

**The Ethical Environment of Tax Professionals:
Partner and Non-Partner Perceptions and Experiences**

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ABSTRACT

This paper compares the perceptions of the firm ethical environment and experiences with ethical dilemmas of tax partners with non-partner employees of CPA firms. Prior research emphasizes the importance of executive leadership in creating an ethical climate (e.g. Weaver et al. 1999; Trevino et al. 2003; Schminke et al. 2007). Thus, it is important to consider whether firm partners and other employees have congruent perceptions and experiences. Based on the responses of 63 tax partners and 83 non-partner tax professionals, our results show that partners rate the ethical environment of their firms as stronger than non-partners rate their firms, particularly among those who describe a self-identified ethical dilemma. There is also disagreement between these two groups in the perceived frequency with which certain common examples of ethical dilemmas occur. Overall, this study contributes to the business ethics and behavioral accounting literature and has implications for the accounting profession.

The Ethical Environment of Tax Professionals: Partner and Non-Partner Perceptions and Experiences

INTRODUCTION

This paper compares the perceptions of the firm ethical environment and experiences with ethical dilemmas of tax partners with non-partner employees of CPA firms. In a CPA firm, partners are the leaders of the organization who are responsible for developing and framing the perceptions of acceptable organizational practices and policies. Trevino et al. (2003) suggest that firm leaders are extremely influential in shaping an organization's ethical environment. Unfortunately, evidence suggests (e.g. D'Aquila 2001; Trevino et al. 2007) that there is a disconnect in the perceptions of organizational ethics between the higher and lower levels of an organization. Reasons for this disconnect include the need for executives to personally identify with an organization and maintain the organization's image as their own, the fact that executives spend more time with external constituents than internal constituents, and a lack of awareness of the pressures faced by lower level employees (Trevino et al. 2007).

In a recent study of the ethical environment within CPA firms, Bobek and Radtke (2007) investigated the ethical environment of tax professionals by soliciting personal experiences with ethical dilemmas from tax professionals working in accounting firms. Their results showed that those who described a self-identified ethical dilemma rated the ethical environment of their firms as significantly weaker than those who did not describe a dilemma. Their sample included tax professionals at all levels of the firm. The current study extends the analysis of Bobek and Radtke (2007) by specifically comparing and contrasting the experiences and perceptions of partners versus non-partners.

Results from the present study indicate that on average, partners rated the ethical environments of their firms as stronger than non-partners rated their firms. This was particularly apparent in the assessment of the ethical behavior of firm partners. Partners were also significantly more likely to describe an actual ethical dilemma than non-partners. For both partners and non-partners, the group who described a dilemma rated the ethical environment as weaker. There was some disagreement between hierarchical levels about the perceived frequency of common examples of ethical dilemmas, suggesting that partners may not be fully aware of the pressures faced by lower-level employees (Soutar et al. 1994).

This study contributes to the literature and has implications for the accounting profession. First, our results support prior management research that suggests that upper management has a rosier view of an organization's ethical climate than lower-level employees (e.g. Posner and Schmidt 1987; Forte 2004; Trevino et al. 2007). Second, this study extends prior work on the unique aspects of the ethical environment of accounting professionals (e.g. Bobek and Radtke 2007). Implications for the accounting profession include the need for both better communication between firm partners and lower-level employees regarding partners' expectations of ethical behavior and recognition by partners of the pressures faced by lower-level employees.

The remainder of this paper is organized as follows. The next section presents a review of related research and develops the research questions. The third section describes the research methodology, and the fourth section presents the results. Section five presents the conclusions and limitations of the study and implications for the accounting profession.

PRIOR RESEARCH AND RESEARCH QUESTIONS

In general, organizational culture or climate reflects members' shared perceptions of the organization's practices and procedures (Schneider 1975). An organization's ethical environment thus reflects the pervasive ethical climate or culture regarding the prescriptions of what constitutes ethical behavior in an organization (Victor and Cullen 1988). Among the factors that influence an organization's ethical environment, "The ethical dimension of executive leadership is thought to be uniquely important because of the executive's potential to influence employee and organizational behavior" (Trevino et al. 2003, p. 6). This finding has been empirically demonstrated in the literature, in that executives tend to shape an organization's ethical environment (e.g. Posner and Schmidt 1992; Soutar et al. 1994; Trevino et al. 1998; Weaver et al. 1999). For CPA firms, partners are the firms' top leaders, and are extremely influential in establishing the overall behaviors within a firm that are rewarded (see Cohen and Trompeter 1998). Thus, the behavior of partners is critical because they set the ethical tone for the CPA firm.

However, partners' perceptions of the firm may not be the same as those at lower-levels. There is evidence (e.g. Forte 2004; D'Aquila 2001) that upper management generally has a rosier view of the ethical climate than other employees. Survey results indicate that executive level management strongly views their organizations as acting ethically, whereas employees in lower positions do not see their organizations' actions in as positive a light (Posner and Schmidt 1987). Instead, lower-level employees are more likely to be cynical about organizational ethical procedures and policies than are executives and senior managers (Trevino et al. 2007). Lower-level employees also tend to report experiencing ethical dilemmas at higher rates than executive leaders (Soutar et al.

1994). Forte (2004) demonstrated that the tendencies of upper management to view their organizations' ethical environment as more positive than those at lower levels is due to managers' *hierarchical levels*, rather than to tenure with the organization. Thus, a common theme in the business ethics literature is that top organizational leadership tends to perceive organizational ethics as much stronger than do those employed in lower-level positions.

While prior literature clearly indicates that top managers tend to have a "rosier" view of organizational ethics than do lower-level employees, less is known about the perceptions and experiences of an ethical environment within a *CPA firm*. Employees' perceptions of CPA firms' ethical environments may be different from other organizations, in that CPA firms are professional service firms organized as partnerships, in which the firm leaders (partners) must function both as organizational executives as well as professionals. Preliminary evidence supports the view that CPA firm partners also tend to have a positive view of organizational ethics. Finn et al. (1988) conducted a study of senior-level CPAs (partners and sole proprietors of CPA firms), and found that partners viewed their own firms as having much higher ethical standards than those of other CPA firms. Likewise, in a study of CPAs employed as financial accountants in private industry, D'Aquila (2001) demonstrated that higher-level employees (CFOs) perceive stronger organizational ethical standards than do lower-level employees. Taken together, these two studies suggest that CPA firm partners may be likely to have a more positive view of organizational ethics.

Overall, partners in CPA firms are particularly influential in shaping a firm's ethical environment (see Trevino et al. 2003), but evidence suggests that firm leaders

exhibit a more positive view of organizational ethics than do lower-level members (e.g. Soutar et al. 1994; D'Aquila 2001; Forte 2004; Trevino et al. 2007). Little is known about how partners' perceptions and experiences of their CPA firms' ethical environment vary from those in lower hierarchical levels. Understanding whether there is a connection between partners' and others' view of organizational ethics is important for partners to succeed in molding a strong ethical environment.

Recently, Bobek and Radtke (2007) investigated characteristics of the ethical environment of tax professionals working at CPA firms. Bobek and Radtke (2007) chose to focus on the ethical environment of *tax* professionals in particular because tax professionals face unique ethical issues arising from their role as client advocates (AICPA 2000), and must often confront ambiguous ethical situations with a gray line between unethical and advocacy behavior. Their study employed an experiential questionnaire (EQ) to elicit practicing tax professionals' personal experiences. This methodology (Gibbins and Qu 2005) elicited tax professionals' self-identified ethical dilemmas.

Bobek and Radtke (2007) drew on the work of Arnold et al. (1999, 2000) and Booth and Schulz (2004), which suggests that an organization can favorably influence the ethical behavior of its members. In particular, Booth and Schulz (2004) identify specific factors that can influence individuals' perceptions of their ethical environment. Bobek and Radtke (2007) investigated these factors with tax professionals working at CPA firms. The factors identified are: 1) social norms (mission and values, leadership and management influence, and peer group influence); 2) social practices (procedures, rules and codes of ethics, and ethics training); and 3) outcomes (rewards and sanctions).

Thus, in order to provide further insights to researchers and tax professionals, the present study extends the analysis of Bobek and Radtke (2007) to focus in particular on the perceptions and experiences of tax partners versus those providing tax services at other levels of the firm. The purpose of the present paper is therefore to answer the following two research questions:

Research Question 1: Do partners and non-partners have similar assessments of the ethical environments of their firms?

Research Question 2: Do partners and non-partners have similar experiences with ethical dilemmas?

METHODOLOGY

Experimental Instrument

This study's experimental instrument is described in detail in Bobek and Radtke (2007). In short, participants responded to an experiential questionnaire (EQ) (Gibbins and Qu 2005) which allowed them to give detailed descriptions of an actual ethical dilemma that they experienced at their current firm. Sixty-two of the 146 participants described a dilemma. All 146 participants responded to questions about the frequency and seriousness of ten common examples of ethical dilemmas (see Table 3) and to statements designed to elicit their perceptions of the ethical environment factors identified by Booth and Schulz (2004).

Participants

Participants were obtained from three sources: the American Institute of Certified Public Accountants (AICPA), the Florida Institute of Certified Public Accountants (FICPA), and direct firm contacts. We contacted the AICPA and FICPA to obtain

mailing lists of tax professionals from firms with over ten AICPA members or five FICPA members. These sources provided 315 and 396 tax professionals working in CPA firms, respectively. Participants were contacted via mail and received a cover letter, a copy of the EQ, and a postage-paid reply envelope. The cover letter explained the purpose of the study and indicated that they could respond either by returning the hardcopy of the EQ or by accessing a website where the identical EQ was available online.¹ The letter also informed participants that we would contribute \$10 to a charity of their choice (of four possible choices) for each completed EQ that we received. Two weeks after the original mailing, postcard reminders were sent. Two EQs were returned as undeliverable from the AICPA mailing list, while only one was returned from the FICPA list.

We received a total of 29 useable responses from the AICPA members (response rate of 9.3%) and 65 usable responses from the FICPA members (response rate of 16.5%). Seven of the AICPA responses (24 percent) and ten of the FICPA responses (15 percent) were received online. Table 1 provides demographic information about these participants, including that 83 percent of AICPA and 46 percent of FICPA member participants were partners.

Insert Table 1 here

The direct firm contact participants were obtained as follows. First, email messages requesting participation from one of the researchers were sent to 31 different local and regional firms or the local office of Big 4 and/or international firms. Those 31 contacts resulted in 15 firms/offices agreeing to distribute “packets” to a total of 101 tax professionals; packets included the cover letter, the EQ, and a postage-paid return

envelope. A follow-up email was sent one month later to the original firm contact asking contacts to remind their staff to return the completed EQs. The cover letter informed participants that they were to return the EQ directly to the researcher and that their employers would not know whether they returned them or not, nor would they have access in any way to their responses. To control for multiple responses from the same firm, we inconspicuously numbered the EQs. Also, because of the need to keep track of responses from the same firm, we did not give the firm contact participants the option of replying online. We received 52 responses from 14 different firms, for a response rate of 51.5 percent. The highest number of responses from any individual firm was 11. Table 1 also reports demographic information about these participants, as well as aggregated demographics for the entire sample.

In all, 146 responses were received from tax professionals in all types of firms and positions. On average, participants were quite experienced (mean of 18.4 years). Most were from local firms (53 percent) and were male (59 percent). Responses were received from all levels in the firms with 44 percent from partners, 23 percent from managers and senior managers, and 33 percent from senior or below. Finally, 43 percent (62 of 146) of the participants provided details about a self-identified ethical dilemma that they had encountered at their current firm.

RESULTS

Research Question 1

Research Question 1 addresses whether partners and non-partners had similar assessments of the ethical environments of their firms. Table 2 reports the means and standard deviations for each of the ethical environment scale statements comparing

partners to non-partners. Responses were on a seven-point likert scale with one=strongly disagree and seven=strongly agree. For all 12 statements, partners rated their firms higher than non-partners rated their firms. Six of these differences were significant at p-value < .02. In particular, while partners and non-partners seemed to view the social practices of the firms similarly (e.g. codes of ethics, ethics training programs), they disagreed somewhat on the social norms of the firms. Partners rated the mission and values of their firms as stronger than non-partners rated their firms. In particular, partners were more likely to agree that their firms had strong ethical values (mean of 6.60 for partners versus 6.31 for non-partners) and that the firm is greatly concerned with ethical behavior (mean of 6.48 for partners versus 5.98 for non-partners).

Insert Table 2 here

Partners also rated the ethical behavior of the firm leadership as stronger than non-partners rated it. Partners were more likely to agree that managers and partners within the firm act ethically (mean of 6.59 for partners versus 6.11 for non-partners), and that managers and partners within their firms clearly support firm efforts to encourage ethical behavior (mean of 6.60 for partners versus 6.21 for non-partners). This disconnect is also reflected in participants' agreement with a statement regarding colleagues, with partners more likely to agree that their colleagues within the firm act ethically (mean of 6.56 for partners versus 6.21 for non-partners). Lastly, partners (mean of 6.31) were more likely than non-partners (mean of 5.87) to agree that unethical behavior was severely punished within the firm.

In sum, while not huge in magnitude, our results show evidence of a persistent and consistent disagreement between partners and non-partners regarding the social

norms of their respective firms. Specifically, it appears that partners rate themselves and their firms as more ethical than non-partners rate both partners and their firms. This finding is consistent with prior research that shows that those that occupy positions of upper management tend to perceive their organizations' ethical environments as stronger than those in lower hierarchical levels (e.g. Posner and Schmidt 1987; Soutar et al. 1994; D'Aquila 2001; Forte 2004). The present study's finding that partners rate themselves higher than non-partners' ratings of partners is congruent with the finding in D'Aquila (2001) that professionals generally rate their own ethical standards as higher than those of others. Overall, these results indicate a divide in perceptions of the ethical environment between partners and non-partners.

Research Question 2

Research Question 2 focuses on whether partners and non-partners had similar experience with ethical dilemmas. Research Question 2 is investigated in two ways. First, we consider the responses of partners versus non-partners to the questions regarding the ten common examples of ethical dilemmas that were answered by all participants. Second, we consider the subset of participants who described an actual dilemma that they had encountered.

Common Example Results

The tax professional participants rated the seriousness and frequency of occurrence of ten common examples of ethical dilemmas; Table 3 details these common examples.² There were no significant differences between the *seriousness ratings* of partners and non-partners for any of the ten examples. The example rated the most serious was "recommending a position that does not meet the realistic possibility

standard” (overall mean of 2.58 on a 3-point scale); and the example rated the least serious was “undue reliance on the prior year return” (mean of 1.76 on a 3-point scale). This finding indicates that partners and non-partners have consistent views on the seriousness of common examples of ethical dilemmas.

Insert Table 3 here

Table 3 reports participants’ ratings of the frequency of occurrence of these ten common examples of ethical dilemmas. Regarding *the frequency of occurrence* in general and whether or not they had *ever encountered* the example, there were significant differences between partners and non-partners. Frequency of occurrence in general was measured on a five-point scale with one=never and five=always. Non-partners perceived that the following three dilemmas occurred significantly (p -value $<.05$) more frequently than partners thought they occurred: “undue reliance on the prior year return” (mean of 3.23 for non-partners, 2.91 for partners); “lacking the appropriate level of knowledge to adequately perform duties required” (mean of 2.75 for non-partners, 2.37 for partners); and “misrepresenting or concealing limitations in one’s ability to provide tax services” (mean of 2.44 for non-partners, 2.07 for partners). All three of these examples are more likely to occur at lower levels in a firm due to lack of experience. Thus, the fact that there is disagreement between partners and non-partners as to how often these ethical dilemmas occur suggests that partners may not be entirely aware of the extent of these problems. This finding mirrors the result in prior literature that senior management tends to be unaware of the day-to-day pressures and ethical conflicts faced by lower-level employees (Soutar et al. 1994).

The only example that partners perceived as happening significantly (p-value < .05) more frequently than non-partners was “exploitation of IRS audit process” (mean of 2.45 for partners, and 2.14 for non-partners). This would seem like a reasonable result, as it is likely that partners would be making these types of close calls.

Regarding whether or not they had ever encountered the various common examples, all of the significant differences were the result of partners having experienced the example more frequently than non-partners. This is not surprising; since partners have more years of experience, they are likely to have encountered more issues. The four examples that were significantly different (at p-value < .05) were: “exploitation of IRS audit process” (45.8% of partners had encountered the example versus only 14.7% of non-partners); “failing to obtain sufficient relevant data to determine if conclusions have a realistic possibility of being sustained” (40.7% versus 20.0%); “lacking appropriate level of knowledge to adequately perform duties required” (45.8% versus 31.6%); and “recommending a position that does not meet the realistic possibility standard” (30.0% versus 15.1%).

Actual Dilemma Results

The first section of the EQ listed the ten common examples of ethical dilemmas and then asked participants whether they had personally faced an ethical dilemma in their role as a tax professional at their current firm, and, if yes, to describe the dilemma and to explain why they chose that example.³ Questions followed about participants’ role in the engagement, characteristics of the client, the parties involved, and the causes and resolution of the self-identified ethical dilemma, as well as a scaled measure of its seriousness. Sixty-two of the 146 participants described a dilemma. Refer to Bobek and

Radtke (2007) for a complete analysis of the specifics regarding the dilemmas. In the present study, we focus on differences between the experiences of partners versus non-partners. Details about these differences are reported in Table 4.

Insert Table 4 here

Of the 62 participants who described a dilemma, 33 were partners; 52.4 percent (34.9 percent) of partners (non-partners) described a dilemma. Thus, partners were significantly (p -value $< .05$) more likely than non-partners to describe a dilemma. This difference is significant even after controlling for years of experience. Bobek and Radtke (2007) report that 32 percent of the reported dilemmas related to unethical clients, with 58 percent of the participants reporting one of the ten common examples listed in the EQ. Problems with clients (e.g. pressure, retention concerns and late delivery of information) were the primary cause of 56.5 percent of the dilemmas. We found no significant differences between the types of dilemmas reported or the causes of these dilemmas between partners and non-partners.

Regarding the resolution of the dilemmas, Bobek and Radtke (2007) report that over 30% of the dilemmas were either ignored or not resolved. Table 4 shows that non-partners were twice as likely as partners to report that the dilemma was either ignored or not resolved (Chi-square test marginally significant at p -value $< .07$). This has implications for firm leaders as they may be under a false impression regarding how often dilemmas get resolved. Alternatively, the non-partner dilemmas might have been resolved by those higher in the firm and the non-partners might not have been aware of the resolution (see Trevino et al. 2007). Either of these explanations, however, suggests a lack of communication between partners and others in the firm.

Bobek and Radtke (2007) also report that those who described a dilemma rated the ethical environment of their firms as significantly weaker than those who did not describe a dilemma. That result holds for both partners and non-partners. As shown in Table 4, partners (non-partners) who described a dilemma had a mean ethical environment scale score of 72.47 (63.74) versus a mean of 76.43 (74.33) for those who did not (p-value <.02). Interestingly, the previously reported result that partners rated the ethical environment of their firm significantly higher than non-partners appears to be the case primarily for those participants who described a dilemma. For those who did not describe a dilemma, partners' (non-partners') mean ethical environment score was 76.43 (74.33). While these partners still had higher ratings than non-partners on all but one of the 12 ethical environment statements, the difference was only statistically significant for “unethical behavior is severely punished within my firm” and “other individuals within my firm adhere to both the firms’ code of ethics and the AICPA Code of Professional Conduct”. Figure 1 illustrates the interactive effect of partner classification (partner or non-partner) and ethical dilemma (described an ethical dilemma or not) on the overall ethical environment scale. This figure shows that the negative relationship between describing an ethical environment and overall ethical environment rating was significantly stronger for respondents at non-partner levels than for partners.

Insert Figure 1 here

CONCLUSION

Summary of Findings

This study investigated the differences between partners and non-partners in their perceptions and experiences of the ethical environment of their firms. Research Question

1 explored whether partners and non-partners had similar assessments of the ethical environments of their firms. Results indicated that partners and non-partners viewed the social *practices* of their firms similarly (e.g. codes of conduct, in-house ethics training programs), but that partners had more favorable perceptions of firm social *norms* (e.g. whether the firm was greatly concerned with ethical behavior) and firm leadership (e.g. whether managers and partners within the firm act ethically) than non-partners. Moreover, partners rated their own behavior as significantly more ethical than non-partners rated partners, which is consistent with findings that professionals view themselves as significantly more ethical than others (D'Aquila 2001).

Research Question 2 investigated whether partners and non-partners had similar experiences with ethical dilemmas. While partners had personally experienced most of the ethical dilemmas at a significantly higher rate than non-partners had, non-partners perceived that undue reliance on the prior year return, lacking the appropriate level of knowledge to adequately perform required duties, and concealing limitations in ability to perform services occurred at a significantly higher rate than partners perceived they occurred. Moreover, partners and non-partners' perceptions of overall firm ethical environment were significantly different for those that described an actual ethical dilemma at their current firm. Also, comparing only those who described a dilemma, non-partners' ratings of the ethical environment of their firm were much lower than partners' ratings.

Limitations

Given that this study builds upon the EQ utilized in Bobek and Radtke (2007), the limitations of Bobek and Radtke (2007) apply to the present study as well. These include

the potential limits to generalizability and the possible influence of retrospective recall and social desirability bias on respondents' ratings. One additional limitation for the present study is that partners and non-partners were not sampled from the same firm. However, individuals tended to respond similarly in ways that suggested similar ethical views; for instance, the seriousness ratings of ethical dilemmas by partners and non-partners indicated uniform views. This supports the analysis of partner and non-partner perceptions from varying firms.⁴

Discussion

The results of this study support the contention that there is a disconnect in the perceptions of organizational ethics between the higher and lower levels of an organization (e.g. D'Aquila 2001; Trevino et al. 2007). Tax professionals at the partner and non-partner levels displayed varying perceptions of the ethical environments of their firms and the occurrence of ethical dilemmas. In particular, partners tended to perceive their firms in a more positive light than did non-partners, in that tax partners were more likely to judge the overall firm and firm leadership as acting ethically. Further analysis shows that this discrepancy was primarily driven by those participants who had described an ethical dilemma. This suggests that like firm leadership in other organizations (e.g. D'Aquila 2001; Trevino et al. 2007), partners in CPA firms tend to have rosier perceptions than members at lower levels. Partners may therefore be somewhat ineffective in their role in the establishment of CPA firms' overall ethical culture due to this difference (see Trevino et al. 2003).

The discrepancy in perceptions of organizational ethics may also be due to the unique role held by partners compared to lower-level employees. Partners are charged

with developing their CPA firms' ethical policies. Since partners' executive leadership role involves shaping their firms' ethical environment and enforcing ethical standards, partners may be "more likely to identify with these policies and to believe that they are being implemented and accomplishing their goals" (Trevino et al. 2007, p. 12). Partners thus have a greater vested interest in viewing their firms' ethical environments positively than do employees at lower hierarchical levels.

Moreover, this divergence in perceptions may be exacerbated by a lack of information exchange between hierarchical groups. Those in firm leadership are often unaware of the day-to-day challenges faced by members – and may be equally unaware that their actions are triggering some of these ethical dilemmas (Soutar et al. 1994). The present study found that partners and non-partners reported differing experiences in facing ethical dilemmas, with non-partners viewing problems arising because of lack of experience (such as the inability to adequately complete the required work) as occurring more frequently. Moreover, non-partners were twice as likely as partners to perceive that an ethical dilemma was not resolved or ignored. Non-partners may have less access to organizational private information, however, and may rely on distorted information in evaluating the treatment or resolution of an ethical dilemma (Trevino et al. 2007). Overall, these findings suggest that partners' more positive views of the ethical environments of their firms may originate from partners' lack of awareness of the perceptions and experiences of lower-level professionals, signifying a disconnect between the two groups.

Implications

The results of this study suggest that CPA firms should focus on narrowing the disconnect between members at various hierarchical levels. As stated by Schminke et al. (2007, p. 184), “Leaders set the stage for all things ethical in an organization” via their role in recognizing ethical events as ethical dilemmas, making judgments as to the choice of action, imparting values, and potentially modeling ethically correct behaviors. In particular, organizational leaders such as partners must act with *moral sensitivity* – awareness of ethical and moral issues and an ability to empathize with those experiencing ethical dilemmas – in order to foster a positive ethical environment and work climate (Schminke et al. 2007). However, if partners are unaware of ethical issues, then they will be unable to accomplish this role. On a pragmatic note, the results of this study indicate that firms should improve informal and formal communication channels between partners and lower-level employees, particularly in the resolution of ethical dilemmas and problems arising from lack of experience.

Future research could use participants exclusively from the same firm to determine how intra-organizational perceptions and experiences of the firm’s ethical environment vary among hierarchical levels. Other researchers may wish to consider the types of organizational factors that may mitigate the discrepancy in perceptions, such as elements of organizational structure (e.g. Schminke et al. 2000).

In conclusion, this study contributes to the business ethics and behavioral accounting literature by extending prior work that studies the ethical environment in which accountants operate (e.g. Booth and Schultz 2004; Bobek and Radtke 2007) and the importance of hierarchical level in perceptions of ethical issues (e.g. D’Aquila 2001;

Trevino et al. 2007). This study combines these literature streams in its investigation of how partners and non-partners vary in their perceptions of firm ethical environment. Results are consistent with prior work that has shown a disconnect in the perceptions of organizational ethics between an organization's higher and lower levels (e.g. Soutar et al. 1994; Trevino et al. 2007).

Table 1

Demographic Information

	AICPA Participants	FICPA Participants	Firm Contact Participants	Total Sample
Number Distributed	315	396	101	812
Number Responding (Response Rate)	29 (9.3%)	65 (16.5%)	52 (51.5%)	146 (18.0%)
<u>Years of Experience</u>				
Mean	28.1	20.2	10.8	18.4
(S.D.)	(9.1)	(11.1)	(9.8)	(12.0)
<u>Firm Type</u>				
Big 4	10%	-	27%	12%
International/National	14%	8%	13%	11%
Regional	41%	27%	10%	24%
Local	35%	65%	50%	53%
<u>Position in Firm</u>				
Partner	83%	46%	19%	44%
Senior Manager	11%	14%	12%	12%
Manager	3%	10%	17%	11%
Senior	-	19%	21%	16%
Staff	3%	2%	29%	11%
Other	-	9%	2%	6%
<u>Gender</u>				
Male	86%	65%	35%	59%
Female	14%	35%	65%	41%
Number and (%) of participants who described a self-identified ethical dilemma	11 (38%)	32 (49%)	19 (37%)	62 (43%)

Table 2
Ethical Environment Scale

Ethical Environment Factors^a	Statements	Overall Mean (S.D)	Partners' Mean (S.D.)	Non-Partners' Mean (S.D.)
<i>Social Norms</i> Mission and Values	1) As a whole, my firm has strong ethical values that reinforce ethical decision-making.	6.46 (.84)	6.66* (.51)	6.31 (1.01)
	2) My firm is greatly concerned with ethical behavior.	6.20 (1.15)	6.48* (.85)	5.98 (1.31)
Leadership and Management Influence	1) Managers and partners within my firm act ethically.	6.32 (.91)	6.59* (.53)	6.11 (1.07)
	2) Managers & partners within my firm clearly support all firm efforts to encourage ethical behavior.	6.38 (.92)	6.60* (.49)	6.21 (.85)
Peer Group Influence	1) Individuals within my firm strongly identify with the firm.	6.12 (.99)	6.21 (.95)	6.05 (1.04)
	2) Colleagues within my firm act ethically.	6.36 (.74)	6.56* (.53)	6.21 (.85)
<i>Social Practices</i> Procedures, rules, and Codes of Ethics	1) My firm has a code of ethics that is consistent with the AICPA Code of Professional Conduct.	6.57 (.75)	6.69 (.65)	6.49 (.82)
	2) Other individuals within my firm adhere to both the firm's code of ethics and the AICPA Code of Professional Conduct.	6.39 (.76)	6.51 (.77)	6.30 (.75)
Ethics Training	1) My firm has an effective ethics training program.	5.59 (1.44)	5.77 (1.38)	5.43 (1.49)
	2) My firm's ethics training program focuses on practical issues and encourages ethical decision making.	5.70 (1.36)	5.80 (1.26)	5.60 (1.44)
<i>Outcomes</i> Rewards and Sanctions	1) Unethical behavior is severely punished within my firm.	6.07 (1.19)	6.31* (.94)	5.87 (1.33)
	2) Special recognition is given to individuals who demonstrate ethical behavior within my firm.	4.22 (1.58)	4.23 (1.63)	4.19 (1.53)
	Ethical Environment Scale	72.39 (9.03)	74.45* (6.45)	70.71 (10.34)

^aEach of the ethical environment factors was measured with 2 questions on a 7-point response scale with strongly disagree = 1 and strongly agree = 7.

*Significantly higher than non-partners at p-value < .02.

Table 3
Frequency of Common Examples of Ethical Dilemmas

Dilemma Description	Frequency of Occurrence ^a		Ever Encountered ^a	
	Partners	Non-Partners	Partners	Non-Partners
Undue reliance on the prior year return	2.92** (.88)	3.22 (.84)	65.0%	76.3%
Exploitation of IRS audit process	2.45** (.87)	2.14 (.93)	45.8%**	14.7%
Not determining the accuracy of client representations	2.76 (.97)	2.89 (.96)	65.0%	59.0%
Failing to obtain sufficient relevant data to determine if conclusions have a realistic probability of being sustained	2.41 (.89)	2.45 (.98)	40.7%**	20.0%
Failing to carefully plan, staff, or supervise engagement	2.61 (.90)	2.85 (.93)	64.4%*	49.3%
Not reporting an error in return to client	2.42 (.85)	2.32 (.95)	45.8%*	31.6%
Lacking the appropriate level of knowledge to adequately perform duties required	2.37** (.93)	2.76 (.92)	47.5%**	29.9%
Misrepresenting or concealing limitations in one's ability to provide tax services	2.07** (.97)	2.44 (1.09)	25.4%	18.4%
Not completing all of the work required by the terms of the tax engagement	1.92 (.82)	2.01 (.79)	27.1%	17.3%
Recommending a position that does not meet the realistic possibility standard	2.12 (.95)	1.96 (.88)	30.0%**	15.1%

^aMeans (S.D.) are reported for frequency of occurrence. *Frequency of Occurrence* measured how frequently "in general, in tax practice" each of the dilemma occurs. This was measured on a 5-point scale with 1=never, 2=rarely, 3=occasionally, 4=often, 5=always. *Ever Encountered* is the percentage of participants indicating they had ever encountered that particular dilemma.

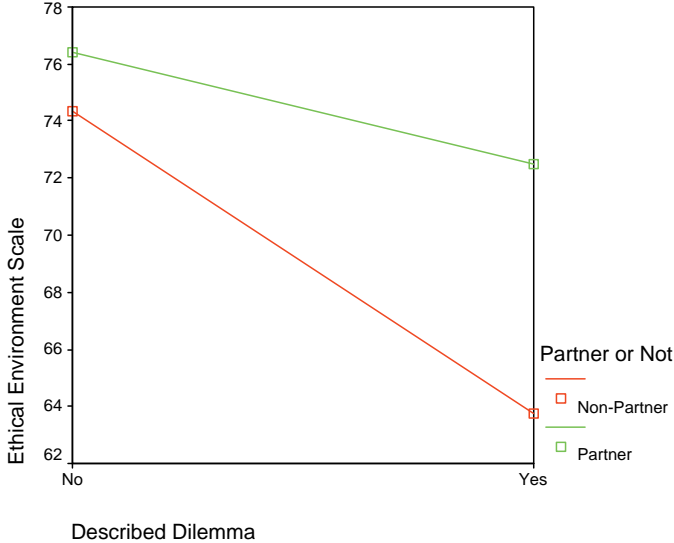
**significantly different than non-partners at p-value < .05.

*significantly different than non-partners at p-value < .10.

Table 4
Analysis of Actual Ethical Dilemmas

	Partners	Non-Partners	All
Total Participants	63	83	146
Number Describing Dilemma	33	29	62
Percentage Describing Dilemma	52.4%*	34.9%	42.4%
Ethical Environment Scale - described dilemma	72.47*	63.74	68.60
Ethical Environment Scale– did NOT describe dilemma	76.43**	74.33**	75.04
Percentage of described dilemmas ignored or <u>not</u> resolved	21.2%***	42.9%	31.1%
<p>*significantly higher than non-partners at p-value < .05. **significantly higher than those who described a dilemma at p-value < .02. ***significantly lower than non-partners at p-value < .07.</p>			

Figure 1
Comparison of Ethical Environment Ratings: Partners vs. Non-Partners^a



^aThe ethical environment scale was measured with 12 statements, each on a 7-point Likert scale.

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ENDNOTES

¹ The decision was made to make the EQ available both online and in hardcopy in order to maximize the response rate.

² Bobek and Radtke (2007) provide details about how this list was created. These examples came from various sources: the AICPA (Yetmar and Cooper 1998), prior research, and expert input. All ten of these examples represent a failure by the tax professional to act in accordance with professional standards. Further, AICPA Tax Division members specifically identified eight of the ten examples as ethical issues that significant percentages of practitioners encounter or perceive to be a problem in the profession (Yetmar and Cooper 1998).

³ Note that if participants reported that they had never faced an ethical dilemma at their current firm, they skipped this portion of the questionnaire and proceeded to complete the remainder of the EQ.

⁴ While there was insufficient power to achieve statistical significance, supplemental analysis on participants from local firm contacts (in which the EQs were inconspicuously numbered to track responses by firm) also provides support for the analysis of partners and non-partners from different firms. Among local firms reporting both partner and non-partner responses, results show that partners' tendencies to have rosier views of firm social norms (e.g. firm leadership and peer group influence) and outcomes (e.g. punishing unethical behavior) are consistent among respondents from the same firms. Furthermore, partners also are consistently less aware of the types of ethical dilemmas faced by lower-level employees, with non-partners viewing unduly relying on the prior year return, lacking the appropriate knowledge to complete the tax return, and misrepresenting or concealing limitations in the ability to provide tax services as happening more frequently than partners. Thus, the overall differences between partners and non-partners are also found among respondents from different hierarchical levels within the same firm.