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Survey Credits Big Four for Focus on Ethics

The accounting scandals at Enron and WorldCom prompted Congress to enact the Sarbanes-Oxley Act of 2002.

The scandals also prompted many firms to tighten their supervision of partners and less senior accountants. A recent academic survey said the Big Four firms today are continuing the effort to avoid scandal by increasing their investments in ethical training for employees.

Accountants at Big Four firms had the strongest perception of being in an ethical work environment compared to accountants at smaller firms, according to a survey by Robin Radtke and Derek Dalton of Clemson University, Donna Bobek of the University of South Carolina, Brian Daugherty of the University of Wisconsin in Milwaukee, and Amy Hageman of Kansas State University. Their paper appears in the Spring 2017 issue of **Behavioral Research in Accounting, published by the American Accounting Association**. Overall, CPAs who work at the largest accounting firms have a "significantly stronger" perception of working in an ethical environment compared to CPAs who work at small firms, operating companies, and other businesses.

The researchers said their results differ from the findings before Sarbanes-Oxley, when CPAs at smaller firms were more likely to perceive stronger organizational ethical values than Big Four firms.

"Our findings may reflect the increased emphasis, particularly by Big Four 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," the report said.

The paper noted that the researchers were particularly interested in studying an organization's ethical environment "because a sharpened focus on the ethical as opposed to economic implications of decisions should help deter the lapses in judgment that have led to so many scandals."

Previous studies have shown that a pervasive decline in ethical values and ethical environments across the accounting profession was largely responsible for the accounting scandals of 2001 and 2002.

The survey asked the participants to respond on a scale of 1, for strongly disagree, to 7, for strongly agree, to 12 statements about their employers' ethical norms, their practices, and outcomes such as punishment for unethical behavior. Scores could range from 12 to 84.

The mean rating for CPAs in public accounting firms was 73.32, and for Big Four firms the rating was 76.11. The mean rating for CPAs in industry was 67.

Of the 904 CPAs surveyed, 676 were employed by public accounting firms, 127 in businesses, 62 were in government, and 39 were with not-for-profit organizations.

The researchers found that employee training was an important factor for promoting ethical behavior, and that the survey respondents said accounting firms and businesses that provided training on ethics tended to have more ethical work environments.

The researchers said the weaker ethics at operating companies and other businesses may be consistent with previous research that found that corporations are more likely to value commercial activity over ethical behavior.

“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,” the study said.

The paper also said Big Four firms have invested more in shoring up their public reputations than other accounting firms.

“Given the Big Four’s reputation of providing higher-quality audit services, Big Four firms have more to lose regarding reputational capital,” they said. “Consequently, Big Four firms may have more of an incentive to promote strong ethical environments than non-Big Four firms.”

Moreover, given that Big Four firms have more money than smaller accounting firms, the paper said that the largest accounting firms face greater risk of lawsuits than non-Big Four firms and may have more incentive to promote ethical behavior.

The researchers said the yearly audit inspection of the large firms by the PCAOB may have also played a role in tightening management oversight of employees.