

Auditors' Moral Philosophies and Ethical Beliefs

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Management Decision, Volume 51, Issue 4. Forthcoming

Abstract

Purpose—The objective of this paper is to investigate the influence of moral philosophy on the ethical beliefs of auditors. We argue that individual's moral philosophy is the key factors in how one views ethical issues and largely determines the ethical choices they make. We also seek to discover the influence of personal values on the reasoning processes associated with ethics and explore whether the personal value preferences of auditors, as a manifestation of their moral philosophy, influence their ethical beliefs and (presumably) their subsequent actions.

Design/methodology/approach—We designed a survey instrument to assess the value preferences, moral philosophies, and reactions of practicing auditors to judgment dilemmas. We then employed structural equation modeling to examine the sensitivity of auditors to the competence and integrity of clients with the aim of gaining insight into the ethical beliefs of auditors in general.

Findings—Our results show that value preferences alone fail as predictors of ethical beliefs. Instead, personal values have an indirect influence on ethical beliefs via moral philosophy. Moreover, auditors strongly motivated by values based on self-enhancement were negatively associated with idealism in ethics and positively associated with relativism. Therefore, it can be concluded that idealist auditors were more likely to condemn the actions of clients that violated moral norms, while relativist auditors were more permissive.

Originality/value—Our results identify the role of moral philosophy as a mediator for the personal values and ethical beliefs of auditors, shedding light on how personal values can influence ethical sensitivity.

Keywords: Auditor; Personal values; Moral philosophy; Ethical ideology; Ethical beliefs

Introduction

A spate of corporate scandals in recent years has raised public awareness regarding the ethical decisions faced by auditors. Audit failures have attracted wide publicity and tarnished the reputation of the profession, dissolving the respect and trust previously bestowed upon auditors. Despite the numerous regulations that have been established to prevent or halt unethical activities, fraudulent conduct continues to make its way into the corporate sphere. However, stringent regulation is not the only means to resolve this problem. Auditors play the role of gatekeepers in monitoring decision-relevant information and are obliged to fulfill their responsibilities in a professional manner (Cohen, Pant and Sharp, 1996; Satava, Caldwell and Richards, 2006). Cohen and Pant (1991) asserted that it is imperative that auditors align their actions with the highest ethical standards.

Most cases involving manager-auditor collusion stem from a conflict of interest (Moore and Scott, 1989; Baiman, Evans and Nagarajan, 1991). Rather than safeguarding the interests of stakeholders, auditors occasionally make compromises and fail to fulfill their obligation to remain objective in their assessment and honest in their reporting (Cullinan, 2004; Miller and Bahnsen, 2004). Somewhere within this process, auditors disregard the two most important qualities: independence and objectivity. Such actions have resulted in tremendous costs affecting the auditing profession, the capital market, and society as a whole.

Regulating the auditing profession by means of a clenched fist would function (at best) as a warning. The real determinants in (un)ethical behavior are the ethical beliefs held by individual auditors. Only when auditors are correctly positioned on the scale of ethics will their conduct be ethically appropriate. When one's moral compass has gone askew, no legislation is powerful enough to prevent misdeeds. In other words, a

strengthening of regulations is insufficient to prevent corporate transgressions. The ethical code of individuals represents the last line of defense.

The objective of this paper is to investigate the influence of moral philosophy on the ethical beliefs of auditors. We argue that individual's moral philosophy is the key factors in how one views ethical issues and largely determines the ethical choices they make. We also seek to discover the influence of personal values on the reasoning processes associated with ethics and explore whether the personal value preferences of auditors, as a manifestation of their moral philosophy, influence their ethical beliefs and (presumably) their subsequent actions.

Rest (1986) proposed a four-component model of ethical decision-making involving the recognition of moral issues, ethical judgment, behavior intentions, and ethical behavior. This widely accepted model provides a framework for ethical reasoning processes in the context of business (Cohen et al., 1996). It was incorporated in the model of Hunt and Vitell (1993) and the issue-contingent model proposed by Jones (1991). Hunt and Vitell (1993) pointed out that one's moral philosophy plays a dominant role in making ethical decisions. Thus, the moral sensibility of auditors is a key element in an integrated model of ethical reasoning, which largely determines their sensitivity to the ethically questionable practices of their clients (Shafer, Morris and Ketchand, 2001; Jones, Massey and Thorne, 2003).

The Hunt-Vitell model and Ferrelland and Gresham's (1985) ethical decision-making model consider personal values as antecedents to a more general moral outlook with the power to influence the reasoning processes associated with the evaluation of ethical issues. As demonstrated extensively in the literature related to ethical decision-making in a business context, personal values also play an influential role in perceived moral intensity (Shafer et al., 2001; Steenhaut and Van Kenhove, 2006; Shafer, Fukukawa and Lee, 2007).

Ethical judgments also play a role in the application of accounting skills. The ethical dilemmas faced by auditors when encountering situations of a dubious ethical nature test the impact of their own moral standards and ethical beliefs, which consequently influences their judgment and behavior (Jones, 1991). Most studies dealing with this issue have addressed the ability of practitioners and accounting students to identify an ethical dilemma (Shaub, Finn and Munter, 1993; Shaub and Lawrence, 1996; Cohen et al., 1996; Cohen, Pant and Sharp, 2001; Patterson, 2001). Wright, Cullinan and Bline (1997) investigated the value preferences of auditors and found support for the hypothesized influence of values on perceived moral intensity. Shafer et al. (2001) targeted auditors in their investigation related to the influence of personal values on ethical decision-making. They determined that the values of auditors do not influence the manner with which auditors deal with ethical dilemmas (including pressure from clients). Several recent studies have addressed the same issue, but failed to take into account the influence of moral philosophies and social desirability response (Wright et al., 1997; Shafer et al., 2001; Karacaer et al., 2009).

Steenhaut and Van Kenhove (2006) examined the relationships among personal values, moral philosophies, and ethical beliefs, and this paper is structured according to the concepts they laid out. We designed a survey instrument to assess the value preferences, moral philosophies, and reactions of practicing auditors to judgment dilemmas. We then employed structural equation modeling to examine the sensitivity of auditors to the competence and integrity of clients with the aim of gaining insight into the ethical beliefs of auditors in general.

The following section will provide a review of selected literature and the development of research hypotheses. This section will be followed by discussions of the research methodology and empirical findings. The final section provides a brief discussion and conclusions.

Literature review and hypotheses

Auditors' ethical beliefs and social expectations

The services provided by auditors can have a far-reaching influence. For many years, investors have relied on audited financial statements to make sound investment decisions. Thus, auditors are obliged to protect the interests of investors, taking on the role of gatekeepers (Kane, 2004). In recent years, countries around the world have witnessed examples of corporate fraud. The Sarbanes-Oxley Act, passed by the U.S. Congress in the wake of such scandals, is considered the most influential act with the greatest impact on auditing professionals. This is an example of a government's attempt to halt corporate fraud by improving corporate governance and strengthening the function of auditing, as a means to restore trust. However, quality and integrity lie beyond the scope of legal regulations. Although the act may be effective in plugging legal loopholes, explicit mandates alone are insufficient to prevent similar scandals in the future. Verschoor (2004) lamented recent scandals in which corporate leaders and auditors infringed upon the rights of investors, pointing out that any individual who fails to consider the ethical implications of his actions can always come up with new ways to evade the law.

Gendron, Suddaby and Lam (2006) pointed out that auditors are no longer obliged to adhere to a Code of Ethics, such as maintaining independence and emotional distance from clients, to compel ethical behavior. Preston et al. (1995) argued that ethical values central to auditors are being eroded, in part because they have allowed their greed to override professional objectivity. In the past, auditor independence was considered as an ethical issue; these days, auditor independence has become the target of regulations, to be kept in check by government reviews and inspections (Gendron et al., 2006).

Although the Code appears to reduce ethical ambiguity, both auditors and regulators have acknowledged the fact that no code alone can be a silver bullet (Preston et al., 1995). Douglas, Davidson and Schwartz (2001) argued that such codes curtail the ethical judgment of auditors if the ethical issues are not explicitly covered by the code.

Gaa (1992) mentioned that ethical beliefs compel auditors to base their ethical judgments on high ethical intensity. Auditors that are more developed ethically are more inclined to exercise ethical judgments; and they are less likely to succumb to pressure from clients (DeZoort and Lord, 2001; Windsor and Ashkanasy, 1995; Libby and Thorne, 2007).

Cohen et al. (2001) defined ethical decisions as the decisions one makes when confronted with a conflict requiring ethical judgments based on issues of morality. Individual differences in personal values and moral philosophy are believed to play a key role in ethical beliefs (Steenhaut and Van Kenhove, 2006). Although the technical knowledge of auditors is essential to making accurate assessments, regarding the ethical nature of the behaviors they encounter, ethical intensity is particularly important in situations that are not covered by an established code (Ponemon, 1993).

Personal values

Personal values can be defined as “an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence” (Rokeach, 1973, p. 5). Personal values can be viewed as the determinants of human behavior as reflected in three universal requirements: biological needs, coordinated social interaction, ensuring the welfare of the group (Schwartz, 1992).

Schwartz and Sagiv (1995) derived a typology of values in a social context and distinguish ten types of values based on motivation. Their theory illustrates the

motivational continuum between different types of values and how they conflict or conform. The ten types of values can be further grouped into two basic bipolar dimensions. The first dimension is conservation versus openness to change, in which values are adopted in terms of the extent to which they motivate people to preserve the status quo and the certainty it provides in relationships with close others, institutions, and traditions versus making exceptions to accepted rules according to whim and the expediency of the moment (Schwartz, 1992). The motivational values associated with higher order conservation are tradition, conformity and security; self-direction and stimulation for openness to change.

The second dimension is self-enhancement versus self-transcendence, in which values are adopted in terms of the extent to which they motivate people to enhance their own personal interests (even at the expense of others) versus to transcend selfish concerns and promote the welfare of others, close and distant (Schwartz, 1992). The value types pertaining to higher order self-enhancement are power and achievement; and universalism and benevolence for self-transcendence.

Steenhaut and Van Kenhove (2006) suggest that conservation and self-transcendence might be in line with ethical disposition, while openness to change and self-enhancement conform to an unethical disposition. Rallapalli et al. (1994) discovered that individuals with a high propensity to take risks and a strong need for autonomy, innovation, and aggression tend to be less ethical, whereas individuals with a strong need to follow socially desirable behavior and those with strong problem solving coping styles tend to be more ethical. In addition, Machiavellianism represents a preference for self-enhancement with less concern for traditional morality, maintaining that individuals are likely to conduct unethical activities when driven by self-interest (Erffmeyer, Keillor and LeClair, 1999; Van Kenhove, Vermeir and Verniers, 2001).

In recent study, Hunt and Vitell (1993) included personal values in their ethical

decision model and assumed that values influence ethical judgment and decision making in the business context. Brief et al. (1996) investigated the influence of personal values on ethical behavior and found that personal values are useful for understanding work-related behavior. Patterson (2001) investigates the influence of regulatory, organizational, and personal constructs on ethical sensitivity. The results show that the regulatory and organizational environment is significantly associated with the personal values of auditors, but does not influence their ethical sensitivity. Wright et al. (1997) argued that personal value preferences influence ethical judgment and behavior through their effect on the perceived moral intensity of an ethical dilemma.

Therefore, we hypothesize that the motivational differences between various types of values influence the perceptions of auditors with regard to the moral intensity of an ethical dilemma and influence their ethical reasoning process. We postulate that auditors with a stronger preference for conservation, submissive self-restriction, preservation of traditional practices, and protection of stability are more likely to be intolerant of the unethical behavior of clients, compared with auditors who are more open to change. In addition, we hypothesize that auditors with a stronger preference for self-enhancement and a pursuit of success and dominance over others are more likely to be tolerant of the unethical behavior of clients, compared with auditors who prefer self-transcendence. Thus, based on the previous discussion, we propose the following hypotheses:

H1: Auditors with personal values that include a preference for conservation are more intolerant of unethical behavior than their open to change counterparts.

H2: Auditors with personal values that include a preference for self-enhancement (even at the expense of others) are more tolerant of unethical behavior than their self-transcendental counterparts.

Moral philosophy

Schlenker and Forsyth (1977) assumed that an individual's moral philosophy, or ethical ideology, is the key factor in ethical judgments. Forsyth (1980) conceptualized a two-dimensional view of moral philosophy to identify the ethical judgments of individuals: i.e., idealism or relativism. Idealism is a personal belief in moral absolutes, such that all ethical judgments are based on ethical principles and the right actions leads to expected results. Individuals with strong idealistic principles avoid engaging in activities that conflict with their beliefs, while those who adopt a less idealistic stance pragmatically assume that good is often mixed with bad and therefore do adhere to the strict application of a moral code to conduct. Conversely, when resolving ethical problems, highly relativist individuals refuse to formularize or rely upon universal ethical principles. When forming judgments about others, they seek to evaluate the immediate event itself grounded more in skepticism than ethical principles. Less relativistic individuals, emphasize the importance of universal moral rules. Collectively, idealism and relativism may offer some answers in the search for individual differences in the process of making ethical decisions.

Numerous studies have verified the argument of Forsyth (1980, 1992), stating that idealism and relativism influence the ethical judgment of individuals engaged in business practices (e.g., Ferrell and Gresham, 1985; Hunt and Vitell, 1986; Vitell, Lumpkin and Rawwas, 1991; Barnett, Bass and Brown, 1994; Rawwas, 1996). Shaub et al. (1993) investigated the relationship between moral philosophy and ethical sensitivity and found that highly relativistic auditors were less likely to identify an ethical dilemma than their idealistic counterparts. However, Shaub and Lawrence (1996) found no significant association between moral philosophy and professional skepticism. More recently, Steenhaut and Van Kenhove (2006) examined the relationship between moral

philosophy and ethical beliefs, concluding that idealism is associated with a stronger sense of morality and relativism is associated with a weaker sense of morality. Therefore, we hypothesize that individuals with idealist views endorse the need to make decisions based on moral principles; therefore, idealist auditors are more likely to condemn the actions of clients that violate moral norms. Relativistic individuals tend to espouse a moral philosophy based on personal whims or the expediency of the moment; therefore, relativistic auditors are more permissive toward unethical behavior, giving rise to the following hypotheses:

H3: Idealism has a positive influence on whether auditors will condemn unethical behavior of client.

H4: Relativism has a negative influence on whether auditors will condemn unethical behavior of client.

Moral philosophy refers to the cognitive-developmental principles employed by an individual when evaluating ethical issues. Personal values preferences may also act as a manifestation of the moral philosophy and ethical beliefs (Hunt and Vitell, 1993; Kleiser et al., 2003; Steenhaut and Van Kenhove, 2006).

In prior research, moral philosophy has been linked to a concern for ethical decisions (Shaub et al., 1993; Shaub and Lawrence, 1996). Highly idealistic individuals adhere to moral absolutes and traditional norms when making an ethical judgment and are less willing to make exceptions to moral guidelines. Unethical behavior involves breaking traditional patterns of behavior and violating ethical norms. Hence, idealistic auditors are more likely to endorse conservative values with regard to ethical issues. In contrast, highly relativistic individuals embrace a moral philosophy based on skepticism. They tend to reject absolute moral rules to guide behavior and weigh the circumstances more than the moral principle. Unethical behavior involves promoting personal interests,

with little regard for the ethical validity of the action. Hence, relativistic auditors seek only to determine whether the action yields a positive outcome in a given situation.

Singhapakdi and Vitell (1993) applied Kahle's (1983) List of Values as the framework for their study on ethics in a business context, demonstrating a positive association between idealism and conservation; and a positive association between relativism, openness to change, and self-enhancement. Rallapalli, Vitell and Szenbach (2000) identified a negative association between deontology, openness to change, and self-enhancement. Based on a review of previous studies, one can conclude that individuals who fall within the dimension of conservation (as opposed to openness to change) are more likely to be idealistic, whereas those associated with self-enhancement (as opposed to self-transcendence) are more likely to be relativists.

Therefore, we hypothesize that conservative values are positively associated with idealism and negatively associated with relativism. Moreover, auditors strongly motivated by values based on self-enhancement are negatively associated with idealism in ethics and positively associated with relativism. This paper proposes the following hypotheses:

H5: Auditors with personal values tending toward the conservation will be positively associated with idealism and negatively associated with relativism.

H6: Auditors with personal values tending toward self-enhancement will be negatively associated with idealism and positively associated with relativism.

Methodology

This study designed a survey instrument to reveal the influence of personal values and moral philosophy on the ethical beliefs of auditors. The survey included ethical dilemma

vignettes, and questions related to personal values, moral philosophy, and social desirability response.

Ethical beliefs in earnings management

We adopted a multiple vignette approach using the presentation of fictional issues related to unethical earnings management, in order to measure the judgment of auditors and their attitudes toward ethically sensitive scenarios. Studying auditor responses to such scenarios enabled the researchers to analyze how auditors evaluate the ethical implications related to the competence and integrity of their clients. This section comprised five pairs of anecdotes dealing with clients engaged in financial and earnings management. For an overview of the anecdotes, please refer to Table 3.

Scenarios in Group A depict clients actively engaged in fraudulent activities and facing the legal consequences of such actions. Scenarios in Group B depict clients who have not violated the law, but border on transgression by actively engaging in management practices that appear dubious. Scenarios 1, 2, 4, and 5 depict clients engaged in earnings management using accrual-based and real activities manipulations. Scenario 3 involves clients engaged in suspicious capital transfers and arbitrage behavior. To reduce the halo effect, every questionnaire item was followed by a set of check questions with which to solicit the opinions of respondents. We adopted a 7-point Likert scale using the following designations: “very appropriate”, “normal”, and “very inappropriate” with smaller numbers representing stronger feelings of disagreement or disapproval.

Personal Values

We employed the Schwartz Value Survey (SVS) to assess the value preferences of auditors, based on 56 value items representing ten value types related to motivation (Schwartz, 1992). To represent the degree of importance, the SVS provides a 9-point measurement scale ranging from -1 to 7 using the following labels: “opposed to

respondent's values", "not important", "important", and "the most important". Higher scores indicate stronger agreement with the value item.

Moral philosophy

We used the Ethical Position Questionnaire (EPQ) by Forsyth (1980) to assess the personal moral philosophy of the auditors. The EPQ contains 20 item scales measuring idealism and relativism. For each item, respondents were asked to indicate their degree of agreement using a 7-point Likert scale in which point 1 means "completely disagree", 4 "no opinion" and 7 "completely agree".

Social desirability response

We employed the Marlowe-Crowne (MC) scale to minimize social desirability bias, which arises when respondents act in a manner that is not in alignment with their natural inclinations in order to appear more socially approved (Crowne and Marlowe, 1960; Randall and Fernandes, 1991). Due to time constraints, we employed the short Form C (MC-C), a 13-item alternate version of the MC proposed by Reynolds (1982). Answering "False" for negative items and "True" for positive items indicates the degree to which the social desirability response influences respondents. One point is given for every "True" answer, while each "False" answer receives minus one point. Scores for negative items are tallied in reverse order. The higher the score on the MC scale, the more amenable the respondent is to social influence, thereby identifying those likely to engage in low-risk behavior and avoid evaluations by others (Crowne, 1979).

Sample and procedure

The data for this study were collected from a questionnaire survey of auditors working for the Big 4 auditing firms in Taiwan. Prior to administering the survey, a pilot test was conducted, in which draft questionnaires were given to graduate and doctoral students in accounting, as well as professionals with a background in auditing. A total of thirty pilot questionnaires were distributed. Items identified as either confusing or misleading were

modified. The Cronbach's α for sections related to personal values, moral philosophy, and ethical beliefs were above 0.7, indicating good reliability.

Due to the complexity of the content in the questionnaire, the collection of data via postal delivery would pose considerable uncertainty. Therefore, this study adopted location-based distribution, using auditors who are currently active in the Big 4 firms at their place of work as a communication port, to distribute and collect the questionnaires. Considering the heavy workload of auditors and the frequent fieldwork involved, the designated timeframe for a response was set at eight weeks with follow-up reminders when necessary.

A total of 608 questionnaires were distributed, which resulted in the collection of 377 questionnaires, for a response rate of 62%. Among the returned questionnaires, those with unanswered items or those with unanimous answers for a single section were considered invalid. After eliminating the invalid questionnaires, 336 valid questionnaires were retained, for a valid response rate of 55%. As for demographics, most of the respondents were female (64%), the majority of whom were between the ages of 26 and 40 (61.8%), with at least a four year college degree (99.4%). Most of the respondents were managers, senior, and staff auditors (81.2%). Many had at least four years of auditing experience (32.2%). Most of the respondents had no religious beliefs (57.9%).

This paper employed structural equation modeling to test the theoretical model. Rather than testing individual relationships between constructs, SEM tests alternative model structures and relationships between sets of constructs, incorporating the use of moderators and mediators as necessary (Kline, 2010).

Results

Reliability and validity analysis

The Cronbach's α for items related to personal values, moral philosophy, and ethical

beliefs fell between 0.7 and 0.9, indicating high reliability with the single exception of hedonism, which fell below 0.7. Nonetheless, items addressing hedonism fell within the acceptable range of 0.5 and 0.7. Overall, the results indicate a satisfactory level of univariate reliability (Hair et al., 1998).

Table 1 shows the reliability assessment for items related to personal values and goodness-of-fit. Chin (1998) suggested that the standardized path coefficient of variables should exceed 0.7. However, when other variables within the same measurement model exhibited greater factor loadings, a factor loading between 0.5 and 0.6 was considered acceptable. The saturated model was used as a benchmark to assess the goodness-of-fit and provide a starting point from which to begin trimming to obtain a more parsimonious model (Kline, 2010). Following this assessment, 32 of the 56 items related to personal values were retained. All measurement models qualified for goodness-to-fit indices, with the exception of security, which had a chi-square degree of freedom ($\chi^2/df = 3.187$) exceeding 3, which only slightly exceeded the desirable figure. All constructs demonstrated reasonable individual item reliability and goodness of fit.

If the model's goodness-of-fit indices related to moral philosophy and ethical beliefs failed to meet desirable standards, the measuring variables with the lowest factor loading were also eliminated in sequence. Tables 2 and 3 present the evaluation results of the model. The goodness-of-fit indices for moral philosophy all reached the recommended value and the model for evaluating ethical beliefs was in line with accepted standards. Similar to the reliability of individual items, moral philosophy and ethical beliefs both demonstrated significance, presenting factor loadings within the desirable range. Thus, the reliability and goodness-of-fit for individual items of moral philosophy and ethical beliefs are satisfactory.

Table 1. Reliability assessment for personal value items and goodness-of-fit

Value type	Value items	Factor loadings	Goodness-of-fit
Power	Social power	0.697***	Saturated model
	Authority	0.844***	
	Preserving my public image	0.541***	
Achievement	Capable	0.851***	$\chi^2=0.536$; $\chi^2/df=0.268$; p=0.765; RMR=0.011; GFI=0.999; AGFI=0.996; RMSEA=0.000; NFI=0.999; CFI=1.000; IFI=1.003
	Ambitious	0.696***	
	Intelligent	0.793***	
	Self-respect	0.725***	
Hedonism	Pleasure	0.665***	Saturated model
	Enjoying life	0.638***	
Stimulation	A varied life	0.857***	Saturated model
	Daring	0.891***	
	An exciting life	0.756***	
Self-direction	Freedom	0.616***	Saturated model
	Choosing own goals	0.674***	
	Independent	0.783***	
Universalism	A world of beauty	0.764***	Saturated model
	Social justice	0.769***	
	A world at peace	0.628***	
Benevolence	Responsible	0.744***	Saturated model
	Loyal	0.801***	
	Honest	0.803***	
Tradition	Devout	0.731***	Saturated model
	Respect for tradition	0.566***	
	Detachment	0.507***	
Conformity	Politeness	0.736***	$\chi^2=2.374$; $\chi^2/df=1.187$; p=0.305; RMR=0.027; GFI=0.996; AGFI=0.982; RMSEA=0.024; NFI=0.995; CFI=0.999; IFI=0.999
	Honoring of parents and elders	0.651***	
	Obedient	0.787***	
	Self-discipline	0.722***	
Security	Social order	0.654***	$\chi^2=6.374$; $\chi^2/df=3.187$; p=0.041; RMR=0.051; GFI=0.990; AGFI=0.951; RMSEA=0.081; NFI=0.980; CFI=0.986; IFI=0.986
	Family security	0.672***	
	Healthy	0.744***	
	Sense of belonging	0.595***	

Note: *** $p < 0.01$

χ^2 =chi-square; χ^2/df =normed chi-square; RMR=root mean squares residual; GFI=goodness-of-fit index; AGFI=adjusted GFI; RMSEA=root mean square error of approximation; NFI=normed fit index; CFI=comparative fit index; IFI=incremental fit index.

Table 2. Reliability assessment for moral philosophy items and goodness-of-fit

Moral philosophy		Factor loadings
Relativism	Moral standards should be seen as being individualistic; what one person considers being moral may be judged to be immoral by another person	0.703***
	Different types of moralities cannot be compared as to rightness	0.711***
	What is ethical for everyone can never be resolved since what is moral or immoral is up to the individual	0.832***
	Moral standards are simply personal rules which indicate how a person should behave, and are not to be applied in making judgments of others	0.646***
	Ethical considerations in interpersonal relations are so complex that individuals should be allowed to formulate their own individual codes	0.558***
Idealism	Risks to another should never be tolerated, irrespective of how small the risks might be	0.613***
	The existence of potential harm to others is always wrong, irrespective of the benefits gained	0.797***
	One should never psychologically or physically harm another person	0.770***
	One should not perform an action that might in any way threaten the dignity and welfare of another individual	0.847***
	If an action could harm an innocent other, then it should not be done	0.781***
	It's never necessary to sacrifice the welfare of others	0.633***
$\chi^2=111.304$; $\chi^2/df=2.588$; $p=0.000$; $RMR=0.114$; $GFI=0.943$; $AGFI=0.913$; $RMSEA=0.069$; $NFI=0.931$; $CFI=0.956$; $IFI=0.956$		

Note: *** $p < 0.01$

χ^2 =chi-square; χ^2/df =normed chi-square; RMR=root mean squares residual; GFI=goodness-of-fit index; AGFI=adjusted GFI; RMSEA=root mean square error of approximation; NFI=normed fit index; CFI=comparative fit index; IFI=incremental fit index.

Table 3. Reliability assessment for ethical belief items and goodness-of-fit

Ethical belief			Factor loadings
Illegal activities	B1a	The company is expecting a large-sum sales transaction at year end, under the condition of FOB destination. A deliberate pre-entry will be made prior to the arrival of shipment to increase the net income for the period.	0.734***
	B2a	The company arranges for its associates with substantial interest at stake (but are not its subsidiaries) to conduct the transaction, by way of which to tweak the numbers in the financial statement.	0.762***
	B3a	The company issues Euro-Convertible Bond (ECB). It uses its offshore shadow companies to obtain loans from banks abroad. The company uses the new money to purchase of all its ECBs and subsequently wires the capital earned back to its offshore banks. The company also releases bullish news throughout the process to boost its share prices, before converting its ECBs into equities to accomplish arbitrage.	0.673***
	B4a	Financial institutions often list fewer bad debts for short and long term loans with default concerns to maintain share prices and avoid huge declines in net profit and asset values.	0.786***
	B5a	To avoid dramatic declines in share prices, the company insists on not recognizing impairment losses for assets whose values are estimated to be impaired.	0.741***
Dubious behavior	B1b	As the economy recovers, the company's sales this year has enjoyed vast improvement compared with last year. However, the billing and shipping for some large-sum sales transactions scheduled at the end of this year will be postponed till next year, to stave off poor performance in the upcoming year.	0.665***
	B2b	The company deliberately holds 19% of equities in its influential subsidiaries to deflect the huge impact that investment income may have on net profit, and also to circumvent equity method.	0.662***
	B3b	A tarnished reputation makes it difficult for the company to raise capital by way of public offerings; it then turns to its associates for private placement. During this period the company encourages people to purchase its shares by driving up their prices and enjoys the subsequent financial gains.	0.720***
	B4b	Financial institutions divide the recognition of losses induced by non-performing loans into five years, based on The Financial Institution Merger Act, to avert any immediate impact on net profit. (Such action violates the Generally Accepted Accounting Principles.)	0.520***
	B5b	During asset evaluation at the end of year, the company deliberately selects the most favorable valuation report to evade recognition of huge impairment losses.	0.636***
$\chi^2=82.977$; $\chi^2 / df=2.514$; $p=0.000$; $RMR=0.046$; $GFI=0.953$; $AGFI=0.922$; $RMSEA=0.067$; $NFI=0.940$; $CFI=0.963$; $IFI=0.963$			

Note: *** $p < 0.01$

Table 4 presents the structural reliability and average variance extracted from each measurement model, juxtaposing the Cronbach's α with the 32 remaining items related to personal value from the evaluation of the model. Although dropping the measuring variables with low factor loadings reduced the α values, they remained between the accepted standard of 0.7 to 0.9. The reliability of tradition (0.625) and hedonism (0.596) were below 0.7, which is considered acceptable. These values indicate that overall structural reliability is good. For the average variance extracted, Fornell and Larcker (1981) suggested that composite reliability should generally be above 0.5 and most of the measurement variables passed this standard. Therefore, the reliability of constructs in this study is considered sound.

Table 4. Reliability assessment for value types, moral philosophy and ethical belief

Constructs	Variables	Cronbach's α	Composite reliability	Average variance extracted
Personal value	Power	0.731	0.742	0.500
	Achievement	0.850	0.852	0.591
	Hedonism	0.596	0.596	0.425
	Stimulation	0.872	0.874	0.700
	Self-direction	0.760	0.734	0.482
	Universalism	0.764	0.766	0.523
	Benevolence	0.826	0.826	0.613
	Tradition	0.625	0.633	0.371
	Conformity	0.815	0.816	0.527
	Security	0.761	0.762	0.447
Moral philosophy	Relativism	0.819	0.822	0.484
	Idealism	0.879	0.881	0.555
Ethical belief	Illegal activities	0.858	0.858	0.548
	Dubious behavior	0.776	0.778	0.415

Schwartz and Boehnke (2004) pointed out that hedonism is related to both self-enhancement and openness to change, but is more closely related to openness to change. In contrast, Feather (1995) and Steenkamp et al. (1999) placed hedonism within the dimension of self-enhancement; therefore, this study separately examined the

structural reliability and average variance of hedonism within the dimensions of self-enhancement and openness to change. Table 5 indicates that hedonism varies little from self-enhancement and openness to change, in terms of structural reliability and the average variance extracted, both of which are above the recommended values. However, hedonism exhibits better goodness-of-fit within the dimension of self-enhancement. In accordance with these results, we subsumed hedonism within the dimension of self-enhancement.

Table 5. Hedonism under self-enhancement and openness to change dimensions

Construct	Hedonism under self-enhancement	Hedonism under openness to change
	Factor loadings	Factor loadings
Conservation	0.887***	0.902***
Self-enhancement	0.797***	0.806***
Openness to change	0.733***	0.738***
Self-transcendence	0.848***	0.834***
Composite reliability	0.890	0.892
Average variance extracted	0.670	0.676
Goodness-of-fit	$\chi^2=2.368$, $\chi^2/df=2.368$, P=0.124, RMR=0.009, GFI=0.996, AGFI=0.965, RMSEA=0.064, NFI=0.997, CFI=0.998, IFI=0.998	$\chi^2=12.790$, $\chi^2/df=12.790$, P=0.000, RMR=0.021, GFI=0.982, AGFI=0.816, RMSEA=0.188, NFI=0.985, CFI=0.986, IFI=0.986

Note: *** $p < 0.01$

χ^2 =chi-square; χ^2/df =normed chi-square; RMR=root mean squares residual; GFI=goodness-of-fit index; AGFI=adjusted GFI; RMSEA=root mean square error of approximation; NFI=normed fit index; CFI=comparative fit index; IFI=incremental fit index.

To avoid subjectivity in determining the magnitude of unethical actions between Groups A and B, we designed the questionnaire for ethical beliefs with manipulation checks after each item. We then employed the chi-square test for goodness-of-fit to understand whether respondents had the same perceptions of illegality as those adopted by the authors of the study. The statistical results reveal that the perceptions of respondents related to ethical dilemmas conforms to those of the authors, which eliminated concerns related to subjectivity as to the magnitude unethical actions. This

study also conducted a paired-sample t-test on the five groups of anecdotes, revealing a significant correlation as well as variations between perceptions of the two anecdotes in each group. This provides further evidence that this approach to the evaluation of ethical beliefs is ideal.

Assessment of the measurement model

Kline (2010) suggested that as long as a correlation coefficient between a pair of constructs does not exceed 0.85, a degree of discriminant validity can be claimed. Table 6 shows the correlation coefficients between the dimensions of moral philosophy, ethical beliefs, and social desirability response. The correlations between conservatism and self-enhancement ($r=0.713$), conservatism and self-transcendence ($r=0.752$), and self-enhancement and openness to change ($r=0.739$) all exceeded 0.7. According to Perrinjaquet et al. (2007), the problem of multicollinearity is evident in SVS; therefore, the study implemented a multicollinearity diagnostic method. The results reveal that the variance inflation factor (VIF) of the dimensions is below 10, thereby excluding the problem of multicollinearity.

Structural equation modeling analysis

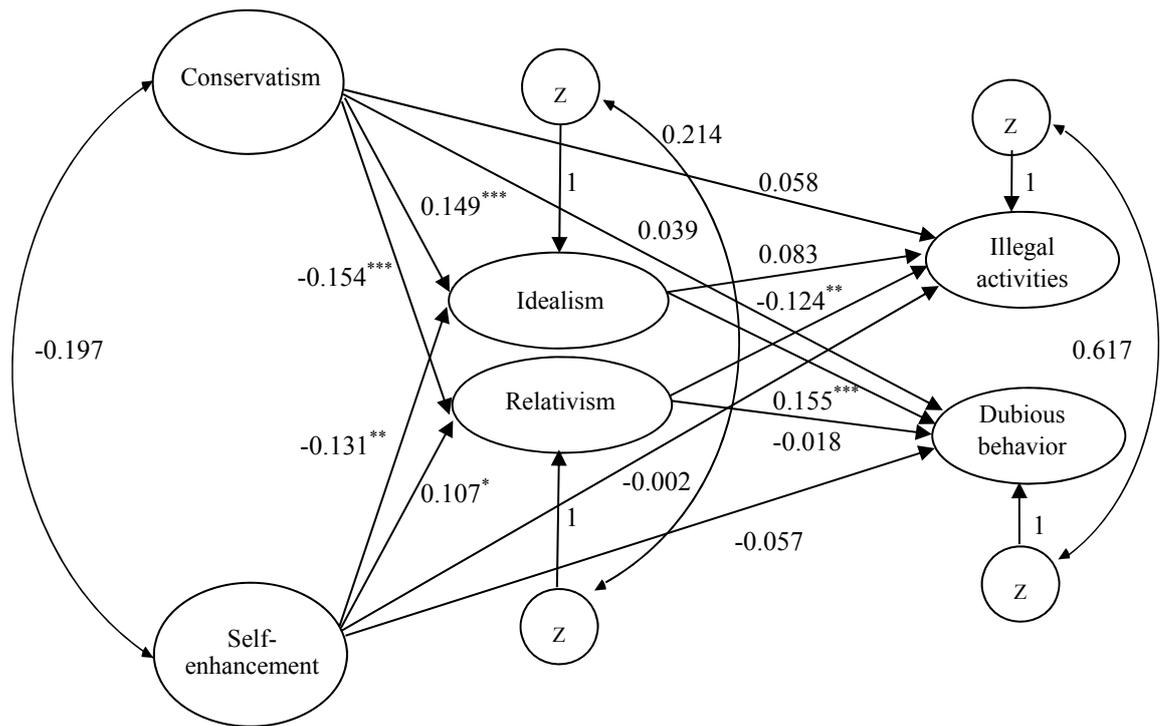
The hypothesized structural causal model was tested using SEM. We performed a test of the overall model as well as tests of the individual relationships among constructs. The paper presents two constructs: exogenous latent variables (personal values) and endogenous latent variable (ethical beliefs). Moral philosophy served as an intervening variable that takes on the dual role of both an exogenous and endogenous latent variable.

Figure 1 displays the SEM analysis. This study conducted a goodness-of-fit test on the overall model using absolute, incremental, and parsimonious fit measures (Bollen, 1989; Hair et al, 1998). The results demonstrate that the fit indicator of the overall model in Table 7 lies within the desirable range, indicating a good fit (Bagozzi and Yi, 1988).

Table 6. Correlation coefficients between value dimensions, moral philosophy, ethical beliefs and social desirability responses

	Conservation	Self-enhancement	Self-transcendence	Openness to change	Idealism	Relativism	Illegal activities	Dubious behavior	Socially desirable responding
Conservation	1								
Self-enhancement	0.713***	1							
Self-transcendence	0.752***	0.667***	1						
Openness to change	0.639***	0.739***	0.637***	1					
Idealism	0.384***	0.204***	0.317***	0.174***	1				
Relativism	0.158***	0.238***	0.113**	0.267***	0.160***	1			
Illegal activities	0.154***	0.084	0.113**	0.051	0.073	-0.121**	1		
Dubious behavior	0.156***	0.057	0.127**	0.063	0.168***	-0.008	0.618***	1	
Socially desirable responding	0.076	-0.047	0.044	0.033	0.307***	0.013	0.059	0.113**	1

Note: *** $p < 0.01$; ** $p < 0.05$ (two-tailed)



***, **, * Significant at the 0.01, 0.05, and 0.10 levels (two-tailed), respectively.

Figure 1. Standardized estimates model

Before abandoning personal values as predictors of ethical beliefs, we incorporated moral philosophy as a mediating variable. As for the influence of moral philosophy on ethical beliefs, our findings are as follows. Idealism is significantly positively associated with the sensitivity of auditors to the dubious behavior of clients ($\beta_{2,3}=0.155$, $P<0.01$); however, the relationship between idealism and illegal activities is not significant ($\beta_{1,3}=0.083$, $P>0.1$). These results indicate that highly idealistic auditors tend to be more critical of clients' engaging in dubious behavior, which supports *H3*. Relativism was found to be significantly negatively associated with the sensitivity of auditors to the illegal actions of clients ($\beta_{1,4}=-0.124$, $P<0.05$; $\beta_{2,4}=-0.018$, $P>0.1$). As such, auditors with strong relativist views are more likely to acquiesce to the illegal activities of clients; thus, *H4* is supported.

As for values and moral philosophy, conservation was significantly positively associated with idealism and negatively associated with relativism ($\gamma_{5,1}=0.149$, $P<0.01$; $\gamma_{6,1}=-0.154$, $P<0.01$). Self-enhancement was significantly negatively associated with idealism ($\gamma_{5,2}=-0.131$, $P<0.05$), but positively associated with relativism ($\gamma_{6,2}=0.107$, $P<0.1$). In addition, the relationship between self-enhancement and relativism was significantly positive ($\gamma_{6,2}=0.107$, $P<0.05$); therefore, *H5* and *H6* are supported.

Table 7. Structural equation modeling analysis

Hypot-heses	Path		Path coefficient	Standard deviation	t-value	p-value
H1	Conservation→Illegal activities	($\gamma_{1,1}$)	0.058	0.045	1.017	0.309
	Conservation→Dubious behavior	($\gamma_{2,1}$)	0.039	0.054	0.686	0.493
H2	Self-enhancement→Illegal activities	($\gamma_{1,2}$)	-0.002	0.047	-0.034	0.973
	Self-enhancement→Dubious behavior	($\gamma_{2,2}$)	-0.057	0.055	-1.024	0.306
H3	Idealism→Illegal activities	($\beta_{1,3}$)	0.083	0.043	1.460	0.144
	Idealism→Dubious behavior	($\beta_{2,3}$)	0.155	0.051	2.754	0.006 ^{***}
H4	Relativism→Illegal activities	($\beta_{1,4}$)	-0.124	0.041	-2.196	0.028 ^{**}
	Relativism→Dubious behavior	($\beta_{2,4}$)	-0.018	0.048	-0.319	0.750
H5	Conservation→Idealism	($\gamma_{5,1}$)	0.149	0.058	2.745	0.006 ^{***}
	Conservation→Relativism	($\gamma_{6,1}$)	-0.154	0.061	-2.829	0.005 ^{***}
H6	Self-enhancement→Idealism	($\gamma_{5,2}$)	-0.131	0.060	-2.411	0.016 ^{**}
	Self-enhancement→Relativism	($\gamma_{6,2}$)	0.107	0.063	1.954	0.051 [*]

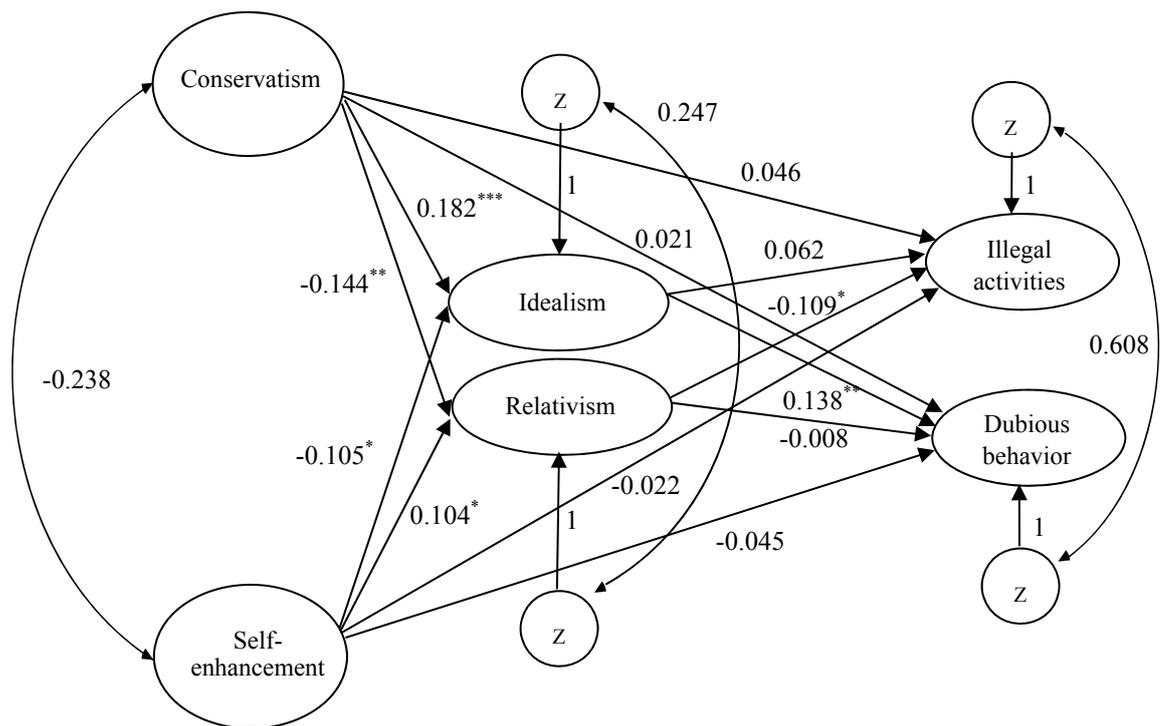
$\chi^2=0$; $\chi^2/df=-$; GFI=1.000; AGFI=-; RMR=0.000; RMSEA=-; NFI=1.000; CFI=1.000; IFI=1.000 (Saturated model)

***, **, * Significant at the 0.01, 0.05, and 0.10 levels, respectively.

Social desirability response

The study adopted MC-C to measure how auditors respond to pressure to act in a socially desirable manner. According to Zerbe and Paulhus (1987), high scores on the MC suggest a tendency to under-report undesirable behaviors. As a result, data from such respondents cannot be considered valid and the quick fix is to discard them. To determine whether ethical beliefs were influenced by social expectations, we performed sensitivity analysis

and eliminated the data from auditors with social desirability responses above 7 points. According to the correlation analysis in Table 6, social desirability response is positively correlated to the sensitivity of auditors toward the ethical behavior of clients ($r=0.113$). We investigated the relationship between social desirability response and each of the ten anecdotes, the results of which demonstrate a significant association between social desirability and ethical belief item B5b (data not shown). Thus, we investigated whether the empirical results would change after dropping the problematic data. Except for slight adjustments in the level of significance, the results from sensitivity analysis matched those prior to this adjustment, as shown in Fig. 2. Thus, it can be concluded that ethical beliefs in this study were not susceptible to social desirability response. This conclusion does not alter the hypotheses or framework of this paper.



***, **, * Significant at the 0.01, 0.05, and 0.10 levels (two-tailed), respectively.

Figure 2. Standardized estimates model after controls for social desirability response

Discussion and Conclusion

This study employed SEM to examine the influence of personal value preferences on the ethical beliefs of auditors. We also sought to discover whether moral philosophy serves as a mediator in the relationship between value preferences and the ethical beliefs of auditors. The findings of the study are as follows. Value preferences alone fail as predictors of ethical beliefs. One possible explanation is that one's ethical orientation depends more on dispositional factors than personal values. Shafer et al. (2001) argued that dispositional and contextual factors may override the influence of personal values on the ethical valuations of auditors.

Idealism was positively associated with the sensitivity of auditors toward the dubious behavior of clients. Relativism is negatively associated with sensitivity to clients' engaging in illegal activities. These results are consistent with Forsyth, Nye and Kelley (1988), who pointed out that idealistic individuals more strongly endorse the need to make decisions based on moral principles, whereas those with relativist views tend to espouse a moral philosophy based on a rejection of an absolute moral code. On the other hand, auditors with relativist views endorse basing their actions on personal whims or the expediency of the moment. Relativists refuse to accept any universal code of moral absolutes, preferring to believe that morality is a subjective issue that varies according to the viewpoint of the individual.

As predicted, idealist auditors were more likely to condemn the actions of clients that violated moral norms, while relativist auditors were more permissive. Consistent with Shaub et al. (1993), our findings demonstrate that auditors with strong relativist views tend to overlook ethical issues.

Conservative values were positively associated with idealism and negatively associated with relativism. These results indicate that idealist auditors are more likely to endorse conservative attitudes with regard to ethical issues, while relativist auditors seek

only to determine whether the action yielded a positive outcome in a given situation. Moreover, auditors strongly motivated by values based on self-enhancement were negatively associated with idealism in ethics and positively associated with relativism. Therefore, it can be concluded that relativist auditors endorse attitudes of self-serving with regard to ethical issues.

Although personal values were shown to have no effect on the ethical judgment of auditors, they are not entirely ineffective in influencing ethical beliefs. One plausible explanation is that scenarios designed to measure ethical beliefs do not solicit intuitive judgments. Respondents were asked to answer questions after deliberating on judgment dilemmas that had been manipulated for ethical intensity. The responses do not demonstrate a direct influence of personal values on ethical beliefs. Instead, personal values have an indirect influence on ethical beliefs via moral philosophy, which influences ethical judgments. Collectively, our empirical results support those of previous studies, which indicate that moral philosophy is related to ethical sensitivity (Shaub et al., 1993). These results also identify the role of moral philosophy as a mediator for the personal values and ethical beliefs of auditors, shedding light on how personal values can influence ethical sensitivity.

This study could have taken a number of directions; however, we concentrated on individual factors related to auditors, largely discounting the relationship between contextual factors and ethical beliefs. Treviño and Weaver (2003) pointed out that the ethical reasoning of auditors is influenced by multiple variables and their interactions. Nevertheless, developing a comprehensive understanding of the ethical behavior of auditors requires that factors associated with the ethical behavior of auditors be considered. For instance, professional and organizational commitments of auditors could override their ethical beliefs. Conversely, auditors who are more committed to the profession are expected to be more responsive to ethical issues (Shaub et al. 1993).

Similarly, if the tone set by the managers of auditing firms promotes ethical behavior, auditors could become more critical towards unethical conduct. Other individual factors may also have a significant impact on the moral philosophy and beliefs of auditors, such as the size of the auditing firm as well as the experience or gender of the auditor (e.g., Shaub and Lawrence, 1996; Lawrence and Shaub, 1997; Pierce and Sweeny, 2010).

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