The power of Australian small accounting firms' unethical exposure

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Abstract

Purpose – *The purpose of this paper is to investigate small business owner/manager's exposure to unethical behavior, and to examine the influence of unethical exposure on organizational intention to implement ethical policies and practices.*

Design/methodology/approach – *Using a sample of 209 Australian small accounting firms with a path analysis, this paper adopts a modified ethical decision-making model to test the relationship between exposure and personal attitudes toward unethical behavior, and the relationship between exposure and intentions to implement ethical policies and practices at firm level.*

Findings – *The results show that increased exposure to unethical behavior triggered stronger personal attitudes with small accounting firm owners/managers tending toward accepting unethical behavior. In contrast, at the firm level, more exposure to unethical behavior creates cautious overtones and motivates owners/managers to take action and implement more ethical policies, with the underlying aim of addressing serious ethical issues.*

Research limitations/implications – *The study tests the ethical decision-making model but focuses only on three constructs (i.e. exposure, attitude and response). The aim is to examine whether extensive exposure to unethical behavior would change personal attitudes toward accepting such behavior, and whether unethical exposure would trigger firm owner/managers to take action and address the ethical dilemma by establishing some ethical guidelines. Other important variables (such as subjective norm, personal* locus *of control) embedded in the ethical decision-making model should be included in future research.*

Practical implications – *The study draws attention to ethical dilemmas encountered by many small accounting professionals and their organizations. It addresses the importance of upholding the ethical standard and avoiding the extensive exposure to unethical behavior. It also emphasizes the needs for small businesses to establish some ethical policies and practices.*

Originality/value – *The paper is purposely set out to reduce the gap in studying how small accounting firms make decisions in implementing their ethical policies and practices to address the rampant ethical dilemma faced by their employees as a result of many corporate scandals and financial crises of the past decade. The results are particularly valuable for small accounting firm owners/managers. The findings also have educational and policy implications.*

Keywords *Australia, Unethical behavior, Ethical policy, Exposure, Personal attitudes, Small accounting firms*

Paper type *Research paper*

1. Introduction

Ethics has been at the center of discussions by a significant number of researchers (Alas, 2006; Martin, 2007; Vyakarnam *et al.*, 1997), especially following the many corporate scandals and financial crises of the past decade (Tran, 2008; Cohen *et al.*, 2010). Unethical behavior could be so contagious that even the most ethically conscious people would succumb to cheating when social and conformity influences were strong (Lord and DeZoort, 2001; Gino *et al.*, 2009; Imran and Nordin, 2013). The unethical practices exhibited by a number of well-known large accounting firms and investment banks such as Andersen Consulting, PricewaterhouseCoopers, Enron, Lehman Brothers and Morgan

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Stanley (Duska, 2004) pose an intriguing question as to whether small accounting firms are likely to be in the position of following the examples of bad apples (Trevino and Youngblood, 1990; Gino *et al*., 2009). Or are they more likely to take measures to fight against the contagious ethical misconducts committed by large firms in recent years?

It is argued that examination of ethical practices is important for both large and small accounting firms. However, much of the extant research on ethical behavior tends to concentrate on large accounting firms (Buchan, 2005; Misiewicz, 2007; Cowton, 2009; Zheng and Li, 2010). Fewer examine the socially responsible and ethical practices of small accounting firms. It is believed that accountants, mostly those owners and managers of small accounting firms, can have a strong influence on the practices of their clients through the advice they provide or the audits they conduct. But in practice, many accountants working for the large firms may have encountered ethical dilemmas because individual auditors and accountants often succumbed to the existing organizational ethical climate and culture (Lord and DeZoort, 2001; Tran, 2008; Kulik *et al*., 2008), and their decision-making processes are strongly influenced by the practices and pressures of charismatic leaders or critical clients (Tourish and Vatcha, 2005; Lander *et al*., 2013). However, to date, how small accounting firms make decisions in implementing their ethical policies and practices at firm level to address these issues is not particularly clear.

This research intends to reduce this gap by examining the relationships between three key constructs (i.e. exposure, attitude and response) embedded in several prior ethical decision-making models (Kohlberg and Kramer, 1969; Rest, 1986; Trevino, 1986; Jones, 1991). For instance, Rest's (1986) four-stage process model suggests that individuals need to first recognize a moral or ethical issue, that is through "exposure" to an unethical situation and/or behavior. Second, individual's encounter with unethical behavior would demand moral reasoning, leading to making a moral judgment. In their hierarchical framework of cognitive moral development, Kohlberg and Kramer (1969) argue that the individual's moral judgment grows more dependent on innate personal "attitude" or social values developed through years of interpersonal and social accords when moving from childhood to adulthood (Trevino, 1986). Therefore, *personal attitude* toward (un)ethical exposure would determine moral reasoning and judgment on what is right and wrong.

Third, after making a moral judgment, individuals would have *response* to moral concerns and act on the identified moral concerns. Trevino and Youngblood (1990, p. 379) explain this type of response as individuals move "from a self-centered conception of what is right to a broader understanding of the importance of social contracts and principles of justice", similar to the last two stages of Rest's (1986) model, which calls for actions to address ethical issues encountered by individuals in an organization (Jones, 1991). Hence, grounded in the modified theory of ethical decision-making (Jones, 1991), this study seeks to address two important ethical questions many small accounting firms' owners/managers may need to resolve:

Q1. Would the increased amount of *unethical exposure* change individual's *personal attitude* toward accepting unethical behavior?

Q2. Would the increased amount of *unethical exposure* trigger individual owners/managers to *respond* and act, on behalf of their accounting firms, by establishing ethical policies and practices at the firm level?

2. Literature review and development of hypotheses

Unethical exposure is defined as individuals either first-hand or second-hand encountering dishonest behavior of one type or another (Gino *et al*., 2009; Cohen *et al*., 2010). Dishonest behavior such as "cheating on taxes, insurance fraud, employee theft, academic dishonesty, athletes' use of illegal drugs and illegal downloading of software and digital content" (Gino *et al*., 2009, p. 393) are just some common examples to explain the increasing exposure of individuals to unethical situations in modern times. There are no descriptive data illustrating how prevalent unethical behavior is in small accounting firms in Australia. However, studies on ethics of small businesses in other contexts (Hornsby *et al.*, 1994 in USA; Wu, 2002 in Taiwan) tend to measure items such as padding on expenses, fraudulent reporting, misleading contracts, piracy in intellectual property and violation of employee trust as unethical behavior. Small accounting firms in the current study are likely to be exposed to these unethical practices too.

We define "attitude toward unethical behavior", based on the Theory of Planned Behavior (TPB) and the Theory of Reasoned Action (TRA) (Ajzen, 1985, 1991), which have been integrated to study the ethical decision-making process in recent time (Carpenter and Reimers, 2005; Imran and Nordin, 2013). The TPB purports that "attitude toward the behavior", measured as how an individual values favorable behaviors over unfavorable ones, is the key determinant of behavioral intention (Ajzen, 1991). Carpenter and Reimers (2005, p. 118) extended the TRA and explained this concept as "attitude toward performing the behavior", which is "a person's general feeling of favorableness about performing that behavior". A study by Feudtner *et al.* (1994) found that medical students who "reported witnessing unethical behaviors were more likely to have acted unethically themselves" (Feudtner *et al.*, 1994, p. 677). In other words, more exposure to unethical behavior reinforces attitudes of accepting and acting upon such unethical behavior.

In this study, we are interested in whether small accounting firm owners/managers would accept or not accept unethical behavior, when they expose themselves to an ethical dilemma. Whitley's (1998) meta-analysis of 107 studies on academic dishonesty concluded that students with favorable attitudes toward cheating are more likely to cheat (Imran and Nordin, 2013, p. 105). Imran and Nordin's (2013, p. 112) study of 250 Malaysia undergraduate students also came to a similar conclusion that a highly favorable attitude toward academic misconduct is likely to lead to a high rate of academic misconduct. These studies suggest that exposure to unethical behavior reinforces the intent to engage in that behavior. To a lesser degree, individuals' personal attitude might change to accommodate the acceptance of unethical behavior if they are constantly in the supportive environment of exposure to such unethical practices (Imran and Nordin, 2013). Hence, it is proposed that:

H1. The amount of exposure to unethical behavior positively influences personal attitudes of small accounting firm owners/managers toward accepting unethical behavior.

Contrarily, it can also be assumed that individuals with unfavorable attitudes toward accepting unethical behavior would not engage in unethical practices (Quinn, 1997). For instance, students with unfavorable attitudes toward cheating were reported to be less likely to cheat than their counterparts with favorable attitudes (Imran and Nordin, 2013, p. 105). The TRA stresses the importance of the rational reasoning undertaken by individuals (behavioral intentions) before they decide to engage or not to engage in a particular decision or action (Fishbein and Ajzen, 1975).

However, based on the TRA, individual decision or action to engage or not to engage can also be shaped either by "subjective norms", referring to how individuals are expected to choose the behaviors that are strongly encouraged by "significant others" over those that are not encouraged (Kulik *et al.*, 2008), or "perceived behavioral control", denoting individuals' perceived difficulty or ease in performing the action (Imran and Nordin, 2013). In the case of small accounting firms, the subjective norms are those normative expectations of large and small clients regarding a particular behavior, as well as situational factors such as legal (e.g. tax law), institutional (e.g. CPA), environmental, organizational and agency effects (Trevino *et al.*, 1998; Longenecker *et al.*, 2006). Lord and DeZoort (2001) argue that subjective norms can also be in the forms of various social pressures, such as obedience pressures from superior and conformity pressures from peers in the accounting firm. These social pressures likely influence accountants' and auditors' judgment toward an ethical dilemma (Lord and DeZoort, 2001, p. 218).

Longenecker *et al.* (2006) extended the concept of "perceived behavior control" to the small business context as "internal *locus* of control", also drawn from the TRA. They argued that the degree of small business owners/managers' belief in their own power to change situational factors is the key in ethical decision making. The harder the perceived *locus* of behavioral control tends to lead individuals to accept unethical behavior and subsequently even engage in unethical practices, when such practices benefit small business financially (Longenecker *et al.*, 2006; Kulik *et al.*, 2008). Hornsby *et al.* (1994) and Vyakarnam *et al.* (1997) reported a more pragmatic view of the ethical dilemmas faced by small firms. Often small businesses are epitomized by profit motives, overwhelming demand for business development, money-related theft and conflict of personal interests with business needs.

However, individual entrepreneurs and small business managers under these exemplified circumstances could still choose not to engage in unethical behavior. With a stronger internal *locus* of control, they might be more likely to attempt balancing the competing demands and solving the dilemma by institutionalizing some ethical practices (Morris *et al.*, 2002). Entrepreneurs in small firms were found to use both formal (such as a written code of conduct, ethics-related training) and informal mechanisms (such as casual conversation about ethics issues) to address unethical behavior encountered and to ensure that their firms' ethical standards are consistently implemented (Morris *et al.*, 2002). Based on this line of argument, it is possible that:

H2. The increased amount of exposure to unethical behavior increases small accounting firm owners/managers' responses to implement more ethical policies and practices at their organizational level.

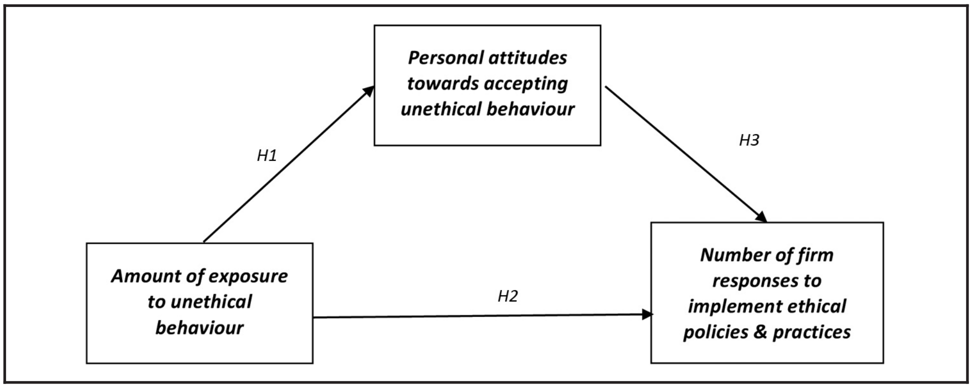
Based on the social-identity theory (Tajfel, 1982) as well as the influences by "subjective norms" under the TPB and TRA, in-group members tend to engage in increased unethical behavior themselves when they observed unethical behavior by their peers (Lord and DeZoort, 2001; Gino *et al.*, 2009). The recent downfall of several firms such as Enron, Andersen Consulting and Morgan Stanley also signifies how easily individuals can yield to dishonest behavior when the in-group conditions become strong "subjective norms". Failure to resist "significant others" is also due to the difficulty individuals perceived themselves in having the power to exercise their internal *locus* of control when working under competitive and peer pressure (Kulik *et al.*, 2008; Tourish and Vatcha, 2005; Gino *et al.*, 2009). The medical students surveyed in Feudtner *et al.*'s (1994, p. 670) study expressed their conformity to unethical behavior because of their "fear of poor evaluation" by their superiors and of "not being able to fit in with the team".

In the case of small accounting firms, several reasons could be offered to explain why it is possible for owners/managers to encounter an ethical dilemma, without subsequently reasoned action or response. First, engaging in unethical behavior could help meet small accounting business needs (e.g. profit generation) as suggested by Hornsby *et al.* (1994). Second, small businesses might serve large corporations, which might demand for misreporting and mismanagement of earnings and profits. Rewards, rules and codes set by large corporations are likely to influence individuals from small accounting firms to follow suit. Third, individuals might have a relatively low internal *locus* of control (perceived as hard/difficulty in recognizing and resisting questionable behavior). This would result in unstable ethical understanding (Vyakarnam *et al.*, 1997), which potentially reduces small business owners/managers' ability to address an ethical dilemma at the organizational level. Based on these discussions, it is proposed that:

H3. Personal attitude toward accepting unethical behavior decreases the number of firm responses taken by small accounting firm owners/managers to implement ethical policies and practices at the organizational level.

Figure 1 summarizes the above-discussed research hypotheses. Next we outline the research methods and results of testing these hypotheses.

Figure 1 Relationships among key hypothesized constructs



3. Research method

3.1 Sampling data

A survey instrument was adapted from several survey questionnaires (Longenecker *et al.*, 1989, 2006; Hornsby *et al.*, 1994; Wu, 2002) and used to examine ethical dilemma experienced by small businesses. The modified survey questionnaires were sent to 2,171 firms listed as "Auditors or Accountants" and identified as small-scale accounting firms (with fewer than 100 employees) in the state of Queensland, Australia. The survey questionnaires, with a covering letter outlining the aims of the study, and guaranteeing its confidential nature, were specifically addressed to the manager defined as either owner or the principal partner or person in charge of the firm. Participation in the study was voluntary, and neither individual respondents nor their firms could be identified. Some businesses were no longer operating, and some contact details were out of date. Therefore, only 1,850 firms were finally reached. A total of 266 questionnaires were returned, representing 14.5 per cent of the response rate. However, only 209 complete responses were usable for data analysis in this study.

Biemer and Lyberg (2003) argue that low response rates alone are not necessarily an indicator of response bias. Often non-response rates are generated from sampling and non-sampling errors. To control for non-response error, a comparison of early to late respondents was used. Five late responses after the survey period were used to calculate the non-response bias with chi-square tests performed on cross-tabing the same and randomly selected independent variable with several demographic variables. The results were compared to that of a set of randomly selected responses and to that of the entire sample. No significant differences in the distribution of early versus late respondents were found, as the *p* values were all larger than 0.05. The result means that the sample in this study contains sufficient explanatory power to analyze the hypothesized relationships of key constructs proposed.

Table I presents descriptive summaries of the respondents. The average number of employees in the respondent accounting firms was about 16. The average age of the

Table I Descriptive statistics for all variables in the study

Variables and measures	*Mean*	*SD*	*No. of respondents*
Sex (male = 1; female = 0)	0.81	0.39	227
Age of respondent	51.36	10.34	228
Amount of exposure to unethical behavior (0 to 14)	5.24	3.18	228
Personal attitude toward unethical behavior (1-5)	3.94	0.56	225
Number of firm responses (0 to 6)	2.33	2.03	225
Size of accounting firm (3-100)	15.58	21.34	212
Valid *N* (list-wise)			209

respondents is over 50, which makes it likely that most respondents had sufficient work and life experiences to address the ethical questions asked in the survey questionnaire.

3.2 Measurement of key constructs and coding

Thirteen items representing ethical dilemmas commonly experienced by small businesses were sourced from several survey questionnaires developed by Longenecker *et al.* (1989, 2006), Hornsby *et al.* (1994) and Wu (2002). These items were used to measure the amount of exposure to unethical behavior and personal attitudes toward accepting unethical behavior. Participants were presented with statements as shown in Appendix 1. For each statement, respondents needed to first indicate, according to their "personal attitude", the extent to which they found the statement acceptable (on a scale where 1 = very unacceptable, 2 = slightly unacceptable, 3 = neutral, 4 = slightly acceptable, 5 = very acceptable). Second, they needed to indicate whether they had faced or not faced the type of practice described (Yes = 1; No = 0), with additional comments and another question (Item 14) to indicate whether the respondent's accounting firm had a serious ethics-related problem. As suggested by Likert (1932), when coding items measure attitude, it is better to use reverse coding. This approach was adopted in the data analysis for this study.

It is easier to measure the amount of exposure to unethical behavior, as the variable is categorical, calculating the number of "Yes" the sample respondents ticked in the box, coded with a score within the range of 0-14. The scale used to measure "personal attitude" is interval, in a Likert scale of five-point, following the format of a study by Wu (2002).

Similarly, the dependent variable for our model is the "Number of firm responses to implement ethical policies and practices at firm level" measured by the number of "Yes" the sample respondents ticked in the box of six questions, derived from Trevino *et al.* (1998) and Morris *et al.* (2002) (Appendix 2). The firm is considered to be in the better position of implementing ethical policies and practices if it answers more "yes" out of those six questions. Subsequently, a score of 0-6 was coded to determine the number of accounting firm owner/managers' responses to implement ethical policies and practices in their organizations.

Control variables, such as sex, age of respondent and size of business, were also included in the analysis in line with several prior studies discussed earlier (Andreoli and Lefkowit, 2009; Ede *et al.*, 2000; Serwinek, 1992). Analysis of the data was carried out using two linear regressions with the "Number of firm responses" and "Personal attitude toward accepting unethical behavior" as dependent variables. This is an appropriate analysis technique given the methods used to derive scores for each variable as described above.

4. Findings

Respondents among small-scale accounting firms in Queensland, Australia, showed some extent of exposure to unethical behavior, with a mean score of 5.24 (range 0-14) (Table I). However, most respondents' personal attitude toward not accepting unethical behavior was scored high (mean = 3.94 in the range of 1-5, whereby reverse coding as 1 being very acceptable and 5 being very unacceptable). This result shows that despite there might be institutional influences of accepting unethical behavior due to many examples of bad apples in the accounting and banking industry (Cohen *et al.*, 2010), respondents from Australian small accounting firms sampled in the current study do not seem having the same attitude toward unethical behavior. This is good news, as majority of small accounting firm owners/managers did not treat unethical behavior (i.e. padding on expenses; fraud reporting; misleading contracts) as acceptable practices in the industry.

However, the number of firm owner/manager's responses to implement ethical policies and practices at the organizational level was scored low (mean = 2.33 on a scale of 0-6). Small accounting firms appear not to be in the position of implementing ethical codes at the firm level to address ethical dilemmas. The reasons for this result would be discussed further in the later section.

The results from the two regressions are summarized in the path diagram in Figure 2. The path coefficients are standardized beta coefficients. It appears that the "amount of exposure to unethical behavior" had a significantly negative relationship with small accounting firm's owners/managers' "personal attitude toward accepting unethical behavior" ($\beta = -0.19$, $p < 0.01$). This suggests that a greater amount of exposure is in fact associated with greater tolerance toward accepting unethical behavior, supporting *H1*. The results are also in line with conclusions made by Feudtner *et al.* (1994) for medical students and Imran and Nordin (2013) for undergraduate Malaysian students. Despite being in the workforce, accountants or owners/managers of small accounting firms are equally vulnerable in resisting unethical behavior when being exposed frequently to such practices.

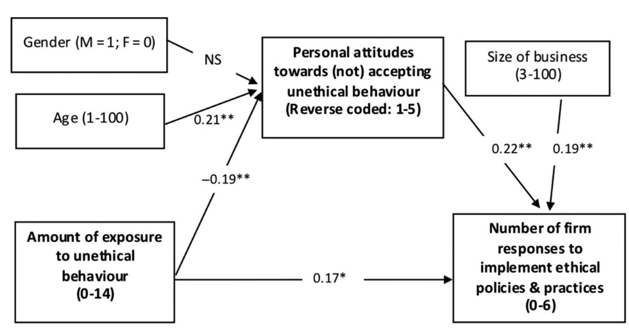
The "amount of exposure" is moderately related to the "number of firm responses to implement ethical policies and practices" ($\beta = 0.17$, $p < 0.05$). This implies that the more the exposure of small accounting firm owners/managers to unethical behavior, the more likely they would take action to implement more ethical policies and practices in their firms, supporting *H2*.

There is also a significantly positive relationship between "personal attitude toward (not) accepting unethical behavior" and the "number of firm responses". This indicates that the higher score on personal attitude toward not accepting unethical behavior encourages respondents and their associated firms to do something to address ethical issues. In reverse, the higher score on personal attitude toward accepting unethical behavior decreases the amount of firm responses taken by small accounting firm owners/managers to implement ethical policies and practices at the organizational level. The results support *H3*.

Gender was not a significant predictor of "personal attitude toward accepting unethical behavior" (similar to the chi-square test in the sample), suggesting that both sexes hold similar attitudes when being exposed to unethical practices. The age of respondents positively associating with "personal attitude toward (not) accepting unethical behavior" ($\beta = 0.21$, $p < 0.01$) suggests that perhaps the older one gets, the better one becomes at detecting unethical behavior. Older accountants were more likely to reject unethical behavior, similar to those findings derived from Ghazali and Ismail (2013), who examined personal attributes and organizational ethics position of Malaysian accountants.

The size of the business is also significantly related to the "number of firm responses" to implement ethical policies and practices. It indicates that the bigger the firm, the more

Figure 2 Path diagram summarizing the regression results



Notes: NS = not significant; $p < 0.05$*, $p < 0.01$**

resources and time could be devoted to developing and establishing formal and informal mechanisms to implement more ethical policies.

5. Discussion

This study purposely set out to test whether small accounting firm owners/managers would accept unethical behavior when being exposed to it, and what formal or informal measures they would use to address an emerging ethical problem. The results of the study provide some answers to the two key research questions asked previously. Despite fewer respondents in this study being exposed to unethical behavior (mean = 5.24), those accounting firms' owners/managers exposed, in fact, were reported to be more inclined to accept unethical behavior. But at the firm level, the more exposure to unethical behavior, the more cautious small accounting firms' owners/managers become, leading them to take action in implementing some ethical policies and practices.

The rate of implementing ethical policies and practices at the organizational level was low (mean = 2.33) nonetheless. This signifies that small accounting firms might lack sufficient resources, and are therefore less willing to implement ethical policies and practices at the firm level (Hornsby *et al.*, 1994). As also indicated by Morris *et al.* (2002), small entrepreneurial firms tend to adopt diverse approaches to the question of ethics. Often, only a small percentage of entrepreneurial firms place priority on ethics. Our current study of small-scale accounting firms in Australia found that only 30 per cent of the firms surveyed had formally prepared a written code or a specific mission statement on ethics. Setting guidelines concerning the management of ethical behavior among employees appears to still be limited among small businesses (Hornsby *et al.*, 1994).

The results from the current study suggest that at firm level, an increased amount of unethical exposure would, at least statistically, increase the rate of responses ticked by small accounting firm owners/managers to implement ethical policies and practices. In the midst of repeated reports of recent trust crises and earnings mismanagement within the accounting and investment industry (Elias, 2002; Morris *et al.*, 2002; Tran, 2008), it is comforting to know that some small accounting firm owners/managers were willing to take action against the norms. In particular, as small firms grow into a bigger size, they are more likely to put in place some policy guidelines for ethical behavior at the organizational level. In particular, those older persons who were in charge of small accounting firms show tendency to detect and reject unethical behavior (Ghazali and Ismail, 2013).

6. Implications on theory and practice

Decisions to implement ethical policies and practices for small accounting firms are assumedly influenced by two key factors:

1. the extent to which firms are exposed to prevalent unethical behaviors; and
2. change of personal attitudes toward (not) accepting unethical behaviors.

This study modified the ethical decision-making process model (Jones, 1991), incorporating it with TPB and TRA. The results from testing the modified analytical model on ethical decision-making process found that three constructs (i.e. exposure, attitude and response) are interrelated. An increased level of exposure to unethical practices commonly prevalent in small businesses (Longenecker *et al.*, 1989, 2006; Hornsby *et al.*, 1994; Wu, 2002) drives the increased level of personal attitude toward accepting such practices.

Nonetheless, it was also found that a change of personal attitude toward (not) accepting unethical behavior helped small accounting managers/owners respond positively in implementing more ethical policies and practices at firm level. Although the study did not test two other important constructs (i.e. "subjective norms"; "perceived *locus* of control") embedded in the TPB and TRA (Ajzen, 1991), there was an underlying assumption that small accounting firm owners/managers require a stronger *locus* of control to resist the extensive disclosure of many unethical practices followed by a large number of accounting and investment firms ("significant others" as subject norms) in recent years (Tran, 2008; Cohen *et al.*, 2010). With this concern in mind, several managerial and educational strategies to build a resilient "*locus* of control" for future accountants working for small firms are proposed here.

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

Second, despite extensive legislation (such as tax and corporate law) in Australia, it appears that the compliance and controlling aspects of the professional code in small accounting firms have not necessarily reinforced individuals' sense of ethical responsibility among the practicing accountants surveyed in this study. Therefore, continuing emphasis on legislation to control ethical behavior may not work effectively in reality, even though accounting practitioners are often guided by a legalistic rule and order framework (see Wenzel, 2004; Cowton, 2009; Emerson *et al.*, 2007, for contrasting empirical evidence). Paradigm shift on ethics education is necessary (Tran, 2008). It is suggested that educators of accounting professionals should look beyond the recent financial reporting scandals and consider the challenge of professional ethics as being deeply embedded historically in human behavior and motivation, which can only be changed via education, not legislation. As put by Cowton (2009), educational institutions, together with accounting professional bodies, need to make an effort to enhance the ethical awareness and resourcefulness of human capital, promote attitudes of integrity and showcase ethical excellence (Verhezen, 2010).

Third, at the organizational level, a shift from a culture of compliance to building a culture of integrity (Tran, 2008; Verhezen, 2010) seems to be more appropriate for small-scale accounting firms. This is because moral excellence is more likely to be generated from developing a corporate attitude of integrity, via informal mechanisms of harnessing individual employees' trust in the organizational culture, than by setting up formal mechanisms for governing compliance-orientated behavior (Verhezen, 2010). A compliance-based approach tends to build fear (Heineman, 2007; Verhezen, 2010) instead of establishing positive, ethical corporate values. In contrast, an informal (value-based) approach has been considered to be more effective, as it would give opportunity for individuals to detect their organizations' true values (Gentile, 2010). Small firms are often cited as vanguards for adopting an informal approach to building organizational culture (Hornsby *et al.*, 1994; Longenecker *et al.*, 2006). Therefore, small-scale accounting firms can be encouraged to use the informal value-based approach in interpersonal training and to develop both professional and organizational ethics.

7. Limitations and future research direction

Several limitations are contained in this study. First, our main focus for testing the ethical decision-making model is to examine whether extensive exposure to unethical behavior would change personal attitudes toward accepting such behavior, and whether different personal attitudes would trigger an individual small accounting firm owner/manager to take action and address the ethical dilemma by establishing some ethical guidelines (Morris *et al.*, 2002). Therefore, only three constructs (i.e. exposure, attitude and response) were examined. Other important variables such as "subjective norms" and "perceived behavioral control", especially as embedded in the TPB and TRA, should be tested in future research, as is recently carried out by Imran and Nordin (2013). Second, the scale measuring personal attitude toward (not) accepting unethical behavior, though reverse coded, needs to increase the range from a five-point to seven-point scale to provide more options for respondents (Courneya *et al.*, 2006), with aims to increase the variability and predictive validity of results. Finally, cross-sectional data with mostly single informants from each accounting firm in Queensland, Australia, were collected for this study. This method of data collection via a single survey is time-efficient and cost-effective, but limits the observation of other important factors, which potentially affect the ethical decision-making process. Future research might need to collect data from multiple raters with a longitudinal focus in different contexts to increase generalization and predictability of the testing model.

8. Conclusion

The aim of this paper is to investigate small business owner/manager's exposure to unethical behavior, and to examine the influence of unethical exposure on organizational intention to implement ethical policies and practices. We used a sample of 209 Australian small accounting firms with a path analysis to test the relationship between exposure and personal attitudes toward unethical behavior, and the relationship between exposure and intentions to implement ethical policies and practices at firm level.

The study results show that increased exposure to unethical behavior triggered stronger personal attitudes with small accounting firm owners/managers tending toward accepting unethical behavior. However, this exposure created opportunity for owners/managers to take action. The study draws attention to ethical dilemmas encountered by many small accounting professionals and their organizations. It addresses the importance of upholding the ethical standard and avoiding the extensive exposure to unethical behavior. It also emphasizes the needs for small businesses to establish some ethical policies and practices.

Theoretical and practical implications were also discussed to guide further study in the field of ethics in small businesses and to address the rampant ethical dilemma faced by their employees as a result of many corporate scandals and financial crises of the past decade. The limitations of the current study are also outlined. It is suggested that further study examine the issue of *locus* of control in assessing small business owners/managers' personal attitude toward ethical and unethical behavior.

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Appendix 1

1. **An executive earning $150,000 a year padded his expense account by about $5,000 a year.**

Very Unacceptable	Slightly Unacceptable	Neutral	Slightly Acceptable	Very Acceptable
1	2	3	4	5

Have you ever faced this type of situation? No ☐ Yes ☐

Comments:____

2. **A small business received one-fourth of its gross revenue in the form of cash. The owner reported only one-half of the cash receipts for income tax purposes.**

Very Unacceptable	Slightly Unacceptable	Neutral	Slightly Acceptable	Very Acceptable
1	2	3	4	5

Have you ever faced this type of situation? No ☐ Yes ☐

Comments:____

3. **A company paid a $350,000 "consulting" fee to an official of a foreign country. In return, the official promised assistance in obtaining a contract which should produce $10 million profit for the contracting company.**

Very Unacceptable	Slightly Unacceptable	Neutral	Slightly Acceptable	Very Acceptable
1	2	3	4	5

Have you ever faced this type of situation? No ☐ Yes ☐

Comments:____

4. **A company president found that a competitor had made an important scientific discovery which would sharply reduce the profits of his own company. He then hired a key employee of the competitor in an attempt to learn the details of the discovery.**

Very Unacceptable	Slightly Unacceptable	Neutral	Slightly Acceptable	Very Acceptable
1	2	3	4	5

Have you ever faced this type of situation? No ☐ Yes ☐

Comments:____

5. **A company president recognized that sending expensive Christmas gifts to purchasing agents might compromise their positions. However, he continued the policy since it was common practice and changing it might result in loss of business.**

Very Unacceptable	Slightly Unacceptable	Neutral	Slightly Acceptable	Very Acceptable
1	2	3	4	5

Have you ever faced this type of situation? No ☐ Yes ☐

Comments:____

6. **A corporate director learned that his company intended to announce a stock split and increase its dividend. On the basis of this information, he bought additional shares and sold them at a gain following the announcement.**

Very Unacceptable	Slightly Unacceptable	Neutral	Slightly Acceptable	Very Acceptable
1	2	3	4	5

Have you ever faced this type of situation? No ☐ Yes ☐

Comments:____

(*continued*)

7. **A corporate executive promoted a loyal friend and competent manager to the position of divisional vice president in preference to a better-qualified manager with whom he had no close ties.**

Very Unacceptable	Slightly Unacceptable	Neutral	Slightly Acceptable	
1	2	3	4	5

Have you ever faced this type of situation? No ☐ Yes ☐

Comments:____

8. **The Chief Financial Officer selected a legal method of financial reporting which concealed some embarrassing financial facts.**

Very Unacceptable	Slightly Unacceptable	Neutral	Slightly Acceptable	Very Acceptable
1	2	3	4	5

Have you ever faced this type of situation? No ☐ Yes ☐

Comments:____

9. **An employer received applications for a supervisor's position from two equally qualified applicants but hired the male applicant because he thought that some employees might resent being supervised by a female.**

Very Unacceptable	Slightly Unacceptable	Neutral	Slightly Acceptable	Very Acceptable
1	2	3	4	5

Have you ever faced this type of situation? No ☐ Yes ☐

Comments:____

10. **A cigarette manufacturer launched a publicity campaign challenging new evidence from the Health Department that cigarette smoking is harmful to the smoker's health.**

Very Unacceptable	Slightly Unacceptable	Neutral	Slightly Acceptable	Very Acceptable
1	2	3	4	5

Have you ever faced this type of situation? No ☐ Yes ☐

Comments:____

11. **An owner of a small business firm obtained a free copy of a copyrighted computer software program from a business friend rather than spending $500 to obtain his own program from the software dealer.**

Very Unacceptable	Slightly Unacceptable	Neutral	Slightly Acceptable	Very Acceptable
1	2	3	4	5

Have you ever faced this type of situation? No ☐ Yes ☐

Comments:____

12. **A corporation increased the annual compensation of its CEO from $5 million to $9 million over a four-year period in which profits declined and the dividend was cut.**

Very Unacceptable	Slightly Unacceptable	Neutral	Slightly Acceptable	Very Acceptable
1	2	3	4	5

Have you ever faced this type of situation? No ☐ Yes ☐

Comments:____

13. **To avoid wasteful use of the firm's computers, a human resources manager read personal e-mail messages and checked Internet usage by employees.**

Very Unacceptable	Slightly Unacceptable	Neutral	Slightly Acceptable	Very Acceptable
1	2	3	4	5

Have you ever faced this type of situation? No ☐ Yes ☐

Comments:____

14. **Have you ever had had a serious ethics-related problem in your firm?**

No ☐ Yes ☐

Appendix 2

		Yes	No
1.	Does your firm have a written code of ethics?	☐	☐
2.	Does your firm have penalties for unethical behaviour that are communicated to all employees?	☐	☐
3.	Do you have a formal mission statement that covers ethical issues?	☐	☐
4.	Does each employee of your firm receive, or have access to, a manual of company policies that explicitly cover ethical issues?	☐	☐
5.	Do you conduct ethics-related training in your firm?	☐	☐
6.	Are ethics issues frequent topics of conversation among employees of your firm?	☐	☐

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