

Relativism and Ethical Judgement in the Accounting Profession: A Study with reference to Practicing Chartered Accountants in Karnataka State

Vedava P.,

Associate Professor,
Department of Commerce,
Mangalore University,
Mangalagangothri, Konaje, Karnataka,
India

Abstract

The current study has made an earnest attempt to gain an insight into how the ethical perception, in terms of the ethical judgement, is formed by the (Practising Chartered Accountants) PCAs of Karnataka from the perspective of one of the normative factors, viz, relativism. 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)". Thus, ethical judgement can be improved through going beyond merely focussing on ethical principles that are derived from ethical theories and modifying of current law governing the profession of accountancy as the current institutional arrangements may be expected to foster relativism, not idealism. Such an improvement and modification calls for understanding of ethical perception of a situation. Discharge of professional responsibility with the intention of satisfying a broader obligation to third parties rather than clients calls for fairness in the profession of accountancy. What constitutes fairness in the field of accounting profession? When individual investors and members of society are not harmed by the behaviour of professional accountants, the profession of accountancy is said to have fairness. Of course, this calls for the prevention of fraud and manipulation. While it might be argued that creative accounting is within the law, it violates 'the spirit of law', which is taken to be the ethical demands placed on any corporation by a society. Thus, fundamental changes in the ethical orientation and the system of the accountancy profession are the need of the hour.

Keywords: Accounting profession, Ethics, Ethical judgement, 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. The recent economic crisis has added fuel to the flames of earlier accounting scandals because of the fact that the world witnessed the economic crisis within a very short

span of time after the display of rosy picture of financial performance by the corporations. Auditors and accountants, in turn, were under tremendous pressure to make sure that reported numbers add up to publicly committed numbers. Loeb (1988) observes that each development poses uncertainties and all too frequently ethical dilemmas for accountants. In the words of Ward, Ward and Deck (1993), due to these uncertainties and dilemmas faced by accountants, "the profession is keenly aware of need for a heightened appreciation of ethical behavior and, as required, ethical reform within its own ranks ..." (p. 602). Clearly, an effective legislation to protect the interest of the investing public, in particular, and the interest of the members of the society, in general, is the need of the hour. Such legislation should be based on the 'social contract', the most basic feature, as Rawls (1971) held, of democracy. Further, such a legislation calls for understanding of ethical behaviour and of a wide range of factors involved in shaping ethical conduct. Any attempt to bring in legislation must be based on an understanding of the central problem in accounting ethics, namely, the management of the so-called equity/efficiency trade-off. The issue of equity/efficiency trade-off receives prominence, especially, in the context of profession of accountancy. This is because the tripartite (i.e., professional, client and public) arrangement involved in the professional environment of accountants entails the consideration of view points from the perspective of all these three parties. Hence, it had been presumed that the 'ethical judgement' formed by the professional accountants, would be affected by an array of factors that reflect the view points of all those three parties. The achievement of 'equity/efficiency trade-off' in the resolution of ethical dilemmas in a field like the profession of accountancy requires the consideration of the impact of the prescriptive factors upon the ethical perceptions formed by the professional accountants. Accordingly, the current study has made an earnest attempt to gain an insight into how the ethical perception, in terms of the ethical judgement, 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, relativism. The specific objectives of the current study are as under:

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 ethical judgement.

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). The present study applies the previous results from business ethics research. 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). The current study used the ethical judgement as the dependent variable. For the purpose of the current study, the ethical judgement is the perception of the extent of inappropriateness of a case of an unethical situation. Based on the previous findings, the following hypothesis is developed:

Relativism is negatively related to the ethical judgement.

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 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 region1 as on 1.4.2006 with their membership numbers, status and addresses. Only members in full-time practice2 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, Chikabakapur, 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	3287*	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 (χ^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' relativism, 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 the ethical judgement as the dependent variable. For the purpose of the current study, the ethical judgement is the perception of the extent of inappropriateness of a case of an unethical situation. The respondents, i.e., PCAs, indicated their perceived degree of the inappropriateness of the above unethical action by

circling/ticking the appropriate number on a five-point scale where '1' was 'very appropriate' and '5' was 'very inappropriate'.

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, ethical judgement, are presented in Table 4. For the 'ethical

judgement' (i.e., PCAs' perception of extent of inappropriateness of the improper treatment of R & D expenditure, as depicted in the ethical scenario (adapted from McManus & Subramaniam, 2009) in the questionnaire, most respondents viewed the matter to be fairly inappropriate on a five-point Likert Scale. Hence, the mean value for the ethical judgement is 3.9344.

Table 4: Ethical judgement

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Ethical judgement	305	1.00	5.00	3.9344	1.08016

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 EPQ relativism scores were negatively and significantly correlated with scores on 'ethical judgement' ($r = -0.204$, $p = 0.001$). Thus, the results prove initial support only for the above hypothesis which states that relativism is negatively related to the ethical judgement. 'Relativism' was found to contribute significantly as predictor (Adjusted $R^2 = 0.037$, $F = 6.812$, $p =$

0.001), providing further confirmation for the hypothesis (i.e., relativism is negatively related to the ethical judgement). Individuals who are less relativistic ($\beta = -0.206$, $t = -3.653$, $p = .000$) tend to perceive the case of unethical behaviour of PCA X, as depicted in the ethical scenario (adapted from McManus & Subramaniam, 2009) in the questionnaire, as inappropriate.

Interpretation

Finding is consistent with the Yetmar and Eastman's (2000) view that research has shown that the ethical orientation of relativism drives the categorization of individual's ethical orientation. Further, the negative relationship between relativism and ethical judgement is indirectly consistent with the finding of Etheredge (1999). The presence of significance for 'relativism' in case of 'ethical judgement' sheds light on a connection between this factor and the ethical judgement, though this study cannot predict ethical judgement based on this factor alone. Thus, more the level of relativism, higher the hindrance to an individual's ability to recognise ethical issues (Forsyth, 1981, 1985; Forsyth *et al.*, 1988; Forsyth & Pope, 1984). This finding suggests that attention should be paid to an individual's ethical orientation of *relativism* if the objective is to improve ethical judgement.

Baker and Hayes writing in 1996 state that accountants are “expected by their clients to perform their professional services in a manner that differs from the interests of third parties who are the beneficiaries of the contractual arrangements between the public accountant and their clients” (quoted in Duska, 2005, p.23).

Unlike the legal and medical professionals, a professional accountant must satisfy a broader obligation to third parties rather than clients.

The recent scandals evidenced that auditors (*i.e.*, professional accountants) have stronger incentives to please clients than to serve the investing public that can be disastrous for the public. Thus, in a sense, the profession of accountancy has become more a typical business. The management-auditor alliance has harmful effects on the professionalism of auditors. If one views professionals as having, according to West (2003), “elevated occupational authority” (p. 40) to use their expertise in a specialised body of knowledge to serve the public, then the auditors' behaviour as reflected in the recent scandals casts doubt on their professionalism. Staubus (2005) stated thus:

One aspect is the emphasis on salesmanship in evaluating the performance of personnel in auditing firms. It is generally acknowledged that an increasingly important criterion for admission to one of the huge partnerships that perform the bulk of the industrial world's auditing is ability to bring in clients and to retain them. Weakness in technical expertise can be overcome by the practice of frequent inquiries of technical experts in the home office. Thus, 'expertise in a specialized body of knowledge' is not as critical as marketing skills, raising the question of whether auditing is a profession or a more typical business (p. 10).

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).

Thus, ethical judgement can be improved through going beyond merely focussing on ethical principles that are derived from ethical theories and modifying of current law governing the profession of accountancy as the current institutional arrangements may be expected to foster relativism, not idealism. Such an improvement and modification calls for understanding of ethical perception of a situation. 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.

Conclusion

Discharge of professional responsibility with the intention of satisfying a broader obligation to third parties rather than clients calls for fairness in the profession of accountancy. What constitutes fairness in the field of accounting profession? When individual investors and members of society are not harmed by the behaviour of professional accountants, the profession of accountancy is said to have **fairness**. Of course, this calls for the prevention of **fraud and manipulation**. While it might be argued that creative accounting is within the law, it violates 'the spirit of law', which is taken to be the ethical demands placed on any corporation by a society (Duska, 2005). Thus, fundamental changes in the ethical orientation and the system of the accountancy profession are the need of the hour.

Notes

¹ 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).

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

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