

The Impact of Ethical Foundations on Reporting Audit Whistleblowing: Evidences from Private Audit Firms

Naser Karimi^{1,*}, Mahdi Zeinali², Younes Badavar Nahandi²

¹ Ph.D. Student in Accounting, Tabriz Branch, Islamic Azad University, Tabriz, Iran

² Department of Accounting, Tabriz Branch, Islamic Azad University, Tabriz, Iran

Corresponding Author: Naser Karimi, Ph.D. Student in Accounting, Tabriz Branch, Islamic Azad University, Tabriz, Iran. E-mail: naser.karimi2@yahoo.com

Received 05 Dec 2021

Accepted 24 Mar 2022

Online Published 21 Aug 2022

Abstract

Introduction: Reporting whistleblowing as an ethical behavior can play an effective role in combating illegal behaviors as well as preventing scandals in organizations, especially auditing firms. Therefore, the purpose of this study is to investigate the effect of ethical foundations of auditors working in the private sector on their willingness to report audit whistleblowing.

Material and Methods: This research is applied in terms of purpose and it is a descriptive-correlational study. The statistical population of the present study is all auditors working in private sector audit firms that 160 people have been selected using random sampling method. The research variables were measured using standard questionnaires and finally, multivariate regression test was used to analyze the collected data.

Results: The results of the present study confirm the positive and significant effect of ethical foundations on decisions related to reporting whistleblowing in private sector audit firms. The results also showed that as the age and job rank of auditors working in private sector auditing firms increases, their tendency to report auditing whistleblowing decreases.

Conclusions: Since increasing the willingness of auditors to disclose whistleblowing in order to perform the task of accreditation leads to improved audit quality; According to the results obtained in this study, influential organizations in the legislature are suggested to consider the ethical foundations as an effective factor in reporting whistleblowing and work to strengthen it. In this way, in such a competitive market, auditors can be encouraged to be fair to others, even if it threatens their own well-being and safety.

Keywords: Whistleblowing, Ethical Behavior, Ethical Foundations

How to Cite: Karimi N, Zeinali M, Badavar Nahandi Y. The Impact of Ethical Foundations on Reporting Audit Whistleblowing: Evidences from Private Audit Firms. Int J Ethics Soc. 2022;4(2):27-32. doi: [10.52547/ijethics.4.2.5](https://doi.org/10.52547/ijethics.4.2.5)

INTRODUCTION

The credibility of each profession is assessed by the performance of its members. Therefore, the failure of each member to meet the expectations of professionals will lead to the destruction of the entire complex. The auditing profession also needs special credibility and trust from the community due to the type of services it provides [1]. The increase in lawsuits against auditing firms has led to scandals, the most important consequence of which is a negative impact on public confidence and evaluation of the profession. On the other hand, following the formation of the Iranian Society of Certified Public Accountants, we are witnessing such a competitive increase among auditing firms that managers and partners of firms spend a lot of time marketing and advertising and some even report on

auditing to stay in this competitive market. They adjust according to the client [2].

Disclosure of whistleblowing is one of the most important monitoring tools that has an effective role in combating illegal behaviors [3] and also preventing financial scandals in organizations, especially audit firms [1]. Therefore, studying the factors affecting the tendency to report whistleblowing helps to better understand its dimensions and, consequently, to improve and promote moral behaviors. Because, according to some researchers, the subject of reporting whistleblowing is still an important and challenging issue in the field of ethics [4].

It can be said that the study of reporting whistleblowing was started in the 1980s by various researchers [5, 6] and this paved the way for identifying the factors that can

influence the occurrence of such behaviors [7]. On the other hand, a significant number of cases of audit quality degradation by audit firms have led researchers to analyze the auditor's intent to report auditing whistleblowing in more depth [8].

Despite the existence of a code of professional conduct that requires an individual to report whistleblowing observed in auditing organizations to a person or entity that is capable of correcting those whistleblowing [9]. However, studies show a general reluctance on the part of auditors to report whistleblowing committed by their colleagues [10]. Because auditors are trained in teamwork as well as decision-making based on group consultation. For this reason, according to some, in the audit team, the ethical judgment of auditors may be affected by the cohesiveness of the group [8]. However, given that reporting misconduct is defined as voluntary ethical behavior [11], some believe that the level of ethical orientation of six auditors can affect their willingness to report misconduct [12]. Studies show that as the level of moral intensity increases, so does the tendency to report immoral behaviors [13]. In fact, the attitude of ethics is considered an important and influential factor that plays a significant role in decision-making and directing the behavior of individuals [14]. Similarly, many studies have shown that ethics as an influential factor in decision-making strategies [15] is the most important motivation for reporting immoral behavior [16, 17]. Many conceptual models proposed for reporting whistleblowing consider ethics as the main driver of disclosure [18, 19].

In the field of ethics, several groups of researchers sought to achieve a set of ethical principles that play a decisive role in guiding decisions [20]. Among these, ethical foundations introduced a classification for ethical decisions with 5 components (harm / care, fairness / retaliation, intra-group / loyalty, power / respect, and purity / sanctity) which component Injury / care refers to the importance of the individual to the suffering of others, as well as empathy and care for others [21], and the component of fairness / retaliation refers to concepts such as justice and equality. The intra-group principle of loyalty [22] and power / respect also includes hierarchical value and respect for those in authority [21]. Finally, purity / sanctity values such things as purity [23]. According to some, these 5 dimensions represent the basis of human moral judgment [24].

Studies show that the performance of employees, as one of the most important factors in increasing the efficiency and effectiveness of the organization [25], in reporting whistleblowing depends on their psychological

characteristics [26]. In fact, the moral foundations that reflect the psychological characteristics of individuals in the observance of morality. It is defined as a set of exploratory or cognitive biases that can affect the judgment of individuals in situations of moral stress [27]. Auditors are also among those who may encounter such ethical situations when following their judgment [28]. Scholars, therefore, have provided ethical foundations for describing a wide range of moral judgments, and according to their argument, moral judgments arise primarily from emotional processing, and reasoning and consultation usually follow such processing. Arises [29]. In other words, moral judgment is primarily made by these five components of moral foundations. Disclosure of whistleblowing promotes justice and fairness on the one hand [30], but on the other hand due to the relationship between the whistleblower and the offender, it can seem unfaithful and the vast majority of people who commit whistleblowing They report facing negative consequences of their actions such as revenge, expulsion and personal discomfort [31].

Studies have shown that individual differences in the evaluation of the components of moral foundations play a decisive role in decisions and the willingness of individuals to report whistleblowing and immoral behaviors. In this way, individuals recall reporting immoral behavior for the sake of evaluating fairness, while others recall their decisions not to report immoral behavior resulting from valuing the loyalty component. In fact, acknowledging the fairness versus loyalty component increases the tendency to report immoral behavior [32].

Other research findings suggest that ethical concerns are predictive of reporting whistleblowing, and that psychological motivations for disclosure have the potential to highlight the power of ethical concerns in these decisions [33]. According to these researchers, ethical concerns consistently place disclosure decisions above and beyond other organizational and situational factors, and whistleblowing reporting decisions are always accompanied by an exchange of ethical concerns, whereby concerns in the case of fair treatment of others, it leads to reporting immoral behavior, while loyalty to the organization is associated with not reporting immoral behavior [33].

According to these issues and also according to researchers, the level of moral reasoning is an influential factor in the intention to disclose whistleblowing [34]. On the other hand, gender, age and seniority in the organization are among the factors that can affect people's willingness to report whistleblowing. In this

regard, some researchers have shown that there is no significant difference between male and female auditors in reporting whistleblowing, but with the increase of auditors' job rank, the tendency to disclose whistleblowing also increases [35]. However, the results of other research in this field indicated that none of the variables of gender, age and seniority in the organization have a significant effect on the intention to report cases of fraud and illegal activities [36].

Given the importance and necessity of ethics in the auditing profession, the purpose of this study is to investigate the effect of ethical characteristics of auditors working in private institutions on their willingness to report auditing whistleblowing. Whereas so far the influence of the moral foundation, as a valid tool for determining the various dimensions of morality [24]), has not been studied in this field. Therefore, this issue can be considered as an innovation and knowledge enhancement of the present study.

MATERIAL AND METHODS

The present study is of applied type and is part of descriptive-correlational research. The statistical population consists of auditors working in private sector audit firms, and the Cochran's formula is used to determine the sample size. According to this formula, the number of samples at the 10% error level was estimated at 96. In this study, 200 questionnaires were distributed among the respondents, 160 of which were usable and used in the analysis. Demographic characteristics of the statistical sample members show that 61% of the participants are male and 39% are female. Most respondents are undergraduates and the least are doctoral students. Also in terms of job rank, 48% of respondents are auditors, 31% are senior auditors, 9% are supervisors, 5% are managers and the rest are partners. The tools used in this study to collect data are two questionnaires of ethical foundations and reporting whistleblowing. The Ethical Foundations Questionnaire

was developed by researchers to evaluate and measure the dimensions of ethics [37] and has 32 questions in two parts. This questionnaire includes five components of care / injury, fairness, group loyalty, respect for authority and purity. The questions of the first part of the questionnaire include questions 1 to 16, which are graded based on a 5-point Likert scale (from "not at all" a score of 0 to "very high" a score of 5). The second part also includes questions 17 to 32, which are graded based on a 5-point Likert scale (from "So Agree" to "Strongly Agree"). Phrases 6 and 22 are not graded. Finally, the scores of each respondent were added and after averaging, the resulting number was considered as an indicator of ethics for respondents. A standard questionnaire [10] was used to measure the "report of whistleblowing". This questionnaire depicts three hypothetical situations in the field of auditing and in each scenario puts the respondent in a position to decide on the reporting of whistleblowing. The answers are based on the Likert scale with six options, with a score of 1 for the lowest motivation for reporting and a score of 6 for the highest motivation for reporting. Both questionnaires are standard and have been used in previous research. Therefore, they have content validity. Cronbach's alpha of the Ethical Foundations Questionnaire and Report Abuse are 72% and 76%, respectively, indicating the reliability of these questionnaires. It should be noted that the age and job rank of the auditor are considered as control variables in the research. Finally, the data were analyzed using SPSS software. In the descriptive statistics section, mean and standard deviation indices and in the inferential statistics section, multivariate regression was used to test the hypotheses.

RESULTS

Descriptive indices of research variables including mean, median, standard deviation, minimum and maximum are presented in Table 1.

Table 1. Descriptive Statistics

| Description | Ethical Foundations | Report Delinquency | Age |
|-------------|---------------------|--------------------|---------|
| Mean | 45.59 | 4.98 | 32.0818 |
| Median | 47 | 5 | 30 |
| SD | 9.668 | 1.067 | 7.158 |
| Min. | 18 | 1 | 20 |
| Max. | 60 | 6 | 67 |

The results of linear regression between research variables and model estimation are presented in Table 2. As can be seen, the significance level of moral foundations is equal to (0.000), it means less than 5%. Therefore, at the 95% confidence level, ethical

foundations with regression coefficient (0.036) have a positive and significant effect on the reporting of audit whistleblowing. In addition, the results show that according to the level of significance (-0.045), age has a negative effect (-0.024) and significance on the

dependent variable of reporting audit whistleblowing. In other words, as the age level increases, the tendency to report audit whistleblowing decreases. Also, job rank has a negative effect (-0.134) on the report of audit whistleblowing and considering the level of significance (0.038), this effect is significant.

The value (4.181) for F value with a significant level confirms the accuracy and existence of the regression

line. On the other hand, since the value of variance inflation factor for each of the independent and control variables is less than 5, there is no autocorrelation between the independent and control variables. A value of 1.848 for the Watson camera-test also confirms the absence of autocorrelation between model error values.

Table 2. Results of Regression Analysis and Testing of Hypotheses

| Description | Coefficient | T-Value | Sig. | Variance Inflation Factor |
|---------------------|-------------|---------|-------|---------------------------|
| Fixed coefficient | 3.755 | 6.875 | 0.000 | - |
| Ethical foundations | 0.036 | 4.282 | 0.000 | 1.041 |
| Age | -0.024 | -2.017 | 0.045 | 1.258 |
| Job rank | -0.134 | -2.734 | 0.038 | 1.269 |
| Gender | -0.058 | -0.346 | 0.730 | 1.023 |

F-value: 4.181, Sig.: 0.000, Adjusted R-squared: 0.120

DISCUSSION

The present study examines the impact of the ethical foundations of auditors working in the private sector on their willingness to report audit whistleblowing. According to researchers, reporting whistleblowing is a moral decision [4, 11]. In this regard, the results of previous research showed that as the level of moral intensity increases, so does the tendency to report immoral behaviors [13]. Another study suggested that the level of ethical reasoning is a factor influencing the intention to disclose whistleblowing [34]. Considering the decisive role of ethics in guiding decisions, ethical foundations were provided to describe the judgments and ethical behaviors of individuals based on moral feelings; which can be considered as a valid tool for determining the moral dimension [24]. According to the findings of this study, ethical foundations positively and significantly affect the willingness of auditors to report audit whistleblowing. These results are in line with theoretical foundations as well as previous research [32] which emphasizes the determining role of the components of moral foundations in the tendency of individuals to report whistleblowing [30, 32]. Researchers believe that disclosure of whistleblowing promotes justice and fairness, and it is these individual differences in the evaluation of the components of moral foundations and the affirmation of the component of fairness that lead to an increased tendency to report immoral behavior in individuals. In fact, psychological motivations in such revelations can have a significant impact on moral decision-making [33]. The results of this study also showed that like some previous studies [35, 36], the gender of the auditor does not have a significant effect on the willingness to report

whistleblowing. This is while age and job rank have a negative and significant effect on reporting whistleblowing. In other words, as the rank and age of auditors working in private institutions increases, their tendency to report whistleblowing decreases. These results are contrary to previous studies in this field [35]. This result can be interpreted as the reason for this may be the increase in competition between private sector auditing firms that do not report the observed whistleblowing in order to remain in this competitive market, and in some cases even their own reports. Are adjusted according to the client [2].

Whereas the increased willingness of auditors to disclose breaches in order to perform the task of accreditation leads to improved audit quality; According to the results obtained in this study, influential organizations in the legislature are suggested to consider the ethical foundations as an effective factor in reporting whistleblowing and work to strengthen it. In this way, in such a competitive market, auditors can be encouraged to be fair to others, even if it jeopardizes their own well-being and safety. Finally, due to the use of questionnaire tools, the present study faced limitations such as conservatism of some respondents, which may lead to limitations in generalizing the results.

CONCLUSION

Reporting whistleblowing is an important and challenging issue in the field of ethics, which as one of the most important monitoring tools, plays an effective role in combating illegal behavior in organizations, especially auditing firms. Disclosure is a voluntary moral decision. Therefore, recognizing the factors influencing the judgments and decisions of auditors, can lead to solutions that help to improve and promote ethical

behaviors in the auditing profession. Reporters of wrongdoing incur high personal costs to expose injustice [33]. Confirmation of the relationship between ethical foundations and decisions to report breaches in private audit firms indicates that individuals report breaches despite the risk of personal expense, in order to maintain ethical principles or values. In other words, ethics is considered an important and influential factor that plays a significant role in auditors' decisions [14]. These results can provide useful information to legislators and regulators. Because individual differences in the evaluation of the components of moral foundations, play an effective role in the tendency of individuals to report whistleblowing and immoral behaviors, and on the other hand, cultural factors also play a decisive role in highlighting any kind of moral foundation. Therefore, decision-making authorities and institutions are encouraged to work to cultivate and strengthen the moral components so that whistleblowers, because of their fair treatment of others, are willing and able to

abandon group obligations and endanger their own well-being and personal security. In this way, the negative consequences of increasing competition between private audit firms can be prevented and the ground for improving audit quality can be achieved.

ETHICAL CONSIDERATION

Ethical issues (such as plagiarism, conscious satisfaction, misleading, making and or forging data, publishing or sending to two places, redundancy and etc.) have been fully considered by the writers.

ACKNOWLEDGEMENT

The authors would like to express their sincere thanks to the interviewees and the people who helped us in this research.

CONFLICT OF INTEREST

The authors declare that there is no conflict of interests.

REFERENCES

1. Daryaei M, Nikoomaram H, Khan Mohammadi MH. The effect of organizational culture on whistleblowing in audit profession. (In Persian). *Financ Account Audit Res.* 2020;12(46):27-50.
2. Shoja N, Banimahd B, Vakiliifard H. Examine auditors' views on marketing activities. (In Persian). *Financ Account Audit Res.* 2018;10(38):31-46.
3. Varasteh H, Nikoomaram H, Jahanshad A, Banimahd B. Auditors' willingness to whistleblowing based on social cognition theory. (In Persian). *Audit Knowledge.* 2021;21(82).
4. Hartman L, Desjardins J. *Business ethics: Decisionmaking for personal integrity & social responsibility.* New York: McGraw Hill. 2008.
5. Dozier JB, Miceli MP. Potential predictors of whistleblowing: A prosocial behavior perspective. *Academ Manage ev.* 1985;10(4):823-36. doi: 10.5465/amr.1985.4279105
6. Miceli MP, Near JP. Characteristics of organizational climate and perceived wrongdoing associated with whistle-blowing decisions. *Person Psychol.* 1985;38(3):525-44. doi: 10.1111/j.1744-6570.1985.tb00558.x
7. Ahmad SA, Yunus RM, Ahmad RAR, Sanusi Z. Whistleblowing Behaviour: The Influence of Ethical Climates Theory. *Procedia Soc Behav Sci.* 2014;164:445-50. doi: 10.1016/j.sbspro.2014.11.101
8. Alleyne P, Haniffa R, Hudaib M. Does group cohesion moderate auditors' whistleblowing intentions? *J Int Account Audit Taxat.* 2019;34:69-90. doi: 10.1016/j.intaccudtax.2019.02.004
9. Near JP, Miceli MP. Organizational dissidence: The case of whistleblowing. *J Business Ethic.* 1985;4(1):1-16. doi: 10.1007/BF00382668
10. Taylor EZ, Curtis MB. An examination of the layers of workplace influences in ethical judgments: Whistleblowing likelihood and perseverance in public accounting. *J Business Ethic.* 2010;93(1):21-37. doi: 10.1007/s10551-009-0179-9
11. Beigi Harchegani E, Banimahd B, Reiszadeh M, Royayi R. Motivational Values and Auditor's Ethical Whistle Blowing about Wrongdoing. (In Persian). *J Ethic Sci Technol.* 2018;2(4):120-35.
12. Banimahd B, Golmohamadi A. Investigating the relationship between ethical climate and Whistleblowing through optional reporting model in Iran's audit profession. (In Persian). *J Value Behav Account.* 2017;2(3):61-86. doi: 10.29252/aapc.2.3.6
13. Namazi M, Ebrahimi F. Modeling and determinants of whistleblowing by accountants. (In Persian). *Empiric Financ Account Stud.* 2016;12(49):1-28.
14. Kaboli R, Banimahd B, Mohammadi Molgharani A. Relationship between Moral Foundations & Perception of Corporate Social Responsibility. (In Persian). *Int J Ethic Soc (IJES).* 2021;3(3):44-52. doi: 10.52547/ijethics.3.3.44
15. khayatmoghadam S. Study of the Effects of Managers' Professional Ethics on the Decision-Making Strategies: Moderator Role of Information Management Systems Capacity. (In Persian). *Int J Ethic Soc (IJES).* 2021;3(3):19-27. doi: 10.5254/ijethics.3.3.19
16. Alleyne P, Hudaib M, Pike R. Towards a conceptual model of whistleblowing intentions among external auditors. *British Account Rev.* 2013;45(1):10-23. doi: 10.1016/j.bar.2012.12.003
17. Gundlach MJ, Douglas SC, Martinko MJ. The decision to blow the whistle: A social information processing framework. *Academ Manage Rev.* 2003;28(1):107-23. doi: 10.2307/30040692
18. Cailleba P, Petit SC. The whistleblower as the personification of a moral and managerial paradox. *Management.* 2018;21(1):675-90. doi: 10.3917/mana.211.0675
19. Watts LL, Buckley MR. A dual-processing model of moral whistleblowing in organizations. *J Business Ethic.* 2017;146(3):669-83. doi: 10.1007/s10551-015-2913-9
20. Cowan K, Yazdanparast A. Moral foundations and judgment: conceptualizing boundaries. *J Consumer Market.* 2019;36(3):356-65. doi: 10.1108/JCM-01-2018-2548
21. Alizadeh S. Canonical Analysis of the Relationship between Components of Professional Ethics and Dimensions of Social Responsibility. (In Persian). *Ethic Sci Technol.* 2019;14(1):117-23. doi: 10.1001.1.22517634.1398.14.1.17.6
22. Aghababaei N, Talaei Pashiri A, Kwantes C. Investigating the relations among personality characteristics, moral foundations, and work ethics in Iranian and Canadian students. (In Persian). *Cultur Psychol.* 2017;1(2):1-22.

23. Fernandes S, Kapoor H, Karandikar S. Do we gossip for moral reasons? The intersection of moral foundations and gossip. *Basic Appl Soc Psychol*. 2017;39(4):218-30. [doi: 10.1080/01973533.2017.1336713](#)
24. Graham J, Nosek BA, Haidt J, Iyer R, Koleva S, Ditto PH. Mapping the moral domain. *J Pers Soc Psychol*. 2011;101(2):366-85. [doi: 10.1037/a0021847](#) [pmid: 21244182](#)
25. Moslehi M, Salajegheh S, Pourkiyani M. Organizational Strategies Model of Employee Performance based on the Organizational Justice (In Persian). *Int J Ethic Soc (IJES)*. 2020;2(3):37-46. [doi: 10.52547/ijethics.2.3.37](#)
26. Momenpour Tayola M, Bayat A, Mohammadi A. Self-Control, Decision-Making Styles and Ethical Whistle-Blowing in Banks. (In Persian). *Ethic Sci Technol*. 2021;16(2):56-65. [doi: 20.1001.1.22517634.1400.16.2.8.3](#)
27. Graham J, Haidt J, Koleva S, Motyl M, Iyer R, Wojcik SP, et al. Moral foundations theory: The pragmatic validity of moral pluralism. *Advanc Experim Soc Psychol* Forthcom. 2012. [doi: 10.1016/B978-0-12-407236-7.00002-4](#)
28. Neri MP. Loyalty and Fairness: A Study of the Influence of Moral Foundations on Auditors' Propensity to Subordinate their Judgment, dissertation, Denton, Texas 2016.
29. Simpson A. Moral foundations theory & background, review & scaffolding for future research. In V. Zeigler-Hill & T. K. Shackelford (Eds.), *Encyclopedia of Personality & Individual Differences*. Switzerland: Springer 2017.
30. Miceli MP, Near JP. *Blowing the whistle*. New York, NY: Lexington Books 1992.
31. Dyck A, Adair M, Zingales L. Who blows the whistle on corporate fraud? *J Financ*. 2010;65:2213-54. [doi: 10.2307/23324409](#)
32. Waytz A, Dungan J, Young L. The whistleblower's dilemma and the fairness-loyalty tradeoff. *J Experiment Soc Psychol*. 2013;49(6):1027-33. [doi: 10.1016/j.jesp.2013.07.002](#)
33. Dungan JA, Young L, Waytz A. The power of moral concerns in predicting whistleblowing decisions. *J Experiment Soc Psychol*. 2019;85. [doi: 10.1016/j.jesp.2019.103848](#)
34. Shawver TJ, Shawver TA. The Impact of Moral Reasoning on Whistleblowing Intentions. Jeffrey C. (Ed.) *Research on Professional Responsibility and Ethics in Accounting (Research on Professional Responsibility and Ethics in Accounting)*. 2018;21:153-68. [doi: 10.1108/S1574-076520180000021005](#)
35. Shahabi SS, Banimahd B, Rezaei F. Organizational Justice and Ethical Whistle-Blowing in Audit Profession. (In Persian). *Ethic Sci Technol*. 2021;16(2):156-61. [doi: 20.1001.1.22517634.1400.16.2.20.5](#)
36. Soni F, Maroun W, Padia N. Perceptions of justice as a catalyst for whistle-blowing by trainee auditors in south Africa. *Medit Account Res*. 2015;23(1):118-40. [doi: 10.1108/MEDAR-01-2014-0004](#)
37. Haidt J, Graham J. When morality opposes justice: Conservatives have moral intuitions that liberals may not recognize. *Soc Justice Res*. 2007;20(1):98-116. [doi: 10.1007/s11211-007-0034-z](#)