

Whistleblowing in Public Accounting: Examining Workplace Beliefs

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Abstract

Anecdotal evidence suggests that most public accounting firms are now implementing confidential reporting (whistleblower) hotlines. We employ a Layers of Commitment theory to guide our study of whistleblowing intentions among a Big-4 firm's audit seniors. Specifically, we examine the influence of professional commitment, firm commitment versus colleague commitment (locus of commitment), and moral intensity of the unethical behavior on two measures of reporting intentions: likelihood of reporting and intention to persevere in reporting. We find that moral intensity of the behavior is related to both reporting intention measures. Professional commitment is most strongly related to likelihood of reporting, while locus of commitment (firm versus colleague) is most strongly related to intention to persevere in reporting. The study's contributions include its placement in the professional setting, the theories of Layers of Commitment and Locus of Commitment, and consideration of the measure of perseverance of reporting intentions.

Terms: whistleblowing; professional identify; organizational commitment; moral intensity; ethics

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All that is necessary for the triumph of evil is that good men do nothing.

Edmund Burke (1729 - 1797)

Introduction

Despite the depth and breadth of authoritative standards available to guide auditor conduct¹, numerous accounts in the press as well as academic research indicate that auditors at times commit ethical violations (Kaplan 1995; Lee 2002). While the Enron catastrophe is the most salient case of ethical violations in public accounting, many other instances of severe ethical breaches have slipped past firm governance and quality controls. In the corporate world, whistleblower hotlines often serve to identify unethical or illegal behavior that have otherwise escaped notice². Congress recognized the potential for hotlines to serve this purpose when they included the requirement for confidential reporting mechanisms in the Sarbanes-Oxley Act of 2002. Their objective was to provide an outlet for those who want to report wrongdoing within their company, and to encourage such reporting through the protection of whistleblowers from negative repercussions.³

In recognition of this and due to other factors, many public accounting firms have recently made confidential reporting mechanisms available to their employees. However, while prior research has examined the determinants of whistleblowing within corporate settings, few have considered whistleblowing in public accounting. Because of the unique characteristics of public accounting firms, public accountants may not react to ethical dilemmas or employ hotlines

¹There are numerous sources of guidelines regarding auditor conduct, including the AICPA Code of Professional Conduct, state ethics laws and regulations, professional auditing standards and firm policies.

²The ACFE (McNeal 2007) reports that in 71% of ethics violations investigated, the hotline report was the first notification of the issue; PriceWaterhouseCoopers (2005) reports that 28% of fraud is detected due to “tipoffs.”

³We limit this study to internal whistleblowing only, which involves only reporting within the organization.

in the same manner as observed in other organizational entities. For example, research has found that a significant number of auditors (almost one-quarter, in one study) experience either obedience or conformity pressures from someone within the firm (Lord and DeZoort (2001) and that such pressures and negative consequences occur at all levels and across accounting firms of all sizes (DeZoort and Lord (1994). These types of pressures may serve to discourage the use of hotlines. The hierarchical structure and frantic pace of public accounting may also deter the introspection necessary to motivate whistleblowing. Although auditors, by definition, report on the controls and financial statements of their clients, they do not typically direct this type of professional skepticism and independent disclosure toward their peers.

Given the recent increased focus on audit firm quality control (see for example PCAOB (2004) we believe that exploration of auditor hotline reporting antecedents is both timely and relevant. This study explores a unique set of workplace beliefs that may influence auditors' intentions to report unethical behavior. Specifically, we view the decision to report ethical violations as containing layers of influences. At the outermost layer is the profession. Auditors highly committed to their profession may be motivated to protect the profession by reporting, and therefore limiting the impact of, the ethical violations of other auditors. We expect professional identity, the extent to which one identifies personally with their profession, to be positively associated with reporting intentions. At the next level are the firm (or organization) and the colleagues within that firm. In-group bias suggests that individuals cooperate with members of their group more than with non-group members (Hewstone, Rubin et al. 2002, 578). The question arises as to which group one feels most committed: the firm or their colleagues in the firm. Given that unreported acts can cause future damage to the firm and reported acts can cause immediate damage to the colleague who is the subject of the report, we expect those individuals with greater firm commitment to exhibit greater reporting intentions and those with

greater colleague commitment to demonstrate lower reporting intentions. Finally, at the center lies the ethical violation itself. The moral intensity of ethical violations varies with respect to such factors as likelihood of negative outcome, magnitude of consequences, and proximity of consequences (Jones 1991) and results in varying perceptions of seriousness of the act and the observer's responsibility to report the violation (Graham 1986). Combining the perceptions of seriousness and responsibility into a notion of moral intensity, we expect auditors' considerations of moral intensity to be positively associated with reporting intentions.

To test our expectations, we presented public accounting audit seniors with three vignettes and asked them to indicate their intention to report the violation described therein, including the likelihood of their reporting the violation and the extent to which they are willing to persevere in their reporting until the issue is resolved. Participants then completed scales measuring the moral intensity of each case, their individual professional identity and their individual locus of commitment (firm versus colleague). In multivariate analyses, we find that professional identity, locus of commitment, and moral intensity are significant across the two 'intention to report' measures (likelihood of reporting and perseverance in reporting). In evaluating the measures of reporting intention separately, we find that while professional identity increases the likelihood that an auditor will initially report an observed violation, the auditor's commitment to the organization drives perseverance in reporting. Findings suggest that both of these characteristics relate to effective reporting. As expected, auditors were more likely to both report and persevere when moral intensity was high.

This research contributes to the body of academic literature on ethics and whistleblowing in several ways. First, as mentioned previously, is the exploration of willingness to whistleblow within a public accounting context. Second, no research to date has addressed perseverance of the whistleblower's reporting intentions. Because reports may be ignored initially or not arrive at

the appropriate point in the organization (Miceli and Near 2002), the willingness to keep reporting a problem up through progressive organizational levels until it is resolved may be an important characteristic of effective reporting. Repeated attempts (*e.g.* perseverance) may be necessary before an appropriate individual acts on the violation. An additional contribution of this study involves the consideration of moral intensity and whistleblowing. Researchers (Curtis (2006) have found support for the impact of the separate components of moral intensity (defined here as the seriousness of the issue and the whistleblower's perception of his or her responsibility to act) on reporting intentions. However, these studies did not consider whether moral intensity influences the perseverance of reporting intentions. Perhaps the greatest contribution this paper makes to whistleblower theory is the notion of layers of influence, in particular, the trade-off of firm versus colleague commitment. This perspective expands our current understanding of the antecedents of reporting intentions. Finally, this research informs the practice community in understanding the likely behavior of their employees in similar situations, as well as the potential effectiveness of their internal policies regarding the reporting of unethical behavior.

Theory and hypothesis development

According to Miceli and Near (1984):

Whistleblowing relates to actions taken by current or former organizational members to report illegal, unethical, or illegitimate activities, which are under the control of management, to persons who are willing and able to correct such misconduct.

Whistleblowing can be uncomfortable to discuss. First, it directly implies *ethical failure* and involves one person *judging* the ethical behavior of another (Hooks, Kaplan et al. 1994); second, it implies wrongdoing on the part of a *peer or superior*. Third, whistleblowing implies that the wrongdoer has *intentionally* committed an unethical behavior, which will result in punishment if found out. Fourth, whistleblowing is often *anonymous*, depriving the reported-on individual the right to face his or her accuser. Finally, whistleblowing entails reporting *outside* of the established lines of communication and authority. We learn, from our earliest childhood experiences, that it is wrong to ‘tattle.’ This notion extends throughout our culture, even into the corporate hierarchy, as evidenced by the many cases of demotion, loss of job, increased stress, and negative media attention experienced by whistleblowers (Grant 2002). However, industry surveys (KPMG 2006; PriceWaterhouseCoopers 2005) and academic research (Kaplan 1995; Miceli and Near 2002) support the contention that confidential reporting mechanisms aid in the identification of unethical behavior.

There are overlapping and intertwining influences on an individual’s decision to report an ethical violation (Figure 1). At the outer most layer lies the accounting profession. Within our profession lie public accounting firms. Auditors can be committed to the profession, but not to the firm for which they work; or, auditors can be committed to the firm, but not overly committed to the profession or committed to both or neither (Nisim Aranya and Ferris 1984). Additionally, individuals have varying levels of commitment to their colleagues within the firm.

Because of the trade-off between protecting one's firm or one's colleagues in ethics reporting situations, we consider firm and colleague commitment to be on a continuum, with the firm at one end and colleagues at the other. Finally, at the center of these various and oft conflicting layers of commitment, is the ethical violation itself. This violation may interact with any of the layers, including the individual's personal ethical commitment. One may be committed to the profession as well as to the firm, but feel that the core issue, the unethical or illegal event, is not critical enough to warrant reporting. Conversely, one may show evidence of low commitment to the profession or the firm, but the event may be so egregious that the individual feels he or she must act. Each of these factors acts independently and in concert. Individuals must weigh all of these factors, cutting through the layers during their decision process, to arrive at their reporting intention. The following discussion addresses each of these factors.

<Figure 1 here>

Professional Identity

Professional identity, a component of a person's social identity, is the notion that individuals self-classify based on their profession.⁴ Professional identity is commonly defined as the strength of an individual's identification with and involvement in a profession (N. Aranya, Pollack et al. 1981). For example, auditors begin engaging in impression management with their earliest training, acting in ways that communicate their membership in the profession (Kosmala and Herrbach 2006).

One way in which individuals demonstrate professional identity is through adherence to the standards and practices of their profession. The AICPA Code of Professional Conduct, Generally Accepted Auditing Standards, PCAOB standards, as well as state ethics laws and

⁴ Following the lead of Bamber and Iyer (2002), we use the term "professional identity", although several studies also refer to this phenomenon as professional commitment. Jeffrey and Weatherholt (1996, 14) define commitment as "...the relative strength of identification with and involvement in a particular profession."

regulations provide guidelines for auditors regarding acceptable behavior. Auditors become familiar with these guidelines throughout their careers: they learn of them in audit courses, they study them for licensure and renewal, and they read them when beginning employment at their firm. Jeffrey and Weatherholt (1996) find that accountants' professional commitment is positively associated with rule observance attitudes, such as adhering to professional practices standards and codes of ethics. This professional identification, leading to adherence to standards and rule observance attitudes, may further manifest itself through a desire to protect the profession from reputational damage, such as that sustained when one of its members fails to adhere to professional standards or codes of ethics.

Given that auditors develop professional identities and that the profession has pervasive guidelines, auditors should feel an obligation to avoid public disclosure of violations of those guidelines. Thus, auditors with strong professional identities may be inclined to report these acts within the organization, both as a means of rooting out violators and of protecting their profession from possible public exposure of the violation. Indeed, Kaplan and Whitecotton (2001) found that professional identity was positively related to responsibility for reporting the unethical acts of others, which in turn influenced reporting intentions.

We propose the following hypothesis.

H1: Professional identity is positively associated with reporting intent.

Locus of Commitment

Since audit firms rely on reputation to remain successful in the long run (and perhaps in the short run), and one component of a firm's reputation is the public's perception of the firm's ethical behavior, it is in the firm's interest to identify and stop unethical behavior before it becomes public. One method of identifying wrongdoing is reliance on employees to internally report observations of code and ethics violations, using either existing paths of communication or

confidential hotlines. Individuals with strong organizational commitment likely will act to preserve the firm; these acts include identifying and remedying situations that may harm the firm's reputation. Reporting is one means auditors can use to show they are 'looking out for the firm.'

This notion is evident in the Organizational Commitment research literature, which defines organizational commitment as the strength of employees' identification with and involvement in a particular organization, a strong belief in the organizational goals and values, and a willingness to exert considerable effort on behalf of the organization (Porter et al. 1974). Public accounting firms, like other organizations, seek to develop robust organizational culture, based on organizational commitment, in which members are indoctrinated in a number of ways (Jenkins, Bedard et al. 2007) Individual employees may exhibit varying levels of organizational commitment, depending on many factors, including their length of employment and job satisfaction.

This strong commitment to the organization contrasts with colleague commitment, which includes a sense of responsibility, reliability, and readiness to support colleagues within an organization (Junger et al. 2007). Unlike professional identity, which exists independent of organizational affiliation, organizational (firm) and colleague commitment intertwine in many instances, one sustaining the other (Abbott, Boyd et al. 2006). However, in other circumstances, such as when a colleague performs an unethical act, these two commitments may serve to create conflicting allegiances (Trevino and Victor 1992). These conflicting interests between opposing forces pressure create pressures for the individual to think and behave in different ways. Ray (2006) points to a "web of commitments" which results in conflicting needs of individuals in multiple relationships. While an organization might experience negative effects if standards' violations go unreported, a co-worker will likely suffer negative effects if firm management

learns of his or her standard's violation. Such circumstances may prompt auditors to act on behalf of their colleague, mindless of the welfare of the firm as a whole (Osburn, Moran et al. 1990).

A question arises as to how individuals react when the needs of the organization and of co-workers are in conflict. When contemplating making a report, an auditor must choose between his or her commitments to the two parties, weighing the harm to the firm from not reporting against the harm to the colleague from reporting. Inevitably, one must balance how much harm to whom versus how much benefit to whom (Elliston 1982). Graham (1986) suggests that potential reporters must use loyalty prioritization during their decision making processes, contrasting the two polarizing influences of team loyalty and conscientious individualism. Thus, whistleblowing may be the prototypical example of "damned if you do, damned if you don't" scenario.

Several studies have explored the relationship between organizational commitment and reporting intent. Near and Miceli (1985) suggest that internal reporters will demonstrate high levels of firm loyalty in their initial decision to report. Two studies test that theory: Mesmer-Magnus and Viswesvaran (2005) expect organizational commitment to be positively related to both reporting intent and actual reporting, and Sims and Keenan (1998) expect organizational commitment to be positively related to external reporting. While neither study finds significant results for organizational commitment, it is possible that this construct is relevant only in certain circumstances not previously explored. The unique nature of public accounting firm culture may offer the opportunity to observe the impact of organizational commitment on reporting behavior. It is also possible that organizational commitment cannot fully explain whistleblower intentions without a complementary consideration of colleague commitment. Thus, our proposed theory of

Locus of Commitment may better address the true nature of such influences than previous studies that considered only one side of this relationship.

In recognition of Ray's (2006) "web of commitments" and Graham's (1986) "loyalty prioritization," we define Locus of Commitment as the direction to which one's allegiances turn when an ethical dilemma pits organizational and colleague commitments against one another. We theorize that, when contemplating reporting, an individual will weigh the harm to the firm from not reporting against the harm to the colleague from reporting. The locus of their commitment will determine which potential harm is most influential in their reporting decision.

Based on the above arguments, we propose the following hypothesis:

H2: Organizational (colleague) commitment is positively (negatively) associated with reporting intent.

Moral Intensity

Miceli, J.P., Near, and Schwenk (1991) studied the whistleblower intentions of internal auditing directors, finding that those directors were less likely to report incidents of wrongdoing "when they did not feel compelled morally or by role prescription to do so." These feelings of moral compunction, likely related to the seriousness of the situation, and role prescription, define one's responsibility to react to an unethical behavior and form the basis of the moral intensity of a situation. Jones (1991) suggests that individual ethical behavior may be contingent on the moral decision at hand. He identifies six factors that combined form a moral intensity construct, asserting that strength or intensity of these factors likely influences auditors' reporting intent for unethical behaviors.

Graham (1986) asserts that, once an individual becomes aware of an "issue of principle," the individual must assess the context. She suggests that the positive contextual motivations toward reporting the unethical acts of others are a combination of the seriousness of an unethical behavior

and the perceived responsibility to act on this behavior. These two factors possess a reciprocal relationship in that serious issues may generate increased feelings of responsibility to respond. Indeed, most studies measuring these individual constructs have found them to be highly correlated (Curtis 2006; Kaplan and Whitecotton 2001).

With respect to seriousness, Near and Miceli (1985) propose that the seriousness of the questionable activity will be positively related to reporting. Seriousness implies that others will also see the need for reporting and that violations that are more serious are likely to result in actions to correct the situation. Rothwell and Baldwin (2007) find that police officers are more likely to report serious violations and several studies involving accountants have found support for this relationship (Curtis 2006; Kaplan and Whitecotton 2001; Miceli, J.P.Near et al. 1991).

Miceli and Near (1994) point out that individuals report because of their own morality – they feel a *responsibility* to report. In addition, the AICPA Code of Professional Conduct creates responsibility by requiring auditors to report certain violations (namely, the knowledge of a client employment offer). Prior research has found a positive association between auditors' intent to report and feelings of personal responsibility (Kaplan and Whitecotton 2001; Schultz Jr., Johnson et al. 1993).

Based on the above discussion, we combine the constructs of seriousness and responsibility into a single notion of moral intensity. This combined construct addresses the evaluation of a situation with respect to its seriousness and the related degree to which the individual feels they are morally required to respond. We propose the following hypotheses.

H3: Moral intensity is positively associated with reporting intent.

Method

Design

We tested the hypotheses using a research instrument in which auditors reacted to three vignettes describing the unethical behavior of a superior. Independent variables include Professional Identity, Locus of Commitment, and Moral Intensity, all measured ex-post.

Sample

Participants were practicing audit seniors from an international public accounting firm, attending a multi-day firm training program. We provided no incentives for completion, although their firm encouraged participation.

Audit seniors have adequate experience and are sufficiently knowledgeable about professional standards to recognize the ethical violations embedded in our three scenarios. At this level, they should also have adequate socialization into the public accounting profession such that their reactions to the scenario behaviors should be typical of public accountants at various levels in the firm.

Procedure

The research protocol called for proctors to begin the session by introducing themselves and the exercise, and assuring the participants of their anonymity – we collected no individually identifying information. Proctors distributed the paper-based survey and participants completed the materials at their own pace. All completed the research instrument within one hour and none took an unreasonably short amount of time. Participants were able to refer back to any portion of the materials during the session. The authors and two assistants conducted the sessions.

The research materials began with a short introduction to the hypothetical firm. Then participants read the three vignettes. Following each vignette, participants answered several

questions regarding their intent to report the described incident. The materials ended with scales to measure independent variables and demographic characteristics.

Vignettes

The three vignettes represented various violations of the AICPA Code of Professional Conduct. In the first, the audit supervisor instructs the auditor to ‘sign-off’ on an uncompleted audit procedure as completed. In the second, the audit supervisor discloses a job offer from the current client (violating independence) and then personally performs audit procedures typically completed by a staff auditor. In the third scenario, during an audit of a car dealership, the auditor observes his supervisor driving a car from the client’s inventory. The supervisor has discouraged the auditor from performing certain audit steps typically completed in prior year audits.

Dependent Variables

After each vignette, auditors provided several measures of their likelihood to report, as well as one measure related to their perseverance of reporting intent. Likelihood of Reporting (the typical measure employed in whistleblowing studies) is the average of four questions across the three vignettes, each using a 0-100 point scale; endpoints are very unlikely and very likely. Perseverance is measured by one question using a 5 point scale, with options moving progressively higher through the organization, beginning with ‘would not tell anyone’ through ‘would pursue to as high a level as needed to get satisfactory action.’

Prior whistleblowing research has not considered this second measure. However, we include it because we agree with Elliston (1982, 167) “Typically several actions are involved in a process of blowing the whistle. Though we can treat whistleblowing as one act, to be more precise we should from the outset be aware that we are dealing much more with a series of actions, a process.”

Independent Variables

The two personal workplace beliefs were measured using scales based on prior literature; we include questions in Appendix A. For Professional Identity, we chose six questions from a professional commitment scale developed by both Aranya et al. (1981) and used by numerous accounting researchers (c.f. Jeffrey and Weatherholt (1996)). The five-point scale used strongly agree and strongly disagree as end-points, neutral was the center.

We also constructed a Locus of Commitment scale based on the general idea of the questions in the scales used by prior research (Nisim Aranya and Ferris 1984; Jeffrey and Weatherholt 1996). We designed questions to contrast the trade-off between organizational and colleague commitment in order to highlight the individual's loyalties. Although it is certainly possible to exhibit high commitment to both the organization and to colleagues, the unique nature of whistleblowing requires that the individual choose one over the other (Graham 1986). Participants responded to three items asserting commitment toward the firm over commitment to colleagues, each on a five-point scale with ends of strongly agree and strongly disagree.

The moral intensity of each vignette is based on the auditors' perceptions of the seriousness of the unethical behavior and the auditor's responsibility to report the unethical behavior. Auditors indicated Seriousness and Responsibility on a scale of 0-100 where 0 is least serious or responsible and 100 is most serious or responsible (Kaplan and Whitecotton 2001). We combine these measures to generate a measure of moral intensity for each vignette.⁵

Results

Demographics

One hundred and twenty-three practicing senior auditors participated in the study. Three individuals provided incomplete answers, resulting in a sample of 120. The group was evenly

⁵ Combining these measures also resolves multicollinearity issues experienced in prior studies (Kaplan and Whitecotton 2001)

split by gender and averaged 27 (s.d. 2.9) years of age and 3 (s.d. 0.34) years of professional auditing experience. Two-thirds had taken college courses with at least a module on profession ethics and 93% had received ethics training post-graduate. Only 5% of the participants had received no ethics training. Two-thirds of the participants were born in the U.S.; although most were educated at universities in the U.S. One-third of the participants were licensed CPAs. Finally, consistent with prior research, about one-third had previously experienced a situation similar to any described in the scenarios.

Descriptive Statistics and Preliminary Analyses of Measures

We constructed variables as follows. First, we averaged responses to reporting intention questions across vignettes to arrive at two overall measures, one each for Likelihood and Perseverance. Next, we averaged the responses to the Seriousness and Responsibility questions, across vignettes, to generate an overall measure for Moral Intensity.

We performed confirmatory factor analysis on the individual questions representing the Professional Identity and Locus of Commitment scales, finding that all questions for each measure loaded on one factor per scale.⁶ Therefore, scale measures were the sum of all items for each scale. Table 1 includes descriptive statistics for these variables.

<Place Table 1 here>

As depicted in Table 2, there is significant correlation between the two dependent variables. Therefore, analyses of our hypotheses will begin with multiple linear regression, followed by individual univariate analysis to identify unique patterns of relationships.

Most of the correlations among the independent variables support the expected pattern of attitudes. Specifically, as moral intensity increases, so do professional identity and firm

⁶ Cronbach's alpha for Professional Identity is .79. All questions load on the same factor with the lowest loading of .65. Cronbach's alpha for Locus of Commitment is .69. All questions load on the same factor with the lowest loading of .78.

commitment (as the locus of commitment). An unexpected finding, however, is that as professional identify increases, so does colleague commitment as the locus of commitment. Significant correlations between the dependent and independent variables provide preliminary support for all hypotheses. The dependent variables demonstrate significant correlations with Moral Intensity, Professional Identification, and Locus of Commitment.

<Place Table 2 here>

Tests of Hypotheses

As depicted in Table 3, multivariate analyses indicate that Moral Intensity and Professional Identity significantly relate to Reporting Intent, supporting hypotheses H1 and H3. However, the relationship between Commitment and Reporting Intent is marginal.

In univariate analyses (reported in Table 3), Professional Identification significantly relates to Likelihood of Reporting ($p < .02$), but not to Perseverance ($p > .34$). While Professional Identification and Perseverance are not significantly related in the presence of other independent variables, bivariate correlations (reported in Table 2) between the two variables are significant. Correlation analyses also support the direction of the relationship hypothesized in H1: as professional identity increases, reporting intentions increase.

H2 proposed that greater commitment to the firm would relate positively to reporting intentions. Recall that multivariate analysis of this hypothesis was only marginally significant. Univariate analyses support the relationship of Locus of Commitment to Perseverance ($p < .03$), but not to Likelihood of Reporting ($p > .25$). Correlation analyses support the hypothesized direction of this relationship: as an individual's commitment moves toward the firm and away from colleagues, likelihood of reporting increases slightly and perseverance increases significantly. Additionally, bivariate correlations between Locus of Commitment and Likelihood of Reporting are significant.

H3 proposed that Moral Intensity relate positively to reporting intent. Univariate analyses (reported in Table 3) support the relationship between Moral Intensity and both dependent variables: Likelihood of Reporting ($p=.00$) and Perseverance ($p=.00$). Correlation analyses (reported in Table 2) support the direction of this relationship hypothesized in H3: as moral intensity increases, both measures of reporting intentions increase. In summary, we find support for H1 (Professional Identity) through multivariate analyses, correlational analyses for both dependent variables, and univariate analyses for Likelihood of Reporting. We find only marginal support through multivariate analyses for H2 (Locus of Commitment), but correlational analyses support the relationships for both dependent variables and univariate analysis supports the relationship with Perseverance. Finally, we find support for H3 (Moral Intensity) with both dependent measures of intent. The relatively high adjusted R^2 values reported in Table 3 suggest that a large amount of the overall variance in both Likelihood of Reporting (.46) and Perseverance (.34) is explained by this combination of independent variables.

<Place Table 3 here>

Discussion

In light of recent regulations affecting public companies and proposed revisions of quality control standards for audit firms, it is worthwhile to examine factors that affect the reporting attitudes of public accountants concerning possible unethical activities in their organizations. Professional environments, such as public accounting, may be different from most contexts in previous whistleblowing research. Additionally, this study contributes to the existing whistleblower literature by testing a theory of Layers of Influence in the workplace. We isolate the effect of various layers of influence that we believe help to explain whistleblowing intentions: namely professional identity, locus of commitment, and moral intensity. Finally, we consider a broader definition of reporting intentions than has previously been considered, including not only likelihood of reporting, but also perseverance in attempts to report observed unethical behavior.

We hypothesized that reporting intentions would increase when the observer's professional identification was greater, when the observer's locus of commitment was aligned with their firm rather than with their colleagues, and when the moral intensity of the observed behavior was greater. Results indicate that all predictors significantly relate to reporting intentions.

Two specific exceptions to this general finding are noteworthy. First, professional identity and perseverance in auditor reporting behavior are not significantly related, although locus of commitment and perseverance are significantly related. Second, locus of commitment and likelihood of reporting demonstrated no significant relationship in univariate analysis, although bivariate correlational analysis did indicate a significant association. These correlations suggest that likelihood of reporting increases as one's locus of commitment moves toward the firm and away from colleagues. Thus, while professional identity may influence auditors' initial

reporting intentions, their commitment to their firm determines how far they will go in acting on those intentions.

Finally, we identified an unexpected relationship between the independent variables. The correlation between locus of commitment and professional identification suggests that as an auditor's professional identity increases, his or her locus of commitment moves away from the firm and toward the individuals within the firm (colleagues). One interpretation is that this represents a trade-off between professional identification and firm identification. As individuals increase in their commitment to the profession, their allegiances in their immediate environment move away from the firm entity and toward the individuals who share their profession.

What are the implications of these findings? Given that likelihood is most strongly influenced by professional identification and perseverance by firm commitment, firms should emphasize both professional identification and firm commitment in their training programs. First, firms should stress the professionals' responsibilities to report the unethical acts of others. Firms may build organizational commitment by making professionals aware of the harm that could befall the firm should unethical behavior continue unabated. Professionals should also understand the consequences of public disclosures of unethical behavior. A key part of this training would include encouraging individuals to use the firm's hotline.

Undeniably, unethical behavior exists within audit firms; the challenge is to identify it when it occurs and stop it before it causes harm. Given the recent audit failures, the topic of reporting is relevant and timely. Research that explores effective ways to promote ethical behavior and discourage unethical behavior can benefit firms, as well as inform standards' setters.

Limitations

Participants, setting, and task can all limit results. In certain studies, individuals may exhibit self-serving biases in order to avoid appearing unethical. In this study, participants' anonymity should mitigate this bias. Individuals may have had prior experiences with whistleblowing, or with circumstances similar to those in the vignettes that could influence their answers. However, based on data we gathered regarding auditors experiences and analyses including this measure, it does not appear that prior experiences with events such as those described in the vignettes influenced responses. Additionally, this survey created an artificial setting, thus potentially compromising results (Pedhazur and Schmelkin 1991). However, the study of ethical decision-making outside of such environments is particularly difficult. The benefit of involving experienced professionals as participants is that such individuals can add their own degree of realism to the vignettes that might be missing were the participants unfamiliar with the practice of public accounting. Absent incentives for performance, subjects may put forth inadequate effort, skewing results. While we eliminated the responses of three individuals due to incomplete answers, the remainder appeared to work the exercise diligently. As noted earlier, no participants took an unusually short time to complete the exercise.

Future Research

This study represents relatively early work on whistleblowing in audit firms. As the focus on corporate governance increases, and as regulation of the auditing profession becomes more pervasive, it will become more important for firms to identify and prevent unethical behavior by employees. Future research topics could explore additional organizational variables, such as organizational structure or average employee turnover. Hall, Smith, & Lanfield-Smith (2005) propose three dimensions of professional commitment (identity) that have differing effects on employee behavior. Interesting future research could further explore these dimensions concerning their influence on whistleblowing intentions. Aranya et al. (1984) and Bamber et al.

(2002) explore the relationship between organizational commitment and professional identity. We find these two measures to be significantly correlated, with no interaction in their effect on reporting intentions. Future research could further explore when these two commitments act in concert and when they conflict, particularly concerning ethical dilemmas. Drawing on prior literature between personal characteristics and ethics, researchers could also investigate auditors' personal characteristics and whistleblowing. For both organizational and personal characteristics, the model proposed by McDevitt et al. (2007) identifies many possible determinants that have yet to be explored. Finally, as firms develop reporting mechanisms, research regarding the effectiveness of various features of these mechanisms will be important. Such options could include reporter anonymity, communication method, and administration (internal or external) of the hotline.

Appendix A

Independent Measures

Professional Identity –

1. My values are similar to the audit profession's values.
2. I am proud to tell others that I am an auditor.
3. I am extremely glad that I chose to be an auditor.
4. I really care about the future of public accounting.
5. I feel a responsibility to uphold the standards of public accounting.
6. I will work to protect the reputation of the auditing profession.

Participants responded based on a 5-point scale:

1=Strongly-agree, 2=Agree, 3=Neutral, 4=Disagree, 5=Strongly-disagree

Locus of Commitment -

1. I am more committed to my firm than to the individuals with whom I work.
2. I am more responsible for the success of my firm than the personal success of my colleagues
3. I identify more with my firm than with my co-workers.

Participants responded based on a 5-point scale:

1=Strongly-agree, 2=Agree, 3=Neutral, 4=Disagree, 5=Strongly-disagree

Moral Intensity -

Please rate the seriousness of the violations in each of the scenario on a scale of 0 to 100 where 0 is the least serious and 100 is the most serious.

1. Omitted Audit Procedure
2. Job Offer
3. Car Deal

Please rate your responsibility to report the violations in each of the scenarios on a scale of 0 to 100 where 0 is the least responsible 100 is the most responsible.

1. Omitted Audit Procedure
2. Job Offer
3. Car Deal

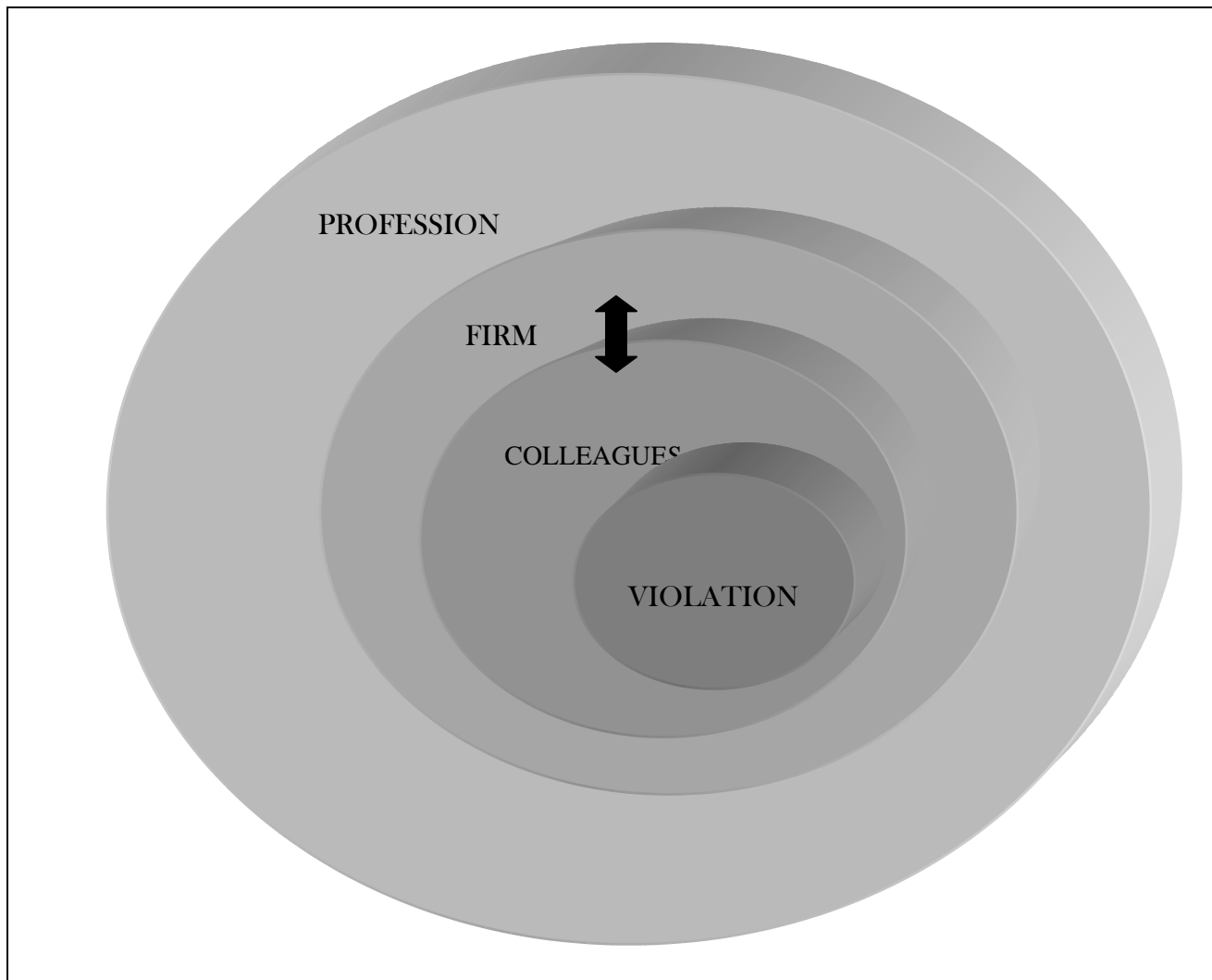
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Figure 1
Layers of Influence Affecting the Decision Processes of a Potential Whistleblower



Influence of Workplace Beliefs on the Decision Processes of a Potential Whistleblower

Profession = Commitment to the accounting profession

Firm versus Colleagues = Locus of Commitment between the firm and one's colleagues

Violation = Moral Intensity of the violation, itself, within the context of public accounting

Table 1
Descriptive Statistics of Dependent and Independent Variables

	Minimum	Maximum	Mean	Theoretical Range	Std. Deviation
Likelihood	11.1	100	72.54	0-100	19.84
Perseverance	1.7	5	3.90	1-5	0.724
Professional Identity	6	23	13.81	5-25	3.62
Locus of Commitment	4	15	9.79	3-15	2.20
Moral Intensity	40	100	79.58	0-100	15.39

Legend:

Dependent variables: Reporting intentions:

Likelihood of Reporting: How likely are you to report this given ..., on a scale of 0-100% - measure is the average across 3 cases, with 4 “givens” for each

Perseverance: What is the highest level you would report this? Answers range from “would not tell anyone” to “would pursue to as high a level as necessary”

Independent variables:

Professional Identification: Extent to which participant personally identifies with the accounting profession - lower values indicate greater identification.

Locus of Commitment: Lower values indicate a greater commitment to the firm while higher values indicate a greater commitment to colleagues

Moral Intensity: Combination of the seriousness of the event and the individual’s responsibility for reporting the event - measure is average of seriousness and responsibility across the 3 cases

Table 2
Pearson Correlations between Variables

	Likelihood of Reporting	Perseverance	Professional Identification	Locus of Commitment
Perseverance	.682**			
Professional Identification	-.349**	-.250**		
Locus of Commitment	-.223**	-.263**	.402**	
Moral Intensity	.637**	.554**	-.345**	-.318

Significance: ** p<.01; *p<.05 (two-tailed test)

Legend:

Dependent variables: Reporting intentions:

Likelihood of Reporting: How likely are you to report this given ..., on a scale of 0-100% - measure is the average across 3 cases, with 4 “givens” for each

Perseverance: What is the highest level you would report this? Answers range from “would not tell anyone” at the lowest end to “would pursue to as high a level as necessary” at the highest end.

Independent variables:

Professional Identification: Extent to which participant personally identifies with the accounting profession - lower values indicate greater identification.

Locus of Commitment: Lower values indicate a greater commitment to the firm while higher values indicate a greater commitment to colleagues.

Moral Intensity: Combination of the seriousness of the event and the individual’s responsibility for reporting the event - measure is average of seriousness and responsibility across the 3 cases. Higher values indicate greater intensity.

Table 3
Analyses of Variance for Moral Intensity, Professional Identification and Locus of Commitment on Reporting Intentions

Source	MANOVA Reporting Intent		ANOVA - Likelihood of Reporting		ANOVA - Perseverance	
	F	p	t	p	t	p
Professional Identification	2.63	0.038*	-2.16	0.016*	-0.39	0.348
Locus of Commitment	1.88	0.075	-0.62	0.252	-1.91	0.029*
Moral Intensity	37.78	0.000**	8.23	0.000**	6.65	0.000**
R ²			0.46		0.34	

Significance: ** p<.01; *p<.05 (one-tail test, except interaction is two-tail test)

Legend:

Dependent variables: Reporting intentions:

Likelihood of Reporting: How likely are you to report this given ..., on a scale of 0-100% - measure is the average across 3 cases, with 4 “givens” for each

Perseverance: What is the highest level you would report this? Answers range from “would not tell anyone” to “would pursue to as high a level as necessary”

Independent variables:

Professional Identification: Extent to which participant personally identifies with the accounting profession - lower values indicate greater identification.

Locus of Commitment: High/low split employed in this analysis to indicate the locus (firm versus colleague)

Moral Intensity: Combination of the seriousness of the event and the individual’s responsibility for reporting the event - measure is average of seriousness and responsibility across the 3 cases