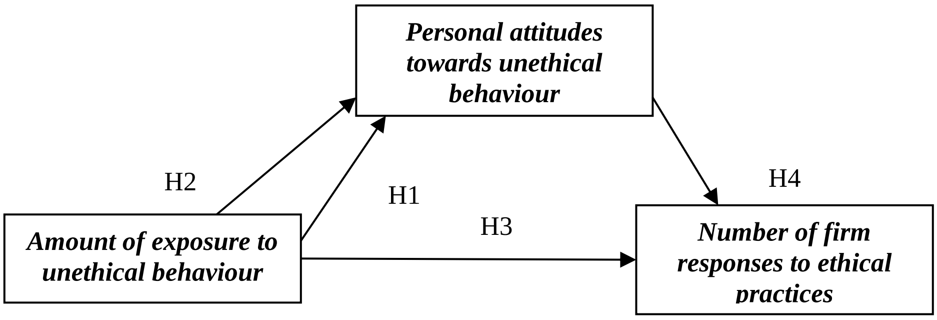
Control variables

Prior studies also link demographic variables such as age, gender and firm size to ethical practices. However, there appear some mixed results. For example, Ede et al. (2000) found a positive relationship between age and ethical behaviour, but the results were not significant for gender. Examining the effects of several variables such as age, gender, marital status and education on ethical practices, Serwinek (1992) found age to be the only significant predictive variable. Andreoli and Lefkowitz (2009) however found that ethical practices were associated with firm size. Therefore, it is suggested that: *Hypothesis 5: Age and gender are related to personal attitudes towards accepting/not accepting unethical behaviour.*

Hypothesis 6: Size of firm is associated with the number of firm responses to implement ethical practices.

A path diagram (Figure 2) summarises the above-discussed research hypotheses. It depicts the relationships among the exposure to unethical behaviours, personal attitudes, and the number of the firm's responses to the implementation of ethical practices. Control variables with directional influences are presented in the regression results (Figure 3).

Figure 2. Path diagram indicating relationships among key hypothesised constructs



3. Method

The research method involved the administration of survey questionnaires to 2,171 firms listed as 'Auditors or Accountants' and identified as small-scale accounting firms (with fewer than 100 employees) in the state of Queensland, Australia. The database was based on a 3 year-old directory. Therefore, new businesses were not included but some closed businesses may have been included. The survey questionnaires, with a covering letter outlining the aims of the study, and guaranteeing its confidential nature, were sent by mail to all listed firms and were specifically addressed to the manager (defined as either owner or the principal partner or person in charge) of the firm. Participation in the study was voluntary, and neither individual respondents nor their firms could be identified. Some businesses were no longer operating, and some contact details were out of date. As a result, 321 unopened questionnaires were returned. Therefore, only 1850 firms were finally reached. Return of the completed survey questionnaire was taken as consent. A total of 266 responses were obtained (14.5%), and 209 complete responses were usable for data analysis in this study. To control for non-response error, a comparison of early to late respondents was used. Chi-square tests for equal distributions were performed on demographic variables using SPSS version 17.0. Table 1 summarises the results, which indicate no significant differences (0.05) in the distribution of early versus late respondents.

Table 1. Chi-square test of early versus late respondents

Demographic Variables	*P-Value*
Size of accounting firm	0.45
Years of experience in business	0.37
Type of employment	0.47
Age of respondents	0.45
Gender	0.47

The reported diversity in years of experience, gender, size of accounting firm, age of respondent and type of employment, in combination with the large p-values (larger than .05), means that the sample in this study contains sufficient explanatory power to analyse the hypothesised relationships of key constructs proposed.

Table 2 presents descriptive summaries of the respondents. The average number of employees in the respondent firms was 15. The average age of the respondents is over 50, which makes it likely that most respondents had sufficient work and life experiences to address the ethical questions asked in the survey questionnaire.

Table 2. Descriptive statistics for all variables in the study

Variables & measures	*Mean*	*SD*	*Number of respondents*
Sex (Male=1; Female=0)	0.81	.39	227
Age of respondent (1-100)	51.36	10.34	228
Amount of exposure to unethical behaviour (0 to 13)	5.24	3.18	228
Personal attitude towards unethical behaviour (1-5)	3.94	.56	225
Number of firm responses (0 to 6)	2.33	2.03	225
Size of accounting firm (3-100)	15.58	21.34	212
Valid N (listwise)			209

Scales employed in the study: Thirteen ethical dilemmas sourced from the survey questionnaires developed by Longenecker et al. (1989, 2006), Hornsby et al. (1994), and Wu (2002) (e.g., an executive earning $150,000 a year padded his expense account by about $5,000 a year) were used to measure the amount of exposure to unethical behaviour and personal attitudes towards accepting or not accepting unethical behaviour. The items were measured by presenting participants with the series of 13 statements as shown in Appendix 1. For each item, respondents needed to first indicate, according to their 'personal attitude', the extent to which they found the statements acceptable (on a scale where 1 = very acceptable, 2 = slightly acceptable, 3 = neutral, 4 = slightly unacceptable, 5 = very unacceptable); and whether they had faced or not faced the type of practice described (0 = no, 1 = yes). The mean of the 13 scores provided for each respondent was used as a measure of 'personal attitude towards unethical behaviour' for the subsequent analysis.

On the second step, an additional question 'Have you ever had a serious ethics-related problem in your firm?' (0 = no, 1 = yes) was also included in measuring the 'amount of exposure', together with the 13 items. Each respondent was then assigned a score out of 14 so as to measure the 'amount of exposure to questionable ethical behaviour'.

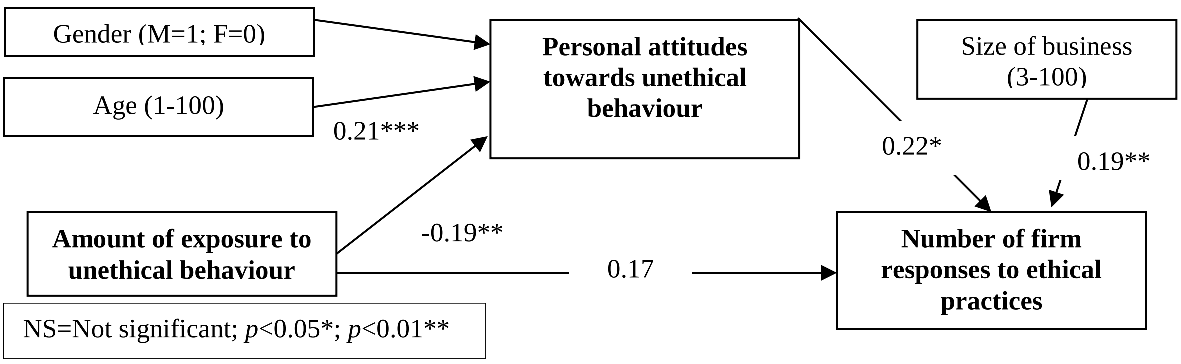
The dependent variable for our model is the 'Number of firm responses to implement ethical practices'. Six questions derived from Trevino et al. (1998) and Morris et al. (2002) were used to measure the extent to which small accounting firms have implemented ethical practices (see Appendix 2). The firm is considered to be in the better position of implementing ethical policies and practices if it answers more 'yes' out of those six questions. Subsequently, a score of between 0 and 6 inclusive was coded to determine the number of firm responses to implement ethical practices.

Control variables, such as sex, age of respondent and size of business, were also included in the analysis in line with several prior studies discussed earlier (e.g., Andreoli and Lefkowitz, 2009; Ede et al., 2000; Serwinek, 1992). Analysis of the data was carried out using two linear regressions with the 'Number of firm responses' and 'Personal attitude towards unethical behaviour' as dependent variables. This is an appropriate analysis technique given that scores for each variable had been derived, as described above.

4. Findings

Table 2 shows that respondents among small-scale accounting firms in Queensland, Australia have not had extensive exposure to unethical behaviour, with a mean score of 5.24 (range 0-14). However, if they do, most respondents (mean=3.94 in the range of 1-5) fortunately see unethical behaviour as not acceptable. In contrast nonetheless, the mean score of 2.33 (on a scale of 0-6) for implementing ethical policies and practices appears to be low. The results from the two regressions are summarised in the path diagram in Figure 3 below. The path coefficients are standardised beta coefficients. The level of significance is indicated as: NS = Not significant, significant * = p-value <0.05, ** = p-value <0.01.

Figure 3. Path diagram summarizing the regression results



It appears that the "amount of exposure to unethical behaviour" had a significant relationship with "personal attitude towards accepting/not accepting unethical behaviour". Interestingly, "amount of exposure to unethical behaviour" had a negative relationship with personal attitude. This suggests that a greater amount of exposure is associated with greater tolerance towards accepting unethical behaviour, rejecting H_1, but supporting H_2.

"Amount of exposure" is moderately related to the "number of firm responses to ethical practices", supporting H_3. There is also a significantly positive relationship between "personal attitude towards unethical behaviour" and "number of firm responses". This indicates that the higher score on personal attitude towards not accepting unethical behaviour encourage respondents and their associated firms to do something to address ethical issues. The results support H_4.

Gender was not a significant predictor of "personal attitude towards unethical behaviour", suggesting that both sexes hold similar attitudes towards accepting/not accepting questionable ethical behaviour. However, a limitation is that fewer than 20 percent of the participants in the survey were female accountants.

The age of respondents is positively related to "personal attitude towards unethical behaviour" (beta=0.21, $p<0.001$). This result suggests that perhaps the older one gets, the better one becomes at detecting unethical behaviour and the more likely to reject unethical behaviour. The outcome supports H_5.

The size of the business is also significantly related to the "number of firm responses" to implement ethical practices. It appears that the bigger the firm, the more likely it is to devote resources and time to developing and establishing formal and informal mechanisms, and to implement more of the six suggested ethical practices. This result is comforting at a time when reports of the unethical conduct of large firms have been prevalent in the current environment. It is reassuring to know that when Australian accounting firms increase in scale, their managers appear to be more driven to adhere to their professional standards by addressing ethical issues in their firms.

5. Discussion

In light of the extensive disclosure of the many unethical practices followed by a number of large accounting and investment firms in recent times, concerns arise about whether the amount of exposure to unethical behaviour will shift individual accountants' personal attitudes towards accepting or not accepting ethical practices; and whether accountants and their associated firms, especially the smaller ones, will respond to such exposure with formal or informal measures to address the ethical issues. This study purposely set out to address these concerns.

The results of the study confirm that these concerns are valid, and clearly indicate that two important correlations exist between the amount of exposure and personal attitudes towards accepting/not accepting unethical behaviour (H_1 and H_{1a}), and between the amount of exposure and firms' responses to ethical issues (H_2). Even though, in the context of small-scale accounting firms in Queensland, Australia, fewer respondents are exposed to unethical behaviour (mean = 5.24). Those individuals who were exposed to unethical behaviour, in fact, would be more inclined to have a personal attitude towards accepting unethical behaviour. However, at the firm level, the more exposure to unethical behaviour occurs, the more cautious firms become, leading managers to take action in implementing some ethical practices, thus supporting H_2. These results contain several implications.

First, the planned behaviour, as indicated by the "number of firm responses" in the current study, is indeed influenced both by 'attitude towards unethical behaviour" and "subjective norms" (albeit the questionable behaviour instigated by "significant others"). The results are in line with the arguments contained in the theory of planned behaviour (Ajzen, 1991; Ajzen and Fishbein, 1980; Fishbein and Ajzen, 1975). Although the study did not test the variable on 'perceived behavioural control', overwhelmingly, the majority of small business accountants surveyed in Queensland (mean = 3.94) did not accept the 13 questionable statements, indicating a relatively high level of locus of control and sense of reasoning in choosing right actions to engage (Ajzen, 1991).

Second, as indicated by Morris et al. (2002), small entrepreneurial firms tend to adopt diverse approaches to the question of ethics. Often, only a small percentage of entrepreneurial firms place priority on ethics. The majority of small businesses (over 50%) had not implemented ethics-related practices (Morris et al., 2002) at the time of their study. The current study, in the context of Queensland's small-scale accounting firms, supports this line of argument. It was found that only 30% of the firms surveyed had formally prepared a written code or a specific mission statement on ethics. Setting guidelines concerning the management of ethical behaviour of employees appears to be still limited among small businesses (Hornsby et al., 1994).

Third, the results from the current study suggest that at firm level, small businesses were quite willing to address ethics issues when exposed to unethical behaviour. In particular, the older small business managers get, the more likely they would lead their firms to implement some ethical practices. This result appears to be associated with a sense that small firm managers were readily prepared to deal with ethical challenge in the midst of repeated reports of trust crisis and earnings mismanagement in the accounting and investment industry (e.g., Elias, 2002; Morris et al., 2002).

6. Policy implications

The results of the current study show a real concern about the effect of the amount of exposure to unethical behaviour on personal attitudes towards accepting unethical behaviour, instead of rejecting it (Gino et al., 2009). Although this study measured individual perception of their personal attitudes towards 13 statements, rather than actual engagement in unethical conduct, it is anticipated that the stronger this attitude holds, the more likely the unethical action could be triggered subsequently. Therefore, several strategies to deal with changing attitude of future small accounting firm managers among current accounting students and graduates are proposed here.

First, new and graduate accountants should be made aware of or be trained to achieve a higher level of locus of control and moral reasoning in order to distinguish ethical and unethical behaviour (Ambrose et al., 2007). Traditionally, the subjects prepared for accounting students in the tertiary sector focus on professional training (e.g., CPA Australia), with limited emphasis on the social and ethical side of training. It is recommended that accounting students also study subjects such as psychology, history, human ethics and sociology, which are offered by other faculties (e.g., arts and education). Consequently, graduate accountants could be better equipped to understand aspects of the development of locus of control and moral reasoning.

Second, despite extensive legislation (e.g., tax and corporate law), it appears that the compliance and controlling aspects of the professional code in small accounting firms have not necessarily reinforced individuals' sense of ethical responsibility among the practising accountants surveyed in this study. Therefore, continuing emphasis on legislation to control ethical behaviour may not work effectively in reality, even though accounting practitioners are often guided by a legalistic or rule and order framework (see Wenzel, 2004; Cowton, 2009; Emerson et al., 2007 for contrasting empirical evidence). It is suggested that educators of accounting professionals, should look beyond the recent financial reporting scandals and consider the challenge of professional ethics as being deeply embedded historically in human behaviour and motivation, which can only be changed via education, not legislation. As put by Cowton (2009), educational institutions, together with accounting professional bodies, need to make an effort to enhance the ethical awareness and resourcefulness of human capital, promote attitudes of integrity, and showcase ethical excellence (also see Verhezen, 2010).

Third, at the organisational level, a shift from a culture of compliance to building a culture of integrity (Verhezen, 2010) seems to be more appropriate for small-scale accounting firms. This is because moral excellence is more likely to be generated from developing a corporate attitude of integrity, via informal mechanisms of harnessing individual employees' trust in the organisational culture, than by setting up formal mechanisms for governing compliance-orientated behavior (Verhezen, 2010). A compliance-based approach tends to build fear (Heineman, 2007; Verhezen, 2010) instead of establishing positive, ethical corporate values. In contrast, an informal (value-based) approach has been considered to be more effective as it would give opportunity for individual employees to detect their organisations' true values (Gentile, 2010). Small firms are often cited as vanguards for adopting an informal approach to building organisational culture (Hornsby et al., 1994; Longenecker et al., 2006). Therefore, small-scale accounting firms can be encouraged to use the informal value-based approach in interpersonal training and for developing both professional and organisational ethics.

Ironically, it is human nature to call on the 'big brother' of legislative frameworks to control questionable ethical behaviour, especially for large firms. However, this approach, if it had proved to be effective, would not have resulted in the recent series of corporate ethical misbehaviours. For accountants working for small firms servicing large corporations, a personal strategy of speaking and acting on what is right should be developed. Gentile who sets 'a new path in terms of education and engagement on the topic of ethics' terms this personal strategy as 'Giving Voices to Values' (GVV) (Gentile, 2010; Gentile and Hittner, 2012). To apply the GVV approach in the case of practising accountants, it is assumed that individuals know the right thing to do. However, in large corporate cultures, value conflicts occur when the big bosses intimidate co-workers and clients. At such times, Gentile (2010) encourages individuals to take action, internalise responses via rehearsal and resist unethical and wrong behaviour. Instead of succumbing to the subjective norms instigated by 'significant others' (Ajzen, 1991), future accountants and business leaders can be equipped, using the GVV strategy, to not only do things correctly (professionally) but also to do the right thing (ethically).

7. Limitation and future research direction

This study is perhaps the first of its kind to examine exposure to unethical behaviour and its impacts on personal attitudes and firms' responses to ethical practices among small firms. Although limitations exist, as it is based on a small sample of 200 accounting firms in Queensland, Australia, with a cross-sectional data, it is believed that the study sheds light on the extent to which small-scale firms respond to exposure to questionable behaviour, and on the subsequent actions they could take to address ethical issues. It would be useful to extend the model established in the current study to small businesses in other contexts to test the stability of the relationships among the various constructs proposed.

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