

TAX PRACTITIONERS' ETHICAL SENSITIVITY:
A MODEL AND EMPIRICAL EXAMINATION

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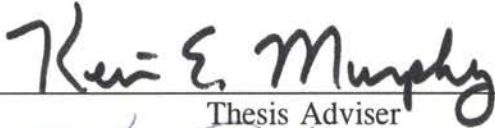
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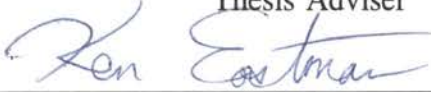
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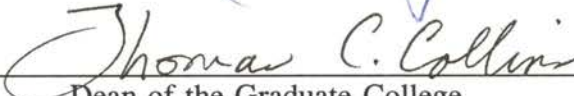


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CHAPTER I

INTRODUCTION

Rationale for the Study

Regulatory changes have greatly increased the environmental complexity and uncertainty faced by tax practitioners. Combined with the many constituencies that tax practitioners must deal with, it is almost certain that most practitioners will face ethical conflicts (i.e., a state of disagreement between mutually exclusive alternatives: ethical versus unethical as defined by the tax profession). Unfortunately, some tax practitioners may make "wrong" decisions (i.e., amoral= neither moral nor immoral, or immoral= contrary to established moral principles) in these situations because they do not recognize the ethical issues. Bok (1976) suggests that the inability to identify ethical issues is the dominant reason individuals behave immorally.

There is need for a better understanding of ethical sensitivity to lead to a fuller understanding of the ethical decision-making process. Ethical sensitivity is the ability to recognize or perceive ethical content in a problem situation before an ethical decision is made. Without ethical recognition, the triggering mechanism (i.e., the first phase) of the ethical decision-making process does not occur and a tax practitioner's options will be drastically reduced. The tax practitioner will not have the opportunity to act morally and the ethical decision-making process will be bypassed. In this situation, the best that one

could hope is for the tax practitioner to behave in an amoral manner, and the worst is immoral behavior.

Purpose of the Study

This study examines factors that affect a tax practitioner's ethical sensitivity (i.e., recognition of ethical content in work situations). Ethical sensitivity triggers the entire ethical decision-making process, yet very little is known about the factors that affect ethical sensitivity. Ethical content in work situations will be examined in relation to professional ethics as enumerated by the AICPA's Statements on Responsibilities in Tax Practice.

Objective of the Study

This study examines the relationship between various factors (i.e., role stress, job satisfaction, ethical orientation, and professional commitment) and ethical sensitivity, the triggering mechanism of the ethical decision-making process. Secondary issues of interest are the relationships between formalization (i.e., codes of conduct) and role stress (i.e., role conflict and role ambiguity), and role stress and job satisfaction.

Specific research questions address:

1. Are the factors of role stress, job satisfaction, ethical orientation and/or professional commitment aiding or hindering a tax practitioner's ability to recognize professionally ethical issues?
2. Are formalization procedures helping to facilitate a net reduction or net increase in role stress of tax practitioners?
3. Does role stress cause a tax practitioner's job satisfaction to decrease?

The Ethical Sensitivity Model, constructed for this study, is based upon Hunt and Vitell's (1986) General Theory of Ethics. Hunt and Vitell propose that four factors - organizational environment, cultural environment, industry environment, and personal experiences - affect individuals' ethical sensitivity. The operationalization of the factors that affect ethical sensitivity, the hypotheses to be tested, the test instruments, and statistical methods will be discussed later in detail.

Overview of the Study

A survey instrument was used to gather data from a sample of tax practitioners. The subjects' responses to exploratory ethical scenarios served as a surrogate measure for ethical sensitivity (i.e., recognition) behavior. The factors of role stress, job satisfaction, professional commitment, and ethical orientation were used as surrogates for the factors that affect ethical sensitivity in Hunt and Vitell's ethical decision-making model. These factors were measured using accepted evaluation techniques and their relationship with ethical sensitivity is determined.

Other relationships of interest included formalization's effect on role stress and the effect of role stress on job satisfaction. The examination of the relationship between formalization and role stress will add to the literature concerning the usefulness of a firm's code of conduct or ethics. The relationship of role stress and job satisfaction is of interest due to increasing pressures on the tax practitioner by different constituents (i.e., client, firm, profession, and self) with potentially differing agendas. Tax practitioners' roles may need to be more clearly defined and stress better managed to improve work performance. Analysis of covariance (ANCOVA) and linear regression were used to analyze the data.

Contributions of the Study

This research offers several benefits to tax practitioners and tax firms. Various factors (i.e., role stress, job satisfaction, professional commitment, and ethical orientation) are examined to determine their effects on ethical sensitivity. This study provides information to tax firms to determine actions the tax firms can take to increase ethical sensitivity. Tax firms may incorporate stress management seminars as part of their in-house professional development to mitigate role stress' effects on tax practitioner's ethical sensitivity. Tax firms may increase the formalization of procedures and conduct to better delineate the tax practitioner's role within the firm, decreasing role stress, and improving ethical recognition. The firm may also be able to address more specific changes (e.g., provide counseling for employees in dealing with authority figures or peers) to improve employees' job satisfaction with a consequent improvement in ethical sensitivity. If tax practitioners' ethical orientation is found not to influence ethical sensitivity, then evidence is provided to support the contention that individuals' ethical behavior may be improved through education as opposed to individuals having innate attitudes or beliefs toward differing aspects of ethical behavior.

This study may also benefit the accounting profession as a whole. Professional commitment is the degree of identification and involvement in a profession. If professional commitment is found to have a significant influence on ethical sensitivity, more resources could be expended on the further development and enforcement of the AICPA's General Code of Conduct and the Statements on Responsibilities in Tax Practice. Continuing professional education ethics courses could be expanded and enhanced.

The profession may require more ethics courses be taken to maintain professional membership and/or certification.

The study helps clarify the debate over the importance of organizational codes of conduct on ethical conduct (Stevens, 1994). The organizational code of conduct, the formal defining of an organization's work activities, is examined as a component of the formalization variable. If formalization has a significant negative effect on role stress, tax firms may want to adopt or expand existing codes of conduct.

The study also examines the relationship between tax practitioners' job satisfaction and role stress. Job satisfaction is multi-faceted with implications for tax practitioners' satisfaction with pay, promotions, supervisors, co-workers, and the work itself. Tax firms may want to reduce role ambiguity by better clarifying tax practitioners' roles, if role stress has a significant negative effect on job satisfaction. However, clarifying tax practitioners' roles may increase the level of role conflict experienced by the tax practitioner. By having a clear definition of the tax practitioner's role, the various constituent's agendas may appear more at odds with the tax firm's prescribed role for the tax practitioner. Therefore, minimizing the role ambiguity portion of role stress may increase the role conflict portion. Role conflict may be mitigated with the aid of stress management seminars.

This research offers several benefits to academic research, particularly ethics research. The study builds on and tests Hunt and Vitell's (1986) General Theory of Ethics. The study examines more explicitly Hunt and Vitell's theory, thereby enriching and building upon the theory. This research is only the second attempt to understand ethical sensitivity in an accounting context (see Shaub et al., 1993). Recognition of the ethical issues in a conflict is the first phase of the ethical decision-making process in

Hunt and Vitell's General Theory of Ethics. Without the recognition of ethical issues in a problem situation, the latter phases of the ethical decision-making process are not triggered. A better understanding of ethical sensitivity will aid ethical behavior research. Also, an ethical sensitivity test instrument is constructed that may be used as a guide or framework (i.e., a starting point for refinement) in future tax practitioner ethical sensitivity research.

CHAPTER II

LITERATURE REVIEW AND THEORY DEVELOPMENT

The Tax Practitioner's Ethical Environment

The tax practitioner's work environment has seen numerous changes in the last several years, culminating in the massive tax legislation passed in 1993. The everchanging and increasingly complex tax environment has caused a large number of individuals to seek assistance from a tax practitioner. Internal Revenue Service (IRS) data shows that approximately 65 percent of all but the simplest returns are professionally prepared (IRS, 1992). The tax practitioner is the client's advocate, attempting to minimize the client's tax liability. Tax practitioners may, however, experience conflict trying to fulfill the role of client advocate while adhering to the demands of other constituencies (e.g., their firm, the IRS, and the accounting profession in the form of the American Institute of Certified Public Accountants - AICPA). The unique demands of these constituents may pose ethical conflicts for tax practitioners. Ethical conflicts reflect a state of internal disagreement and disharmony in relation to mutually exclusive desires or goals of an individual that influence a decision (Trevino, 1986).

Congress has instituted sweeping changes in regard to tax practitioners' conduct. Historically, tax practitioners were held to the reasonable assurance threshold (listed in Circular 230) which states that the preparer need not disclose a position contrary to a Treasury Department or IRS interpretation if there is "reasonable support" (i.e., arguable

but fairly likely to prevail in court). In 1985, Congress promulgated Section 6661 which requires the higher disclosure standard of "substantial authority" (i.e., the reliance on court decisions, rulings and other primary sources) in taking a position contrary to the Treasury Department or IRS. The AICPA still advocates the reasonable assurance threshold that the government has replaced with a more restrictive and conflicting standard. Additionally, Congress has, with the passage of Section 6694, initiated stiff preparer penalties. The number and size of the fines pertaining to tax preparers' transgressions has dramatically increased since 1985 (Fisher, 1991; CCH Advisory Board, 1994). In 1989, the first preparer penalties were included in the Code that can be imposed for recommending "aggressive" positions that are neither negligent nor fraudulent (Cuccia, 1994). Because the substantial authority threshold conflicts with the profession's lesser threshold position, ethical conflicts may result from the interaction among a tax practitioner's client advocacy role, higher disclosure standards, and differing disclosure standards of the profession and government. The substantial authority requirement also limits the ability of a tax practitioner to be a client advocate by increasing the degree of evidence needed to support a tax position. The narrowing of potential tax positions may be an irritant to clients who are strongly motivated to minimize their tax liability. This may cause clients to become increasingly risk-seeking in regard to the completion of the tax return.

The tax firm may also add some anxiety and stress to the tax practitioner. The firm, especially in difficult economic and competitive times, may increase pressure on the tax practitioner to satisfy and maintain the client to the point of being unethical. Tax planning and preparation services are a buyer's market. Fisher (1994) states that others vying for the tax business of CPAs are: 1) accountants without the CPA designation,

2) enrolled agents, 3) nationwide tax-preparation chains, and 4) software programs. He believes this increased competition may lead to a decrease in ethical behavior as tax practitioners may play the "audit lottery" (i.e., taking advantage of the less than one percent chance that a tax return will be audited) in order to obtain and retain clients. As evidence of this, tax-related malpractice suits against certified public accountants are the number one cause of legal action against accountants (Fisher, 1991). The abundance of litigation aimed at the tax practitioner may lead tax practitioners to question their role, obligations and duties in regard to their firm's, profession's and/or personal ethical standards.

In resolving the aforementioned ethical conflicts, tax practitioners are influenced by their individual morals and values. That is, upbringing, culture, customs, and innate traits may be important factors influencing tax practitioners' decisions. However, the increased importance of retaining the client may cause tax practitioners to defer their values to those of the client.

As the above discussion illustrates, the changing tax environment increases the number of potential ethical conflicts faced by tax practitioners. To highlight this point, Finn et al. (1988) found, using a survey of American Institute of Certified Public Accountants (AICPA) members, that the most common response to the question, "What are the major ethical problems confronting AICPA members," was a client's proposal of tax alteration and/or tax fraud. This response accounted for 47 percent of all responses (i.e., the most common ethical problem).

The Accounting Profession's Response

To counter this problem, the AICPA, accounting academia, and the public accounting sector have attempted to increase the awareness and importance of ethics to the accounting profession. The AICPA believes that ethical behavior is a significant determinant of the quality of client and public service. Mandatory peer reviews of audit functions were adopted by the AICPA in 1986 to increase ethical behavior. Mandatory peer reviews were begun with the recognition that ethical behavior is significantly related to the quality of client and public service (Beets and Killough, 1990). In 1990, the AICPA introduced voluntary tax practice peer reviews in response to the surge in lawsuits in the tax profession. In 1996, tax practice peer reviews, similar to the audit peer reviews, may become mandatory (Ferguson, 1994). In addition, the AICPA includes ethics coverage in its illustrative 150 hour accounting program. The American Accounting Association has established a "Project on Professionalism and Ethics." Part of the project's activities include developing educational materials on accounting ethics and organizing conferences on ethics education in accounting (Langenderfer and Rockness, 1989). Arthur Andersen & Co. (AA) has spent millions of dollars developing educational materials relating to accounting ethics for business schools, and holding conferences that include matters relating to accounting ethics education (AA, 1988; Langenderfer and Rockness, 1989). As can be seen, the accounting profession has dramatically increased its attention toward ethics and ethical education in particular.

With the increasing importance of ethical issues in the accounting profession, tax practitioners and researchers should be interested in understanding the ethical decision-making process. The ethical decision-making process begins with the individual

recognizing ethical issues pertinent to a conflict. Without the recognition of ethical issues in a conflict, the later phases of the ethical decision-making process will not occur. Ethical sensitivity, the ability to recognize or perceive some ethical content in a problem situation, is the first and most important step because it triggers the start of the ethical decision-making process. Bok (1976) suggests that the inability to identify an ethical conflict is the most important reason individuals behave immorally. If tax practitioners are better sensitized to ethical issues, then ethical criteria will become prominent and important in evaluating alternatives, and subsequently choosing, a course of action. Very little is known and understood about the ethical decision-making process. Even less is known about ethical decision-making's triggering mechanism: Ethical Sensitivity.

Model Framework

General Theory of Ethics

There are various models of the ethical decision-making process (Dubinsky and Loken, 1989; Ferrell and Gresham, 1985; Hunt and Vitell, 1986; Rest, 1986; and Trevino, 1986). Only Hunt & Vitell's model, however, explicitly includes ethical sensitivity and states general factors that affect ethical sensitivity. Most ethical decision-making models state the identification of ethical issues occurs after an ethical decision has been made, Hunt & Vitell's model states that this determination must occur before any ethical behavior is undertaken. As a result, Hunt & Vitell's ethical decision-making model takes a more proactive approach to ethical decision making, and is the most comprehensive of the ethical decision-making models.

In Hunt and Vitell's (1986) model, the ethical decision-making process occurs in four general stages (**Appendix A**). The individual must first recognize the ethical issues in a situation before the remaining three phases are activated. Without this realization, individuals will not complete the remaining phases and, as a result, may behave unethically. During the next phase, the individual evaluates the perceived alternatives and the corresponding consequences. The individual determines the affected parties, probability and desirability of the envisioned consequences and the inherent rightness or wrongness of each alternative. The third phase encompasses an individual's ethical judgment. At this stage, individuals may perceive a particular alternative as the most ethical alternative, yet may intend to choose another alternative because of certain preferred consequences (e.g., there might be significant positive consequences to oneself as a result of choosing the "less ethical" alternative). The resulting consequence to the individual is the feeling of guilt due to knowingly not choosing the "morally correct" alternative. In the final phase, an individual transforms ethical intentions into actual ethical behavior by acting out a plan of action. The extensiveness of Hunt and Vitell's model makes it difficult to test all of its facets in one study. Therefore, only portions of Hunt and Vitell's model have been examined in individual studies (Akaah and Lund, 1994; Allen and Davis, 1993; Vitell and Muncy, 1992). These studies have generally supported Hunt and Vitell's model. However, none of the previous research addresses the explicit factors that affect the ethical sensitivity of tax practitioners.

The perceived ethical problem portion of Hunt and Vitell's model is illustrated in **Appendix B**. This portion acts as the foundation for the Ethical Sensitivity Model in the proposed study. In the model, four general factors affect an individual's ethical sensitivity: cultural environment, industry environment, organizational environment and

personal experiences. Unfortunately, Hunt and Vitell give little guidance on how to operationalize these factors and little research has examined these factors.

Ethical Sensitivity Research

Shaub et al. (1993) is the only study of the ethical sensitivity portion of Hunt and Vitell's model. Shaub et al. studied the effects of professional commitment, organizational commitment and ethical orientation on auditors' ethical sensitivity using a survey. They found only a significant negative relationship between an auditor's ethical orientation and an auditor's ethical sensitivity.

Shaub et al., however, may have had several weaknesses that hindered their ability to test Hunt and Vitell's model. For example, Shaub et al. only sampled four offices of a national public accounting firm. This limited sample drastically curtails the generalizability and external validity of the results (Cook and Campbell, 1979). In addition, the ethical sensitivity scenario only incorporated three potential ethical issues in the auditing setting. The smaller the number of ethical issues embedded in test instruments, the greater the likelihood of not obtaining a wide range of responses and, therefore, nonsignificant results (Nunnally, 1978). The ethical sensitivity scenario was not constructed with differing severity levels of work-setting ethical issues. This may have resulted in a low recognition response variance to the ethical issues in the scenario (Jones, 1991). The vast majority of subjects recognized the ethical issues. With only three ethical issues of similar severity, subjects could easily determine the ethical issues embedded within the scenario, producing a weak test of ethical sensitivity (i.e., not differentiating the subjects' recognition capabilities). Lastly, the ethical sensitivity scenario lacked noise. Noise is the surrounding detail of the scenario that potentially

limit the clarity of the issue(s) of interest. Scenarios should be designed to incorporate noise to determine the seriousness of the respondent (i.e., to produce some cognitive effort by the respondent). Noise is also needed so that the scenario incorporates the "real world's" various distractions that are inherent in an individual's evaluation or decision (Nunnally, 1978). Without noise, the ethical issues become obvious, which does not provide an accurate test of an individual's ethical recognition abilities. In addition, Woehr and Lance (1991) found that behavioral observations (i.e., without the subject's knowledge of being observed) and scripts (i.e., crafted scenarios that are read by the subject) that contain noise may yield equivalent effect sizes. Noise combats the artificiality of scripted scenarios which then yield results that are equivalent to the preferred, but more difficult to obtain, behavioral observations research method.

This study addresses the problems of Shaub et al. Ten ethical tax practitioner issues with differing degrees of severity are examined. Noise is imbedded in the tax practitioner scenarios to enhance the realism of the scenarios. The generalizability of the results is enhanced by mailing the survey to tax practitioners from across the United States. Also, with only one study of ethical sensitivity, a comprehensive testing of the factors that may affect ethical sensitivity has not been attempted. This study attempts to fill some of the void in regard to ethical sensitivity research.

Ethical Sensitivity Model for Tax Practitioners

The Ethical Sensitivity Model, constructed for the proposed study, is shown in Figure 1 below.

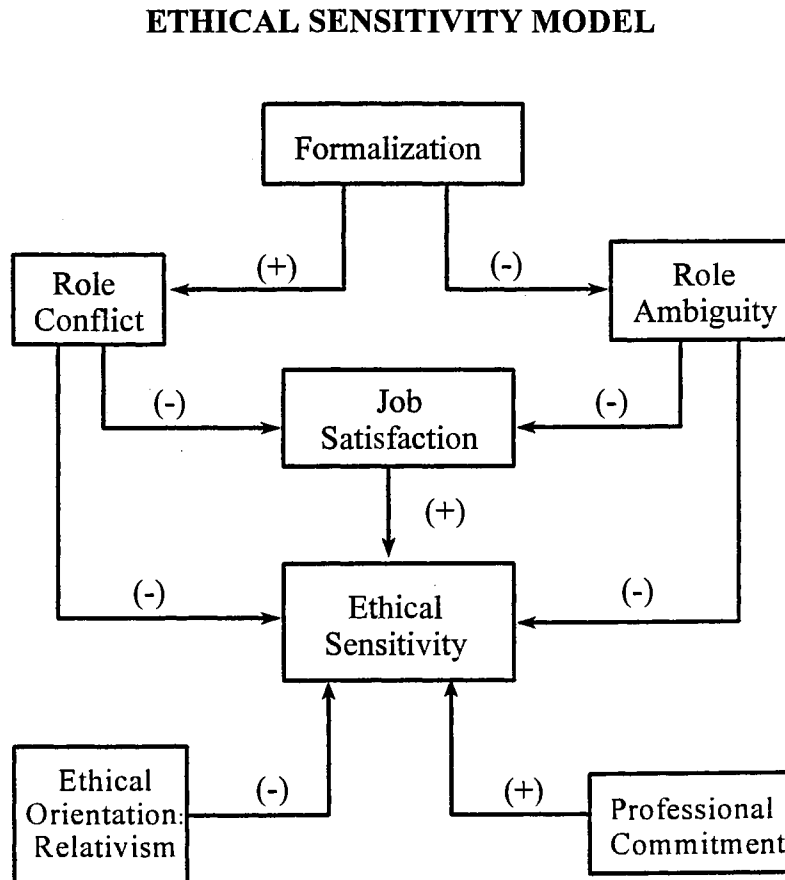


Figure 1

Hunt and Vitell generally describe the organization environment factor as the individual's attitude toward and experiences with the organization. The constructs of formalization, role stress and job satisfaction appear to fit Hunt and Vitell's organizational environment factor.

Formalization is the extent an organization's work activities are defined explicitly by administrative rules and procedures. Formalization shapes the employee's perception

of the mission, character, and culture of the organization (Kahn et al., 1964). This is accomplished by indoctrinating the employees, through documented organizational procedures, as to the appropriate behavior to achieve the organization's goals and mission. Formalization has been shown to have a positive effect on role conflict and a negative effect on role ambiguity. The more defined an individual's role in a firm becomes, the less is the experienced role ambiguity (House and Rizzo, 1972). However, as the individual's role in a firm becomes more precise, the firm's role for the individual may become in conflict with other party's (i.e., self, friends, relatives, peers) perceived role of the individual.

Role stress is comprised of role conflict and role ambiguity. Role conflict is the degree of incompatible expectations communicated to an employee of an organization by others within and outside the organization (Rizzo et al., 1970). Role ambiguity is the lack of clarity concerning job expectations and consequences by others within the organization (Rizzo et al., 1970). If employees encounter significant levels of role stress, they will experience more anxiety and become more dissatisfied with their job and the organization. Ethical recognition is also hampered as the level of experienced role stress increases.

Job satisfaction is the degree that an employee is content with various facets of a job (e.g., pay, promotion possibilities, supervisors, co-workers, and the work itself). The job satisfaction construct is multi-faceted and describes an employee's attitude toward various aspects of an organization (Cellucci and DeVries, 1978). If an employee is experiencing low levels of job satisfaction, then ethical recognition is hindered.

Formalization, role stress, and job satisfaction capture an individual's experiences within the organization as to the degree of job's rules and procedures, conflicting job

requirements, ambiguous job expectations, and satisfaction with multiple elements of a job. Therefore, the aforementioned constructs meet Hunt and Vitell's general description of the organizational environment factor.

Hunt and Vitell generally describe the industry environment factor as the attitude toward and experiences with a profession. Over time, as individuals stay in a profession, they may incorporate the profession's beliefs and values into their own. Professional commitment is the intensity of an individual's identification with, and level of involvement in, a profession. Intensity relates to the degree with which professionals (e.g., tax practitioners) identify with, relate to, and support their profession (Aranya et al., 1981). Considering tax preparation, professional commitment examines the attitudes of tax practitioners toward the tax practice industry. Therefore, professional commitment operationalizes Hunt and Vitell's factor of industry environment by determining the influence of the tax profession on the attitudes and experiences of tax practitioners.

Hunt and Vitell generally describe the factors of personal experience and cultural environment as an individual's level of moral development, personality, and total life experiences. Individuals' ethical orientation is comprised of their system of ethics, which may be either innate and/or learned from society. The ethical orientation of an individual is composed of a combination of idealism and relativism (Forsyth, 1980). Idealism is the extent of an individual's concern with the welfare of others and how strongly the individual believes that harming others is always avoidable. Conversely, relativism rejects absolute moral rules to guide behavior, and states that moral actions depend upon the situation. Ethical orientation is a product of the customs of an individual's culture and the innate values of an individual. Therefore, ethical orientation (i.e., relativism and

idealism) operationalizes Hunt and Vitell's cultural environment and personal experiences factors.

The aforementioned constructs are predicted to significantly affect an individual's ethical sensitivity, which is viewed as the key to the ethical decision-making process (Jones, 1991). Ethical criteria needed to evaluate alternatives will not be used if ethical issues are not recognized in problem situations. If ethical criteria are not implemented in making a decision, then individuals will, at best act amorally, and at worst act immorally. The general purpose of ethics education is to stimulate the moral imagination by developing skills for the recognition and analysis of moral issues (Hasting Center, 1980). An important component of ethical education is recognizing issues in accounting that have ethical implications (Loeb, 1988). Therefore, several benefits are derived from studying the factors that affect ethical sensitivity as discussed in Chapter I.

CHAPTER III

HYPOTHESIS DEVELOPMENT

Introduction

This Chapter develops and discusses the hypotheses to be tested that are supported by Chapter III's theoretical foundation. Hunt and Vitell's factors that affect ethical sensitivity are operationalized using the constructs of role stress, job satisfaction, ethical orientation, and professional commitment. Formalization is examined in relation to the effects of organizational codes of conduct and their effect on role stress. Also, role stress is examined in relation to its potentially negative effect on job satisfaction.

Development of Hypotheses

Formalization

Hunt and Vitell's factor of organization environment and its relation to ethical sensitivity is operationalized with the construct of formalization as can be seen in **Figure 1A**.

Formalization is defined as the extent to which an organization's work activities are defined formally by administrative rules and procedures. It has been linked to role perceptions both conceptually (House and Rizzo, 1972; Kahn et al., 1964) and empirically (Michaels et al., 1987; Moch et al, 1979; Nicholson and Goh, 1983; Organ and

FORMALIZATION

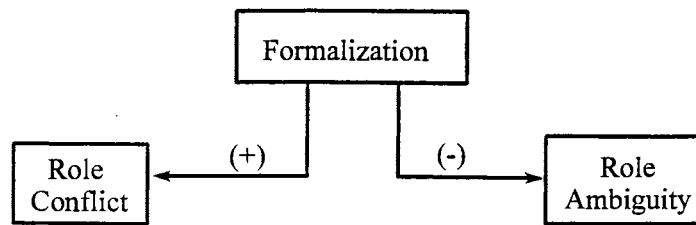


Figure 1A

Greene, 1981). Some research has suggested that formalization indirectly affects job outcomes through intervening variables such as role ambiguity and role conflict (Organ and Greene, 1981; Ruekert et al., 1985). Studies have shown significant negative relationships between formalization and role ambiguity, but significant positive relationships between formalization and role conflict (Agarwal, 1993; House and Rizzo, 1972; Podsakoff et al., 1986).

The presence of explicit rules, policies, and procedures in a highly formalized tax practitioner environment should clarify role perceptions and reduce ambiguity by providing a tax practitioner more guidance and feedback on appropriate behavior. However, formalization may increase the magnitude of role conflict experienced by a tax professional. Organ and Greene (1981) and Nicholson and Goh (1983) found a positive relationship between formalization and role conflict for science and engineering professionals, and data processing research and development professionals, respectively. One explanation for this positive relationship is that higher levels of formalization may be associated with decreased levels of interdepartmental communication (Hage et al., 1971). This lessening of communication can intensify and worsen experienced role conflict (Kahn et al., 1964). A reduction in organizational communication may increase

the conflict felt by the professional from the potentially different roles encouraged by the profession and the organization.

The behaviors encouraged by professional norms are likely to differ from those encouraged by the organization (Kahn et al., 1964). There is empirical evidence that the positive relationship between formalization and role conflict is present primarily in boundary role positions (i.e., interactions between an organization and its environment for decision-making purposes) and for employees with strong professional norms (with the aid of professional codes of conduct) (Michaels et al., 1987; Nicholson and Goh, 1983; Organ and Greene, 1981; Rogers and Molnar, 1976). The tax practitioner frequently interacts with the external environment in the form of clients (potential and current), the IRS (i.e., audits, consultations, and rulings), external sources of evidence used in tax preparation (i.e., partnership returns), and the tax profession (i.e., membership in AICPA's tax division, state society of CPAs' functions and continuing education seminars). Several researchers have found auditors to have a heightened degree of professional commitment (Aranya et al., 1982; Lachman and Aranya, 1986) which leads to an increase in the belief and acceptance of the values of the profession. Therefore, the tax practitioner is in a boundary-spanning role and may adhere highly to the profession's norms if generalizations are made from the aforementioned studies of auditors' professional commitment.

Given that tax practitioners occupy boundary-spanning roles and may also have heightened professional norms (i.e., with the aid of the AICPA's Code of Professional Conduct, and Statements on Responsibilities in Tax Practice), the clarifying effect of organizational rules, policies, and guidelines is expected to reduce role ambiguity and

increase experienced role conflict in tax practitioners. Therefore, the first hypothesis, in the alternative form, states that:

H_{AI}: The level of a tax practitioner's organizational formalization of rules and procedures is negatively associated with the level of a tax practitioner's role ambiguity and positively associated with the level of a tax practitioner's role conflict.

Role Stress

Hunt and Vitell's factor of organizational environment and its relation to job satisfaction and ethical sensitivity is operationalized using the construct of role conflict and role ambiguity as can be seen in **Figure 1B**.

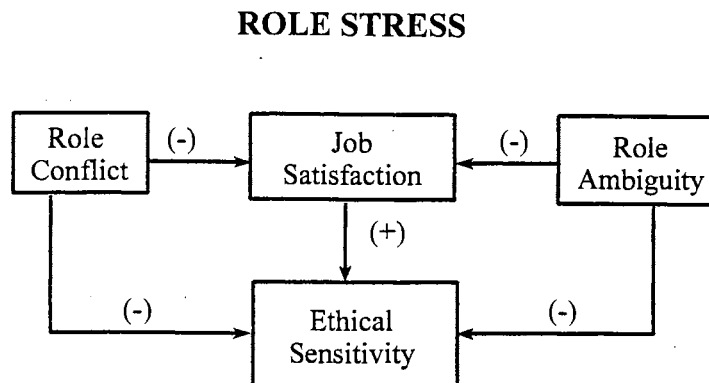


Figure 1B

Role theory states that individuals are social actors who learn behaviors appropriate to the positions they occupy in society (Katz and Kahn, 1978). In organizations, a major element of this learning process is discerning and reacting to the expectations that others, internal and external to the organization, have regarding an individual's organizational role. Certain expectations about privileges, duties, and obligations of occupants of specific positions enable role occupants to make predictions

about others' behaviors and to react accordingly. For example, a tax practitioner has expectations about the appropriate behaviors of a client (e.g., having appropriate documentation for transactions, and answering questions in a complete and honest manner). The client also has expectations about the tax practitioner's behavior (e.g., minimize the client's tax liability, and be the client's advocate). Deviations by either party from these learned expectations affect personal evaluations and the tax practitioner-client relationship.

Most of the previous role theory research has focused on role stress experienced within the role set (i.e., the level of role stress experienced by the persons involved in the receipt of and adherence to job expectations), and not the antecedents or consequences of role stress (Whetten, 1978). This line of research looks at the extent to which expectations of role set members are either unclear (i.e., ambiguous) or incompatible with one another (i.e., conflict). In other words, role stress research has examined the degree that employees within an organization have ambiguous and/or conflicting job expectations. Whetten (1978) argues that role stress issues should be investigated from a "holistic" perspective. This involves investigating systems of selected antecedents (i.e., formalization), role stress (role conflict and role ambiguity), and outcomes (i.e., job satisfaction and ethical sensitivity) in each empirical study.

Role conflict is the degree of incompatibility of expectations communicated (or role pressures) by a role sender (i.e., the person who has authority to delineate job activities and expectations for the role incumbent) to a role incumbent (i.e., the person that is affected by the definition of job activities and expectations). Several types of role conflict exist. Role conflict may exist between the resources, capabilities, and/or values of the employee as compared to his/her defined role and the associated expected

behavior. Role conflict may arise between two or more roles for the same individual. Role conflict has been attributed to incompatible policies, standards of evaluation, requests, and expectations of others (Rizzo et al., 1970).

Role ambiguity is a lack of clarity concerning job expectations, methods for fulfilling known expectations, and/or consequences of specific role performance (Kahn et al., 1964). Rizzo et al. (1970) define role ambiguity in terms of (1) the predictability of the outcomes or responses to one's behavior, and (2) the existence or clarity of behavioral requirements, often in terms of inputs from the environment, that serve to guide behavior and provide knowledge that the behavior is appropriate. Role ambiguity is a theoretically distinct construct from role conflict (Jackson and Schuler, 1985; McGee et al., 1989). Therefore, the effects of role ambiguity and role conflict on behavior are different. Role conflict is more strongly related to interorganizational variables such as integration and information exchange, while role ambiguity is correlated more strongly with intraorganizational variables (Rogers and Molnar, 1976).

Role theory suggests that individuals faced with high levels of role conflict and/or role ambiguity will experience more anxiety and become more dissatisfied than individuals not confronted with ambiguous or conflicting expectations (Rizzo et al., 1970). Because public accounting is generally regarded as a stressful occupation (Figler, 1980), role conflict and ambiguity are relevant variables to examine. Libby (1983) notes that the stress concept may provide a useful structure for analyzing a wide variety of accounting issues. As stress increases, performance first becomes better. As stress continues to increase, performance becomes worse (i.e., distress). This curvilinear relationship is more pronounced for difficult tasks than for simple tasks and more

pronounced for performance criteria reflecting quality rather than quantity (e.g., tax practitioner duties) (Libby, 1983).

Weick (1983) demonstrates how stress is an important complement of accounting practices. Weick states that, in accounting work situations, distress (i.e., an abundance of stress that causes performance to decrease from its peak) may be indicated by certain behaviors. The subpar behaviors include a reduction in the amount of time given each task, blocking out new information, appearance of giving up/superficial involvement, and/or negative or cynical attitude toward customers/clients. All of these behaviors may lead to decreased ethical behavior. The tax practitioner may exhibit reduced ethical behavior by not taking the time to investigate and properly defend a gray tax issue, arriving at a tax decision and subsequently ignoring compelling evidence that would overturn the original decision, and/or reducing the care and advocacy shown the client by failing to legally minimize the client's tax liability.

Cox (1978) also developed a taxonomy of potential stress consequences. Among the six consequences of negative stress levels, Cox includes behavioral and organizational effects that are important to the development of the Ethical Sensitivity Model. One of the behavioral effects of negative stress levels is increased unethical behavior (i.e., breaking laws). The organizational effects of negative stress levels are decreased job satisfaction and poor productivity (in terms of quantitative and qualitative measures).

Numerous studies have investigated the relationship between role stress and job satisfaction. Research in non-accounting organizations strongly suggests that role conflict and role ambiguity are negatively related to job satisfaction (Behrman and Perreault, Jr., 1984; Brief and Aldag, 1976; Dubinsky et al., 1992; Fisher and Gitelson, 1983; Fry et al., 1986; Igarria and Guimaraes, 1993; Jackson and Schuler, 1985; Michaels et al.,

1987; Parasuraman, 1981; Van Sell et al., 1981). Several studies have investigated sources and/or consequences of stress in public accounting (Bamber et al., 1989; Choo, 1986; Collins and Killough, 1992; Kemery et al., 1985; Rebele and Michaels, 1990; Senatra, 1980). Only Senatra (1980) and Collins and Killough (1992) examined job satisfaction as a potential consequence of role stress. Both found a significant negative relationship between role stress and job satisfaction for auditors. Hence, the ethical sensitivity model indicates a negative association between role stress and job satisfaction.

Role stress is negatively associated with ethical sensitivity, both directly and indirectly. Holtsi (1978) states that distress causes a reduction in ethical behavior. An increase in role stress reduces the level of qualitative performance (e.g., ethical sensitivity). Therefore, the second hypothesis, in the alternative form, states that:

H_{A2}: The level of role ambiguity and role conflict experienced by a tax practitioner is negatively associated with a tax practitioner's job satisfaction and ethical sensitivity.

Job Satisfaction

Hunt and Vitell's factor of organization environment and its effect on ethical sensitivity is operationalized using the construct of job satisfaction as can be seen in **Figure 1C**.

Job satisfaction and job performance have been found to be weakly correlated at best (Schnake, 1991). This result may be due to the manner in which performance has been operationalized. Job satisfaction does not appear to have a direct effect on job performance when performance is defined narrowly as quantity and/or quality of output (Organ, 1977). However, other forms of job performance, such as organizational

JOB SATISFACTION

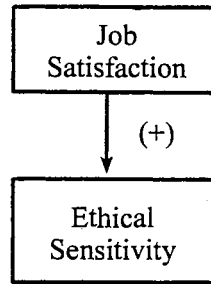


Figure 1C

citizenship behavior, exhibit a stronger positive relationship with job satisfaction. Increased job satisfaction may be produced by organizational citizenship behavior (Organ, 1977). Several researchers have found significant positive relationships between job satisfaction and organizational citizenship behavior (Bateman and Organ, 1983; Moorman, 1993; Organ and Konovsky, 1989; Smith et al., 1983; Williams and Anderson, 1991).

Organ (1988) states that organizational citizenship behaviors fall under the general category of ethical behavior (i.e., refraining from types of behavior such as finding fault with other employees, expressing resentment, starting arguments, etc.). Organ (1977) defined organizational citizenship behaviors as those that are not formally prescribed, but are desired by an organization to effectively function as a system. More specifically, organizational citizenship behavior is defined as those behaviors that are discretionary, not directly or explicitly recognized by the formal reward system, and in the aggregate, promote the effective functioning of the organization (Organ, 1988). Organizational citizenship behavior has been referred to as the "glue which holds collective endeavors together" (Organ, 1977, p.47) and also as something "vital to organizational survival and effectiveness" (Katz and Kahn, 1966, p.12). Organizational citizenship behavior cannot

be accounted for by the incentives that sustain organizationally mandated behavior through formal obligations, such as contracts (Organ, 1990). Organizational citizenship behavior places more resources at the disposal of the organization and negates the need for costly formal mechanisms to provide the informal organizational citizenship behavior (Organ, 1988).

Organizational citizenship behavior encompasses increased sensitivity and behavior by the employee concerning ethical issues involving the organization (i.e., ethical sensitivity). Bateman and Organ (1983) argue that social exchange theory, influenced by job satisfaction, leads to citizenship behaviors and an increased awareness of ethical issues in a business situation. The norm of reciprocity, which forms the foundation of social exchange theory, states that people tend to reciprocate those who benefit them (Adams, 1965). To the extent that a person's satisfaction results from the efforts of an organization's officials and such efforts are interpreted as voluntary and nonmanipulative in intent, the person will seek to reciprocate those efforts with increased awareness and behavior in regard to ethical issues. The person, however, may not have the ability or opportunity to reciprocate with greater work output or creative solutions to work problems. In these situations, citizenship behaviors (i.e., increased efforts to recognize ethical issues in work situations) are more likely to be under the person's control and thus more likely to be the method of reciprocation for increased job satisfaction.

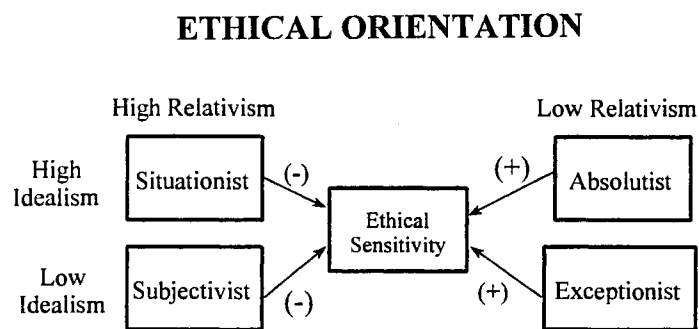
Job satisfaction exhibits a stronger relationship with qualitative measures of job performances as opposed to quantitative measures. Organizational citizenship behavior theory states that these behaviors are not formally defined but significantly contribute to the effectiveness of an organization. Ethical behavior and sensitivity toward ethical

issues fall within the scope of organizational citizenship (Organ, 1988). Therefore, the third hypothesis, in the alternative form, states that:

H_{A3}: The level of a tax practitioner's job satisfaction is positively associated with the tax practitioner's level of ethical sensitivity.

Ethical Orientation

Hunt and Vitell's (1986) factors of personal experiences and cultural environment and their effect on ethical sensitivity is operationalized using the construct of ethical orientation (Forsyth, 1980) as can be seen in **Figure 1D**.



Forsyth (1980) suggests that individual variations in approaches to moral judgment may be described parsimoniously by taking into account two basic factors - idealism and relativism. Idealism is the extent to which an individual is concerned for the welfare of others. Highly idealistic individuals feel that harming others is always avoidable. An idealist would rather not choose between the lesser of two evils when negative consequences for other people would result. Those who are less idealistic, in contrast,

do not emphasize such ideals, for they assume that harm will sometimes be necessary to produce good.

In contrast, relativism is the rejection of absolute moral rules to guide behavior. Highly relativistic individuals adopt a personal moral philosophy based on skepticism. They generally feel that moral actions depend upon the nature of the situation and the individuals involved. When judging others, they weigh the circumstances more than the ethical principle that was violated. People that are low in relativism, however, argue that morality requires acting in ways that are consistent with moral principles, norms, or laws. The concepts of idealism and relativism are not opposites. A relativist could be either high (situationist) or low (subjectivist) in idealism.

The concepts of idealism and relativism represent two separate scales that permit subjects to fall into four classifications: situationist, subjectivist, absolutist, and exceptionist. The situationist is both high in relativism and idealism. The situationist rejects moral rules and takes action based on the best possible outcome in the given situation. The subjectivist is high in relativism and low in idealism. The subjectivist rejects moral rules and bases moral judgments on personal feelings about the action and the setting. The absolutist is low in relativism and high in idealism. The absolutist feels actions are moral provided the actions yield positive consequences through conformity to moral rules. The exceptionist is low in both relativism and idealism. The exceptionist feels conformity to moral rules is desirable, but exceptions to these rules are permissible. The absolutists and exceptionists will adhere to higher standards in the moral judgment process than the situationists and subjectivists (Forsyth, 1980).

Two different kinds of evidence lend support to the two-by-two typology of ethical orientation. First, the four ideologies are consistent with the major philosophical

schools of ethical thought, deontological and teleological, which are integrated into Hunt and Vitell's (1986) General Theory of Ethics. Second, empirical evidence supports the recommended idealism-relativism classification system (Forsyth, 1981, 1985; Forsyth et al., 1988; Forsyth and Pope, 1984; Rim, 1982; Stead et al., 1990; Vitell et al., 1991). As can be seen in **Figure 1D**, research has shown that the ethical orientation of relativism drives the categorization of individual's ethical orientation. The ethical orientation of idealism has been shown to be irrelevant. As an individual's level of relativism increases, the individual is more prone to reject absolute moral rules to guide behavior and feel that moral actions depend upon the nature of the situation. Therefore, higher levels of relativism hinders an individual's ability to recognize ethical issues (Forsyth, 1981, 1985; Forsyth et al., 1988; Forsyth and Pope, 1984).

Applying Forsyth's typology to tax practitioners allows the determination of the potential influence of the tax profession's ethical standards on the tax practitioner. The AICPA's Code of Professional Conduct and Statements on Responsibilities in Tax Practice guide the tax practitioner's behavior in the workplace. With these extensive guides to ethical behavior, high relativists (i.e., situationists and subjectivists) who do not believe that absolute moral rules should guide behavior can be expected to demonstrate a lower level of ethical sensitivity. Low relativists (i.e., absolutists and exceptionists), in general, should be especially sensitive to situations that violate internalized norms or rules and demonstrate a higher level of ethical sensitivity (Shaub et al., 1993). Therefore, the fourth hypothesis, in the alternative form, states:

H_{a4}: A tax practitioner's level of relativism is negatively associated with the tax practitioner's level of ethical sensitivity.

Professional Commitment

Hunt and Vitell's factor of industry environment and its effect on ethical sensitivity is operationalized using the construct of professional commitment as can be seen in **Figure 1E**.

PROFESSIONAL COMMITMENT

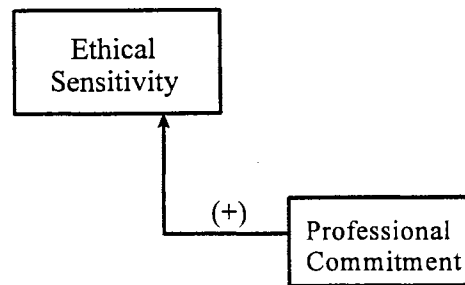


Figure 1E

Professional commitment is the intensity of an individual's identification with, and level of involvement in, a profession (Mowday et al., 1982). This identification requires some level of agreement with the goals and values of a profession, including its moral or ethical values. Commitment, as defined in accounting literature, is (a) a belief in and acceptance of the goals and values of the profession, (b) a willingness to exert considerable effort on behalf of the profession, and (c) a desire to maintain membership in the profession (Aranya et al., 1981; Aranya and Ferris, 1984; Harrell et al., 1986; McGregor et al., 1989; and Meixner and Bline, 1989).

Aranya et al. (1981) suggest that higher professional commitment should be reflected in greater sensitivity to issues involving professional ethics. This increased sensitivity is due to the acceptance of professional norms and goals that is the basis of

professional commitment. Research in accounting situations support a positive relationship between ethical behavior and professional commitment (Aranya et al., 1982; Lachman and Aranya, 1986). The tax practitioner's acceptance of the profession's goals and values implies that the professional will be more sensitive to situations that may run counter to the profession's values. A tax practitioner's desire to maintain membership in the profession may be threatened by committing ethical violations. Therefore, the fifth hypothesis, in the alternative form, states that:

H_{A5}: A tax practitioner's level of professional commitment is positively associated with a tax practitioner's level of ethical sensitivity.

CHAPTER IV

RESEARCH METHODOLOGY

Introduction

In this research study, a survey instrument was administered to a sample of tax practitioners to gather data regarding their level of professional ethical sensitivity and factors that may affect their level of ethical sensitivity. The subject's summed responses to hypothetical scenarios that involve the breach of a number of the AICPA's Statements on Responsibilities in Tax Practice provided a measure of professional ethical sensitivity that was used as the dependent variable. The hypothetical scenarios were pretested using tax practitioners from the Des Moines office of KPMG Peat Marwick and tax practitioners of small tax practices from Stillwater, Oklahoma. The Total Design Method of mail surveys was used as guidance in constructing and administering the survey (Dillman, 1978). The independent variables were formalization, role conflict, role ambiguity, professional commitment, job satisfaction, and ethical orientation. The following test instruments were used to generate the independent variables: Formalization Questionnaire (Aiken and Hage, 1986), Role Conflict and Role Ambiguity Scales (Rizzo et al., 1970), Ethics Position Questionnaire (Forsyth, 1980), Professional Commitment Questionnaire (Aranya et al., 1981), and the Managerial Job Satisfaction Questionnaire (Cellucci and DeVries, 1978). This chapter discusses subjects, measurement of variables, research instrument development, and data analysis.

Subjects

The sample of tax practitioners in this study was taken from the membership files of the American Institute of Certified Public Accountants (AICPA). Therefore, all subjects have the Certified Public Accountant (CPA) designation. A random sample of 2,000 tax practitioners was constructed with the aid of the AICPA's Promotion Department. The sample was evenly split with 1,000 subjects from Big 6 firms and 1,000 subjects from Non-Big 6 firms. Within the Non-Big 6 sample, subjects were evenly stratified by the size of their firm (e.g., 5-15 employees, 16-50 employees, and greater than 50 employees). Every state was represented by the initial sample. The initial sample had approximately 75% male and 25% female subjects.

Measurement of Variables

Dependent Variable

Behavioral research on ethical sensitivity relies on surrogate measures to operationalize actual ethical sensitivity behavior because of the extreme lack of research on ethical sensitivity. Since, there is no established measure of ethical sensitivity, the ethical sensitivity scenarios were pretested using tax practitioners from the groups of Big 6 and non-Big 6 firms. The measure for ethical sensitivity in this study was developed based on subjects responses to five tax scenarios that contained one to four breaches of the AICPA's Statement on Responsibilities in Tax Practice, a nonbinding code of conduct (**APPENDIX C**). Thus, the study focused on ethical sensitivity in the context of professional ethical codes of conduct.

There were ten professional ethical issues embedded in the ethical sensitivity scenarios. After reading the scenarios, the subjects were required to state the nature of any issue(s) of concern and the significance of the discovered issue(s) on a seven-point Likert scale. If an issue was not recognized, the issue received a value of zero. If an issue was recognized, the subject chose the level of significance given the recognized ethical issue. A seven-point Likert scale was used for the level of significance. A one signified the lowest level of significance for a recognized issue, while a seven signified the highest level.

During the construction of the scenarios, several issues were addressed. The scenarios consisted of situations that involved the same client and tax practitioner during a tax engagement. Most, if not all, of the situations are encountered during a single tax engagement. Shaub et al. (1993), using audit "experts", found this approach to be the best. Shaub's audit "experts" felt that the flow of the scenarios was improved by avoiding the added noise of multiple clients and settings. This allowed the audit subjects to focus better on the potential ethical issues. The names of the tax practitioner (i.e., Chris) and the client (i.e., Pat) were generic in order to avoid the potential bias of sex that the subject may attach to the names (Cook and Campbell, 1979). The subject may have believed that women are more ethical than men, or vice versa. The subjects acted as independent, detached third parties that were viewing the ethical situations. The subjects were not required to step into the shoes of the tax practitioner in the scenarios. This desensitized the subjects from giving socially desirable responses (Nunnally, 1978). Embedded within the scenarios are differing degrees of ethical breaches and details that add to the realism of the scenarios (e.g., the client is new, the client is considered important). By adding to the realism of the scenarios, the various details (i.e., noise)

also hindered the recognition of the ethical issues in the scenarios. More variability and dispersion in the responses may occur (Nunnally, 1978). This allowed for a better test of ethical sensitivity because fewer subjects would recognize all or none of the professional ethical issues (i.e., a wider dispersion of answers). By having the professional ethical issues be too obvious or concealed, factors that may affect ethical sensitivity would rarely be significant. Lastly, the five scenarios were arranged in chronological order so the events simulate a real tax engagement.

There were five ethical sensitivity scenarios with differing professional ethical issues. The breaches of professional ethics were constructed with the aid of the AICPA's Statements on Responsibilities in Tax Practice. The first scenario involved an unsubstantiated charitable deduction on the tax return. The second scenario considered what should be done when a past error made by the former tax practitioner is discovered by the current tax practitioner. In third scenario, the level of support and the disclosure requirements a tax practitioner should use when taking a position on a return were at issue (i.e., substantial authority vs. reasonable authority). In making the decision of whether to take a risky position on a return, the subject considered the probability of an audit and being challenged during the audit. The subject considered the possibility of taking a knowingly weak position on the return purely as a potential bargaining ploy in settlement negotiations if an audit should occur. In the fourth scenario the subject made an error and did not correct the tax return nor notify the client. The fifth scenario considered the decision not to charge all the time spent working on the tax return and the potential for decreased independence between the subject and client due to fraternizing outside of the engagement.

Pretest The measure of ethical sensitivity is not an established, widely-used instrument. The tax scenarios were an exploratory attempt to arrive at an established tax ethical sensitivity instrument. The tax scenarios were constructed with the input of employees from the AICPA's Tax Division (i.e., experts). The tax scenarios were pretested using tax practitioners from the Des Moines office of KPMG Peat Marwick (a Big 6 firm) and tax practitioners from small tax firms in Stillwater, Oklahoma (non-Big 6 firms). The pretest subjects were from the staff, manager, and partner levels. This tested the responses from representatives of the two groups that received the final survey. Pretesting was necessary to determine realism of the settings, understandability of the scenarios, and the range of severity of the scenarios (i.e., various degrees of recognition of the issues that are departures from the AICPA's Statements on Responsibility in Tax Practice).

Severity refers to the magnitude of various characteristics of an ethical issue. Differing levels of severity were included to operationalize Jones' (1991) ethical model. Jones (1991) proposes that individuals may respond differently to moral issues in a way that is systematically related to the characteristics of the issue itself (i.e., probability of effect, temporal immediacy, etc.). The characteristics of the moral issue are referred to as moral severity. Moral severity is likely to vary substantially from issue to issue (Jones, 1991). Therefore, a range of moral severity was needed to broaden the scope of possible recognition of ethical issues by a tax practitioner. If the subjects easily recognized all the issues, then the scenario did not test the subjects' ability to recognize professional ethical issues.

Pretesting the tax ethical sensitivity scenarios occurred during September, 1994. The pretest instruments were sent to a contact person at KPMG Peat Marwick, a Big 6

firm, who distributed and collected the instruments over a ten day period. The response rate was eighty percent (12 out of 15). The Stillwater tax practitioners were representative of the non-Big 6 sample group. The Stillwater tax practitioners were randomly selected from the Yellow Pages. Pretest instruments were personally delivered to tax practitioners in Stillwater, Oklahoma, and later received by mail over a seven day period. The response rate was eighty-nine percent (16 out of 18).

Substantial correspondence occurred with employees of the AICPA's Tax Division (i.e., "experts") in order to construct the ethical sensitivity scenarios. These employees are involved with the writing of the AICPA's Statements on Responsibilities in Tax Practice and decisions regarding sanctions against tax practitioners for breaching ethical guidelines. Based on their experiences, these individuals agreed that issues in scenarios three and four were the most severe and recognizable, the issues in scenario two were the least severe and recognizable, and the issues in scenarios one and five were somewhere in between. These individuals believed that the scenarios are realistic, relevant, and understandable.

The pretest instrument tested the ease of recognition of the ethical issues, the severity of the ethical issues, the realism and understandability of the scenarios. A seven-point Likert scale was used with one signifying very low and seven signifying very high. The pretest results indicated that the tax ethical sensitivity scenarios were realistic (5.2 to 6.9) and understandable (6.3 to 7.0) as can be seen in **TABLE I**. The five ethical situations had considerable variability of severity (2.5 to 5.6). Significant differences were seen in the recognition of ethical issues in the five scenarios (2.6 to 5.8). The pretest results concurred with the opinions of the employees of the AICPA's Tax Division. Therefore, the pretest found that the ethical sensitivity tax scenarios elicited

TABLE I
PRETEST RESULTS

	Big 6	Non- Big 6	Total
Recognition *			
Scenario 1	4.6	4.0	4.2
Scenario 2	2.5	2.6	2.6
Scenario 3	5.9	5.7	5.8
Scenario 4	5.1	4.9	5.0
Scenario 5	3.2	2.9	3.0
Severity *			
Scenario 1	4.8	4.2	4.4
Scenario 2	2.8	2.3	2.5
Scenario 3	5.8	5.5	5.6
Scenario 4	4.8	4.8	4.8
Scenario 5	3.5	3.2	3.3
Realism *			
Scenario 1	6.8	6.5	6.6
Scenario 2	5.8	6.6	6.3
Scenario 3	6.9	6.9	6.9
Scenario 4	5.1	5.2	5.2
Scenario 5	6.7	5.0	5.7
Understandability *			
Scenario 1	7.0	7.0	7.0
Scenario 2	6.2	6.5	6.4
Scenario 3	7.0	7.0	7.0
Scenario 4	6.5	6.3	6.3
Scenario 5	6.9	6.8	6.8
*: seven-point Likert scale (1 = Low, 7 = High)			

a wide dispersion of recognition of issues. Scenarios three and four were the most easily recognizable and scenario two as the least recognizable. The pretest subjects indicated that completion time ranged from thirty-five to seventy minutes.

Independent Variables

Each independent variable was generated by the summation of questions from a previously validated questionnaire that measures the construct (**APPENDIX C**). The questionnaires followed the ethical sensitivity scenarios in the survey. Each question was answered using a seven-point Likert scale (1 = Strongly Disagree, 7 = Strongly Agree).

Formalization The Formalization Questionnaire, developed by Aiken and Hage (1986), was used to measure formalization (**APPENDIX C - Part C**). Formalization is the extent to which an organization's work activities are defined formally by administrative rules and procedures. Extensive tests of the reliability and validity of the Formalization Questionnaire have been performed and are discussed in Fisher and Gitelson (1983) and Jackson and Schuler (1985). The test-retest reliability generally is in the .80s and Cronbach's Alpha Index of internal consistency is generally in the high .70s.

Role Conflict The Role Conflict Scale, developed by Rizzo et al. (1970), was used to measure role conflict (**APPENDIX C - Part B**). Role conflict is the degree of incompatibility of expectations communicated (or role pressures) by a role sender (i.e., the person who has authority to delineate job activities and expectations for the role incumbent) to a role incumbent (i.e., the person that is affected by the definition of job activities and expectations). Extensive tests of the reliability and validity of the Role Conflict Scale have been performed and are discussed in Jackson and Schuler (1985) and

Van Sell et al. (1981). The test-retest reliability generally is in the .80s and Cronbach's Alpha Index of internal consistency is generally in the high .70s or .80s.

Role Ambiguity The Role Ambiguity Scale, developed by Rizzo et al. (1970), was used to measure role ambiguity (**APPENDIX C - Part B**). Role ambiguity is a lack of clarity concerning job expectations, methods for fulfilling known expectations, and/or consequences of specific role performances. Extensive tests of the reliability and validity of the Role Ambiguity Scale have been performed and are discussed in Jackson and Schuler (1985) and Van Sell et al. (1981). The test-retest reliability generally is in the .80s and Cronbach's Alpha Index of internal consistency is generally in the high .70s or .80s.

Job Satisfaction The Managerial Job Satisfaction Questionnaire, developed by Cellucci and DeVries (1978), was used to measure job satisfaction (**APPENDIX C - Part E**). Extensive tests of the reliability and validity of the Job Satisfaction Scale have been performed and are discussed in Fisher and Gitelson (1983) and Jackson and Schuler (1985). The test-retest reliability generally is in the .80s and Cronbach's Alpha Index of internal consistency is generally in the low .80s.

Professional Commitment The Professional Commitment Questionnaire, developed by Aranya et al. (1981), was used to measure professional commitment (**APPENDIX C - Part D**). Tests of the reliability and validity of the Professional Commitment Scale have been performed and are discussed in Aranya and Ferris (1984), Lachman and Aranya (1986), and McGregor et al. (1989). The Cronbach's Alpha Index of internal consistency is in the mid-.70s to low-.80s.

Ethical Orientation The Ethics Position Questionnaire, developed by Forsyth (1980), was used to measure ethical orientation (**APPENDIX C - Part F**). Forsyth (1980) states that individual variations in approaches to moral judgment may be described by the basic factors of idealism (the extent to which an individual is concerned for the welfare of others) and relativism (the rejection of absolute moral rules to guide behavior). Tests of the reliability and validity of the Ethical Orientation Scale have been performed and are discussed in Randall and Gibson (1990). The Cronbach's Alpha Index of internal consistency is generally in the mid-.70s to mid-.80s.

Reliability of Test Instruments

Cronbach's Alpha

The Cronbach's Alpha statistic (Cronbach, 1951) was used to measure the reliability (internal consistency) of the various instruments in this study. Reliability is the degree to which a set of two or more indicators share in their measurement of a construct (i.e., formalization, role stress, job satisfaction, professional commitment, and ethical orientation). Highly reliable constructs are those in which the indicators are highly intercorrelated. This indicates that the indicators are all measuring the same latent construct. Cronbach's alpha of at least .65 - .70 is needed to ensure that the test instruments still provide adequate reliability. The Cronbach's alpha for the test instruments in this study are found in **TABLE II**. Only the Cronbach's alpha for the Formalization construct (.654) was found to be almost below the recommended threshold. The other alphas were between .821 and .919.

TABLE II
ALPHA COEFFICIENTS OF THE TEST INSTRUMENTS

Test Instrument	Alpha Coefficient
Formalization (Aiken & Hage, 1986)	.654
Role Conflict (Rizzo et al., 1970)	.842
Role Ambiguity (Rizzo et al., 1970)	.867
Ethics Position (Forsyth, 1980)	
Absolutist	.821
Relativist	.841
Professional Commitment (Aranya et al., 1981)	.889
Job Satisfaction (Cellucci & DeVries, 1978)	.919

Socially Desirable Response

A potential problem in research that uses survey test instruments is the social desirability response of the subjects (Cook and Campbell, 1979; Nunnally, 1978). Social desirability is the tendency of individuals to deny socially undesirable traits and behaviors and to admit to socially desirable ones (Zerbe and Paulhus, 1987). Social desirability is frequently operationalized using the Marlowe-Crowne Scale (Crowne and Marlowe, 1960). The Marlowe-Crowne Scale is an external measure for establishing the degree of validity of the various constructs used. Social desirability may influence measurements by producing spurious correlations between variables, suppressing a true correlation between variables, or serving as a moderator variable between dependent and

independent variables. If social desirability is present in the responses, then the responses cannot be relied on when using statistical analysis.

The Marlowe-Crowne Scale was used to determine the presence of subjects responding in a socially desirable manner. Subjects that responded in such a manner were excluded from analysis due to their responses potentially tainting the results with a bias towards heightened ethical sensitivity, a socially desirable response (Arnold et al., 1985). If the subject gave socially desirable answers to 14 or more of the 27 questions, the subject was removed from the analysis. Thirty-three subjects from Big 6 and thirty-two subjects from non-Big 6 firms were removed for giving potentially socially desirable answers.

Research Instrument

The research instrument consisted of an introductory letter and an eight-part questionnaire: (1) tax ethical sensitivity scenarios and evaluations, (2) role conflict and role ambiguity scales, (3) formalization scale, (4) professional commitment scale, (5) job satisfaction scale, (6) ethical orientation scale, (7) socially desirable responses scale, and (8) questions eliciting the subject's tenure as a tax practitioner, tenure as an employee with current firm, tenure in current job title, gender, education, state of employment, age, familiarity with AICPA's Statements on Responsibilities in Tax Practice, level of risk-seeking in personal life, and level of risk-seeking in professional life (**APPENDIX C**). The Total Design Method of mail surveys was used as guidance in constructing and administering the survey (Dillman, 1978). The Total Design Method is an extensive process of constructing surveys, mailing surveys, and following up with the subjects. The Total Design Method has achieved significant useable response rates of between

forty and ninety percent. The Total Design Method's main purpose is to increase useable responses and, therefore, increase the external validity of the results.

Utilizing the framework of the Total Design Method, the surveys were folded lengthwise to measure 5.5 inches by 8.5 inches. The introductory letter was incorporated into the beginning of the survey. The letter delineated the general problems facing by tax practitioners, the limited size of the sample and the importance of completing the survey, assurances of confidentiality, and the opportunity for the participant to receive the results. The surveys were mailed on October 24, 1994 with a prepaid return envelope. On November 7, 1994, the subjects were mailed a reminder/thank you postcard (**APPENDIX D**). Second requests were mailed only to those subjects that made this request after receiving the reminder postcard.

Data Analysis

The tax ethical sensitivity measure was designed to elicit responses that result in a continuous metric dependent variable. The measures of formalization, role conflict, role ambiguity, job satisfaction, professional commitment, and ethical orientation were also continuous metric measures. Therefore, regression analysis was an appropriate methodology to analyze and verify hypothesized directions of the relationships. The regression equations that tested the hypotheses of this study are as follows:

$$(1) \quad RC_i = b_0 + b_1F_i + e_i.$$

$$(2) \quad RA_i = b_0 + b_1F_i + e_i.$$

$$(3) \quad JS_i = b_0 + b_1RC_i + b_2RA_i + e_i.$$

$$(4) \quad ES_i = b_0 + b_1RC_i + b_2RA_i + b_3JS_i + b_4EO_i + b_5PC_i + e_i.$$

Where:

- F = The total of the formalization questionnaire for tax practitioner i.
- RC = The total of the role conflict questionnaire for tax practitioner i.
- RA = The total of the role ambiguity questionnaire for tax practitioner i.
- JS = The total of the job satisfaction questionnaire for tax practitioner i.
- EO = The classification of tax practitioner i into one of four categories according to ethical orientation.
- PC = The total of the professional commitment questionnaire for tax practitioner i.
- ES = The total of the significance of ethical issues for tax practitioner i.

e_i are independent $N(0, \sigma^2)$

i = 1, ..., n

Hypothesis 1 was tested using linear regression with equations (1) and (2). Hypothesis 2 was tested using multiple regression with equation (3). Hypotheses 2 - 5 were tested using multiple regression with equation (4). The direction and the significance of the beta coefficients were determined in order to test the strength of association the predictor variable(s) had with the dependent variable.

An analysis of covariance was used to remove extraneous influences from the dependent variable with the inclusion of metric covariates. The analysis of covariance eliminates some systematic error outside the control of the researcher that can bias the results. Systematic error accounts for differences in the response due to unique characteristics of the respondents. If the assumptions of regression are met and no

multicollinearity exists, ANCOVA should be used to test for the significance of relationships. ANCOVA analysis is more robust than regression because the systematic errors are minimized (Neter et al., 1989).

The covariate's purpose is to eliminate any effects that affect only a portion of the respondents. An effective covariate in an analysis of covariance is one that is highly correlated with the dependent variable but not correlated with the independent variables. A rule of thumb is that the number of covariates should be less than $.10 \times \text{sample size} - (\text{number of groups} - 1)$. With useable responses numbering 413, the six covariates included in the analysis of covariance were well below the rule of thumb. Covariates included items in the demographic questionnaire (e.g., total years of experience as a tax practitioner, gender, education level, familiarity with the AICPA's Statements of Responsibilities on Tax Practitioners, professional risk-seeking level, type of firm - Big 6 or Non-Big 6).

CHAPTER V

RESULTS

Introduction

This chapter presents the results of the data analysis. Subject characteristics are discussed in the first section of the chapter followed by a discussion of the dependent and independent variables. The regression and ANCOVA results are presented next, with a discussion of each of the five hypotheses. The ANCOVAs use the following as covariates due to the high correlation with the dependent variable and lower correlations with the independent variables: years employed as a tax practitioner, gender, education level, familiarity with the AICPA's Statements on Responsibilities in Tax Practice, professional risk level, and type of employer.

Subject Characteristics

The research instrument was mailed to 2,000 tax practitioners that are not sole practitioners. Seventeen surveys were returned with bad addresses. A total of 103 instruments were initially omitted from the analysis because 1) survey data were unusable (i.e., partially or incorrectly completed), or 2) the subject failed the socially desirable response test. The final useable surveys were 413 with 156 from Big 6 firms and 257 from non-Big 6 firms (**TABLE III**). Based on the power calculation (Lindsay, 1993), final useable surveys were greater than the needed minimum of 100 for each subject

group. Useable surveys were received from tax practitioners in every state except Alaska, Idaho, and New Hampshire. Useable surveys did not appear to cluster in one state or geographic region which improved the generalizability of the results.

TABLE III
SAMPLE STATISTICS

	Big 6	Non-Big 6	Total
Mailing of Surveys on 10/24/94	<u>1,000</u>	<u>1,000</u>	<u>2,000</u>
Returned to Sender	<u>11</u>	<u>61</u>	<u>17</u>
True Sample Number	<u>989</u>	<u>994</u>	<u>1,983</u>
Surveys Returned	<u>215</u>	<u>301</u>	<u>516</u>
Percent Returned	<u>21.7</u> %	<u>30.3</u> %	<u>26.0</u> %
Returned Survey in Unusable Form	26	12	38
Returned Survey with Socially Desirable Responses	<u>33</u>	<u>32</u>	<u>65</u>
Useable Surveys	<u>156</u>	<u>257</u>	<u>413</u>
Percent Useable	<u>15.8</u> %	<u>25.9</u> %	<u>20.8</u> %

The useable response rate was low compared with other surveys using Dillman's Total Design Method. Useable response rates have generally exceeded forty percent (Dillman, 1978). Similar, but substantially shorter, surveys were conducted with tax

practitioners and yielded useable response rates of sixty and forty percent (Bradley, 1993; Burns and Kiecker, 1994).

The low useable response rate was attributable to the length of the survey and the sensitive nature of the test instruments (i.e., subjects may have felt uncomfortable giving sensitive information without an absolute guarantee of confidentiality). Examples of sensitive information given by the subjects included an evaluation of peers and supervisors, the subject's professional commitment, firm policies, and opinions as to the correct action to take in potentially compromising positions. The low useable response rate may limit the generalizability of the results. However, generalizability improves if the sample statistics are consistent with the population statistics (Nunnally, 1978). Descriptive data for the 413 subjects retained are presented in **TABLE IV**. The same descriptive data are presented in **TABLE V** and **TABLE VI** for the Big 6 and Non-Big 6 subjects, respectively. Panel A provides descriptive statistics for questions requiring a numeric response. Panel B presents frequency counts for all other variables.

The tax practitioner sample statistics were consistent with the population statistics as stated by the AICPA's Membership Division. The subjects consisted solely of tax practitioners that are members of the AICPA with their CPA designation. The final useable sample consisted of sixty-nine percent male, sixty-two percent employed with non-Big 6 firms, and an average age of 39.2 years. The AICPA's Membership Division statistics of tax practitioner members indicates that sixty-three percent are male, fifty-eight percent are employed with non-Big 6 firms, and the average age of the tax members is 41.5. The sample's subjects indicated that they have worked as a tax practitioner from 1 to 45 years with a mean work experience of 14.1 years. This

TABLE IV
SUBJECT CHARACTERISTICS

Panel A - Means	Mean	SD	Range
Age	39.2	8.9	23-75
Years employed as Tax Practitioner	14.1	8.1	1-45
Years holding current job title	6.3	5.7	1-40
Years employed with current firm	10.0	7.7	1-45
Familiarity with AICPA's Resp. in Tax Practice	5.3	2.5	1-10 **
Risk-seeking in Personal Life	4.7	2.0	1-10 **
Risk-seeking in Professional Life	4.6	2.0	1-10 **
**: 1 = Very Low; 10 = Very High.			
<hr/>			
Panel B - Frequency counts			
<hr/>			
Sex			
Male			283
Female			130
Education			
B.A. or B.S. in Accounting			182
B.A. or B.S. not in Accounting			12
Some Graduate Study			44
Masters Degree in Accounting			72
Masters Degree not in Accounting			62
Doctorate in Accounting			1
J.D.			40
Employer			
Big 6 firm			156
Non-Big 6 firm			257

TABLE V
BIG 6 SUBJECT CHARACTERISTICS

Panel A - Means	Mean	SD	Range
Age	35.9	7.7	23-60
Years employed as Tax Practitioner	11.5	7.1	1-34
Years holding current job title	4.6	4.3	1-21
Years employed with current firm	8.4	6.8	1-36
Familiarity with AICPA's Resp. in Tax Practice	5.1	2.6	1-10 **
Risk-seeking in Personal Life	4.7	2.1	1-10 **
Risk-seeking in Professional Life	4.8	2.1	1-10 **

** : 1 = Very Low; 10 = Very High.

Panel B - Frequency counts	
Sex	
Male	120
Female	36
Education	
B.A. or B.S. in Accounting	52
B.A. or B.S. not in Accounting	2
Some Graduate Study	13
Masters Degree in Accounting	41
Masters Degree not in Accounting	26
Doctorate in Accounting	1
J.D.	21

TABLE VI
NON-BIG 6 SUBJECT CHARACTERISTICS

Panel A - Means	Mean	SD	Range
Age	41.2	9.0	23-75
Years employed as Tax Practitioner	15.8	8.3	1-45
Years holding current job title	7.3	6.2	1-40
Years employed with current firm	11.0	8.1	1-45
Familiarity with AICPA's Resp. in Tax Practice	5.4	2.4	1-10 **
Risk-seeking in Personal Life	4.7	2.0	1-10 **
Risk-seeking in Professional Life	4.6	2.0	1-10 **

** : 1 = Very Low; 10 = Very High.

Panel B - Frequency counts	
Sex	
Male	163
Female	94
Education	
B.A. or B.S. in Accounting	130
B.A. or B.S. not in Accounting	10
Some Graduate Study	31
Masters Degree in Accounting	31
Masters Degree not in Accounting	36
Doctorate in Accounting	0
J.D.	19

indicated that the subjects are an experienced group and had encountered a greater variety of professional situations than lesser experienced practitioners. All subjects had completed an undergraduate degree and approximately fifty percent of the subjects had begun or completed a graduate degree. This indicates a highly educated tax practitioner sample.

To test for possible nonresponse bias, the wave approach was used (Armstrong and Overton, 1977). The wave approach involves a comparison of respondents from the early and late waves. The early and late wave respondents, using t-tests, were consistent in regard to respondent characteristics and responses to the test instruments. Significant differences (i.e., $t\text{-value} < .05$) were found only in regard to risk-seeking in personal life, years employed as a tax practitioner, and the formalization construct. This consistency lends support to the external validity of the results (Armstrong and Overton, 1977; Nunnally, 1978).

Each mailed research instrument contained: 1) an introductory letter, 2) the tax ethical sensitivity scenario, 3) the scales for formalization, role conflict, role ambiguity, job satisfaction, professional commitment, and ethical orientation, 4) the socially desirable response instrument, 5) the demographic questionnaire, and 6) the closing remarks. Characteristics and responses to the test instruments of the subjects from Big 6 and Non-Big 6 firms were compared using t-tests. The results of the comparisons show subjects differed significantly (i.e., $t\text{-value} < .05$) in the total recognition of professional ethical issues; the level of role conflict, role ambiguity, professional commitment, job satisfaction, and ethical orientation; years employed as a tax practitioner, sex, educational level, and age. Because of these numerous significant differences, the type of firm that employs the subject (i.e., Big 6 and non-Big 6) was used as a covariate in the ANCOVA analysis.

Dependent and Independent Variables

The overall sample's descriptive statistics for the dependent variable and independent variables are presented in **TABLE VII**. The descriptive statistics for the dependent variable and independent variables of the Big 6 and non-Big 6 firms are presented in **TABLE VIII** and **TABLE IX**, respectively. The actual and absolute range for each variable is from the lowest to the highest level. The absolute range is the minimum to the maximum score that the subject could assign to a construct. The dependent variable (i.e., level of ethical sensitivity) is the sum of the significance of the items recognized as issues of concern by each subject. There were ten potential issues of concern embedded in the dependent variable test instrument (i.e., the tax ethical sensitivity scenario). Each issue had the potential score of 0 to 7. A score of zero indicated that the issue was not recognized. A score of one (seven) indicated that the issue was recognized and the issue of concern was at the lowest (highest) significance level. The issues of concern that were recognized over fifty percent of the time includes unverified deductions (87%), lacking substantial authority in position taken (80%), failing to correct tax return due to an omission (73%), underrecording actual time spent on the engagement (70%), and not dealing with a prior error from a former firm (51%). The independent variable scores are the summation of the questions in each prevalidated scale. The dependent variable and independent variables were reasonably dispersed.

TABLE VII
DESCRIPTIVE STATISTICS FOR THE DEPENDENT AND
INDEPENDENT VARIABLES

	Mean	S. D.	Actual Range	Absolute Range
Dependent Variable				
Ethical Sensitivity	18.58	8.63	0-49	0-70
Independent Variables				
Role Conflict	39.57	12.88	11-71	11-77
Role Ambiguity	22.10	12.26	11-64	11-77
Formalization	36.77	6.60	8-46	7-49
Professional Comm.	77.63	14.79	21-104	15-105
Job Satisfaction	101.47	20.29	33-140	20-140
Ethical Orientation: Relativism	32.63	11.38	10- 67	10- 70

TABLE VIII
DESCRIPTIVE STATISTICS FOR THE DEPENDENT AND
INDEPENDENT VARIABLES:

BIG 6

	Mean	S. D.	Actual Range	Absolute Range
Dependent Variable				
Ethical Sensitivity	20.03	8.27	5-47	0-70
Independent Variables				
Role Conflict	43.52	11.96	15-71	11-77
Role Ambiguity	24.88	12.09	12-64	11-77
Formalization	37.17	6.39	11-46	7-49
Professional Comm.	74.03	14.55	25-101	15-105
Job Satisfaction	98.81	18.23	33-133	20-140
Ethical Orientation: Relativism	33.32	11.13	10-67	10-70

TABLE IX
DESCRIPTIVE STATISTICS FOR THE DEPENDENT AND
INDEPENDENT VARIABLES:

NON-BIG 6

	Mean	S. D.	Actual Range	Absolute Range
Dependent Variable				
Ethical Sensitivity	17.70	8.73	0-49	0-70
Independent Variables				
Role Conflict	37.18	12.85	11-71	11-77
Role Ambiguity	20.41	12.08	11-62	11-77
Formalization	36.53	6.72	8-45	7-49
Professional Comm.	79.81	14.53	21-104	15-105
Job Satisfaction	103.09	21.32	39-140	20-140
Ethical Orientation:				
Relativism	32.21	11.53	10-65	10-70

Diagnostics

The occurrence of multicollinearity was examined. Some of the key problems caused by multicollinearity are (Neter et. al., 1990):

1. unstable regression coefficients.
2. large estimated standard deviations of the regression coefficients.
3. individual regression coefficients that may not be statistically significant even when a definite statistical relationship exists between the dependent variable and the set of independent variables.

The correlation analysis in **TABLE X** indicates that all correlations between independent variables were less than .700. The presence of high correlations (generally those of .900 and above) is the first indication of substantial collinearity (Hair, Jr. et. al.,

1992). Lack of any high correlation values still does not ensure a lack of collinearity, however, as multicollinearity may be due to two or more of the independent variables being highly correlated.

A common measure for assessing both pairwise and multiple variable collinearity is the variance inflation factor (VIF). The VIF measures how much the variances of the estimated regression coefficients are inflated as compared to when the independent variables are not linearly related. Very large VIF values (i.e., greater than 10) indicate that multicollinearity is influencing the least squares estimates (Neter et. al., 1990). The VIFs ranged from 1.013 to 2.306 and did not indicate multicollinearity.

Although the linear regression model is robust against some types of departures from the model's basic assumptions, the appropriateness of the model for the data should be examined to detect serious departures (Neter et al., 1990). The model assumes that error terms:

1. are independent
2. are normally distributed, and
3. have constant variance.

Several tests were conducted to determine that the assumptions were met. The effect of a lack of independence in error terms is relatively unimportant and can be ignored unless the sample size is small relative to the number of parameters or data is collected in a time sequence (Neter et al., 1990). Even though the sample size was large relative to the number of parameters, the Durbin-Watson test was calculated for each regression equation to determine the independence of error terms. Values close to two signify that the errors are uncorrelated. The Durbin-Watson values ranged from 1.698 to 2.069 indicating the independence of the error terms.

TABLE X
CORRELATION ANALYSIS
With Pearson Coefficients

		TREC	FORM	TRC	TRA	TPC	TJS	REL	YRTP	SEX	EDUC	AICPA	PROF	BIG
PROF. ETHICAL RECOG.	TREC	1.000												
FORMALIZATION	FORM	-0.129 0.0085	1.000											
ROLE CONFLICT	TRC	0.051 0.3050	-0.113 0.0213	1.000										
ROLE AMBIGUITY	TRA	0.061 0.2160	0.179 0.0003	-0.696 0.0001	1.000									
PROFESS. COMMITMENT	TPC	0.090 0.0688	0.068 0.1688	-0.414 0.0001	0.460 0.0001	1.000								
JOB SATISFACTION	TJS	-0.011 0.8277	0.241 0.0001	-0.584 0.0001	0.625 0.0001	0.518 0.0001	1.000							
ETHICAL ORIENT.: REL.	REL	-0.018 0.7186	0.100 0.0432	0.112 0.0233	-0.110 0.0258	-0.060 0.2271	-0.010 0.8448	1.000						
YEARS AS TAX PRACT.	YRTP	0.014 0.7759	0.045 0.3599	-0.213 0.0001	0.288 0.0001	0.253 0.0001	0.256 0.0001	-0.133 0.0069	1.000					
GENDER <i>F=0 n=1</i>	SEX	-0.006 0.9108	-0.005 0.9246	0.062 0.2067	0.081 0.1000	-0.065 0.1890	0.003 0.9486	-0.003 0.9508	0.265 0.0001	1.000				
EDUCATION LEVEL	EDUC	0.150 0.0022	-0.018 0.7110	0.107 0.0302	-0.080 0.1030	-0.064 0.1970	-0.081 0.1018	0.069 0.1603	-0.114 0.0204	0.090 0.0676	1.000			
AICPA'S STMT. on RESP.	AICPA	-0.114 0.0207	0.031 0.5276	0.047 0.3373	-0.062 0.2086	-0.177 0.0003	-0.147 0.0027	0.126 0.0103	-0.300 0.0001	-0.046 0.4854	-0.004 0.9397	1.000		
PROFESS. RISK-SEEKING	PROF	-0.095 0.0527	0.069 0.1639	0.095 0.0540	-0.059 0.2308	-0.023 0.6410	-0.004 0.9293	0.109 0.0266	0.041 0.4080	0.130 0.0013	0.053 0.2783	0.003 0.9466	1.000	
BIG 6 vs. NON-BIG 6 <i>0 1</i>	BIG	-0.131 0.0077	-0.047 0.3419	-0.239 0.0001	0.177 0.0003	0.190 0.0001	0.102 0.0375	0.067 0.2345	0.256 0.0001	-0.141 0.0041	-0.197 0.0001	-0.065 0.1904	-0.053 0.2832	1.000

09

Normal probability plots of the residuals were examined to assess the normality of the error terms. A straight line indicates that the error terms are normally distributed. Unless departures from normality are serious, actual regression coefficients and risks of errors will be close to levels of exact normality (Neter et al., 1990). The normal probability plots in **APPENDIX E** show very minor curvature which indicates normality of the error terms.

Plots of the residuals against the predicted values were examined to assess the assumption that the error variance is constant. The plot should show a scatter of points around zero and no defined pattern, which is the case. The plots in **APPENDIX E** indicate that the error variances are constant.

The diagnostic technique of studentized residuals was used to determine potentially influential outliers. Studentized residuals standardizes the residuals as standard deviations from the line of best fit. The residual's standard deviation for observation i is computed from regression estimates omitting the i th observation in the calculation of the regression estimates. The studentized residual's value corresponds to t values (Hair, Jr. et al., 1992). Studentized residuals in excess of 2.00 (i.e., tail areas of .01 on each side are considered extreme) are excluded from the analysis and a new regression equation is fit for each dependent variable. Approximately 5+ percent of a large sample would need to have studentized residuals in excess of 2.00 and be deleted for there to be a substantial impact on the significance of the regression parameters (Neter et al., 1990). Also an outlying influential case should not be automatically discarded, because it may be entirely correct and simply represents an unlikely event. In addition, the circumstances surrounding the data may not provide an explanation of the unusual cases. Therefore, outliers may not need to be excluded from further analysis

(Neter et al., 1990). New regression equations were fitted after deleting the potential outliers. The exclusion of the potential outliers did not change the significance of the regression parameters. Therefore, the potential outliers were not deleted from the final analysis.

Regression and ANCOVA analysis

The assumptions of regression were met and no multicollinearity exists. Therefore, ANCOVA was used. ANCOVA is a variation of regression that removes extraneous variation in the dependent variable due to one or more uncontrolled metric independent variables (i.e., covariates). Therefore, ANCOVA analysis is more robust than regression and may be used in lieu of regression (Neter et al., 1990). Linear and multiple regression analysis are used strictly to determine whether an independent variable is significantly influencing the dependent variable in the hypothesized direction (i.e., a negative or positive association). ANCOVA is used to determine the significance of the independent variables while controlling for the covariates.

Hypothesis 1

Hypothesis 1 states that the level of a tax practitioner's organizational formalization is negatively and positively associated with the level of a tax practitioner's role ambiguity and role conflict, respectively. The following regression equations examined Hypothesis 1:

$$(1A) \quad RC_i = b_0 + b_1F_i + e_i.$$

$$(1B) \quad RA_i = b_0 + b_1F_i + e_i.$$

Where:

- RC = The total of the role conflict questionnaire for tax practitioner i .
- RA = The total of the role ambiguity questionnaire for tax practitioner i .
- F = The total of the formalization questionnaire for tax practitioner i .
- e_i are independent $N(0, \sigma^2)$
- $i = 1, \dots, N$

Role Conflict Regression analysis indicates that formalization has the hypothesized positive association with role conflict (Beta = .221, Prob > t = .021).

ANCOVA results appear in **TABLE XI**. The overall test of the model results in an F-value of 2.38. The probability of a greater F-value is .000. The r-square indicates that the approximate reduction of variation of the role conflict measure associated with the set of independent and covariate variables is 21.7%. After controlling for the covariates, formalization has a significant effect (Prob > F = .026) on role conflict as hypothesized. The covariates of years as a tax practitioner, professional risk level, and type of employer also have significant effects on role conflict.

Role Ambiguity Regression analysis indicates that formalization has the hypothesized negative association with role ambiguity (Beta = -.333, Prob > t = .000).

ANCOVA results appear in **TABLE XII**. The overall test of the model results in an F-value of 3.14. The probability of a greater F-value is .000. The r-square indicates that the approximate reduction of variation of the role ambiguity measure associated with the set of independent and covariate variables is 26.8%. After controlling for the covariates, formalization has a significant effect (Prob > F = .000) on

TABLE XI

ANCOVA RESULTS:

Role Conflict

	DF	F-Val	Prob > F
Formalization	37	1.54	.026
Years as Tax Pract.	1	14.30	.000
Sex	1	2.76	.083
Education	1	1.42	.235
AICPA's Stmts.	1	.26	.611
Prof. Risk Level	1	4.45	.036
Type of Employer	1	16.40	.000
R-square	.217		
F-Value	2.380		
Prob > F	.000		

TABLE XII

ANCOVA RESULTS:

Role Ambiguity

	DF	Fval	Prob > F
Formalization	37	2.45	.000
Years as Tax Pract.	1	30.96	.000
Sex	1	.14	.707
Education	1	.54	.464
AICPA's Stmts.	1	.53	.467
Prof. Risk Level	1	4.10	.044
Type of Employer	1	8.02	.005
R-square	.268		
F-Value	3.140		
Prob > F	.000		

role ambiguity as hypothesized. The covariates of professional risk level and type of employer also have significant effects on role conflict.

Hypothesis 2A

Hypothesis 2A states that the level of role ambiguity and role conflict experienced by a tax practitioner are negatively associated with a tax practitioner's job satisfaction.

The following regression equation examined Hypothesis 2A:

$$(2A) \quad JS_i = b_0 + b_1RC_i + b_2RA_i + e_i.$$

Where:

JS = The total of the job satisfaction questionnaire for tax practitioner i.

RC = The total of the role conflict questionnaire for tax practitioner i.

RA = The total of the role ambiguity questionnaire for tax practitioner i.

e_i are independent $N(0, \sigma^2)$

$i = 1, \dots, N$

Job Satisfaction Regression analysis indicates that role conflict (Beta = -.457, Prob>t = .000) and role ambiguity (Beta = -.700, Prob>t = .000) have the hypothesized negative associations with job satisfaction.

ANCOVA results appear in **TABLE XIII**. The overall test of the model results in an F-value of 3.45. The probability of a greater F-value is .000. The r-square indicates that the approximate reduction of variation of the job satisfaction measure associated with the set of independent and covariate variables is 57.77%. After controlling for the covariates, role conflict (Prob>F = .000) and role ambiguity

(Prob > F = .000) have significant effects on job satisfaction as hypothesized. The covariate of years as a tax practitioner also has a significant effect on job satisfaction.

TABLE XIII
ANCOVA RESULTS:
Job Satisfaction

	DF	F-Val	Prob > F
Role Conflict	57	5.11	.000
Role Ambiguity	54	1.91	.000
Years as Tax Pract.	1	3.14	.078
Sex	1	.18	.673
Education	1	.50	.481
AICPA's Stmts.	1	2.54	.112
Prof. Risk Level	1	1.87	.173
Type of Employer	1	.67	.414
R-square	.578		
F-Value	3.450		
Prob > F	.000		

Hypothesis 2B, 3, 4, and 5

Hypotheses 2B-5 state that the level of role ambiguity and role conflict are negatively associated with a tax practitioner's level of ethical sensitivity. The level of job satisfaction, ethical orientation, and professional commitment experienced by a tax practitioner are positively associated with a tax practitioner's level of ethical sensitivity.

The following regression equation examines Hypotheses 2B-5:

$$(2B-5)ES_i = b_0 + b_1RC_i + b_2RA_i + b_3JS_i + b_4EO_i + b_5PC_i + e_i.$$

Where:

ES = The total of the significance of ethical issues for tax practitioner i.

RC = The total of the role conflict questionnaire for tax practitioner i.

RA = The total of the role ambiguity questionnaire for tax practitioner i.

JS = The total of the job satisfaction questionnaire for tax practitioner i.

EO = The classification of tax practitioner i into the ethical orientation of low or high relativism.

PC = The total of the professional commitment questionnaire for tax practitioner i.

e_i are independent $N(0, \sigma^2)$

$i = 1, \dots, N$

Ethical Sensitivity Regression analysis indicates that only professional commitment (Beta = .091, Prob > t = .008) has the hypothesized associations with ethical sensitivity (i.e., positive). The remaining independent variables' t-values are greater than .18.

ANCOVA results appear in **TABLE XIV**. The overall test of the model resulted in an F-value of 1.34. The probability of a greater F-value was .026. The r-square indicated that the approximate reduction of variation of the ethical sensitivity measure associated with the set of independent and covariate variables was 70.7%. After controlling for the covariates, role conflict (Prob > F = .003) and job satisfaction (Prob > F = .045) have hypothesized significant effects on ethical sensitivity. The covariates of familiarity with the AICPA's Statements on Responsibilities in Tax Practice, professional risk level, and type of employer also have significant effects on ethical sensitivity.

TABLE XIV
ANCOVA RESULTS:
Ethical Sensitivity

	DF	F-Val	Prob > F
Role Conflict	57	1.80	.003
Role Ambiguity	54	1.21	.187
Profess. Commit.	64	.95	.587
Job Satisfaction	83	1.64	.045
Eth. Orient.: Rel.	1	1.82	.179
Years as Tax Pract.	1	.10	.751
Sex	1	.01	.916
Education	1	1.10	.295
AICPA's Stmt.	1	2.91	.090
Prof. Risk Level	1	6.72	.011
Type of Employer	1	9.64	.002
R-square	.707		
F-Value	1.340		
Prob > F	.026		

CHAPTER VI

SUMMARY AND CONCLUSIONS

This chapter presents a discussion of the results of the study followed by limitations of the findings, implications for future research and a synopsis of the major points of this study.

Research Results and Discussion

This study examined the primary relationship between ethical sensitivity and role stress, job satisfactions, professional commitment, ethical orientation. Secondary relationships included formalization with role stress, and role stress with job satisfaction.

The following research questions were developed and tested:

1. Are the factors of role stress, job satisfaction, ethical orientation and/or professional commitment aiding or hindering a tax practitioner's ability to recognize professionally ethical issues?
2. Are formalization procedures helping to facilitate a reduction or increase in the role stress experienced by tax practitioners?
3. Does role stress cause a tax practitioner's job satisfaction to decrease?

One hundred and thirty Big 6 and two hundred and eighty-three non-Big 6 tax practitioners completed a multi-part survey designed to elicit data required to test these questions. The data were analyzed using regression analysis for the direction of association and ANCOVA for significance of association. The following discusses the

research questions of this study. **Figure 2** presents the hypothesized and actual relationships of the ethical sensitivity model.

ETHICAL SENSITIVITY MODEL

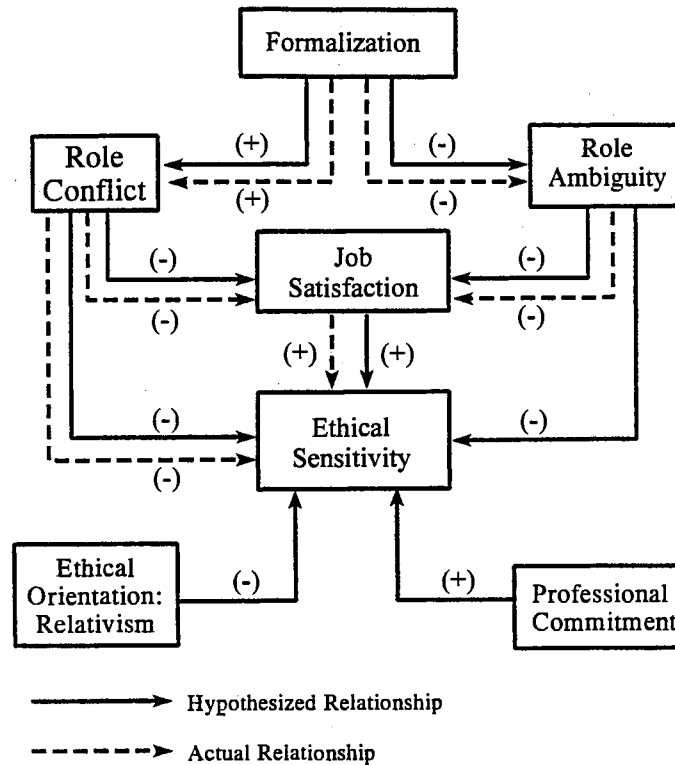


Figure 2

Research Question One

As hypothesized, role conflict was negatively associated and job satisfaction was positively associated with ethical sensitivity. However, role ambiguity, professional commitment and ethical orientation were not significantly associated with ethical sensitivity. The significant covariates were professional risk level and type of employer. This indicates that as various constituents of a tax practitioner are perceived as sending

differing messages as to the role of a tax practitioner, a tax practitioner's ability to recognize ethical issues decreases.

The results also indicate that there is a significant positive relationship between job satisfaction and the ethical recognition of tax practitioners (i.e., qualitative performance). The discussion pertaining to research question three suggests that role stress is negatively associated with job satisfaction. It has been shown that dissatisfied tax practitioners leave or intend to leave public accounting (Aranya et al., 1982; Gregson, 1990; Snead and Harrell, 1991). Based on the results of this study, there is a significant positive relationship between tax practitioners' job satisfaction and their ethical recognition abilities. However, the more satisfied (i.e., remaining tax practitioners) may not be as talented as the tax practitioners that intend to depart or have departed. Therefore, stress management seminars may alleviate the role stress experienced by tax practitioners. This allows the tax firms a better opportunity to retain the more talented tax practitioners and ease out the less talented tax practitioners (i.e., placement with existing and potential clients or termination).

Professional commitment was not found to have a significant relationship with ethical recognition. This finding indicates that the role conflict felt by the tax practitioner is lessened. The impact of potential differences between the profession's and the tax firm's role for a tax practitioner is minimized. A tax practitioner highly committed to the tax firm will feel less role conflict whether the tax practitioner gives little or a lot of credence to the tax profession's doctrines. Therefore, tax practitioner's ethical recognition abilities will not be hampered due to varying degrees of professional commitment. Resources spent on professional codes of conduct may have a limited impact on tax practitioners' ethical recognition and behavior.

The results again indicate that tax practitioners may not be responsive to the profession's increased efforts to enhance their ethical decision-making abilities (i.e., through professional codes of conduct). This is supported by the tax practitioners' familiarity with the AICPA's Statements on Responsibilities in Tax Practice not being significantly associated with ethical recognition. Tax practitioners that were familiar with the AICPA's Statements did not recognize ethical issues any better than tax practitioners unfamiliar with the Statements. This suggests that resources of the AICPA could be diverted to other areas that may positively impact tax practitioners (e.g., increased Continuing Professional Education, CPE, courses on ethical decision-making). However, this finding must be tempered because the familiarity with the AICPA's Statements were self-reported. Subjects may not have been as familiar with the AICPA's Statements as they claim. A test over the subjects knowledge of the AICPA's Statements would need to be conducted to fully support the above contention.

The AICPA's Statements are nonbinding. Having the tax practitioners receive sanctions if violations of the AICPA's Statements occur could override the lack of significance of the tax practitioners' professional commitment in relation to ethical sensitivity. Sanctions may induce tax practitioners to become more sensitive toward professional ethical issues.

The tax practitioner's type of employer was significantly associated with ethical recognition. T-tests found that there were significant ethical recognition differences between tax practitioners from Big 6 versus non-Big 6 firms. There may be several reasons for this significant difference in ethical recognition. First, Big 6 tax practitioners (i.e., the biggest tax firms in the world) were better able to recognize ethical issues. This may be due to the extensive (i.e., quantity and quality due to more resources)

in-house training (i.e., on tax regulations and proper/ethical procedures) that Big 6 tax practitioners receive. This may sensitize the Big 6 tax practitioners toward recognizing ethical issues and lends more support to the notion of increasing ethics education for tax practitioners. Second, Big 6 firms have more layers of management and, therefore, more review and feedback occur during tax engagements. Big 6 tax practitioners may have their scope of potential ethical issues broadened by experiences shared by their superiors during the review process. Lastly, because the tax practitioner's professional risk level was significantly associated with ethical recognition, Big 6 firms may attract or retain more risk-averse tax practitioners than non-Big 6 firms.

The discussion pertaining to research question two suggests that formalization is positively associated with role conflict. Therefore, increased autonomy may decrease role conflict and improve ethical recognition. However, the propensity to take risks in a tax practitioner's professional life significantly affects the ability to recognize ethical issues. This indicates that increases in ethical sensitivity through greater autonomy will be successful when the tax practitioner has an aversion to taking risks in his/her professional life.

Research Question Two

As hypothesized, formalization was positively associated with role ambiguity and negatively associated with role conflict. The number of years employed as a tax practitioner, professional risk level, and type of employer were significantly associated with the experienced levels of role ambiguity and role conflict. As discussed in the implications for future research section, the net effects of formalization on role stress are difficult to ascertain. Formalization was highly significant with both role ambiguity and

role conflict. However, formalization effects role ambiguity and role conflict in opposite ways. Therefore, research should determine the optimal level or format of formalization.

Insight can be gained by examining the significant covariates. As a tax practitioner gains experience, the ability to deal with role stress may be improved. An experienced tax practitioner has a clearer identity and purpose which minimizes role ambiguity. However, this more focused purpose or role could lead to heightened role conflict. This narrowed focus would lessen the number of constituents that share the tax practitioner's belief of his/her role. This leads to increasing role conflict. However, tax practitioners' coping abilities may be enhanced through the knowledge acquired by their many experiences in dealing with role conflict. Important constituents will have differing demands and expectations as to a tax practitioner's role. Tax practitioners may become resolved to the fact that one can not please every constituent all the time. In essence, tax practitioners mature or settle into their chosen roles.

The tax practitioner's professional risk level and the type of employer were significantly related to role stress. A tax practitioner's professional risk level may conflict with the firm's culture. Larger tax firms may be more risk-averse than smaller tax firms. Having a more diversified client base and performing a wider variety of jobs, larger tax firms' cash flows may fluctuate less than smaller tax firms. Therefore, large tax firms may be less inclined to circumvent the rules to help clients minimize their tax liabilities in order to retain their business. Risk-seeking tax practitioners in the larger firms may have their perceived roles conflict with what is mandated by their firm.

The results of this study indicate that formalization has opposite effects on role ambiguity and role conflict. Implementing or increasing rules and procedures can be very costly. However, increasing formalization does not guarantee a decrease in role

stress. Further research should explore the benefits of different types of formalization and/or the functions of a tax firm that benefit from formalization.

Research Question Three

As hypothesized, role ambiguity and role conflict had a negative effect on a tax practitioner's level of job satisfaction. A reduction in role stress corresponds with an increase in job satisfaction. Therefore, based on the results of research question one, higher levels of job satisfaction correspond with enhanced ethical recognition. A reduction in role stress appears to directly and indirectly (i.e. through job satisfaction) correspond with ethical recognition.

Role conflict may be reduced when the tax practitioner's constituents send the same role message. For example, tax firms could better indoctrinate their clients as to the firm's roles for the tax practitioners. By better communicating these roles, the clients may understand and/or be convinced that the tax firm's role for the tax practitioner is best for all parties.

The tax firm's role for tax practitioners may becoming more aligned with Congress' role due to the increased number and dollar amount of penalties for tax practitioners and their firms for violating IRS rules. Therefore, role conflict may be lessened by the potential convergence of Congress' and the tax firm's roles for the tax practitioner. Role ambiguity has been shown to decrease as formalization increases. Therefore, formalized rules and procedures could be instituted or enhanced with a corresponding increase in stress management courses or counseling to alleviate the increase in role conflict. Job satisfaction will be enhanced as will ethical recognition.

Limitations of the Study

Several potential limitations of this study are discussed in the following paragraphs.

The ethical sensitivity measure was based on hypothetical tax scenarios with breaches of the AICPA's Statements on Responsibility in Tax Practice. This may lead to potential problems associated with artificiality. The construct validity of the test instrument may be of concern. Construct validity refers to the degree that the research instrument captures and/or reflects the characteristics of the ethical sensitivity construct. Construct validity was addressed with the aid of employees of the AICPA's Tax Division and pretesting the ethical sensitivity instrument with tax practitioners from Big 6 and non-Big 6 firms. These experts determined that the tax ethical sensitivity scenarios were realistic, understandable, and varied in degree of severity and recognition. Therefore, the concerns associated with artificiality were minimized.

Misspecification of the Ethical Sensitivity Model may have occurred. Hunt and Vitell generally describe various factors (i.e., organizational environment, professional environment, personal experience, and cultural environment) that affect ethical sensitivity in their ethical decision-making model. The constructs used in this study may not have captured the general factors stated by Hunt and Vitell that affect ethical sensitivity. This may explain why some of the hypothesized relationships between some of the constructs and ethical sensitivity were not significant. However, an attempt was made to choose the constructs that best corresponded with the Hunt and Vitell's vague and general descriptions of the factors that affect ethical sensitivity.

The external validity of the results may be limited due to several reasons. First, the random sample of subjects from the AICPA's membership file did not consider the total population of tax practitioners. The subjects have their CPA designation, many years of experience, and are highly educated. Practitioners without the CPA designation, sole practitioners and/or practitioners employed with tax-preparation chains were not included in this study. However, the subjects in this study were representative of tax practitioners that are members of the AICPA. Second, the useable survey response rate was low compared with other studies that used the Total Design Method (Dillman, 1978). The low response rate may have been caused by the length of the survey and the sensitive nature of the survey questions. However, this effect is mitigated because the respondents' characteristics were consistent with the population characteristics. Lastly, the wave approach was used to test for possible nonresponse bias. The early and late respondents were consistent in regard to respondent characteristics and responses to the test instruments. This consistency lends support to the external validity of the results (Nunnally, 1978). Therefore, the results may be generalized to the population of tax practitioners that are members of the AICPA.

Due to the sensitive nature of the survey questions, the socially desirable response bias may be of concern. Social desirability is the tendency of individuals to deny socially undesirable traits and behaviors and to admit to socially desirable ones. The Marlowe-Crowne Scale (Crowne and Marlowe, 1960) was used to determine the level of socially desirability bias for each respondent. Sixty-five subjects were omitted from the analysis which increased the validity of the results obtained from the retained subjects.

Implications for Future Research

Due to the limitations of the sample used in this research, the study should be replicated using a sampling of tax practitioners without their CPA designation, sole practitioners and/or tax practitioners employed with tax-preparation chains. If differences exist (the type of employer is significant in this study), future studies should explore what causes the different groups of tax practitioners to better recognize ethical issues through field experiments or manipulations in lab setting. Field experiments or lab studies may be better able to disguise the true intent of a study. If ethical sensitivity is to be tested with breaches of the AICPA's Statements on Responsibilities in Tax Practice, then future studies could analyze the effects on ethical sensitivity assuming the AICPA's Statements on Responsibilities in Tax Practice is enforceable.

Ethical issues could be examined to determine which are the most recognizable by the different groups and the causes of such differences. If differences exist among the different tax practitioner groups, the most effective means for providing ethical training to tax practitioners could be studied.

With formalization's significant positive and negative effects on role conflict and role ambiguity, future studies should analyze formalization's net costs or benefits and, therefore, whether to increase or decrease formalization procedures. For example, increased formalization significantly corresponds with several constructs. Experienced role ambiguity decreases. With a decrease in role ambiguity, job satisfaction and, therefore, ethical recognition correspondingly increases. However, an increase in formalization has several disadvantages. Experienced role conflict increases. The increase in experienced role conflict corresponds with a reduction in ethical sensitivity

directly and through job satisfaction indirectly. Research should seek to find the optimum level of formalization.

If formalization is found to be beneficial, future studies could examine the most favorable method(s) or type(s) of formalizing rules, procedures, and ethical standards or conduct. Not all functions of a tax firm may need formalized procedures. For example, the intended meaning of the formalized rules and procedures may be different from the meaning perceived by tax practitioners. Also, research could determine the degree of conflict or congruence between formal and informal procedures of tax firms. Finding the best formalized rules and procedures may be a moot point if there are inconsistencies between the informal and formal rules. This would be especially true if the tax practitioner views the informal rules as more pertinent than the formal rules.

The role conflict and role ambiguity scales measured a tax practitioner's perceptions of role conflict and role ambiguity. If researchers could measure role conflict and role ambiguity objectively, then the relationship between a tax practitioner's perceptions of role stress and reality could be examined. A tax practitioner may experience a conflict caused by perceived role differences sent by various parties even when the various parties are actually in agreement as to the tax practitioner's role.

Current preparer penalties minimize a tax practitioner's degree of client advocacy. Research could determine the effects of diminished client advocacy on role conflict experienced by a tax practitioner. The effects may not always be negative. Libby (1983) states that, to a point, increased stress leads to increased performance. After a point, increased stress becomes counterproductive (i.e., a curvilinear effect). The optimal level(s) of role stress could be determined for tax practitioners to provide optimal performance.

Further research could determine whether tax practitioners' ability to recognize ethical issues contributes to better ethical judgment and, ultimately, to more ethical behavior. Research could determine if ethics education enhances ethical recognition of tax practitioners. If ethics education improves ethical recognition, then longitudinal studies may be used to determine the time period that a tax practitioner's ethical recognition ability remains improved. The research should determine whether a single seminar on ethics is sufficient to increase and maintain a certain level of ethical sensitivity. If the effects of the ethics seminar diminish, several follow-up ethics seminars may be needed to maintain the desired level of ethical sensitivity. These seminars may need to be continuing education requirements.

Overview of Ethical Sensitivity Study

This study was an exploratory attempt to determine factors that have a significant relationship with ethical sensitivity. Without an understanding of ethical sensitivity, the ethical decision-making process cannot be fully understood. The ethical decision-making process does not occur if ethical issues are not recognized in a situation. A tax ethical sensitivity instrument was constructed. Future tax ethical sensitivity research may use or build upon this instrument.

The ethical sensitivity results provide information to tax firms, the accounting profession, and academia. Role conflict, job satisfaction, type of employer and professional risk level were significantly associated with ethical sensitivity. It appears that these significant factors are job specific. The tax firm may have the best opportunity to positively change a tax practitioner's ethical recognition abilities. Accounting organizations should evaluate if resources should be used to formulate, maintain, and publicize

codes of conduct because of the lack of significance of professional commitment. With the lack of significance for ethical orientation, tax practitioners may not be predisposed to behaving a certain way. This suggests that ethical recognition can be increased through education. Research should determine the cause(s) of why Big 6 tax practitioners were better able to recognize ethical issues.

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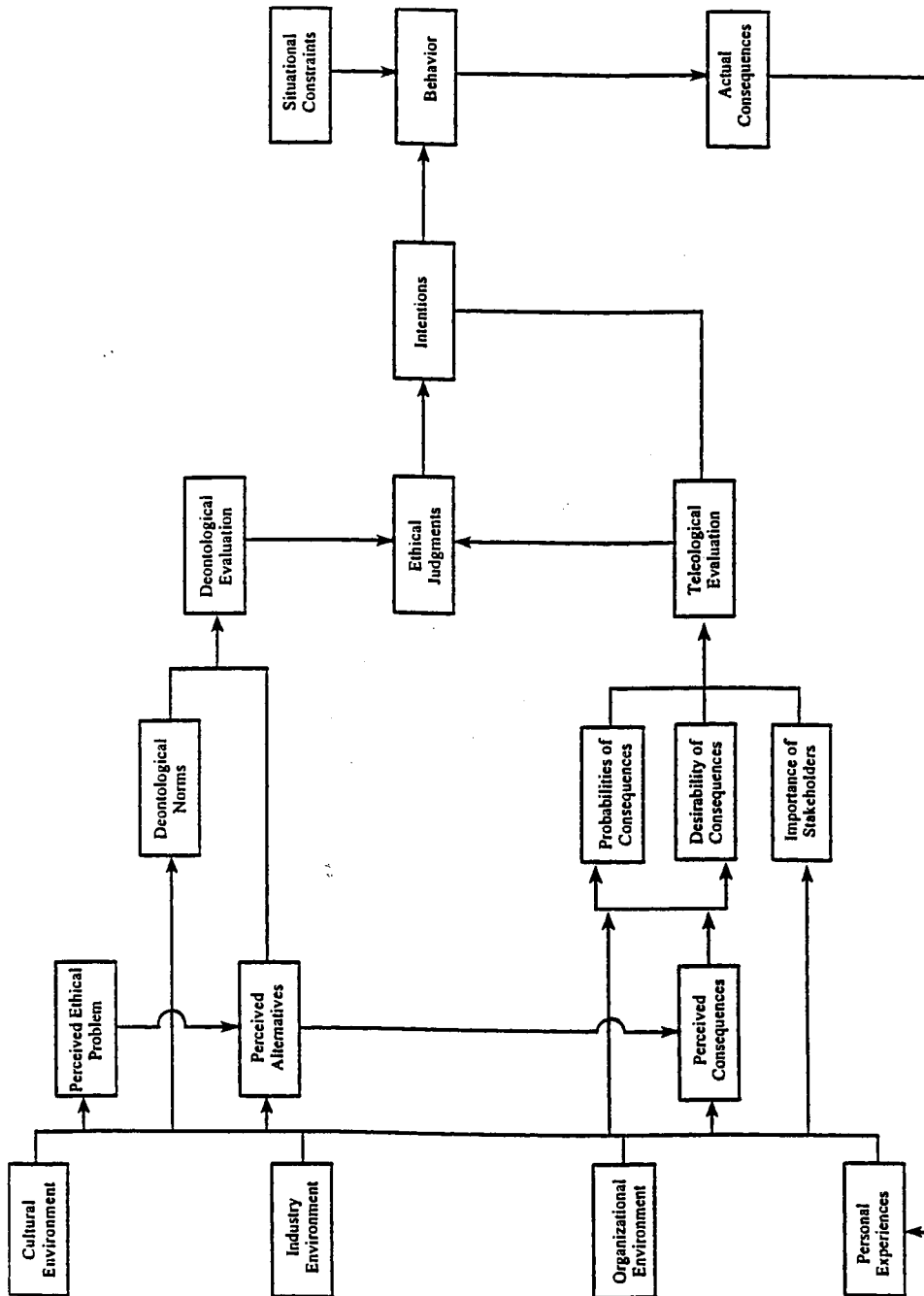
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APPENDIXES

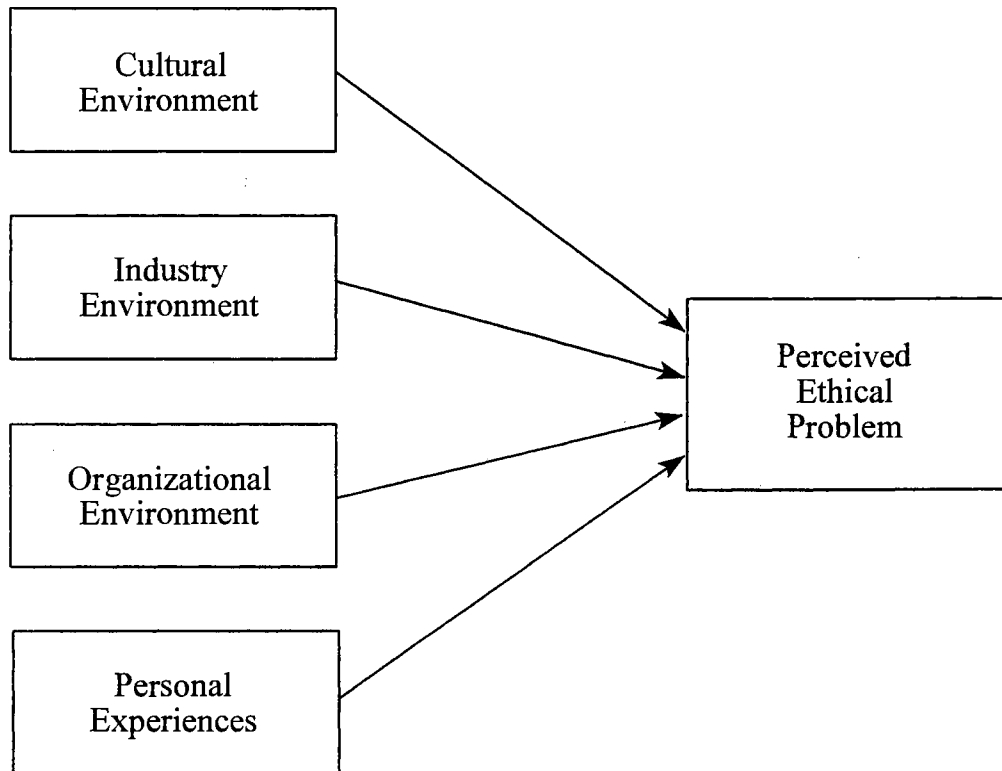
APPENDIX A

HUNT and VITELL'S GENERAL THEORY OF ETHICS



APPENDIX B

HUNT AND VITELL'S ETHICAL SENSITIVITY PORTION



APPENDIX C

**A STUDY OF TAX PRACTITIONERS'
ATTITUDES AND BELIEFS**



Conducted by

The School of Accounting
College of Business Administration
Oklahoma State University
Stillwater, OK 74078

Dear Valued Participant:

A tax practitioner's work environment is extremely dynamic. As a result, pressure and stress have added to the complexities facing tax practitioners. The following factors may have increased tax practitioners' stress and pressure levels: the tax code is constantly changing; individual taxpayers are increasing their use of tax practitioner services due to the increased complexity of the tax code and tax form; tax positions must be defended with an increasing amount of evidence and support; tax preparer penalties have substantially increased; a tax practitioner's client advocacy role has been narrowed in scope; competition in the tax planning and preparation services arena has increased substantially; and, according to an article in *Fortune* by A.B. Fisher, tax-related malpractice suits are the number-one cause of legal action against accountants. To date, however, the impact of the tax practitioner's environment on his/her attitudes and beliefs toward the tax profession, the work environment, and the job itself have not been carefully examined. We believe that this information is vital to improving a tax practitioner's job satisfaction, stress level, and decision-making abilities.

You are one of a small number of tax practitioners selected to give opinions about your working environment, the tax profession, and different aspects of your job. To ensure that the results truly represent the consensus of the tax professional community, it is important that each questionnaire be completed and returned. The questionnaire solicits opinions only and does not require you to gather any additional information from your records.

You may be assured of complete confidentiality. The questionnaire has an identification code for mailing purposes only, enabling us to check your name off the mailing list when your questionnaire is returned. Your name will never be placed on the questionnaire itself. Once I enter your results into the data base, your questionnaire will be destroyed. Data will be reported in summary form only. Please do not make any changes to your answers on the questionnaire once you complete a section.

The results of the research will be made available to the AICPA, the ABA, and other interested groups. You may receive a summary of the results by writing "results" on the back of the prepaid return envelope or enclosing a business card. Do not put your name on the questionnaire.

I will be happy to answer any questions you might have. Please write or call collect. The telephone number is (405) 744-8674. Thank you for your time and effort.

Sincerely,

SCOTT YETMAR, CPA, CMA
Project Director

Tax Scenario. You are about to read a brief tax scenario. Please identify issues that you think should be a cause for concern for the practitioner involved. The issues of concern that you identify may vary in relative importance.

For each of the issues in the scenario below that are a cause for concern, please indicate:

1. the significance of the issue or issues of concern by circling a number between one and seven,
2. the nature of the issue or concern on the line below the circled number (in ten words or less), and
3. your agreement in regard to Chris's decisions.

Chris is a tax practitioner with XYZ & Co. and is responsible for the tax work for Pat, a new client for the firm. Chris spends a fair share of time during busy season working on Pat's taxes. Pat is considered an important client by XYZ & Co. Pat gave Chris partial documentation pertaining to the charitable contributions for the year. Unfortunately, Pat misplaced some of the documentation pertaining to the charitable contribution deduction. The amount of Pat's current charitable contribution deduction is a little larger than the prior three years' reported charitable contribution deduction. The charitable contribution deduction is small in relation to Pat's gross income. Chris enters the charitable contribution amount on Pat's current tax return and decides to utilize the remaining budgeted hours to pursue and verify more material amounts and issues.

It has come to Chris's attention that a minor error was made in Pat's tax return (not in Pat's favor) of four years ago, prior to Pat becoming a client with XYZ & Co. Chris realizes that the error was made by Pat's former tax firm. Chris also calculates the extra tax burden and determines that the added tax liability is very immaterial. Chris informs Pat of the situation. Chris advises Pat that this was very likely an honest error by the former tax firm. Chris agrees with Pat's decision not to expend any more resources on this situation. Chris moves on to more important and material issues with XYZ & Co.'s full support.

Pat is always reading about tax planning strategies. Pat originates an idea to reduce the tax liability from an article in a professional publication. Pat engages Chris to research the idea in order to reduce Pat's tax liability. Chris knows from past experience that the IRS examines this tax issue very infrequently (i.e., the likelihood of detection is very small), but the IRS has been known to take the opposite position when detected. The few court cases involving this tax issue did not side with the position taken by Pat and Chris. However, Chris did find support for Pat's position in professional tax publications written by experienced tax practitioners. Chris decides that Pat has a case and accepts the tax liability reducing position. Chris's superiors at XYZ & Co. fully support Chris's decision. Also, Chris reasons that if Pat's tax return is audited, this issue would serve as a good arguing position to obtain leverage in the bargaining process of any settlement negotiation.

Chris has completed the final tax returns for Pat. Final results have been discussed with Pat and Chris's superiors at XYZ & Co. After this meeting takes place, Chris reviews the completed tax return and workpapers one last time before they are mailed. Chris realizes, after reviewing the completed return and workpapers for the last time, that Chris overlooked a very minor issue. Chris's error gives Pat a very immaterial tax savings. Chris consults a superior at XYZ & Co. After giving Chris's superior some background information about the situation, Chris asks for the superior's advice about what action Chris should take. Chris's superior strongly recommends, and Chris agrees, to mail the tax return as is. The overlooked minor issue affects numerous schedules of Pat's return. It would be time consuming and costly to redo Pat's tax return for one very immaterial omission. Also, Pat's level of confidence in XYZ & Co. may be reduced in the process.

At the end of Pat's engagement, Chris tallies the actual hours recorded and charged to the preparation of Pat's tax return. Chris is a little under the budgeted hours for the contracted work with Pat. Chris is very happy with coming in under budget, a fact that will not go unnoticed by Chris's superiors. Chris realizes that a few inexperienced staff members had likely failed to charge some of their wheel-spinning hours to the engagement. Only an hour of Chris's time went unrecorded due to the tremendous learning curve encountered by Chris. Hours charged to Pat's engagement were three percent below the budgeted hours. After completing Pat's tax return, XYZ & Co. invites Pat to the local country club for a round of golf and dinner. Because of the favorable impressions Chris and XYZ & Co. have made on Pat, they feel confident that Pat will recommend XYZ & Co. to individuals within Pat's strong network of contacts.

Please indicate briefly the nature and significance of any issues you would be concerned with in the previous scenario. You may feel that any given paragraph contains no issues, one issue, or more than one issue of concern. There is no need to fill in every issue line provided below: they are simply there for your convenience. Please also indicate your agreement with Chris's decision in each paragraph. Thank you.

	Very Insignificant Issue of Concern					Very Significant Issue of Concern	
	1	2	3	4	5	6	7
Paragraph 1:							
Issue:	_____						
Paragraph 1:							
Issue:	_____						
Paragraph 1:							
Issue:	_____						
Paragraph 2:							
Issue:	_____						
Paragraph 2:							
Issue:	_____						
Paragraph 2:							
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Paragraph 3:							
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Paragraph 4:							
Issue:	_____						
Paragraph 5:							
Issue:	_____						
Paragraph 5:							
Issue:	_____						
Paragraph 5:							
Issue:	_____						

	Strongly Disagree				Strongly Agree		
	1	2	3	4	5	6	7
Chris's decision in ¶ 1:							
Chris's decision in ¶ 2:							
Chris's decision in ¶ 3:							
Chris's decision in ¶ 4:							
Chris's decision in ¶ 5:							

PART B: Please respond to each item and indicate the degree to which the condition exists for you at your work-setting. Please write the number of your belief about your work-setting to the left of each statement. Please choose only one answer per statement. Please respond to each statement. Thank you very much.

Strongly Disagree	Moderately Disagree	Slightly Disagree	Neither Agree Nor Disagree	Slightly Agree	Moderately Agree	Strongly Agree
1	2	3	4	5	6	7

- ___ 1. I have to do things that should be done differently.
- ___ 2. I feel certain about how much authority I have.
- ___ 3. I receive an assignment without the manpower to complete it.
- ___ 4. There are clear, planned goals and objectives for my job.
- ___ 5. I have to buck a rule or policy in order to carry out an assignment.
- ___ 6. I know that I have divided my time properly.
- ___ 7. I work with two or more groups who operate quite differently.
- ___ 8. I know what my responsibilities are.
- ___ 9. I receive incompatible requests from two or more people.
- ___ 10. I know exactly what is expected of me.
- ___ 11. I do things that are apt to be accepted by one person and not accepted by others.
- ___ 12. Explanation of what has to be done is clear.
- ___ 13. I receive an assignment without adequate resources and materials to execute it.
- ___ 14. I lack guidelines to help me.
- ___ 15. I work on unnecessary things.
- ___ 16. I have to "feel my way" in performing my duties.
- ___ 17. I have enough time to complete my work.
- ___ 18. I am told how I am performing my job duties.
- ___ 19. I am able to act the same regardless of the work group I am with.
- ___ 20. I have to work under vague directives and orders.
- ___ 21. I work under incompatible policies and guidelines.
- ___ 22. I do not know if my work will be acceptable to my supervisors.

PART C: Please respond to the following statements as to your belief about your place of employment. Please write the number of your belief about your place of employment to the left of each statement. Please choose only one answer per statement. Please respond to each statement. Thank you very much.

Strongly Disagree	Moderately Disagree	Slightly Disagree	Neither Agree Nor Disagree	Slightly Agree	Moderately Agree	Strongly Agree
1	2	3	4	5	6	7

- ___ 1. I feel that I am my own boss in most matters.
- ___ 2. The employees are constantly being checked on for rule violations.
- ___ 3. A person can make his/her own decisions without checking with anybody else.
- ___ 4. How things are done here is left up to the person doing the work.
- ___ 5. People here are allowed to do almost as they please.
- ___ 6. People here feel as though they are constantly being watched to see that they obey the rules.
- ___ 7. Most people here make their own rules on the job.

PART D: *The following statements pertain to your attitude about the tax profession. Please write the number of your belief about the different aspects pertaining to the tax profession to the left of each statement. Please choose only one answer per statement. Please respond to each statement. Thank you very much.*

Strongly Disagree	Moderately Disagree	Slightly Disagree	Neither Agree Nor Disagree	Slightly Agree	Moderately Agree	Strongly Agree
1	2	3	4	5	6	7

- ___ 1. I am willing to put in a great deal of effort beyond that normally expected in order to help make my profession successful.
- ___ 2. I talk up this profession to my friends as a great profession to be associated with.
- ___ 3. I feel very little loyalty to this profession.
- ___ 4. I would accept almost any type of job assignment in order to keep working in areas that are associated with this profession.
- ___ 5. I find that my values and the profession's values are very similar.
- ___ 6. I am proud to tell others that I am part of this profession.
- ___ 7. I could just as well be associated with another profession as long as the organization in which I worked was similar.
- ___ 8. Being a member of this profession inspires the very best in me in the way of job performance.
- ___ 9. It would take very little change in my present circumstances to cause me to work in areas that are not associated with this profession.
- ___ 10. I am extremely glad that I chose this profession over others I was considering at the time I joined.
- ___ 11. There is not too much to be gained by sticking with this profession indefinitely.
- ___ 12. I often find it difficult to agree with this profession's policies on important matters relating to its members.
- ___ 13. I really care about the fate of this profession.
- ___ 14. For me, this is the best of all possible professions of which to be a member.
- ___ 15. Deciding to be a member of this profession was a definite mistake on my part.

PART E: *Each item below pertains to something about your job. Please write the number of your belief about the different aspects of your job to the left of each statement. Please choose only one answer per statement. Please respond to each statement. Thank you very much.*

Strongly Disagree	Moderately Disagree	Slightly Disagree	Neither Agree Nor Disagree	Slightly Agree	Moderately Agree	Strongly Agree
1	2	3	4	5	6	7

- ___ 1. My organization pays better than competitors.
- ___ 2. I do not like the basis on which my organization promotes people.
- ___ 3. The people I work with do not give me enough support.
- ___ 4. The managers I work for back me up.
- ___ 5. My job is interesting.
- ___ 6. My pay is adequate, considering the responsibilities I have.
- ___ 7. Promotions are infrequent in my organization.
- ___ 8. When I ask people to do things, the job gets done.
- ___ 9. The managers I work for are "top notch."
- ___ 10. I feel good about the amount of responsibility in my job.
- ___ 11. I am underpaid for what I do.
- ___ 12. If I do a good job, I am likely to get promoted.
- ___ 13. I enjoy working with the people here.
- ___ 14. My superiors don't listen to me.
- ___ 15. I would rather be doing another job.
- ___ 16. My fringe benefits are generous.
- ___ 17. I am satisfied with my rate of advancement.
- ___ 18. I work with responsible people.
- ___ 19. My management doesn't treat me fairly.
- ___ 20. I get little sense of accomplishment from doing my job.

PART F: *You will find a series of general statements listed below. Each represents a commonly held opinion, and there are no right or wrong answers. You will probably disagree with some items and agree with others. I am interested in the extent to which you agree or disagree. Please read each statement carefully. Then indicate the extent to which you agree or disagree by placing in front of the statement the number corresponding to your feelings, where:*

Strongly Disagree	Moderately Disagree	Slightly Disagree	Neither Agree Nor Disagree	Slightly Agree	Moderately Agree	Strongly Agree
1	2	3	4	5	6	7

Please choose only one answer per statement. Please respond to each item.

- ___ 1. A person should make certain that his/her actions never intentionally harm another, even to a small degree.
- ___ 2. Risks to another should never be tolerated, irrespective of how small the risks might be.
- ___ 3. The existence of potential harm to others is always wrong, irrespective of the benefits to be gained.
- ___ 4. One should never psychologically or physically harm another person.
- ___ 5. One should not perform an action that might in any way threaten the dignity and welfare of another individual.
- ___ 6. If an action could harm an innocent other, then it should not be done.
- ___ 7. Deciding whether to act by balancing the positive consequences of the act against the negative consequences of the act is immoral.
- ___ 8. The dignity and welfare of people should be the most important concern in any society.
- ___ 9. It is never necessary to sacrifice the welfare of others.
- ___ 10. Moral actions are those that closely match ideals of the most "perfect" action.
- ___ 11. There are no ethical principles that are so important that they should be a part of any code of ethics.
- ___ 12. What is ethical varies from one situation and society to another.
- ___ 13. Moral standards should be seen as being individualistic; what one person considers to be moral may be judged to be immoral by another person.
- ___ 14. Different types of moralities cannot be compared as to "rightness."
- ___ 15. Questions of what is ethical for everyone can never be resolved since what is moral or immoral is up to the individual.
- ___ 16. Moral standards are simply personal rules that indicate how a person should behave and are not to be applied in making judgments of others.
- ___ 17. Ethical considerations in interpersonal relations are so complex that individuals should be allowed to formulate their own individual codes.
- ___ 18. Rigidly codifying an ethical position that prevents certain types of actions could stand in the way of better human relations and adjustment.
- ___ 19. No rule concerning lying can be formulated; whether a lie is permissible or not permissible totally depends upon the situation.
- ___ 20. Whether a lie is judged to be moral or immoral depends upon the circumstances surrounding the action.

***PART G:** *Listed below are a number of statements concerning personal attitudes and traits. Please read each item and decide whether the statement is true or false as it pertains to you personally. Please choose only one answer per statement. Please respond to each item. Thank you very much.*

TRUE = 1

FALSE = 2

- ___ 1. Before voting, I thoroughly investigate the qualifications of all the candidates.
- ___ 2. I never hesitate to go out of my way to help someone in trouble.
- ___ 3. It is sometimes hard for me to go on with my work if I am not encouraged.
- ___ 4. I have never intensely disliked anyone.
- ___ 5. On occasion I have had doubts about my ability to succeed in life.
- ___ 6. I sometimes feel resentful when I don't get my way.
- ___ 7. I am always careful about my manner of dress.
- ___ 8. I like to gossip at times.
- ___ 9. No matter who I'm talking to, I'm always a good listener.
- ___ 10. I can remember "playing sick" to get out of something.
- ___ 11. There have been occasions when I took advantage of someone.
- ___ 12. I'm always willing to admit it when I make a mistake.
- ___ 13. I always try to practice what I preach.
- ___ 14. I sometimes try to get even rather than forgive and forget.
- ___ 15. When I don't know something I don't at all mind admitting it.
- ___ 16. I am always courteous, even to people who are disagreeable.
- ___ 17. At times I have really insisted on having things my own way.
- ___ 18. There have been occasions when I felt like smashing things.
- ___ 19. I would never think of letting someone else be punished for my wrong-doings.
- ___ 20. I never resent being asked to return a favor.
- ___ 21. I have never been irked when people expressed ideas very different from my own.
- ___ 22. I never make a long trip without checking the safety of my car.
- ___ 23. There have been times when I was quite jealous of the good fortune of others.
- ___ 24. I have almost never felt the urge to tell someone off.
- ___ 25. I am sometimes irritated by people who ask favors of me.
- ___ 26. I have never felt that I was punished without a cause.
- ___ 27. I have never deliberately said something that hurt someone's feelings.

A STUDY OF TAX PRACTITIONERS' ATTITUDES AND BELIEFS

Please respond to the following questions about yourself. Thank you very much.

1. How long have you been employed as a tax practitioner? # of years: _____.
2. How long have you held your current job title? # of years: _____.
3. How long have you been employed with your current firm?
of years: _____.
4. What is your gender? Circle one: Female Male
5. Are you a certified public accountant? Circle one: Yes No
6. What is the highest educational level that you have completed? (Circle one)
 - A. B.A. or B.S. in Accounting
 - B. B.A. or B.S. not in Accounting
 - C. SOME GRADUATE STUDY
 - D. MASTERS DEGREE in Accounting
 - E. MASTERS DEGREE not in Accounting
 - F. DOCTORATE in Accounting
 - G. J.D.
7. Do you work for a Big-6 firm? Circle one: Yes No
8. The number of tax practitioners in your firm is: _____.
9. The number of employees in your firm is: _____.
10. What state do you work in? _____.
11. Your present age: _____ Years.
12. On a scale of 1 to 10, how familiar are you with the AICPA's Statements on Responsibilities in Tax Practice? (1 = very familiar and 10 = very unfamiliar). Please respond by writing a number from one to ten: _____.
13. On a scale of 1 to 10, how much of a risk-seeker are you in your personal life? (1 = very risk-averse and 10 = very risk-seeking). Please respond by writing a number from one to ten: _____.
14. On a scale of 1 to 10, how much of a risk-seeker are you in your professional life?
(1 = very risk-averse and 10 = very risk-seeking). Please respond by writing a number from one to ten: _____.

Thank you for participating in this study. Your input is VERY VALUABLE. You may write any other feelings or impressions that you have about tax practitioners' attitudes or beliefs toward their working environment and/or tax profession below.

If you wish to obtain a copy of the results, write "results" and your name and address on the back of the reply envelope or enclose a business card. Please do **not** put your name on the questionnaire. Again, **thank you very much** for taking the time to complete the survey.

APPENDIX D

REMINDER POSTCARD

November 7, 1994

Two weeks ago, a questionnaire seeking your opinion about the tax profession, your working environment, and various aspects of your job was mailed to you. Your name was drawn from a random sample of the tax professional community.

If you have already completed and returned the questionnaire to us, please accept our sincere thanks. If not, please do so today. Because the questionnaire has been sent to only a small, but representative, sample of tax professionals, it is extremely important that your response be included in the study.

If by some chance you did not receive the questionnaire, or the questionnaire got misplaced, please call me right now collect, at (405-372-8795), and I will put another questionnaire in the mail to you today.

Sincerely,

SCOTT A. YETMAR, CPA, CMA
Project Director

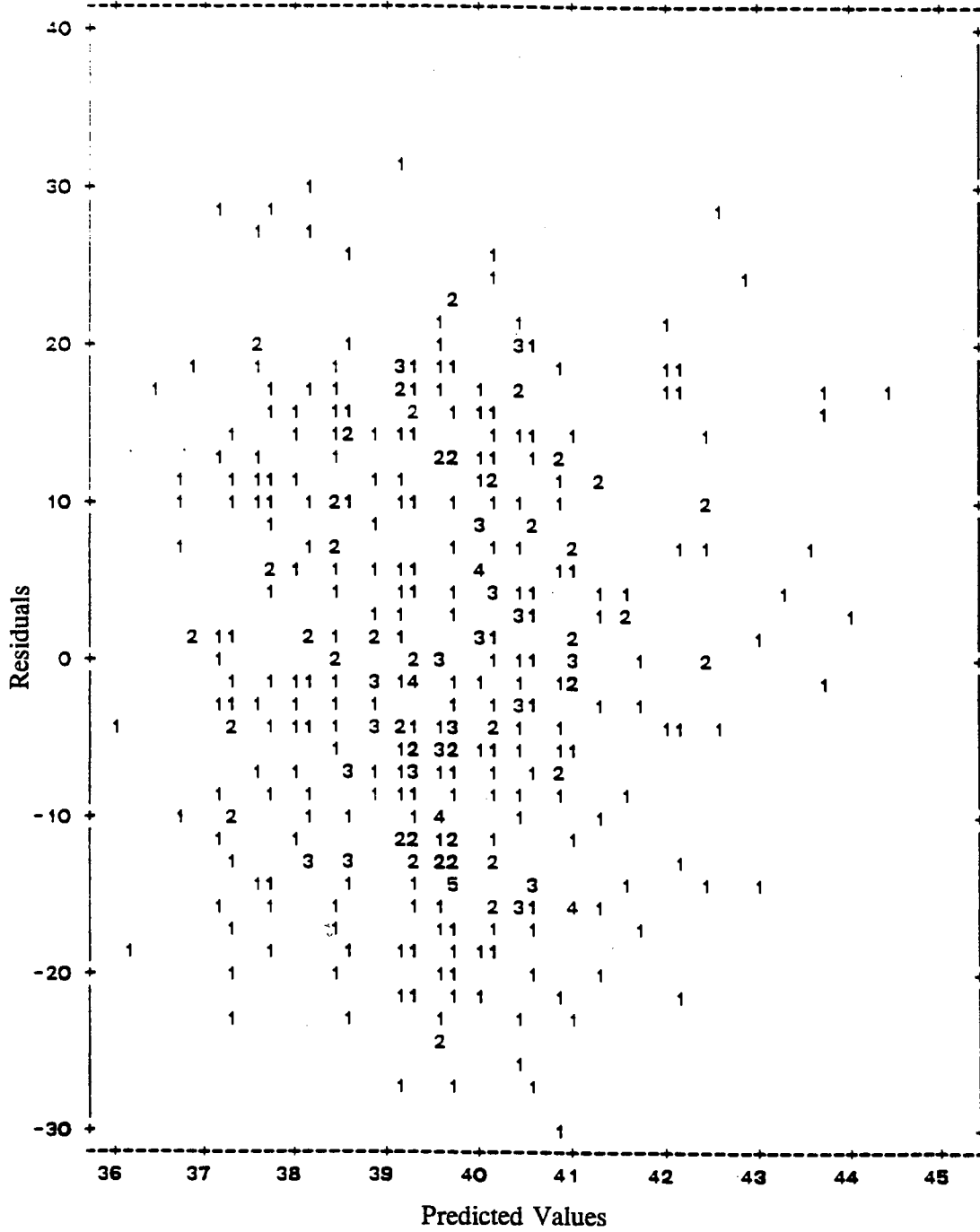
APPENDIX E

NORMAL PROBABILITY PLOTS

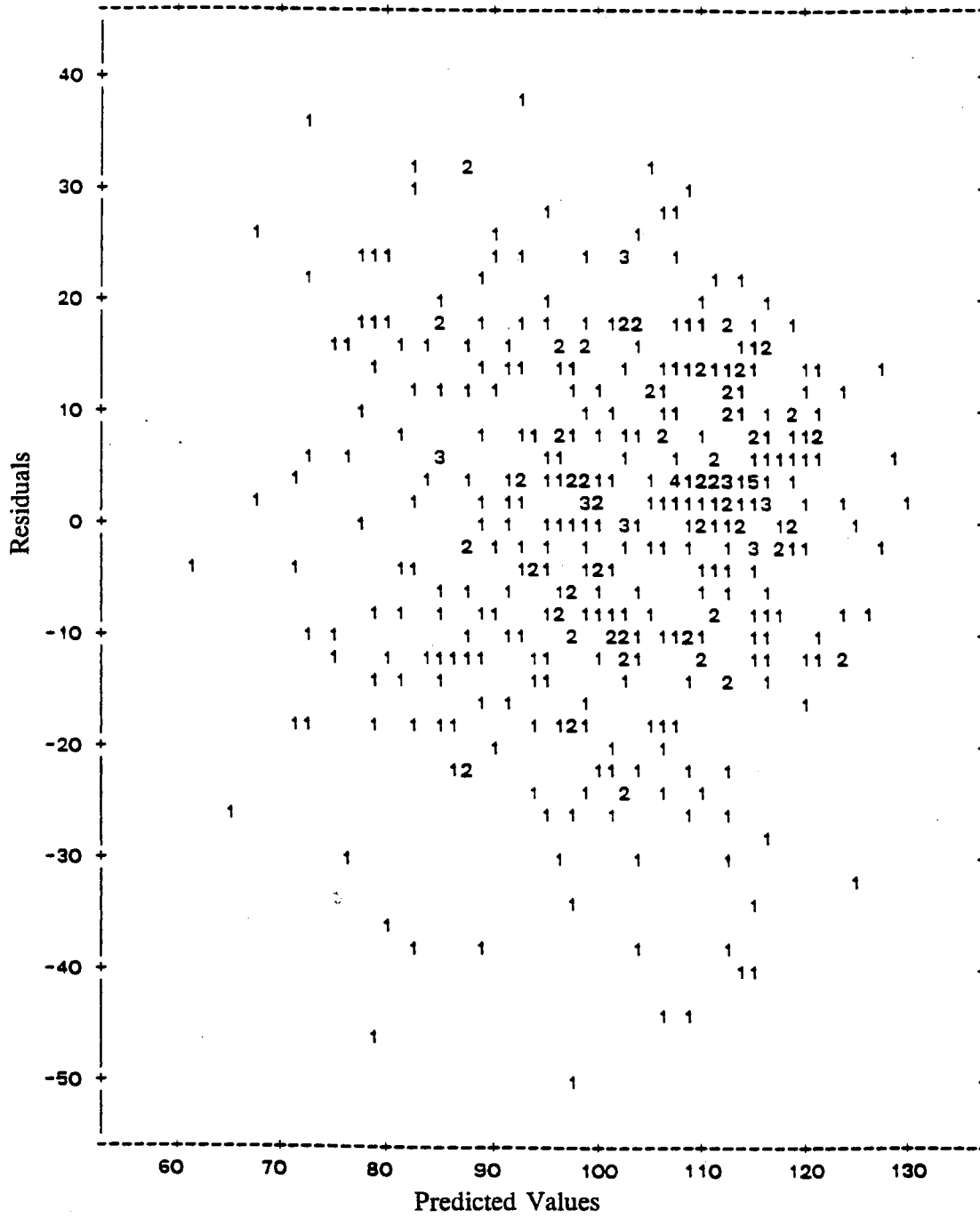
AND RESIDUAL PLOTS

ROLE CONFLICT:

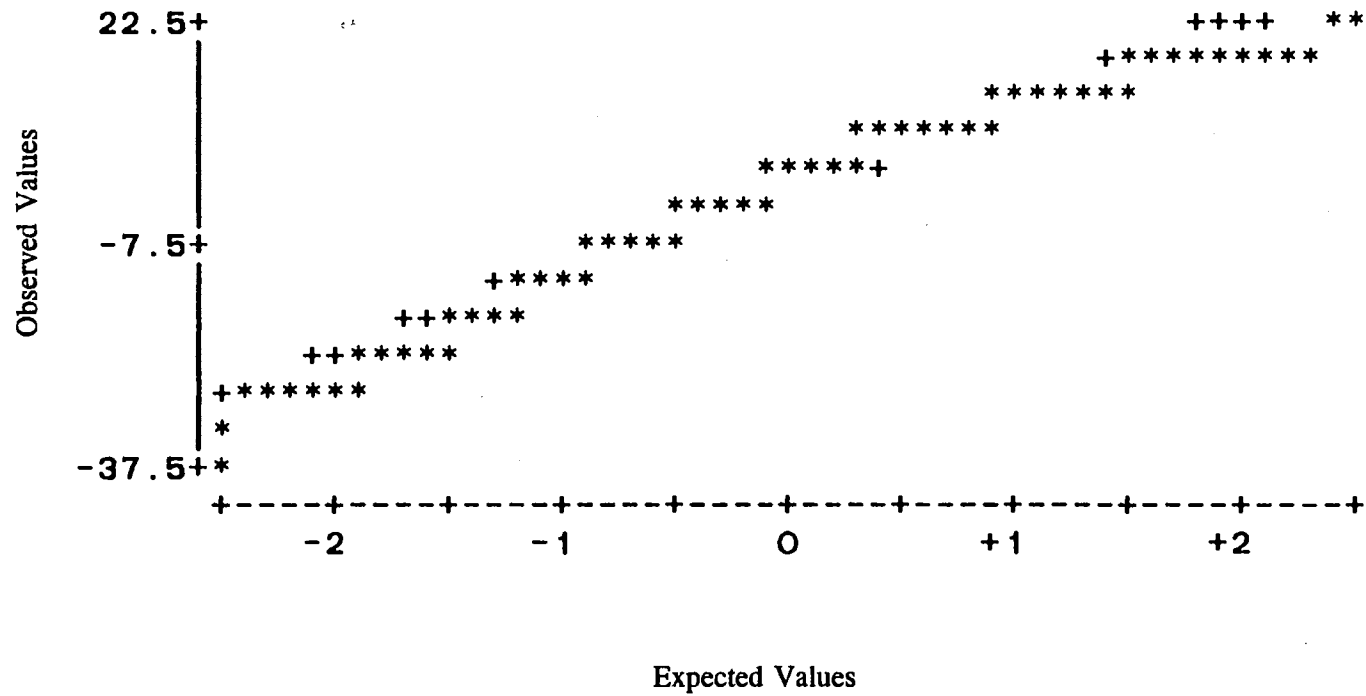
PLOT OF RESIDUALS AND PREDICTED VALUES



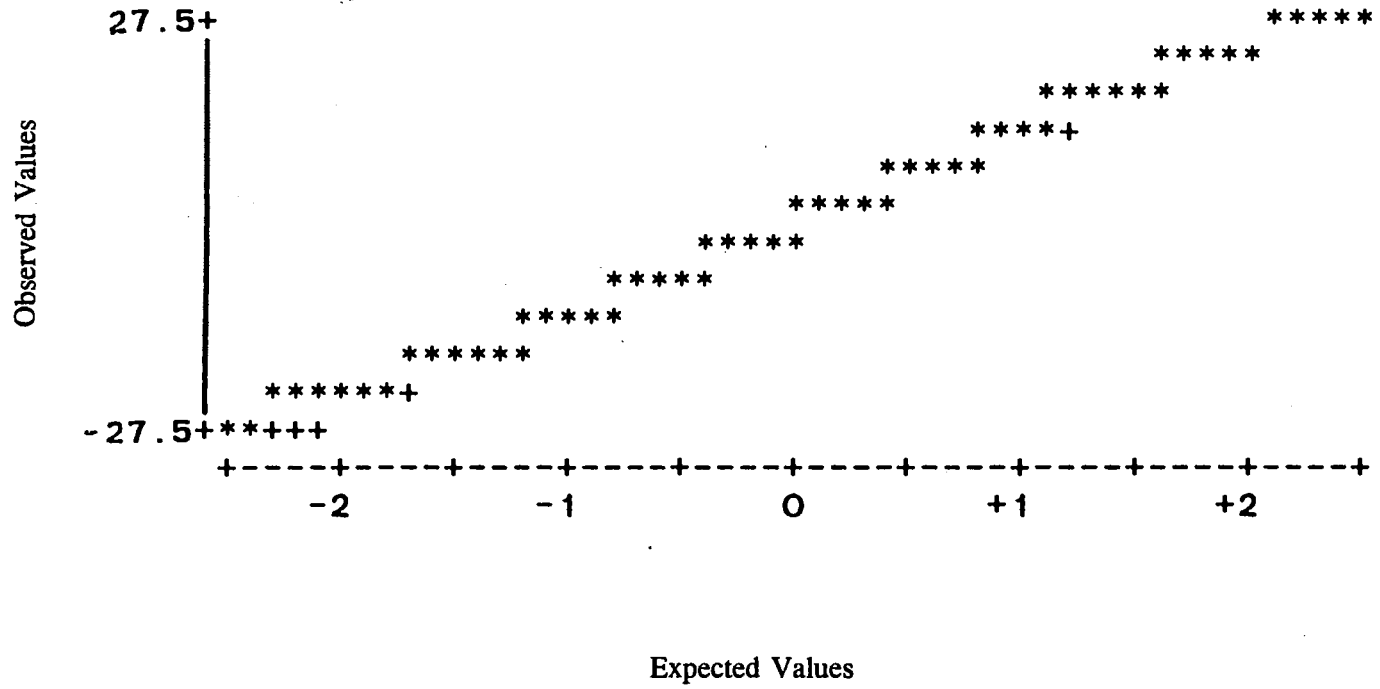
**JOB SATISFACTION:
PLOT OF RESIDUALS AND PREDICTED VALUES**



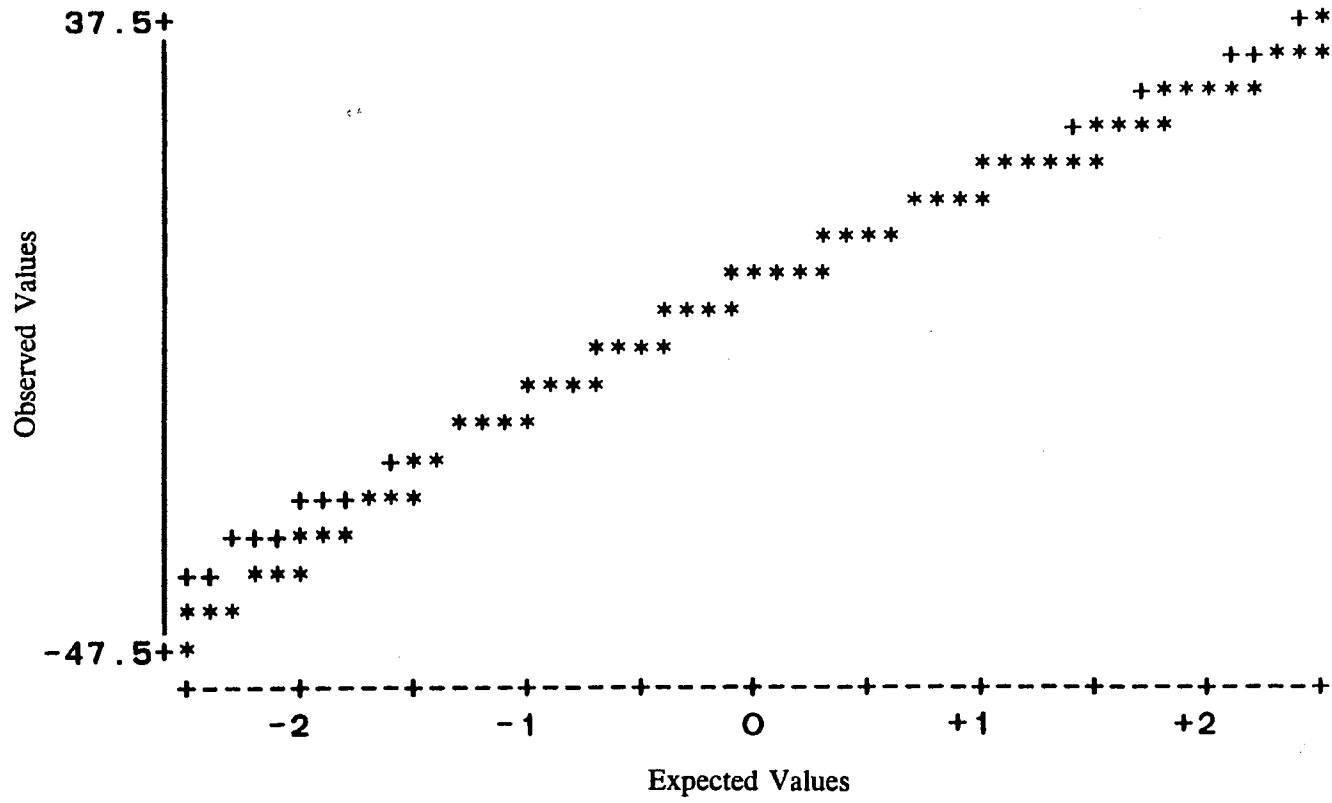
ROLE AMBIGUITY:
NORMAL PROBABILITY PLOT



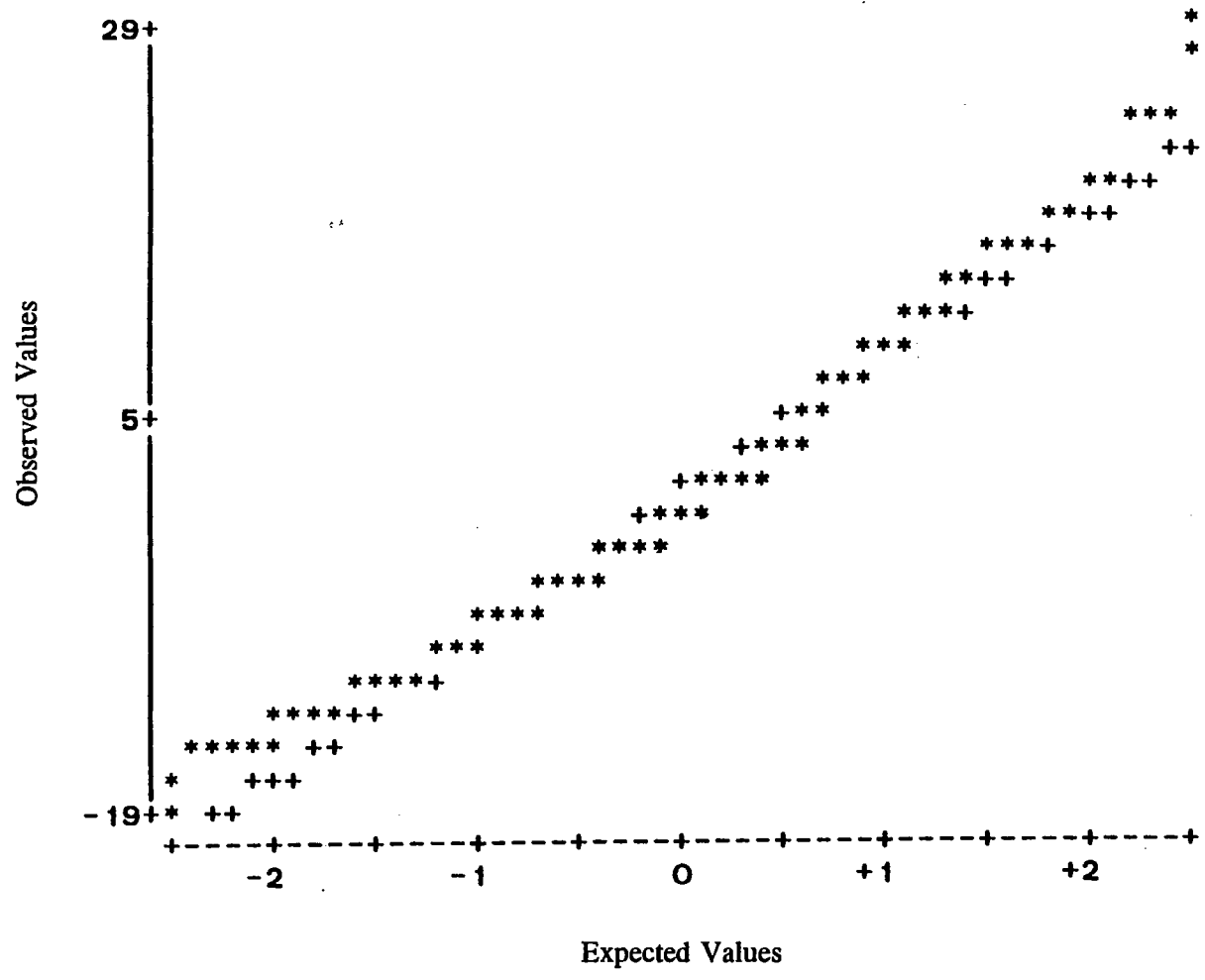
ROLE CONFLICT:
NORMAL PROBABILITY PLOT



**JOB SATISFACTION:
NORMAL PROBABILITY PLOT**



**ETHICAL SENSITIVITY:
NORMAL PROBABILITY PLOT**



APPENDIX F

INSTITUTIONAL REVIEW BOARD

APPROVAL FORM

OKLAHOMA STATE UNIVERSITY
INSTITUTIONAL REVIEW BOARD
HUMAN SUBJECTS REVIEW

Date: 09-21-94

IRB#: BU-95-005

Proposal Title: TAX PRACTITIONERS' ETHICAL SENSITIVITY: A MODEL AND EMPIRICAL INVESTIGATION

Principal Investigator(s): Kevin Murphy, Scott Yetmar

Reviewed and Processed as: Exempt

Approval Status Recommended by Reviewer(s): Approved

APPROVAL STATUS SUBJECT TO REVIEW BY FULL INSTITUTIONAL REVIEW BOARD AT NEXT MEETING.

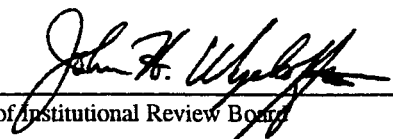
APPROVAL STATUS PERIOD VALID FOR ONE CALENDAR YEAR AFTER WHICH A CONTINUATION OR RENEWAL REQUEST IS REQUIRED TO BE SUBMITTED FOR BOARD APPROVAL.
ANY MODIFICATIONS TO APPROVED PROJECT MUST ALSO BE SUBMITTED FOR APPROVAL.

Comments, Modifications/Conditions for Approval or Reasons for Deferral or Disapproval are as follows:

COMMENTS:

Please include a phone number on the cover letter where the researcher may be contacted by subjects with questions. Please return a revised copy of the cover letter to the IRB office.

Signature:



Chair of Institutional Review Board

Date: September 22, 1994

2
VITA

Scott Andrew Yetmar

Candidate for the Degree of

Doctor of Philosophy

Thesis: TAX PRACTITIONERS' ETHICAL SENSITIVITY: A MODEL AND EMPIRICAL EXAMINATION

Major Field: Business Administration

Biographical:

Personal Data: Born in Riverside, California, On July 22, 1963, the son of Donald T. and Adele M. Yetmar. Married Janice K. Merkey on June 22, 1985, and have three children: Joshua (3/31/89), Melissa (12/17/90), and Zachary (2/25/93).

Education: Graduated from Saint Edmond High School, Fort Dodge, Iowa in May, 1981; received Bachelor of Arts degree in Accounting from the University of Northern Iowa, Cedar Falls, Iowa in May, 1985; received a Master of Business Administration from Drake University, Des Moines, Iowa in December, 1991; completed the requirements for the Doctor of Philosophy degree at Oklahoma State University in July, 1995.

Professional Experience: Certified Public Accountant at Peat, Marwick, Main & Co.; Controller at R & R Investors, Ltd.; Financial Planning Accountant at Iowa Farm Bureau; Graduate Assistant at Oklahoma State University; Assistant Professor of Accounting at the University of Southern Colorado from June, 1995 to present.

Professional Organizations: Member of the American Institute of Certified Public Accountants, the American Accounting Association, and the Institute of Management Accountants.