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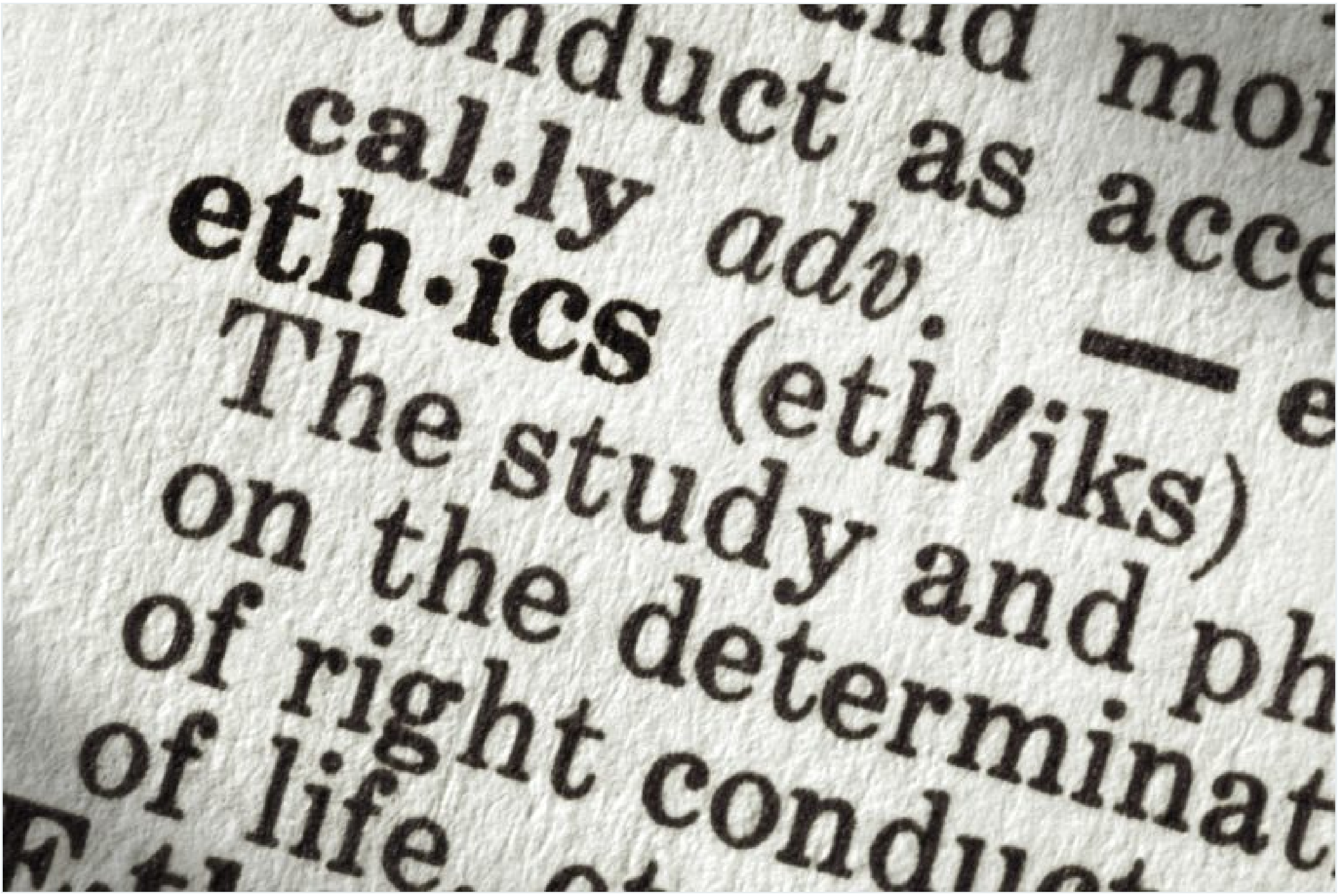

More than a decade ago, shortly before news broke of the accounting scandals at Enron, WorldCom, and other industry majors, about 600 CPAs participated in a survey about ethics in a variety of businesses and organizations. Perhaps unsurprisingly, the survey termed its results "particularly alarming among CPAs employed in industry."

And lagging even further, in something of a surprise, is the ethical level reported by CPAs in government.

Comments one of the study’s co-authors, Robin R. Radtke of Clemson University, “It was disheartening to find such a persistent ethics shortfall perceived in industry. And, notwithstanding the diminished trust in government reported nowadays in public surveys, it was somewhat surprising to encounter an even greater ethical lack reported there.”

Earning the highest marks of all are the Big 4 accounting firms, a finding the paper’s authors term “counterintuitive,” given, they write, that “Big 4 firms are now commonly assumed to have profit maximization as their primary motivation.”

Collaborating with Prof. Radtke on the study were her Clemson colleague Derek W. Dalton, Donna D. Bobek of the University of South Caroliina, Brian E. Daugherty of University of Wisconsin – Milwaukee, and Amy H. Hageman of Kansas State University.

Focusing principally on the sectors most represented in the survey – public accounting and industry – the authors ask why the difference in ethical environments persists between them. Much of the answer, they believe, is conveyed by “prior research suggest[ing] organizations in industry are more likely to espouse the values of commercialism than public accounting firms.” Further, “public accounting firm socialization, wherein members are molded by the firm, is quite different from most industry settings [in its] techniques to acculturate individuals into the profession.”

And the professors add: “Coupled with the findings of the Association of Certified Fraud Examiners that accounting department employees commit the highest frequency of fraud, [our study] suggests organizations in industry may need to place more emphasis on developing and strengthening their ethical environments.”

As for the superior ethical milieu evidently achieved by the Big 4, the professors suggest three possible reasons – 1) with more reputational capital to lose than other public accounting firms, the Big 4 have more incentive to promote strong ethical environments; 2) they spend more than the others on ethical training; and

there were 12 statements, scores could range from 12 to 84.

The CPAs’ mean rating of the ethical environment in public accounting was 73.32, compared to 67.0 in industry. Considering that the former was 61.32 points above the minimum of 12 and the latter only 55 points above that mark, this amounted to an 11% edge, a statistically significant margin. Even higher was the 76.11 rating for the Big 4, its margin over other public accounting firms also statistically significant.

Notable, too, was that the mean rating of the ethical environment in government was only 63.81, which placed it significantly below the levels for both public accounting and industry.

In the researchers’ analysis of factors affecting ethical environments, the biggest differences proved to be in ethics training. On a scale of 2 to 14, public accounting outscored industry, 11.71 to 9.86, and within public accounting the Big 4 outscored non-Big 4 firms, 12.86 to 11.41, both gaps statistically significant.

This leads the authors to observe that “our findings may reflect the increased emphasis, particularly by Big 4 firms, on ethics training and ethical behavior that has occurred since the scandals of the early 2000s, which resulted in the demise of Arthur Andersen.”

Adds Prof. Radtke, “It is certainly plausible that the collapse of Arthur Andersen explains, at least to some extent, the relatively high marks for the ethics of the Big 4 and public accounting. But there appears to have been little if any long-term effect of the failure of Enron and WorldCom, not to mention the passage of Sarbanes-Oxley, on the ethics environment in industry. And that is surely unfortunate.”

In conclusion the professors advise that “CPAs in public accounting who are considering a transfer to industry… should be aware of one difference between public accounting and industry previously unrecognized in the literature, that is, the ethical environments within industry are perceived as significantly weaker than those in public accounting. It is relatively common for CPAs to leave public accounting for industry due to work-life balance concerns; however, these CPAs should also consider the possibility that a position in industry may be associated with a weaker ethical environment [which] may place more stress on accounting professionals

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