

# RELATIVISM AND BEHAVIOURAL INTENTION IN THE ACCOUNTING PROFESSION: A STUDY WITH REFERENCE TO PRACTISING CHARTERED ACCOUNTANTS IN KARNATAKA STATE

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## Abstract

*Understanding and regulation of the professional behaviour is at the very least, crucially dependent upon perception. Thus, the study makes an earnest attempt to gain an insight into how the perception of accounting ethics, in terms of 'behavioural intention', is formed by the Practising Chartered Accountants (PCAs) of Karnataka from the perspective of one of the normative factors, viz, Relativism. Because of the often subjective nature of accounting and the tight relationships between accounting firms and their clients, even seemingly egregious accounting scandals, such as Anderson's audits of Enron, may have at their core a series of unconsciously biased judgments rather than a deliberate program of criminality. The lack of significance for 'relativism' in the case of dependent variable: 'behavioural intention' indicates that it is hard to improve professional services, that is to deter unconscious bias by threatening (punishment) or cajoling and it is hard to improve the same by imposing stricter accounting standards including International Financial Reporting Standards (IFRS) either. Thus, the new policies must be designed to eliminate incentives that create self-serving biases or to at least ameliorate bias based on a system in which, as literature pointed out, clients regard auditors as more like tax collectors than partners or advisers.*

**Key words: Accounting profession, Ethics, Behavioural intention, Relativism**

## Introduction

Given the vast scale of recent accounting scandals at Enron, WorldCom, Health-South, Anderson, Satyam Computers and so on, and their devastating effect on stakeholders, it's not surprising that the government and the public assume that the underlying problems are corruption and criminality –unethical accountants falsifying numbers to protect equally unethical clients. Economic crime, however, does not start with dishonesty. Young writing in 2003 stated thus: “. . . your boss does not come to you and say, 'Let's do some financial fraud' ” (quoted in Rockness & Rockness, 2005, p. 47). Bazerman *et al.* (1997) made the following point:

How realistic is the assumption that auditors – even those of high integrity – can provide impartial judgments that respond to the interest of creditors, stockholders, and the general

public, rather than to the interests of the companies that hire them? . . . The relationship that audit firms strive to develop with the clients may add to the auditors' psychological difficulty to make truly independent judgments. [Psychological research points to an inescapable conclusion: Such impartiality is impossible under current institutional arrangements] (pp. 90 – 91).

So who is to blame for ethical breaches? Is the ethics or ethical theory or morality per se responsible? Or is it the corporate governance system in place that provides motivations for ethical breaches? In view of this widespread fraudulent practice, it is not surprising that ethics has become one of the most widely-debated topics in the business community and that the professional accountants have unconsciously taken shelter under self-serving normative perspectives such as 'relativism'.

Nowhere in business is the subject 'relativism' more important than in the accounting profession.

Understanding and regulation of the professional behaviour is at the very least, crucially dependent upon perception. Thus, the study makes an earnest attempt to gain an insight into how the perception of accounting ethics, in terms of 'behavioural intention', is formed by the Practising Chartered Accountants (PCAs) of Karnataka from the perspective of one of the normative factors, viz, Relativism.

### **Conceptual Framework: The accounting profession and the professional ethics**

According to Maurice (1996) it is more important to have a general acquaintance with the profession itself, and in particular the practising element in the profession so as to understand the ethics of the accounting profession than have an appreciation of ethical theory. Accordingly, here, based upon the concept of profession, an attempt has been made to understand the concept of accounting profession followed by a brief discussion on the issue of the professional ethics. According to Sekhar (2002), "[t]he concept of professional has been seen in the light of market systems which is one of the prime and strong features of capitalism" (p.125). Duska (2005) puts it thus: "It is the nature of the existing free market financial system (its purpose) to improve life by setting up intermediaries to make exchange more efficient" (p.21). In order to maintain professional credibility it is essential that integrity and honesty not be imperiled by the presence of undue influence and conflicts of interest, which means the professional must have as much independence as possible. The profession of an accountant exemplifies in all the attributes required of a profession. Accountants are employed in many types of organizations -public, private and charitable. Salmonson, Hermanson, and Edwards (1977) state that in our society accountants are generally employed in (1) public accounting (i.e., an independent practising accountant's profession), (2) private or industrial accounting which includes both practising accountants and other accountants, and (3) not-for-profit sector which also includes both practising accountants and other accountants. As described by Neale (1996), accountants within organisations (private accounting involving management accounting and financial accounting, and not for profit accounting) are not commonly considered as professionals. Instead, independent professional accountants who are in professional practice or concerned

with public accounting are professionals. Independent professional accountants perform a variety of accounting services which fall into two groups: first, auditing, i.e., performing the attest function, the principal purpose of an independent professional accountant, and second, related services including management advisory and tax accounting services. According to Gowthorpe and Amat (2005), “[a]ccounting is regulated in most countries by two principal means: first, local laws relating to corporate and other bodies, and second, a system of accounting regulation in the form of standards. These are often promulgated by non-governmental organisations and foundations. Also, in recent years, a supra-national body, International Accounting Standards committee (IASC) has become more important in setting standards” (p.56).

According to Krishnamoorthy(2003), “[t]here is no difference between the tenets of ethics applicable to an individual and that of a professional, the only difference being a professional, is having a higher responsibility and accountability to his action or inaction to all segments of society on account of his status and position”(p.1685). Accountancy profession enforces its responsibilities by self-regulation supported by a viable code of ethics. Unlike accounting standards, a code of ethics is not merely a set of technical rules of do’s and don’ts. It contains a set of moral principles, which specify what society expects to be considered in decision making. Thus, professional ethics is one of the dimensions of social responsibility and entails acting in accordance with the morality, *which may be distinguished from the term ‘ethics’ on the basis that morality means human conduct and values while ethics is the study of morality*, of a society that is related to its mores, or the customs that a society or group accepts as being right and wrong, as well as those laws of a society that add legal restrictions on many activities considered to be immoral. Frequently, the general principles come from rationalistic theories (Kantianism or deontological theory, Utilitarianism or teleological theory, and other ethical theories), which propose diverse methods of moral reasoning to apply properly these principles for solving dilemmas. According to Kant (1985) only when a value can be universally applied should it be considered ethically correct. This criterion of universalisability considers an action only as a set of duties (Melé, 2005). The utilitarianism theory was developed by England’s Jeremy Bentham and John Stuart Mill (Mill, 1897; Sidgwick, 1925). For Melé (2005) it considers an action “only as the set of *consequences* (Utilitarianism, if they are evaluated in terms of satisfaction or consequentialism, if they are evaluated in terms of other chosen values)” (p.100). Thus, here, ethics means the normative ethical theories such as those above that include values. By values we mean an in-built mechanism representing the basic conviction that a specific mode of conduct is personally or socially acceptable mode of conduct. Krishnamoorthy(2003) says: “Our inner conscience or soul always pleads and urges to prefer a right course of action over a wrong one”(p.1685). Melé (2005) added that “[h]umans are responsible for their own acts and, therefore, for their human development, which at the some time produces a good society. It requires following of rules associated with moral goods [values]” (p.103). Values include controlled greed, honesty, trust, trustfulness etc. Value is one of the tools of ethics and ethics is a value based concept.

## Objectives

The central purpose of this study is to make an earnest attempt to gain an insight into how the PCAs form the perception of ethical issues and dilemmas in the accounting profession in terms of one of the normative factors, viz, idealism. The specific objectives of the current study are as under:

### (1) Relativism:

An individual, when faced with a dilemma, is influenced by a set of prescriptive factors. So, the study makes an earnest attempt **to examine the impact of one of the prescriptive factors, namely, relativism considered to have an impact upon the behavioural intention.**

### (2) Intended outcome:

As a matter of fact, academic research should positively influence the possible refinements in theory, research, and practice. Accordingly, the last objective is **to raise major implications for accounting ethical theories, research, and professional practice of accounting based on the findings of this study.**

## Literature Review and Hypothesis Development

An individual's moral philosophy or ethical ideology is a factor that explains differences in ethical judgement (Schlenker & Forsyth, 1977). Fisher (2004) pointed out thus: "Normative ethics (sometimes also referred to as moral philosophy) in contrast to describing the values, beliefs and norms that influence actual behaviour, evaluates behaviour by appealing to standards or norms that are independent of custom" (p. 398). Moral philosophy is the extent to which individuals are relativists and/or idealists (Elias, 2002). Individual differences in approaches to moral judgement may be described parsimoniously by considering two basic factors: idealism and relativism (Forsyth, 1980). Idealism can be described as the extent to which an individual is concerned for the welfare of others and the avoidance of negative consequences for others (Forsyth, 1980, 1992). Forsyth (1980, 1981, 1992) conceptualised relativism as reflecting ethical scepticism, a point of view which recognises that there are many different ways to look at morality and which criticises those who attempt to formulate or rely on specific ethical principles. According to Forsyth (1980), relativism reflects the extent to which individuals reject universal moral principles and rules. High relativists are likely to take a more moderate or neutral position in moral judgement than low relativists (Forsyth, 1981). This does not mean that relativism is negatively related to the perception of the importance (appropriateness) of ethics. On the contrary, relativists are likely to agree that ethics is important in principle. At the same time, their scepticism makes them likely to agree that there are situations in which "ethics . . . may have to be subordinated," as Etheredge (1999) says, "if competitiveness, profitability, survival or efficiency are to be maintained" (p. 58). Empirical evidence also supports the recommended idealism – relativism classification system (Forsyth, 1981, 1985; Forsyth, Nye, & Kelly, 1988; Forsyth & Pope, 1984; Rim, 1982; Stead, Worrell, & Stead, 1990; Vitell, Lumpkin, & Rawwas, 1991).

Forsyth (1980) suggests that individuals can be grouped into four categories, depending upon their personal moral philosophies of idealism and relativism (Figure 1).

**Figure 1: Taxonomy of ethical ideologies**

	High relativism	Low relativism
High idealism	<p>Situationist</p> <p>Rejects application of universal principles. Believes that moral acts have positive consequences for all persons affected by an action or a decision.</p>	<p>Absolutist</p> <p>Approves actions that result in positive consequences for all individuals. Also, believes that actions should conform to absolute moral principles.</p>
Low idealism	<p>Subjectivist</p> <p>Rejects moral rules, and believes that moral decisions are subjective, individualistic judgements. Believes that negative consequences do not necessarily make an action immoral.</p>	<p>Exceptionist</p> <p>Accepts moral rules in principle, but willing to violate moral rules in order to circumvent negative consequences. An action is not condemned automatically because the action involves negative outcomes for some.</p>

Source: Determinants of earnings management ethics among accountants (Elias, 2002, p. 36).

Elias (2002) put it thus: “In general, research has shown that individuals exhibiting high relativism judge ethically ambiguous situations more leniently than those exhibiting high idealism” (p. 36). Past studies on the ethics of the accountancy profession have used the ethical perception as a dependent variable (e.g., Elias, 2002; Flory, Philips, Jr., Reidenbach, & Robin, 1992; McManus & Subramaniam, 2009; Shafer *et al.*, 2004). According to Flory *et al.* (1992), “intention represents the individual subjective probability of engaging in the behaviour” (p. 295). For the purpose of the current study, the behavioural intention is the likelihood that an individual will engage in the same behaviour as that of an unethical case scenario. The present study applies the previous results from business ethics research. Based on the previous findings, the following hypothesis is developed:

*Relativism is positively related to the behavioural intention.*

### Research Methodology

The methodology of the study involves the following aspects:

**Sampling procedures:** The primary data were obtained from a self-administered questionnaire given to 1210 Institute of Chartered Accountants of India’s (ICAI) members in Karnataka. The questionnaire was also emailed to the PCAs who had agreed to respond by email at the first visit. PCAs were selected from the list of members

that contains the names of all the members belonging to southern region<sup>1</sup> as on 1.4.2006 with their membership numbers, status and addresses. Only members in full-time practice<sup>2</sup> were considered. This is because the main profession of a member in part-time practice is not the profession of accountancy (ICAI, 2006).

The Indian State of Karnataka is now divided into 30 districts with 4 administrative divisions (Wikipedia, 2011). The four administrative divisions are as follows:

1. Bangalore division. This comprises 9 districts, namely, Bangalore Urban, Bangalore rural, Chikkabakkapur, Chitradurga, Davanagere, Kolar, Ramanagara, Shimoga, and Tumkur.
2. Belgaum division. There are 7 districts in this region. They are: Bagalkot, Belgaum, Bijapur, Dharwad, Gadag, Haveri and Uttara Kannada.
3. Gulbarga division. This consists of 6 districts: Bellary, Bidar, Gulbarga, Koppal, Raichur and Yadgiri.
4. Mysore division: This is made up of 8 districts: Chamarajanagar, Chikamagaluru, Dakshina Kannada, Hassan, Kodagu, Mandya, Mysore and Udupi.

For the current study, disproportionate stratified random sampling technique was used to collect the information. Each of the above 4 divisions was considered as a stratum. Accordingly, the respondents, *i.e.*, 1210 PCAs (Table 2) were selected from a total population of 3287 PCAs (Tables 1& 2).

**Table 1: Region wise distribution of the ICAI members as on 1-4-2006**

Region		In full-time practice	In part-time practice	Not in practice	Total (2 + 3 + 4)
1		2	3	4	5
Western Region		20753	4025	20135	44913
Southern Region	Other states	10553	1551	10505	22609
	Karnataka	<b>3287*</b>	569	3593	7449
Eastern Region		7181	753	5551	13485
Central Region		11741	855	4423	17019
Northern Region		14511	1912	9048	25471
Total		68026	9665	53255	130946

Source: List of members of ICAI as on 1-4-2006.

**Table 2: Population\* and sample size for the current study**

Stratum (i.e., administrative division of Karnataka)	Population* (i.e., CAs in full-time practice)	Sample size	Effective response rate
Bangalore division	2472	900	221(24.56%)
Belgaum division	295	120	22 (18.33%)
Gulbarga division	125	50	16(32.00%)
Mysore division	395	140	46(32.86%)
Total	3287*	1210	N=305(25.21%)

Source: List of members of ICAI as on 1-4-2006

As indicated by Tables 1, and 2 , the sample population involved 3287 CAs in full-time practice from Karnataka and a sample, as reported in Table 2, of 1210 PCAs was used ( $\chi^2=1.33$ ,  $p=.723$  NS). The insignificant chi-square ( $\chi^2$ ) value shows that the sample of 1210 PCAs does not differ significantly from the total population of 3287 PCAs. A number of random follow-up calls were made to the PCAs, who had not returned the questionnaire at the first visit, to check if the questionnaire was filled-in, and if the respondent was willing to answer the questions through email. A number of random follow-up calls were also made to the PCAs to request them, who had agreed to respond by email, to expedite the response and most of the replies were in the affirmative.

A total of 305 useable responses were received. This equates to a response rate of 25.21 per cent. On hindsight, a possible reason for the relatively low response rate might be related to the time constraints faced by PCAs due to their hectic schedule.

**Questionnaire design:** The questionnaire gathered the information to determine the PCAs’ idealism, as an independent variable, using Forsyth’s (1980) Ethics Position Questionnaire (EPQ). And the questionnaire also provided a hypothetical case scenario (adapted from McManus & Subramaniam, 2009), whereby PCA X discovers improper accounting treatment of research and development expenditure. This treatment is assumed to have significant implications to the financial statement and when the matter is brought to the attention of the audit partner, no action is undertaken with the suggestion that the client (who is also a large and important client) would prefer the matter to be treated as it is.

The current study used ‘behavioural intention’ as the dependent variable. For the purpose of the current study, the behavioural intention is the likelihood that an individual will engage in the same behaviour as

that of an unethical case scenario(adapted from McManus & Subramaniam, 2009). The respondent recorded his/her subjective probability of engaging in the unethical action by circling/ticking the appropriate number on a five point scale where ‘1’ was ‘very low likelihood’ and ‘5’ was ‘very high likelihood’.

**Descriptive statistics:** The descriptive statistics of the independent variable (i.e., relativism) are presented as follows:

**Table 3: Relativism**

Factor	N	Minimum	Maximum	Mean	Std. Deviation
Idealism	305	9.00	42.00	29.1934	5.93484

Source: Field data

Forsyth’s (1980) EPQ consists of two ten-item scales that measure ethical idealism and ethical relativism respectively. Accordingly, the idealism score was obtained by taking the mean of the 10 items from 11 to 20. The descriptive statistics of the dependent variable, viz, ‘behavioural intention’ (i.e., the likelihood that an average PCA would behave in the same way as that of the improper situation), most respondents indicated fairly low probability on a five-point Likert Scale with the value of 2.2426 for mean.

**Table 4: Behavioural intention**

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Behavioural intention	305	1.00	5.00	2.2426	1.10329

Source: Field data

**Method of analysis:** The current study has been made by converting the collected data into measures such as means. For analysing the data, statistical techniques (SPSS, 2000) like *Karl Pearson’s correlation analysis* and *regression analysis* have been used as required in appropriate places. The analysis also utilised the *t*-test procedure. Significance levels of 0.001, 0.01, 0.05, and 0.10 were used.

**Secondary data:** Along with the primary data, secondary data have been collected from various published sources like books, journals, etc. by visiting libraries, and the ICAI’s Mangalore Branch of Southern India Regional Council (SIRC) and also from internet. The researcher also collected the materials like the list of members of SIRC of ICAI (ICAI, 2006) from some of the members of Mangalore Branch of SIRC of ICAI.

## Findings

Correlation analysis reveals that the EPQ 'relativism' scores were not significantly correlated with scores on 'behavioural intention' ( $r = -0.057$ ,  $p = 0.322$ ).

These results, thus, do not provide initial support for the hypothesis (*i.e.*, *Relativism is positively related to the behavioural intention*). The EPQ 'idealism' variable did not contribute significantly to the prediction of the 'behavioural intention' ( $\beta = -.0534$ ,  $t = -.916$ ,  $p = .360$ ) providing no support for the hypothesis.

## Interpretation

With the lack of significance for 'relativism' in the case of dependent variable: 'behavioural intention', PCAs may not be predisposed to behaving in a certain way. Given that 'relativism' has its root in utilitarian ethical theory and utilitarian ethical theories are reductive, since they eliminate what is morally relevant (character) and they legislate the form of moral reflection (consequences)" (Melé, 2005), findings of the study support the view that the role of accounting ethics in solving dilemmas was not considered to be based on ethical theories (relativism).

Normative view of ethics implicitly endorses ethical relativism, a contested theory, according to which an action is right if it is accepted by the relevant group or person (Beauchamp & Bowie, 2001). Relativism was negatively correlated with scores on 'behavioural intention' ( $r = -0.057$ ,  $p = 0.322$ ) and Solomon writing in 1994 (cited in Rockness & Rockness, 2005) said:

When otherwise good people do bad things in a financial reporting context, a more utilitarian approach may well be the way to control behavior (if not values). Where management is driven by ego or greed, deterrence must be focused on outcomes . . . making the cost of unethical behaviour exceed the potential gain from the behaviour (p. 51).

However, the lack of significance for 'relativism' in the case of dependent variable: 'behavioural intention' indicates that it is very difficult to deter accounting fraud with legislation or with punishment. As Bazerman *et al.* (2002) pointed out, the attribution of the Scandals, except the scandals that are the result of fraud,

to deliberate corruption would be to believe that the accounting profession is rife with crooks – a conclusion that anyone who has worked with accountants knows is untrue. The deeper, more pernicious problem with corporate auditing, as it's currently practiced, is its vulnerability to unconscious bias. Because of the often subjective nature of accounting and the tight relationships between accounting firms and their clients, even the most honest and meticulous of auditors can unintentionally distort the numbers in ways that mask a company's true financial status, thereby misleading investors, regulators, and sometimes management. Indeed, even seemingly egregious accounting scandals, such as Anderson's audits of Enron, may have at their core a series of unconsciously biased judgments rather than a deliberate program of criminality (p.97).

Profession's function is social, not economic. Accordingly, it should be guided and judged by social criteria alone. The role of a professional accountant taken as an agent of a client would constitute an objection to independence, one of the fundamental ethical principles for ethical behaviour in accounting. This is because, as per *agency relation*, the agent agrees to act for the benefit of the principal (i.e., the client). This is consistent with the expectation of the clients that, as Baker and Hayes writing in 1996, say, accountants perform their professional said services in a manner that differs from the interest of third parties who are the beneficiaries of the contractual arrangements between the professional accountants and their clients(cited in Duska, 2005). But this expectation is misguided since, as Duska (2005) observed, their responsibilities are primarily to the using public, though they are knowledgeable of and monetarily dependent on the clients who pay the bill.

Friedman (1998) says:

The difficulty of exercising 'social responsibility' illustrates, of course, the great virtue of private competitive enterprise-it forces people to be responsible for their own actions and makes it difficult for them to 'exploit' other people for either selfish or unselfish purposes. They can do good – but only at their own expense [, not using shareholders' money] (p.249).

The accounting regulation has an important function in society, as Gowthorpe and Amat (2005) said, because it "affects the allocation of economic resources, and so it has potentially wide-ranging effects upon social welfare and the balance of economic power between parties with often competing interests" (p.57). It is hard to improve professional services, that is to deter unconscious bias by threatening (punishment) or cajoling and it is hard to improve the same by imposing stricter accounting standards including International Financial Reporting Standards (IFRS) either. Thus, the new policies must be designed to eliminate incentives that create self-serving biases based on changes in the way in which the profession has been institutionalised. There should be a redefinition of accounting ethics that encompasses an extended sociopolitical role of accounting in society (Lehman, 1988 cited in Flory, Phillips, Reidenbach, & Robin, 1992). But, of course, it is hard to imagine, as Bazerman *et al.* (2002) said, any practical measure that could eliminate all bias. And, "(d)evising a more robust separation of auditor and client, one that might go further to reduce bias, would require approaches – such as turning over the auditing function to government –that could create problems as serious as those they, solve" (p.102). Friedman's (1998) view that the doctrine of 'social responsibility' involves the acceptance of the socialist view is implied in the system, envisioned by Bazerman *et al.* (2002), in which clients regard auditors as more like tax collectors than partners or advisers-a system that could be expected to at least ameliorate bias. In the absence of radical and innovative reform further deterioration in the discharge of social responsibility leading to further accounting disasters is inevitable.

## Conclusion

Profession's function is social, not economic. Accordingly, it should be guided and judged by social criteria alone. The accounting regulation has an important function in society, as Gowthorpe and Amat (2005) said, because it "affects the allocation of economic resources, and so it has potentially wide-ranging effects upon

social welfare and the balance of economic power between parties with often competing interests” (p.57). Because of the often subjective nature of accounting and the tight relationships between accounting firms and their clients, even seemingly egregious accounting scandals, such as Anderson’s audits of Enron, may have at their core a series of unconsciously biased judgments rather than a deliberate program of criminality. The lack of significance for ‘relativism’ in the case of dependent variable: ‘behavioural intention’ indicates that it is hard to improve professional services, that is to deter unconscious bias by threatening (punishment) or cajoling and it is hard to improve the same by imposing stricter accounting standards including International Financial Reporting Standards (IFRS) either. Thus, the new policies must be designed to eliminate incentives that create self-serving biases or to at least ameliorate bias based on a system in which, as literature pointed out, clients regard auditors as more like tax collectors than partners or advisers. The ethical perception of a situation is a complex process, involving different factors. Different situations may elicit different and, perhaps, undiscovered elements and future research should include attempts to uncover additional factors if. Further, the replication of the current study from the perspective of different professional situations should improve understanding of ethical perception in the practice of accounting. Such an understanding is essential before ethical practice can be moderated or ethical conduct prescribed.

## Notes

<sup>1</sup> The Southern India region comprises states of Andhra Pradesh, Kerala, Karnataka, and Tamilnadu and the Union Territories of Pondicherry and the Lakshadweep Islands (ICAI, 2006).

<sup>2</sup>The members of the ICAI may be classified as practising and non-practising CAs based on holding certificate of practice.

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