



Towards a conceptual model of whistle-blowing intentions among external auditors

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ABSTRACT

Whistle-blowing has received considerable attention in the ethics literature. However, following the collapse of Arthur Andersen in the Enron debacle, whistle-blowing within audit firms has taken on greater importance. Given the profession's requirements to be confidential, independent and to act in the public interest (e.g. *Sarbanes–Oxley Act, 2002*), there is a need for a model that is specific to the audit profession (e.g. *Louwers, Ponemon, & Radtke, 1997*), and in particular, that addresses auditors' whistle-blowing intentions. This paper presents a conceptual model on whistle-blowing intentions among external auditors where an auditor's individual factors (attitudes toward whistle-blowing, perceived behavioural control, independence commitment, personal responsibility for reporting and personal cost of reporting) have a direct influence on his or her intentions to whistle-blow, but are moderated by isomorphic factors (perceived organisational support and team norms) and issue-specific factors (perceived moral intensity). Using justice and institutional theories, the proposed model anticipates that whistle-blowing within an audit firm produces both positive and negative consequences to society, the audit firm and the individual whistle-blower. However, where audit firms have adequate formal supporting mechanisms for reporting wrongdoings to internal and external parties, the negative effects and personal costs of reporting will be minimised.

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1. Introduction

Whistle-blowing has become an important monitoring mechanism in the wake of many corporate scandals involving accounting firms. The accounting profession and other interested regulatory bodies are now calling for whistle-blowing to be a prominent part of organisational culture (*Sarbanes & Oxley, 2002*). Although professional codes of ethics state the need for audit members to approach their work with integrity and to report any wrongdoing, both actual and suspicious, recent corporate scandals have questioned the soundness of the professional codes of conduct in preventing such scandals and protecting public interest (e.g. *Dart, 2011*). The apparent failure to serve public interest might be due to the widespread reluctance by audit staff to report on colleagues who commit wrongdoing or questionable acts (see *Finn & Lampe, 1992*;

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Kaplan & Whitecotton, 2001). This is partly due to the shortcomings of the current codes of ethics which neither encourage nor guide audit practitioners on how to blow the whistle in situations where they have reported to more senior levels within the audit firm and/or the client's audit committee, but where no action is taken to rectify the reported wrongdoings. Due to the uniqueness of auditor-client relationships, audit staff have statutory access and accumulated knowledge of the client's financial and business affairs. Given the importance placed by the professional codes to address such auditor-client relationships, it is desirable that the codes clearly dictate what should be done in such cases, if the profession is to render its obligations towards both its members and to the wider public. Arguably, no code can dictate what should be done in each case. Thus, we need to move beyond the codes and look at other measures, such as whistle-blowing, to prevent further scandals and protect public interest.

The importance of whistle-blowing becomes paramount when there is collusion between the client management and the audit senior or partner, such as in the case of Enron where there was reluctance to blow the whistle by the audit staff, despite their knowledge about the client's business, its obligations and its financial affairs. Audit staff *should* have a moral obligation to protect the public's interest in the face of perceived regulatory violations.³ External audit promotes the view that public interest is protected by making corporate managers and their companies accountable. However, some have argued that, *de facto*, since accounting firms are in constant pursuit of profit making, audit staff may be inclined to appease clients at the expense of wider social interests (Hanlon, 1994). Moreover, firms may exert significant time budget pressures on audit staff, and some firms have responded by adopting irregular auditing practices and even resorted to the falsification of audit working papers (Willett & Page, 1996). Sikka (2008) argues that accounting firms have shown an increased willingness to break laws and regulations, and support their clients to publish flattering financial statements. This raises the need for audit staff to attempt to protect the interests of both the public and the profession by blowing the whistle on colleagues who commit wrongdoing. The subsequent public disclosure of an issue that ought to have been reported and rectified much earlier, could be potentially damaging to the audit firm and the profession as a whole, as was seen in the demise of Arthur Andersen.

Whistle-blowing may be perceived as an effective response to the failure of the state to develop adequate public accountability mechanisms for corporations. Given the global corporate scandals in the midst of deregulation in the society, the state seems unable or unwilling to prioritise dissent against corporate unethical behaviour. As a result, corporations may tend to prefer secrecy as they seek to achieve commercial advantage, which in turn may negatively affect society. Despite the widespread acknowledgement that whistle-blowing has been given legislative support as a social institution that can uncover illegal and unethical acts, it has also been shown to cause significant costs to the organisation and the individual (Jubb, 1999). These costs include demotion and ostracism for the individual, and potential loss of clients and reputational damage for the organisation (the audit firm).

To enhance its public interest role, the whistle-blowing mechanism has been argued to be particularly important in the auditing profession (Arnold & Ponemon, 1991). Some researchers (e.g. Finn, 1995; Hooks, Kaplan, & Schultz Jr, 1994) have responded and proposed whistle-blowing models, but these models fail to capture all of the important factors critical to the context of external auditing. In addition, these models were developed prior to the Enron debacle. Given that the world is dynamic, with practices and processes constantly evolving and the emergence of a significant body of research subsequent to the development of these models, we suggest that prior models need to be revised and extended for a post-Enron era. Previous studies identified individual and contextual variables, type of wrongdoing and potential retaliation (Finn, 1995; Hooks et al., 1994; King, 1997; Mesmer-Magnus & Viswesvaran, 2005; Miceli & Near, 1988; Sims & Keenan, 1998) as factors associated with whistle-blowing intention. However, these studies have neglected to consider perceived organisational support, moral intensity and team-based factors, the latter being important since audit practitioners often work in teams within the constructs of their organisations. Indeed, Louwers et al. (1997, p.209) suggests that future accounting ethics research should focus on “the development of a model specific to the accounting profession.” Hence, our proposed model takes into account those factors guided by Rawls's equal liberty theory that are based on moral duty to act in the public interest and prevent harm, which is the cornerstone of the accounting profession. In addition, we considered the literature on behavioural psychology (e.g. Ajzen, 1991; Graham, 1986), isomorphic notions of institutional theory and auditing in order to construct the model.

2. The concept of whistle-blowing

There has been debate in the literature on what constitutes whistle-blowing (e.g. Jubb, 1999; King, 1997; Near & Miceli, 1985). Near and Miceli (1985, p. 4) defined whistle-blowing as “the disclosure by organisation members (current or former) of illegal, immoral or illegitimate practices under the control of their employers, to persons or organisations that may be able to effect action.” A more recent definition was offered by Jubb (1999, p. 78), who stated that:

Whistle-blowing is a deliberate non-obligatory act of disclosure, which gets onto public record and is made by a person who has or had privileged access to data or information of an organisation, about non-trivial illegality or other

³ Regulators such as the Financial Reporting Council (FRC) in the UK and the Sarbanes-Oxley Act in the US have responded to significant incidents in recent years that have undermined public interest. The current codes of professional conduct also cover this issue and require accountants to disclose confidential information to third parties when not obliged to do so by law or regulations if the disclosure can be justified in the public interest.

wrongdoing whether actual, suspected or anticipated which implicates and is under the control of that organisation, to an external entity having potential to rectify the wrongdoing.

Near and Miceli's (1985) definition includes internal and external reporting. Jubb's (1999) definition considers only external reporting as whistle-blowing on the grounds that internal disclosures do not violate the organisation's confidences. However, this contrasts with Near and Miceli (1985) and King (1997) who argued that both internal and external reporting are conceptually similar in the whistle-blowing process. An overwhelming body of research has supported the latter view (e.g. Dworkin & Baucus, 1998; King, 1997; Park & Blenkinsopp, 2009). Thus, we support Near and Miceli's (1985) view on internal and external whistle-blowing. However, their definition does not stress the seriousness of the potential wrongdoing. We also agree with Jubb's (1999) argument that statutory audit reporting does not constitute whistle-blowing and can hardly be considered as non-obligatory since it is role-prescribed, whereas whistle-blowing is an act of dissent. This paper focuses on those issues where an audit staff member may report internally any discovered wrongdoing. If it is not adequately addressed through the normal procedures, the staff member can blow the whistle by raising the issue at a higher level, be it in the audit firm (e.g. managing partner, another partner, ethics officer, anonymous channel – telephone hotline) or the client (to designated authorities concerned with the auditor-client relationship such as the board of directors or audit committee). The audit staff member can also go externally to the media, professional or regulatory bodies (Chung, Monroe, & Thorne, 2004; Finn, 1995).

Dworkin and Baucus (1998) found that external whistle-blowers are more likely to face organisational retaliation than internal whistle-blowers because of the potential damage to the organisation and its employees. Thus, internal reporting channels are preferred and should be exhausted before using external channels, since it allows the firm to correct the wrongdoing internally, before 'airing its dirty linen' in public (Near & Miceli, 1985). Given that such information is not publicly available, the scale of this form of whistle-blowing is unknown. The Sarbanes-Oxley Act (2002) in the USA, the Public Interest Disclosure Act (PIDA) (1998, chap. 23) in the UK, as well as the accounting codes of professional conduct (e.g. AICPA, 2007; ICAEW, 2007) strongly support internal reporting as the first step in the process. Miceli, Near, and Schwenk (1991) and Hooks et al. (1994) argue that whistle-blowing can be an important internal control mechanism in organisations, benefiting organisational members and other stakeholders in society from the disclosures by potential whistleblowers.

3. Whistle-blowing in an audit context

The audit profession is uniquely different from other professions. It has privileged access to client information and relationships with management or directors which can create several conflicts of interest, including loyalties to the client and public, and ethical, legal and professional restrictions from publicising wrongdoing (e.g. Brennan & Kelly, 2007; Mitschow & Langford, 2000). For example, the audit profession has a requirement to maintain confidentiality and loyalty to the client, and yet the auditor may be required to report sensitive information that could harm the client and be perceived as being disloyal. Gaa (1992) argues that moral judgment by public accountants is moderated by the conflicting norms and rules of their professional organisation (e.g. code of conduct) and/or their employer (the audit firm). In addition, auditors are required to act in the public interest. Hwang, Staley, Te Chen, and Lan (2008, p. 507) argue that the auditor, as a professional, has responsibilities beyond that of a normal employee, since the auditor's allegiance is owed "to the public above and beyond their employer or client."

It has been observed that none of the audit staff of Arthur Andersen, Enron's auditors, blew the whistle when the partner-in-charge of the audit advised the audit managers to shred the documents (Toffler & Reingold, 2003). Chung et al. (2004) highlighted the failure or reluctance of Andersen's staff to blow the whistle. This reluctance to blow the whistle raises serious concerns about the accounting profession. Jubb (2000) argued that auditors, as potential whistle-blowers, should disclose any wrongdoing in order to protect the public interest. Prior research, while limited, found that audit staff tended to be reluctant to whistle-blow on colleagues (Finn & Lampe, 1992; Kaplan, 1995; Kaplan & Whitecotton, 2001). Chung et al. (2004, p. 3) further argued that "there is very little empirical evidence on what factors promote whistle-blowing, especially in an auditing context."

We argue that whistle-blowing for audit practitioners can include the reporting of unethical acts committed by others to any reporting channels (internal or external), anonymous or otherwise. Thus, we define whistle-blowing in an audit context as the audit practitioner's voluntary act, over and above⁴ the profession's existing standards and legal requirements, to report any discovered unethical acts committed by other staff within the organisation to any party (internal or external) having the potential to correct the wrongdoing. We further argue that whistle-blowing may be influenced by personal, team, situational and organisational factors.

4. Prior literature on whistle-blowing in an audit context

Prior research has shown that individual, situational and organisational factors influence whistle-blowing (e.g. Finn, 1995; Hooks et al., 1994; Miceli & Near, 1992a, 1992b; Near & Miceli, 1995; Trevino, 1986). Hooks et al. (1994) proposed a model of

⁴ The current regulations and professional codes do not clearly address when whistleblowing is justified.

whistle-blowing which suggests that whistle-blowing may be an internal control mechanism permitting enhanced communication of wrongdoing internally or externally to prevent and detect financial statement fraud. Their model incorporated such factors as personal values, ethical principles, group norms, codes of conduct, education, organisational stature, and tenure status. Hooks et al. (1994) argued that organisational culture was more influential on the decision to whistle-blow than characteristics of the wrongdoing, responsibilities and social influences and the personal characteristics of the observer.

Finn and Lampe (1992) examined the decision to whistle-blow using an individual's moral judgment of a questionable act. Unsurprisingly, they found that the majority of practising auditors were less supportive of whistle-blowing than auditing students, despite the fact that they reported that they would not engage in the unethical acts reported in the vignettes. We agree with Kaplan and Whitecotton (2001) who concluded that organisational culture and audit firm norms might influence the beliefs of the acceptability of whistle-blowing. This lends further support for the possible use of organisational support and group norms in future models.

Graham's (1986) work, extended by Schultz, Johnson, Morris, and Dyrnes (1993) model of discretionary reporting, proposed that an individual's assessment of perceived seriousness of the act, personal cost of reporting and personal responsibility for reporting may influence reporting intentions. Kaplan and Whitecotton (2001) proposed an extension to this model by including professional commitment and found that lower perceived personal costs of reporting and higher perceived personal responsibility influenced higher auditor reporting intentions. No support was found for professional commitment. However, given the uniqueness of public accounting with its formal certification and licensing and highly constrained role-defined behaviours, Gaa (1992) suggests that commitment to independence may be a necessary construct for any model for auditors.

Finn (1995) presented a five stage model of whistle-blowing, which was based on Rest's (1986) and Miceli and Near's (1992b) models, and at each stage, the observer assesses prior actions and reactions of organisational members. Curtis (2006) found that higher individual intentions to report questionable behaviour were influenced by higher perceived seriousness, greater perceived personal responsibility, and lower perceived personal cost. These findings indicate that personal responsibility for reporting and personal costs of reporting are important factors within the audit profession to be incorporated into our model on whistle-blowing among auditors.

Chiu (2002) acknowledges that although individual-level variables have been found to be important determinants of whistle-blowing intentions, situational variables are centrally important, and "more research is needed to determine the relative influence of individual versus situational factors on whistle-blowing" (Chiu, 2002, p. 586). However, few studies have explored whistle-blowing intentions within the external audit environment, and even those that do, have failed fully to incorporate both team-based and organisational support variables in their models.

Since actual whistle-blowing is difficult to predict, the literature tends to use whistle-blowing intentions, defined as "the individual's probability of actually engaging in whistle-blowing behaviour" (Chiu, 2002, p. 582), as a proxy for the actual act. This is based on the perspectives of the theory of reasoned action and the theory of planned behaviour. The theory of reasoned action proposed that an individual's intention is influenced by his or her attitudes and subjective norms (Fishbein & Ajzen, 1975). Ajzen (1991) extended the theory of reasoned action to form the theory of planned behaviour, by incorporating a third antecedent, perceived behavioural control, together with attitudes and subjective norms, which are proposed as factors influencing behavioural intention. Intention has been argued to be a strong predictor of actual behaviour (Ajzen, 1991).

5. Theoretical framework

5.1. Theoretical underpinnings of the model

Audit practitioners are expected to act as watchdogs for the whole society and not only a segment of it (Cullen, 1978; Porter, 1992), and should put public interest above their personal gains (Perks, 1993; Sikka, Wilmott, & Lowe, 1989). Thus, we argue that social justice and institutional theories should be considered in developing the whistle-blowing intentions model for audit practitioners, since they operate within a set of specific rules and codes that may limit their intentions to blow the whistle on wrongdoing. With this in mind, the paper explores justice theory (Rawls, 1971) and institutional theory informed by DiMaggio and Powell (1983) to help explain whistle-blowing intentions at the societal and organisational levels.

5.2. Justice theory

Rawls (1971) argued that justice is seen as fairness when the allocation of resources in society is considered rationally as advantageous or disadvantageous. Rawls (1971) puts forward two generally accepted principles which are 1) all individuals should be treated fairly, and 2) positions and offices in society must be open to all individuals, and equal access to opportunities in society must be granted to all individuals. Rawls (1971) offers two concepts that underpin the notion of impartiality in providing fairness: 'original position' and 'veil of ignorance'. Under the original position viewpoint, people imagine themselves as being free and equal individuals who jointly agree upon and commit to principles of social and political justice. Under the veil of ignorance, it is presumed that individuals will be able to choose fairly (i.e. be ethical and unbiased) since they can ignore the influences of issues such as wealth, religious beliefs and intellectual ability, in order to be fair to everyone.

To protect public interest from the potential harm that may be caused by powerful stakeholders (e.g. management, shareholders) who tend to act in their own self-interest, society relies heavily on the professional judgment of external audit

practitioners (Goldman & Barlev, 1974; Warming-Rasmussen & Windsor, 2003). Warming-Rasmussen and Windsor (2003, p. 79) argued that:

the management of large private and public organisations is a powerful institution that influences the distribution of economic, environmental and social resources throughout society and for future generations. An auditor's social responsibility therefore, goes beyond monitoring of management's behaviour (self-interested or otherwise) for the sake of good corporate governance and the public interest.

Thus, we see that Rawls' theory focuses on the design of just institutions in society. Following Rawls (1971) notion of justice, decision makers are expected to act with fairness, equity and impartiality and, in turn, the organisation and society should administer its rules in the same vein. Therefore, we again argue that whistle-blowing in the audit context should be a voluntary act within the realm of free speech and the individual's perception of justice and fairness in society. For example, Sherron Watkins of Enron disclosed the accounting irregularity with a justice perception about what is fair to stakeholders such as shareholders and employees (i.e. principle of equal liberty in and for society) (Lucas & Koerwer, 2004).

5.3. Institutional theory

Although moral and social justice may positively influence audit practitioners' whistle-blowing intentions, an institutionalised process towards profit orientation may hinder practitioners' moral obligations towards society. Institutional theory proposes that an organisation is shaped by wider cultural, social and symbolic elements that comprise its environment (DiMaggio & Powell, 1983). To gain legitimacy, organisations implement mechanisms and structures to signal to all what is the expected and acceptable behaviour. Organisations operate within a framework of norms, values and acceptable economic behaviour. DiMaggio and Powell (1983) argue that conformity to socially acceptable norms contribute positively to the organisation's survival. Thus, institutional theory can be used to justify compliant behaviour.

DiMaggio and Powell (1983) suggest three isomorphisms⁵ that affect organisations. The first, coercive isomorphism, is the regulatory institution (e.g. the State) that imposes patterns on the organisation. For example, governments require institutions to have mechanisms such as effective corporate governance systems and audit committees put in place to ensure that organisations operate in an acceptable manner and are properly audited by audit firms in the public interest. Secondly, mimetic isomorphism is where organisations adopt the prescribed acceptable behaviour of similar organisations. Thirdly, normative isomorphism is where organisations are professionalised by prescribed patterns such as norms established by training and career paths. The institutionalised activities could include management's norms, corporate culture, and societal expectations. In auditee organisations, the audit committee is an example of an institutionalised activity designed to promote effective corporate governance (Sarens, De Beelde, & Everaert, 2009). In audit firms and the profession, mechanisms such as ethics partners and ethics hotlines have been set up for audit staff to raise any ethical concerns.

Our argument here is that the contribution of justice and institutional theories are important to the understanding of whistle-blowing behaviour among auditors. We argue that individual practitioner's perception of free speech may also be affected by coercive institutions where the audit firm implements rules and procedures to create compliance, hierarchy, routines and some form of loyalty to the organisation. Whistle-blowing is about bringing change and acting in the public interest where unfair practices are identified. In the audit profession, there are still standards and rules that restrict client disclosure on wrongdoing. Further, it is widely held that the reporting of an audit staff's violation may be at odds with the goals of the firm to be more profit oriented and to retain the client. Thus, coercive and normative institutionalisation ought to be challenged by reporting the wrongdoing, since it is in the wider public interest as well as within the remit of all audit staff.

It is worth noting that auditing is an integral part of the justice system, as it is a "policing" function and part of the regulatory process. However, it is the public narrative about the audit function that downplays this aspect, and instead orientates the audit function towards the provision of assured information that is useful for decision-making purposes. In other words, the social function of auditing is principally about issues of justice and not merely the technicalities of allegedly decision useful information.⁶

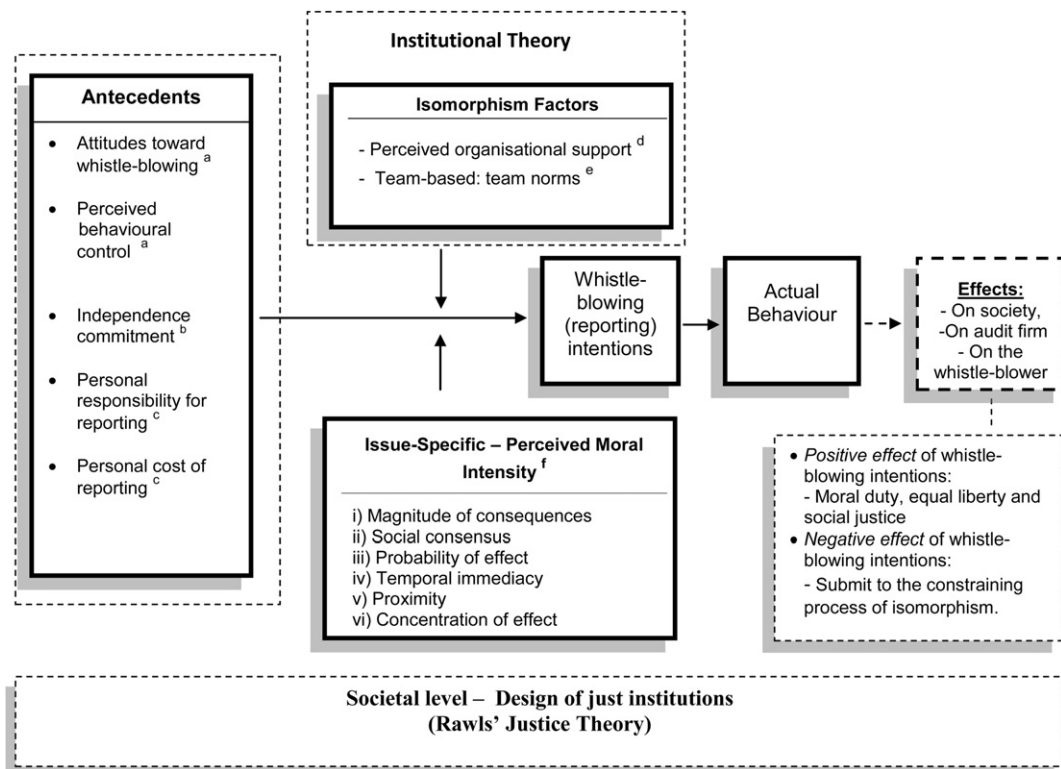
6. Propositions based on the model

Based on our understanding of both ethical arguments by Rawls (1971) and DiMaggio and Powell (1983), Fig. 1 highlights five components of individual antecedents (viz. attitudes toward whistle-blowing, perceived behavioural control, independence commitment, personal responsibility for reporting and personal cost of reporting) that could be associated with whistle-blowing intentions. We believe that these five antecedents would achieve Rawls' views on ethical actors as being autonomous, rational and enjoying equal liberty within the context of audit staff's intentions to blow the whistle.

Fig. 1 also identifies three moderating juxtaposition factors: perceived organisational support and team-based (categorised under isomorphic factors) and perceived moral intensity (categorised under issue-specific variables) that influence

⁵ Isomorphism refers to "the constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" (DiMaggio & Powell, 1983, p. 149).

⁶ We are grateful to the anonymous referee for this suggestion.



- a adopted from Ajzen (1991);
 b adopted from Gendron et al (2006);
 c adopted from Graham (1986) and Schultz et al. (1993);
 d adopted from Eisenberger et al (1990);
 e adopted from De Jong et al (2005);
 f adopted from Jones (1991) moral intensity

The rest of the model is based on our review and understanding of how the external audit works.

Fig. 1. Conceptual model of whistle-blowing intentions among external auditors.

the degree to which increasing pressures from the primary individual characteristics are likely to encourage practitioners to blow the whistle. Even though these five antecedents and the three moderators (perceived organisational support, team norms and issue-specific variables) are often acknowledged in the literature, they have not been synthesised as interrelated blocks. Our review, therefore, seeks to bring clarity into the potential effects of these variables on whistle-blowing intentions for the audit profession. Fig. 1 shows the building blocks of our review and the following subsections discuss the proposed relationships as depicted in the conceptual model.

6.1. Attitudes toward whistle-blowing and whistle-blowing intentions

Previous studies using psychological theories of decision-making indicate that an individual's decision to perform a given behavioural alternative will be influenced heavily by his or her attitude towards the alternative (e.g. Fishbein & Ajzen, 1975; Turrisi & Jaccard, 1992). The theory of planned behaviour posits that an individual's behaviour is a function of personal motivation towards the adoption of the behaviour (i.e. intention to behave). An attitude is a person's assessment of the extent of approval or disapproval of a specific behaviour. Attitudes toward the behaviour are the sum of the individual's beliefs of the behavioural consequences and their evaluation of those consequences. Attitudes will have an independent and direct effect on whistle-blowing intentions, by assessing how favourable or unfavourable an individual will be to whistle-blowing.

Within the ethical decision-making literature, attitudes toward ethical behaviour have emerged as a significant predictor of ethical intentions and behaviour (e.g. Flannery & May, 2000 in environmental decision-making; Bobek & Hatfield, 2003

regarding tax compliance). Further, [Park and Blenkinsopp \(2009\)](#) found that attitudes had significant positive main effects on whistle-blowing intentions among South Korean police officers.

In the accounting and auditing ethics domain, several studies have used the theory of reasoned action and the theory of planned behaviour to explain ethical behaviour. [Gibson and Frakes \(1997\)](#) applied the theory of reasoned action to examine unethical decision-making among CPAs, and found that members were unwilling to report unethical action. With regards to whistle-blowing in the audit context, attitudes may be linked to the individual's personal traits, ethical values and thinking which are required by the profession's codes. [Buchan \(2005\)](#) found support for attitudes influencing ethical intentions among accountants, but no support was found for moral sensitivity and ethical climate. Empirically, the concept of attitudes toward the behaviour has been shown to have a positive relationship with ethical and whistle-blowing intentions (e.g. [Carpenter & Reimers, 2005](#); [Park & Blenkinsopp, 2009](#)). Hence, our first proposition is stated as follows:

Proposition 1a. *Attitudes toward whistle-blowing will have a positive, direct effect on whistle-blowing intentions among external auditors.*

6.2. Perceived behavioural control and whistle-blowing intentions

A relevant factor in [Ajzen's \(1991\)](#) theory of planned behaviour is perceived behavioural control. Perceived behavioural control is the perception of how easy or difficult it would be to perform a specific behaviour (e.g. whistle-blowing on a colleague or superior such as an audit partner who signed off a clean audit report on misleading financial statements). More specifically, control beliefs, the fundamental determinants of perceived behavioural control, concern an individual's beliefs regarding the presence or absence of resources and opportunities and the obstacles and impediments to engaging in a specific action in question. According to the theory of planned behaviour, the greater the individual's perceived behavioural control, the more likely his or her intention to perform the behaviour ([Ajzen, 1991](#)).

[Ajzen \(1991\)](#) argued that perceived behavioural control is closely related to [Bandura's \(1977\)](#) concept of self-efficacy. [Bandura \(1997\)](#) argued that self-efficacy is a person's expectancy about whether he or she can successfully perform the behaviour in question. In the context of ethical decision making, [Beu, Buckley, and Harvey \(2003\)](#) hypothesized the influence of perceived self-efficacy on ethical intentions. They argue that individuals with high self-efficacy display high self-esteem and competence when faced with challenging situations (e.g. ethical dilemmas). Such persons are more likely to make a sound judgment and engage in correct ethical behaviour. As stated by [Beu et al. \(2003, p. 93\)](#), "cognitive consistency theory suggests that ethical behaviour is more consistent with a self-perception of high worth... the confidence in personal competence exhibited by high self-efficacy individuals should allow them to believe they can succeed without unethical means."

Prior studies have found that self-efficacy was the strongest predictor of intentions to follow rules (e.g. [Broadhead-Fearn & White, 2006](#)). [Park and Blenkinsopp \(2009\)](#) found that perceived behavioural control had significant positive main effects on internal whistle-blowing intentions. Since previous studies indicated support for perceived behavioural control influencing behavioural intentions, we incorporate this aspect in our conceptual model and our next proposition is as follows:

Proposition 1b. *Perceived behavioural control will have a positive, direct effect on whistle-blowing intentions among external auditors.*

6.3. Independence commitment and whistle-blowing intentions

The concept of auditor independence is a salient attribute of the profession as well as an important part of accounting ethics, governing the accounting profession ([Dart, 2011](#)). [DeAngelo \(1981\)](#) describes auditor independence as the likelihood that an auditor will highlight any breaches and misstatements in the financial statements when discovered. Hence, an important feature of professional and ethical commitment in accounting and auditing is referred to as independence commitment. According to [Gendron, Suddaby, & Lam \(2006, p. 170\)](#), "independence commitment... [is] the extent to which the individual accountant considers auditor independence (issued by the profession and/or external regulatory agencies) should be rigorously binding and enforced in the public accounting domain." Despite the wealth of research on the link between ethical commitment and ethical behaviour, there is relatively little empirical knowledge about the effects of independence commitment on ethical intentions and, more specifically, whistle-blowing intentions among auditors.

[Gendron et al. \(2006\)](#) introduced the independence commitment concept. They found that non-public accountants had higher levels of independence commitment compared with public accountants, and that accountants in Big Five firms had significantly lower independence commitment, compared with those employed in medium and small size firms. The study, however, did not examine the important outcomes of independence commitment. [Gendron et al. \(2006\)](#), however, pointed out the need for future research to examine the effects of independence commitment on "auditors' decision-making processes in which auditor independence is supposed to play a key role" (p. 187).

[Hall, Smith, and Langfield-Smith \(2005\)](#) argue that accountants with a strong commitment to their profession are likely to experience high "moral obligation to engage in behaviours that are beneficial to the profession, such as reporting questionable acts of others" (discretionary behaviours) (p. 103). Hence, it is logical to assume that whistle-blowing intentions are likely to be influenced by the degree of independence commitment an auditor possesses. The next proposition is as follows:

Proposition 1c. *Independence commitment will have a positive, direct effect on whistle-blowing intentions among external auditors.*

6.4. Personal responsibility for reporting and whistle-blowing intentions

When whistle-blowing is perceived as prosocial behaviour in an organisation, personal responsibility for reporting may influence an individual's decision-making. Curtis (2006, p. 193) argues that responsibility for reporting can be “influenced by feelings of social responsibility to one's colleagues and employer, attitudes towards one's profession, the number of other observers and personal ethical values.” Logically, individuals may feel obligated to report questionable acts by their moral sense of right and wrong (which is moral obligation or social responsibility), or sense of commitment and loyalty to the organisation and job description (role responsibility). Curtis (2006) further argued that the diffusion of personal responsibility may occur when many individuals observe the wrongdoing and remain silent, thus reducing personal responsibility to prevent harm to the organisation or society (the bystander effect). Drawing on the work of Graham (1986), Schultz et al. (1993) propose this variable in their model of reporting questionable acts.

In the audit profession, auditors' professional rights and responsibilities to report wrongdoing are set out in their professional codes of conduct. Given their strategic position to observe wrongdoing such as fraud, it is perceived that their role responsibility is to report such wrongdoing. Kaplan and Whitecotton (2001) suggest that audit firms could implement mechanisms for improving the audit staff's personal responsibility to report unethical acts of their colleagues. The issue is that the reporting of a violation or wrongdoing committed by their peers should be a perceived, morally-derived, responsibility to whistle-blow, given that non-disclosure may result in the loss of reputation and income by the audit firm, regardless of size. Miceli et al. (1991) found that internal auditors were more likely to whistle-blow, when it was perceived as part of their role responsibility. Kaplan and Whitecotton (2001) and Schultz et al. (1993) found strong positive support for personal responsibility influencing the likelihood of reporting questionable acts. This variable becomes very important to the external auditing profession. The codes of professional conduct (e.g. AICPA and ICAEW) have stipulated that their membership have responsibilities to the public, clients and colleagues, which are beyond the legal and regulatory responsibilities. Hence, our next proposition is as follows:

Proposition 1d. *Personal responsibility for reporting will have a positive, direct effect on whistle-blowing intentions among external auditors.*

6.5. Personal cost of reporting and whistle-blowing intentions

Another important antecedent is the auditor's assessment of the personal cost of reporting. Drawing on the work of Graham (1986), Schultz et al. (1993) proposed this variable by arguing that it is the individual's perception of the risk of retaliation from the members' in the organisation that could affect one's willingness to report wrongdoing. Ponemon (1994, p. 123) suggests that “the nature of and extent of the retaliation or sanctions imposed by management or co-workers against the whistle-blower is perhaps the most significant determinant to the prospective whistle-blower's decision in the communication of organisational wrongdoing.”

Prior research finds support for a negative relationship between the perceived personal cost of reporting and reporting intentions (Arnold & Ponemon, 1991; Hooks et al., 1994; Kaplan, 1995; Kaplan & Whitecotton, 2001; Schultz et al., 1993). Curtis (2006) argues that retaliation may come in the form of refusal of pay increases, unfair performance reviews, lack of peer support (e.g. ostracism), transfers to undesirable posts or jobs, and possible firing. Curtis (2006) further argues that perceived cost may be reduced by “belief in the existence of support and protection for dissidents such as the belief that professionalism demands reporting behaviour” (p. 194). Hence, our next proposition is as follows:

Proposition 1e. *Personal cost of reporting will have a negative, direct effect on whistle-blowing intentions among external auditors.*

6.6. Moderating variables

Three moderating variables are included in the model: perceived organisational support, team norms and perceived moral intensity (Fig. 1). The inclusion of these variables is based on our understanding of how isomorphisms affect organisations (including the audit firms) as well as the fact that people act differently upon the nature of the observed act. These moderating variables are discussed below.

6.6.1. Isomorphic factors

6.6.1.1. Perceived organisational support (POS). Normative isomorphism is primarily aimed at enhancing the professionalism of staff towards a common goal by setting the most appropriate structure, and POS is seen as one of these designs. POS encourages employees' identification and support for organisational goals and those that go beyond the call of normal duty

(Wayne, Shore, & Liden, 1997). Eisenberger, Fasolo, & Davis-LaMastro (1990, p.51) described POS as employees' perceptions of "the extent to which the organisation values their contributions and cares about their well-being." The concept of POS is consistent with social exchange theory (Blau, 1964) and the norm of reciprocity (Gouldner, 1960). Based on social exchange theory, employees are more likely to feel obligated to be committed to the organisation, where they perceived a high level of organisational support (Eisenberger, Huntington, Hutchinson, & Sowa, 1986). Thus, employees will feel comfortable making decisions such as reporting unethical acts when it is perceived that the organisation will support him or her.

An individual may not report unethical acts unless he or she perceives that the organisation will be supportive. The auditor must assess the degree of expected support when deciding whether to report any wrongdoing, thereby reducing the personal costs of reporting. Thus, the culture of care and support in the firm (normative isomorphism) should be highly ethical with the right set of core values to promote integrity. This is critical in an audit firm where lower level staff members need to be able to trust senior staff, especially where the wrongdoing may be perpetrated by a powerful individual such as a partner. In sum, POS would contribute to employee behaviour that is beneficial to the organisation. Adebayo (2005) found that POS moderated the relationship between attitudes and prosocial behaviour among the police.

Prior research (e.g. Hooks et al., 1994; Kaplan & Whitecotton, 2001) suggests that a relationship exists between the level of organisational support and the acceptability of whistle-blowing. This is important since auditors may perceive high personal costs of reporting which may be mitigated by their perceptions of whether the firm will support them. Thus, we argue that POS is a deterministic component for the isomorphic element of institutional theory, whereby effective corporate governance mechanisms could positively influence prosocial behaviour. This variable is important in explaining whistle-blowing intentions among external auditors, given that many firms have implemented internal mechanisms such as ethics hotlines, ethics partners and ethics training to facilitate a sound ethics and whistle-blowing culture. These arguments lead us to the following proposition:

Proposition 2. *Perceived organisational support will moderate the relationships between individual-level antecedents (attitudes towards whistle-blowing, perceived behavioural control, personal responsibility for reporting, independence commitment and personal cost of reporting), and whistle-blowing intentions among external auditors.*

6.6.2. Team-based variable

6.6.2.1. Team norms. Previous studies (e.g. Abdolmohammadi, Gabhart, & Reeves, 1997; Abdolmohammadi & Reeves, 2003; Nichols & Day, 1982) suggest that group decisions are superior to individual decisions. However, not all groups are effective, since they are made up of different individuals who interact and undergo groupthink in order to make decisions (Janis, 1972). Dowling (2009, p. 778) defined an "audit team as the social clan of auditors an auditor works with across several audit engagements." Thus, it is necessary to incorporate factors of group or team dynamics into whistle-blowing models. Why did no one within the audit firm of Arthur Andersen blow the whistle on the audit partner's collusion with Enron's management and subsequent decision to obstruct justice by shredding documents? Might team norms have created a tightly knit group that made it more difficult for individuals to 'break out' and report unethical behaviour? Prior research suggests that social influences (such as subjective norms and social consensus) predict behavioural intentions (e.g. Ajzen, 1991; Buchan, 2005; Gibson & Frakes, 1997; Jones, 1991; Park & Blenkinsopp, 2009). Within the audit literature, other models propose social influences as affecting the reporting intentions of auditors (Finn & Lampe, 1992; Hooks et al., 1994).

The extent to which an individual engages in a particular behaviour is largely due to the norms attached to a group of which he or she is a member. The concept of norms in the context of ethical decision making has received a great deal of attention where the perceived social pressure found to influence ethical intentions (Ajzen, 1991). However, our particular interest is on team norms as a moderating variable. Team norms can be defined as "legitimate, socially shared standards against which the appropriateness of behaviour can be evaluated" (Chatman & Flynn, 2001, p. 956). Norms regulate team behaviour by providing 'implicit guidelines' for members. According to De Jong, de Ruyter, and Lemmink (2005, p. 1598), team norms are strong "when there is strong consensus among individual members about the dominant appropriate behaviour". Norms set out what may be done in situations (i.e. expected behaviour) based on the interactions of group members. Bettenhausen and Murnighan (1991) argue that norms may be considered as regular behavioural patterns that are stable and expected by other group members.

Narayanan, Ronson, and Pillutla (2006) posit that cohesion has a positive impact on the individual's conformity to group norms. If the norms of the group support ethical behaviour, individuals would be more likely to be ethical in cohesive groups. Thus, they argue that group norms moderate the effect of cohesion on unethical behaviour. To the best of our knowledge, Narayanan et al.'s (2006) model has yet to be empirically tested. We argue that norms in an audit team can have a positive effect on an individual member's behaviour regarding appropriate organisational practice. Hooks et al. (1994) argue that social influences like team norms may colour one's perception of the seriousness of the wrongdoing. By transferring this logic into the realm of ethical intentions and whistle-blowing, the extent to which the team expresses similar and strong team norms regarding ethical practices in an organisation may affect how an individual member is likely to engage in ethical behaviour. Hence, our next proposition is as follows:

Proposition 3. *Team norms will moderate the relationships between individual-level antecedents (attitudes towards whistle-blowing, perceived behavioural control, personal responsibility for reporting, independence commitment and personal cost of reporting), and whistle-blowing intentions among external auditors.*

6.6.3. Issue-specific factor

6.6.3.1. Perceived moral intensity. Jones (1991) criticised previous ethical decision-making models for their failure to account for the effects of issue-specific variables and introduced the important construct of moral intensity in the study of ethical decision-making. People act differently based on the nature of the issue itself. Hence, ethical decision-making is issue-contingent. Within the context of our proposed model, intentions to blow the whistle are contingent and dependent on the context or the nature of the issue. The concept of moral intensity consists of six components: magnitude of consequences, social consensus, proximity, concentration of effect, temporal immediacy and probability of effect.

Prior research has found support for moral intensity having a significant effect on ethical intentions (Paolillo & Vitell, 2002; Shafer, Morris, & Ketchand, 2001; Singhapakdi et al., 1999; Singhapakdi, Vitell, & Kraft, 1996). Based on a survey of 323 CPAs in the USA, Shafer et al. (2001) found that magnitude of consequences and probability of effect influenced the auditor's support of aggressive financial reporting, which implied that economic or utilitarian factors influence an auditor's ethical decision-making. Magnitude of consequences is similar in many respects to materiality (i.e. monetary terms or the degree of seriousness), a term that is used extensively by external auditors in judgments, testing and reporting (Brennan & Kelly, 2007; Shafer et al., 2001). Kaplan and Whetstone (2001) suggest that Jones' (1991) moral intensity could be incorporated into a model of reporting questionable acts. Indeed, Cohen and Martinov-Bennie (2006) and Jones, Massey, and Thorne (2003) argued that research is needed on the impact of moral intensity on auditors' likelihood of whistle-blowing, given the requirements of Sarbanes–Oxley Act of 2002.

Moral intensity has been used in previous research as a moderator in the context of ethical intentions. For example, Flannery and May (2000), using magnitude of consequences, found that this variable played an important moderating role in the relationships between the independent variables (attitudes, perceived behavioural control and subjective norms) and ethical intentions (Flannery & May, 2000). Another study (Beu et al., 2003) also found that moral intensity moderated the relationships between several independent variables and ethical intentions. To date, no study has examined moral intensity as a moderating role within the context of whistle-blowing intentions among auditors. We argue that the effect of the determinants described above on whistle-blowing intentions may be dependent on the nature of the issue itself. Individuals may be more likely to blow the whistle in circumstances where moral intensity is perceived to be high, given the severity or seriousness of the act in question. To control for this possible effect, moral intensity is incorporated in our model and leads to our next proposition:

Proposition 4. *Perceived moral intensity will moderate the relationships between individual-level antecedents (attitudes towards whistle-blowing, perceived behavioural control, personal responsibility for reporting, independence commitment and personal cost of reporting), and whistle-blowing intentions among external auditors.*

6.7. Individual, firm and societal effects

The decision to blow the whistle is based on the equality principle, the inherent wrong and right of the behaviour and the influence of codes and regulations that are coercively exerted, hierarchical, routinised and rigid on the intentions. According to the model in Fig. 1, when an audit practitioner blows the whistle, there are positive and negative consequences to society, the individual whistle-blower and his/her audit firm. Positive societal effects could include the reduction of the cost to society, resulting from loss of shareholders' confidence and undermining of the capital markets, reduction of loss of jobs as a result of a closure similar to Enron, and also ensuring potential tax revenues to the government. In addition, the image of the profession will be highly regarded by society when the auditor acts in the public interest (Rawls' theory). The case of Enron shows how society responded negatively to the audit profession when none of Arthur Andersen's staff blew the whistle on the unethical acts and other wrongdoing committed by other audit staff members and the client. As a result, the audit firm was perceived as being dishonest and unethical.

For the individual practitioner, whistle-blowing may still have negative effects. The whistleblower's reputation can be tarnished for being a snitch and being disloyal. The retaliation from the organisation and other employees can be unbearable. The cases of David Kelly and Jeffrey Wigand aptly illustrate the ostracism. David Kelly, a biological weapons inspector for the British Government, disclosed information that Iraq did not have weapons of mass destruction (Philp, 2007). The British Government publicly dismissed his claims and he committed suicide soon after. Another example is the case of Dr. Jeffrey Wigand, a researcher at Brown and Williamson Tobacco Corporation, who in the 1990s disclosed that the US tobacco authorities were not honest about the lethality and addictiveness of tobacco, as they manipulated nicotine levels to keep smokers hooked to cigarettes (Miceli, 2004). Wigand suffered significant emotional stress including a lawsuit for breach of confidentiality, loss of income and personal threats as a result of the incident. However, there can be positive effects, whereby the whistle-blower can be perceived in a favourable light if the organisational culture and societal norms encourage whistle-blowing. Wigand's disclosure to the media vindicated him as many victims of cigarette related illnesses successfully sued the tobacco companies.

Brennan and Kelly (2007) examined the trainee auditors' confidence in the internal and external reporting structures in their firms, their willingness to challenge the audit partner's inappropriate decision, and the influence of legal protection on their likelihood of whistle-blowing. They found that where audit firms have adequate formal structures for reporting wrongdoing, trainee auditors will be more likely to whistle-blow and have greater confidence that their career prospects will not be negatively affected. In addition, Brennan and Kelly (2007, p. 83) suggest that future research could investigate

“auditors’ belief that reporting wrongdoing would result in positive outcomes (such as exposing the wrongdoing) and would lead to positive outcomes for the auditor.” Thus, given the above arguments, our model shows the impact of whistle-blowing on society, the audit firm and the individual (Fig. 1).

7. Conclusion and future research

In this paper, we suggest a conceptual model for whistle-blowing intentions among external audit practitioners. We propose that key individual-level antecedents are closely related to whistle-blowing intentions, and are moderated by team, organisational and issue-specific factors. Our proposed model is positively influenced by the propensity to blow the whistle, and the moral, organisational and social commitment for protecting public interest (Rawls theory, effective organisational support and team norms), and negatively influenced by the prevailing organisational milieu and high personal cost of reporting.

Audit practitioners need to be independent from parties as well as situations that may impair their objectivity. Without independence, their social role of ensuring that corporate management are held accountable will be insignificant or of no value to users of their reports. This includes audit practitioners being prepared to take an ethical stand that may be incongruent to the considered view of the audit firm. In other words, the ‘safeguarding’ role expected by the profession would be compromised, if practitioners fail to act through mechanisms such as whistle-blowing upon situations perceived as illegal, immoral or illegitimate activities.

The model represents an attempt to formulate an integrated explanation for whistle-blowing (reporting) intentions among external auditors. Theoretical and empirically-based arguments were provided to justify the conceptual framework of our model. Our review has captured much of the current knowledge landscape regarding whistle-blowing. It contributes to the literature by including factors relevant to the audit profession. We acknowledge that our model is not comprehensive, but we attempt to synthesise factors that are considered to be important to the audit profession.

Beside individual factors, this model incorporates the impact of teams or groups on ethical decision-making. Dukerich, Nichols, Elm, and Vollrath (1990, p. 473) suggests that “because problems that pose moral dilemmas are often addressed by groups such as boards of directors, crisis management teams, disciplinary boards, or city councils, it is important to understand how decision-makers collectively consider and resolve moral problems.” Indeed, Trevino, Weaver, and Reynolds (2006) support the call for more studies on the influence of groups in behavioural ethics. In addition, the several studies that researched groups used convenient student samples rather than actual samples from both client organisations and audit firms. Thus, future research may empirically consider looking at the impact of groups on the whistle-blowing process in actual work settings. Indeed, this model proposes that team norms may be a significant influential factor on whistle-blowing, given that many high profile cases show that other individuals in the organisation were aware of misconduct (see Lucas & Koerwer, 2004). Thus, significant interactions are likely to occur with team norms as a moderator.

Another potentially rich area for future research is in the use of institutional theory to understand whistle-blowing behaviour. There has been little research which utilises institutional theory in the whistle-blowing literature. It is important to understand the impact of corporate governance isomorphic mechanisms such as audit committees, non-executive directors and other strategic institutional processes on the whistle-blowing phenomenon. Isomorphic mechanisms are the direct result of increased pressures from government or the profession to adopt certain professional and bureaucratic designs to increase homogeneity among organisations such as audit firms. However, there is the possibility that there might be some resistance to the institutional, team and issue-specific pressures. An important additional point is our use of perceived organisational support as a moderator. We believe that the acceptability and willingness of reporting will be heavily influenced by the perceived level of support that the audit firm will provide. Thus, significant interactions are likely to occur with perceived organisational support as a moderator.

Our theoretical arguments in designing this model utilise Rawls’ (1971) theory of justice. Rawls proposed justice as fairness based on societal liberties. Future research could use this framework of whistle-blowing among audit practitioners to look at justice from the societal level as well as the organisational level. This is critical given that there is a difference between Rawls’ theory of justice and organisational theory of justice as well as between deontological and teleological ethical perspectives and we need to identify which justice notion best fits the audit profession. Rawls’ justice theory looks at the society as a whole, while organisational justice theory deals with the specific aspects such as distributive and procedural justice. Much research is needed in both areas. There is the possibility that regulation of the audit profession could be remodelled to offer some form of protection to its membership in this regard rather than leaving whistle-blowing issues to be resolved by the individual audit firm. The form of institutional support may need to come from the creation of independent bodies outside of the firm as well as the profession to handle all complaints.⁷

Most of the research on whistle-blowing has been conducted using questionnaires, experiments and student samples. Future research could study the depicted relationships in field settings. The use of workplace samples could help to create real life understanding of whistle-blowing behaviour. Specifically, a critical incidents approach could be used where organisational members could be asked to recall whistle-blowing incidents and how they would have resolved them. In addition, rich information can be obtained from using other qualitative methodologies such as focus groups.

⁷ This is recommended given that several US audit partners have been found guilty of facilitating tax evasion and contributing to the recent banking crisis, thus ‘problematising’ claims to professionalism and integrity by audit practitioners.

The present model attempts to bring greater depth of understanding to auditor decision-making in audit reporting issues by looking at individual, team and contextual (issue-specific) factors. Testing of this model can aid policy makers and professional bodies in developing and incorporating adequate ethics requirements in their codes of professional conduct to increase auditors' ethical awareness. Specifically, empirical research on this model can also help auditors and audit firms to decide on appropriate training needs for their staff.

Finally, it is hoped that this model can assist in gaining insights about the extent to which auditors perceive themselves as moral agents. These perceptions about the profession's role in auditor independence may have implications for accounting education. We also acknowledge that whistle-blowing may not be welcomed by every member of the profession, but is desirable for the public as part of policing 'socioeconomic justice'. Admittedly, even if whistle-blowing is encouraged, it can not deal with the systemic tensions that exist in society (Mitchell & Sikka, 2004). For example, whistle-blowing cannot completely eliminate self-interested behaviour, since society tends to value an individual by his/her wealth, status and power which may be derived from unethical behaviour. It is also recognised that audit firms come in different sizes and structures. Thus, the model that we propose targets those audit firms (medium and large firms) with hierarchical structures that have a number of qualified and unqualified audit staff. This paper also does not address the legislative framework of external auditing.

The paper contributes to the ongoing public interest issue of auditing ethics. The issue is how we ensure or improve the integrity of the auditing profession, such that members are able to discharge their social function of acting in the public interest. To address this issue, we call for future empirical research to test our model of whistle-blowing within the external audit function.

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