AN ANALYSIS OF ETHICS ARTICLES PUBLISHED BETWEEN 2000-2015 IN THE JOURNAL OF ACCOUNTANCY AND THE ACCOUNTING REVIEW

James H. Thompson
Central Washington University

Timothy L. McCoy
Lamar University

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Abstract

This paper considers the impact that financial scandals, the end of self-regulation in the audit industry, and the emergence of the Great Recession had on the subject matter, specifically on ethics, of articles that were published in The Accounting Review (an academic journal) and the Journal of Accountancy (a practitioner journal) from 2000-2015. This time frame was selected since many of the financial accounting scandals that led to passage of The Sarbanes-Oxley Act (SOX) occurred during this period. In addition, the bursting of the housing bubble that led to the Great Recession and the subsequent economic recovery occurred during this period. The Accounting Review (TAR) and the Journal of Accountancy (JofA) were selected because TAR and JofA are arguably the leading academic and professional journals, respectively, in the accounting profession. The number of ethics-related articles increased substantially over the period 2000-2015 in both the academic and practitioner journals. However, different trends within the study period were found for each journal. The number of ethics articles in JofA, a practitioner journal, shows quick reaction and rapid fall-off after the period of financial scandals. By contrast, TAR, an academic journal, has maintained an increasing trend, despite concerns over the economy that developed during the recessionary years. This finding suggests that accountants will continue to be sensitized to the importance of ethics whether in the midst of an ethical crisis or not.

INTRODUCTION

The accounting profession was until fairly recently a self-regulated profession. The profession not only had the ability to set Generally Accepted Accounting Principles (GAAP) for financial reporting but also the ability to set Generally Accepted Auditing Standards (GAAS) for conducting audits. While the profession maintains the authority to set GAAP, regulation and standard-setting in auditing has been lost, largely due to ethical lapses. In addition, the United States economy entered a severe recession following the bursting of the housing bubble in mid-2007. As subprime loans went into default, a number of major banks and other financial institutions declared bankruptcy. Each of these phenomena has raised the awareness of the importance of ethics. The purpose of this paper is to consider the impact that financial scandals and the end of self-regulation and the emergence of the Great Recession had on the subject matter, specifically on ethics, of articles that were published in The Accounting Review (an academic journal) and the Journal of Accountancy (a practitioner journal) from 2000-2015.

BACKGROUND

The American Institute of Certified Public Accountants (AICPA) asserted itself as the leading regulatory body within the profession from the early days of its development. While the Securities Exchange Act of 1934 empowered the Securities and Exchange Commission (SEC) to set reporting standards by law for firms falling under its jurisdiction, the SEC has allowed the private sector to set reporting standards. After assuming the primary role in setting GAAP for financial reporting in 1959, the AICPA held a virtual monopoly in this field until the 1970s. In 1973, under congressional pressure, the AICPA transferred its responsibility for setting generally accepted accounting principles (GAAP) to a newly formed private sector body—the Financial Accounting Standards Board (FASB), which still maintains its GAAP standard-setting authority.

The AICPA was also responsible for setting GAAS for conducting audits from 1978 until 2003. The Auditing Standards Board (ASB), the AICPA's senior committee for auditing, attestation, and quality control, was the specific entity for establishing GAAS. However, self-regulation for the audit function was jeopardized by a number of financial scandals occurring in the early 2000s. Corporate failure, unethical behavior, and financial reporting irregularities occurred within large public companies including Enron, Tyco, and WorldCom. These scandals often involved the CEOs or CFOs acting unethically in pursuit of financial gains. In addition, audit failure famously came to light with Arthur Andersen's complicity in Enron's historic accounting fraud. These scandals brought into question the reliability of financial statement information, the commitment to ethical behavior of public companies and their auditing firms, and the ability of accounting profession to prevent or detect financial reporting irregularities (Tornero, 2013). In essence, scandals and audit failure resulted in a loss of public confidence in the financial reporting system. As a result, self-regulation of the audit function came to an end with the passage of the Sarbanes Oxley Act (SOX) in 2002. The Sarbanes-Oxley Act was perhaps the most significant legislation to emerge in the history of the accounting profession. One provision of the Act established the Public Companies Accounting Oversight Board (PCAOB) (Hermanson et. al., 2007). The PCAOB assumed the responsibility for both setting auditing standards and the authority to regulate auditors of public companies in 2003.

The Sarbanes-Oxley Act was a landmark piece of legislation because it changed the way companies are expected to fulfill their financial reporting obligations and the way that auditing standards are established. Many sections in eleven titles of The Act were created to increase the reliability of the financial statements, require greater responsibility by corporate executives, and protect employees who become whistleblowers. The Sarbanes-Oxley Act is organized into eleven titles, and a majority of those titles relate to compliance.

The Sarbanes-Oxley Act affected business practices in four areas (Stephens and Schwartz, 2006). First, The Act increased management responsibility by having company officers maintain awareness and accountability of the company they manage. Of particular concern to companies are limitations on the amount of consulting services that auditors may perform for clients; requirements that non-audit services must be approved by the company's audit committee; and requirements that the CEO, controller, CFO, chief accounting officer, or any person in an equivalent position cannot have been employed by the auditing firm during the 12 months preceding the audit.

Second, The Act specifies appropriate corporate governance practices and inappropriate corporate activities. Specifically, SOX section 301 establishes a requirement that the company have an audit committee and that each member of the audit committee be an independent member of the board of directors. SOX also aimed to strengthen corporate governance structures. Higson (2013) suggests that a lack of understanding of financial statements, which are regarded as an important aspect of accountability, may be a stumbling block in the development of corporate governance. Without a clear understanding of the scope and limitations of financial statements, the effectiveness of corporate governance is questionable.

Third, the Act stipulates provisions with respect to corporate fraud and accountability. In particular, it extends whistle-blowing protection for employees. As a result, employees may be more willing to report unethical behavior within an organization without fear of reprisal.

Finally, SOX establishes that companies implement and document internal control systems to help ensure the integrity of financial information being reported to the public. SOX section 404, which covers management assessment of internal controls, has probably received the most negative publicity, due to the additional compliance costs it implies. Financial Executives International (FEI) provides an annual survey on section 404 costs. Their results (FEI, 2007) showed that the average estimated total cost of compliance was $1.7 million (0.036 per cent of revenue) per company in 2007 which was down from $2.9 million (0.043 per cent of revenue) in 2006. Even though the FEI studies show the compliance cost to be decreasing, Giordano (2007) provides evidence that a disproportionate impact of compliance costs—up to 2.55 per cent of revenue, is incurred by small and midcap firms. Accordingly, some companies keep their stock private to avoid the costs involved. SOX also aimed to strengthen corporate governance structures.

Another significant event occurring during the time period covered by this study was the Great Recession. The U.S. economy shrank by five per cent and lost nearly nine million jobs from the business cycle peak at the end of 2007 to its trough in mid-2009, making the recession of 2007-2009 the most severe since World War II (Berg, 2012). In the midst of the recession, the financial crisis of 2008 led to a near melt-down of the global financial industry. Once again, ethical misconduct by many firms, such as AIG, Lehman Brothers, Merrill Lynch, and Countrywide Financial (Ferrell, et. al., 2013) was at the heart of the crisis. Sweeping federal legislation resulted in the form of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The Dodd-

Frank Act was designed to improve ethics and responsibility within the financial services industry. While the accounting profession itself largely escaped further regulation, the Dodd-Frank Act did create many new rules intended to promote financial stability and accountability and transparency along with rules designed to protect consumers from abusive financial practices.

Sixteen provisions are contained within Dodd-Frank Act to accomplish its objectives. Most notably, three new agencies were created by the Act, and a whistle-blower bounty program was created by the Act. The Office of Financial Research was created to improve the quality of financial data reported to government agencies and was also charged with creating a better system of analysis for the financial industry. The Financial Stability Oversight Council (FSOC) maintains the stability of our financial system by promoting market discipline among the public, actively monitoring the markets, identifying threats, and responding to those threats. The FSOC has the authority to shut down institutions that present a serious threat to market stability. The Consumer Financial Protection Bureau (CFPB) regulates consumer financial products or services to help ensure that investors have the ability to understand complex financial products before they are purchased. Finally, Dodd-Frank established a whistle-blower bounty program whereby whistle-blowers may receive from 10 percent to 30 percent of fines and settlements if their information leads to convictions on penalties in excess of one million dollars.

As the accounting profession seeks to re-establish confidence in financial reporting, both practitioners and academicians have published numerous ethics-related articles. These articles provide guidance to the public, investigate the impact of changes on financial reporting, and emphasize the need for greater accountability for ethical behavior, both by corporate officers and those charged with auditing public companies (Katz, 2007; Berr, 2003; Stephens and Schwartz, 2006).

METHODOLOGY

The articles considered in this study were published in The Accounting Review and in the Journal of Accountancy from 2000-2015. That time frame was selected since many of the financial accounting scandals that led to passage of SOX occurred during this period. In addition, the bursting of the housing bubble that led to the Great Recession and the subsequent economic recovery occurred during this period.

The Accounting Review (TAR) and the Journal of Accountancy (JofA) were selected because TAR and JofA are arguably the leading academic and professional journals, respectively. TAR, which is now published every other month by the American Accounting Association, publishes theoretical articles on accounting research. The target audience of TAR is academicians, graduate students, and others interested in theoretical accounting research. The Journal of Accountancy (JofA), a monthly publication of the AICPA, publishes articles that focus on recent professional developments that are relevant to the accounting field. The target audience of JofA is primarily practitioners who are interested in ways that practice has been and will likely be affected.

In this study, only main articles are considered. Main articles in TAR are easily identified in the table of contents in each issue. Main articles in the JofA were more difficult to identify and distinguish from "notes" or minor articles. For this study, main articles in the JofA must have a length of four pages or more. Based on these guidelines, 864 and 973 main articles were identified in TAR and JofA, respectively.

A spread sheet was prepared to identify each main article title and classification of each article's subject matter. In this study, articles that were primarily ethics-related are of interest. The primary subject of some articles was clear-cut. However, the primary subject of many other articles required subjective judgment. For articles that addressed two or more subjects, judgment was required to assess the primary subject. For example, some articles addressed both ethics and auditing or ethics and financial accounting. Articles were classified as an "ethics" article if ethics drove the purpose for the article. That is, the context of an article may have been in auditing or financial accounting, but the article was driven more by ethical concerns. Conversely, other articles were classified within another category such as "auditing" or "financial accounting" rather than "ethics" if one of those areas drove the purpose for the article, even though an ethical dimension might have been addressed. Several matters were considered in making these judgments, such as words used in the title, key words that were provided by the journal, or an explicit statement within the article regarding its purpose. Often, the abstract or more detailed parts of articles were scanned for determining the primary subject. Articles that addressed ethical theories, unethical behavior, honesty and integrity, earnings management and abnormal accruals, investor protection, internal control weaknesses, voluntary disclosure, corporate social responsibility, impairment of independence, and aspects of the Sarbanes-Oxley Act were generally classified as ethics articles.

FINDINGS

The number of qualifying articles varied considerably over the 16-year period studied (see Table 1). In JofA, the number ranged from 43 to 82, with an average of 60.8. In TAR, the total number of qualifying articles ranged even more, from a low of 19 to a high of 84 and average of 54.0. Further, the number of qualifying articles in TAR has steadily increased over the 16-year period, whereas the number published in JofA has been more volatile, increasing in some years and decreasing in other years.

Table 1

Journal of Accountancy and The Accounting Review

Articles by Subject Matter for 2000-2015

Subject	2000		2001		2002		2003		2004		2005		2006		2007		2008		2009		2010		2011		2012		2013		2014		2015		Total	
	JoA	TAR	JoA	TAR	JoA	TAR	JoA	TAR	JoA	TAR	JoA	TAR	JoA	TAR	JoA	TAR	JoA	TAR	JoA	TAR	JoA	TAR	JoA	TAR	JoA	TAR	JoA	TAR	JoA	TAR	JoA	TAR	JoA	TAR
Auditing	3	3	9	8	5	3	11	6	4	5	6	6	8	4	6	3	5	4	3	15	5	14	3	10	6	9	3	14	3	11	4	17	84	132
Education	0	0	0	1	0	0	1	0	0	1	0	1	0	0	0	1	1	0	0	0	1	0	0	1	1	1	0	0	0	0	0	1	4	7
Ethics	4	1	8	1	10	10	10	6	19	6	7	9	4	8	5	8	1	5	2	11	1	6	2	11	3	10	8	5	8	2	4	8	96	107
Financial Accounting	5	6	1	12	2	22	4	23	7	24	5	24	3	20	22	20	15	31	11	18	2	27	3	25	6	26	7	29	7	36	8	34	108	377
IT/Technology	18	0	11	0	3	1	13	0	17	0	5	1	7	0	9	0	10	1	6	2	5	1	4	0	4	0	5	0	7	0	13	0	137	6
Management	2	6	0	5	1	7	0	6	0	8	0	4	0	8	3	10	1	9	0	15	0	12	0	17	0	16	4	16	2	21	2	20	15	180
Not-for-Profit	1	0	0	2	0	1	1	0	1	0	0	0	0	1	1	1	0	1	3	1	1	0	3	1	0	0	1	2	2	1	2	2	16	13
Practice Developmen	29	0	4	0	14	0	25	0	28	0	21	0	24	0	12	0	14	0	11	0	12	0	17	0	13	0	15	0	15	0	18	0	272	-
Professional	6	0	2	0	0	0	1	0	0	0	3	0	5	0	2	0	5	0	1	0	0	0	1	0	0	1	4	1	10	0	15	1	55	3
Tax	12	3	9	0	9	2	7	1	6	2	6	2	11	2	12	0	14	1	11	3	16	4	10	2	18	7	17	5	13	4	15	1	186	39
Total	80	19	44	29	44	46	73	42	82	46	53	47	62	43	72	43	66	52	48	65	43	64	43	67	51	70	64	72	67	75	81	84	973	864

The primary subject matter of articles published in JofA and TAR also varies considerably (see Table 2). The most frequent primary subjects in JofA are (in decreasing order) practice development, tax, IT/technology, financial accounting, and ethics. Because the JofA is a practitioner journal, a higher frequency of articles on practice development and tax is understandable. Practitioners are frequently involved with these matters and are seeking guidance in those areas. By contrast, the most frequent primary subjects in TAR are (in decreasing order), financial accounting, management accounting, auditing, ethics, and tax. Since academicians commonly have teaching and research interests in financial accounting and/or auditing, more articles are published in those areas. In addition, accounting curricula typically include more financial accounting courses than non-financial ones, so naturally there is greater interest in financial accounting research. Managerial accounting, auditing, and tax courses are also usually required coursework in accounting curricula, which explains why research in those areas is somewhat extensive.

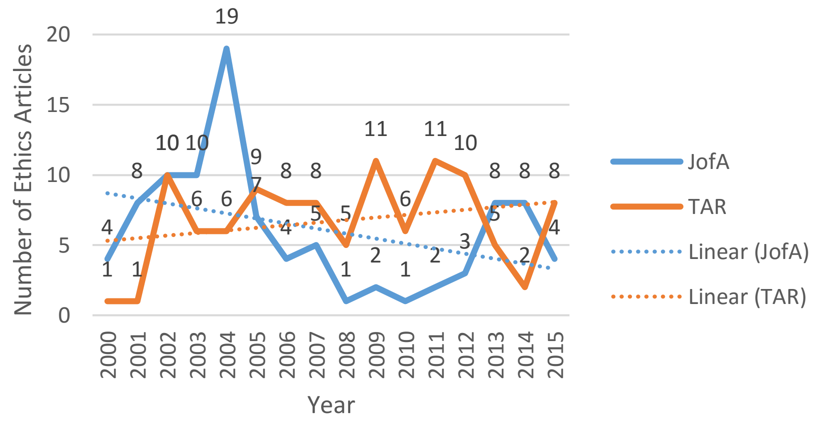
TABLE 2
Total Number of Articles by Subject from 2000-2015

Subject	**Journal of Accountancy**		**The Accounting Review**	
	Total	Average	Total	Average
Auditing	84	5.3	132	8.3
Education	4	0.3	7	0.4
Ethics	96	6.0	107	6.7
Financial Accounting	108	6.8	377	23.6
IT/Technology	137	8.6	6	0.4
Management	15	0.9	180	11.3
Not-for-profit	16	1.0	13	0.8
Practice Development	272	17.0	0	0.0
Professional	55	3.4	3	0.2
Tax	186	11.6	39	2.4
Total	**973**	**60.8**	**864**	**54.0**

Notably, ethics is a frequent subject matter for articles published in both JofA and TAR. Practitioners are bound by standards of ethics in their practice, and the occurrence of ethics violations receives great attention in the financial press. Academicians teach ethical standards in college course work and also have an interest in the occurrence of ethics violations, but they are also concerned with alternative theories of ethics. Thus, while both practitioners and academics have a vested professional interest in ethics, as reflected in their literature, a higher frequency of ethics articles in academic journals may be explained by a broader theoretical interest in ethics by academics.

The number of ethics-related articles increased substantially over the period 2000-2015. In the Journal of Accountancy, the passage of the Sarbanes-Oxley Act in 2002 coincided with a sudden increase in the number of ethics articles (see Figure 1). In the three-year period 2001-2003, the number of articles in JofA increased from eight to 19. Before the Sarbanes-Oxley Act, only four ethics articles were published in 2000. In 2001, leading up to the passage of the Act, the number of articles doubled to eight. In 2002, the year the Act was passed, and 2003, ten articles were published each year. Then, in 2004, a whopping 19 articles were published. In 2005, the number of ethics articles dropped sharply to seven. By 2006 and 2007, the number continued to decline to four and five, respectively. Notably, the Great Recession occurred during 2007-2008. Perhaps this economic condition stimulated the publication of articles more related to economic conditions than to ethics. From 2008-2012, the number of ethics articles declined further to one, two, or three ethics articles each year. But, as the economy improved, the number of articles relating to ethics increased again. During both 2013 and 2014, eight ethics articles were published each year. During 2015, the number dropped to four. The trend-line over this 16-year period reflects a fairly sharp decline. Moreover, the apparent increase in ethics-related articles as a result of the passage of SOX lasted for three to four years. Then, concerns over the economy took over. In summary, the trend-line for ethics articles in JofA, a practitioner journal, shows quick reaction and rapid fall-off. This trend perhaps is related to the shorter time to publication that is characteristic of practitioner research.

Figure 1
Number of Ethics Articles Published by Journal by Year



A different result is observed in TAR. As an academic journal, the time to publication for an article is typically longer. Only one ethics article was published in TAR in 2000 and 2001, the years leading up to the passage of SOX. However, in 2002, the number increased sharply to ten. In the years following the passage of SOX, the number of ethics articles published in TAR remained strong, ranging from six to nine through 2010 (except for 11 in 2009). The uptick in the number of ethics articles in 2009 continued in 2011 and 2012. In fact, the number of ethics articles in TAR remained between six and eleven through 2015, except for 2014 when the number fell to two. The trend-line for ethics articles published in TAR is upward sloping, unlike the downward sloping trend line exhibited by articles in the JofA. Thus, TAR, an academic journal responded to SOX with a significant increase in the number of ethics-related articles, even with a longer lag time to publication, but the trend of increase remained strong for, what is now, a twelve-year period, despite concerns over the economy that developed during the recessionary years.

The number of ethics articles published in each journal was also analyzed by subtopic. Although an article may have a primary subject, it may also reflect one or more supporting subjects. For example, an article might be motivated and driven by ethical concerns but be provide an application in financial accounting. On the other hand, an article might be motivated and driven by interest in financial accounting but involve an application in ethics. The former article would classified in this paper as one with a primary subject in ethics and a subtopic in financial accounting, and the latter article would be classified as one with a primary subject in financial accounting and a subtopic in ethics.

Table 3 shows that in the JofA, more than 40 percent (40) of the 96 articles with a primary subject of ethics related to professional matters. Professional matters included the Sarbanes-Oxley Act, fraud, and services offered. Other frequent sub-topics were auditing (16), practice management (16), and financial accounting (14), managerial accounting (4), tax (3), education (2), and not-for-profit (1). Auditing articles addressed topics such as earnings management and independence. Practice management articles addressed fraud, corporate governance, and public confidence. Financial accounting articles addressed earnings management, forecasts, and voluntary disclosure.

Table 3
Ethics Articles by Subtopic

Subtopic	**JofA**	**TAR**
Auditing	16	33
Financial Accounting	14	53
Profession	40	0
Education	2	1
Practice Management	16	0
Managerial Accounting	4	17
Not-for-profit	1	1
Tax	3	2
Total	**96**	**107**

In TAR, approximately one-half (53) of the 107 articles with a primary subject of ethics addressed financial accounting issues. Financial accounting topics included earnings management, forecasts, voluntary disclosure, and risk management. Other subtopics were auditing (33), managerial accounting (17), tax (2), education (1), and not-for-profit (1). Auditing matters included earnings management, independence, and internal control.

CONCLUSION

The number of articles emphasizing ethics has varied significantly since 2000. Two phenomena between 2000 and 2012 may be associated with that trend. The most important event was apparently the passage of the SOX. This Act was a significant regulatory measure affecting the accounting profession that was passed following accounting scandals in the early 2000s. A second event was the Great Recession in 2007-2008 and the subsequent economic recovery. In this article, findings indicate that the passage of SOX resulted in a significant increase in the number of ethics-related articles in both the JofA and TAR. Though SOX stimulated a more rapid increase in the number of ethics articles in JofA, a more sustained increase in the number of ethics articles was observed in TAR. The economic effect of the Great Recession resulted in a less dramatic short-term decline in the number of ethics articles.

Apparently, economic matters stimulated greater research interest during this period than ethics did. However, as the economy came out of recession in 2009, the short-term decline in the number of ethics articles reversed until 2013 or so. Overall, between 2000 and 2015, findings indicate that the number of ethics articles published in the JofA have declined whereas the number of ethics articles in TAR have increased.

Arguably, ethics has always been important to the accounting profession. However, the accounting profession was "awakened" by accounting scandals in the early 2000s. Both practitioner journals and academic journals responded with an increase in the number of articles. However, the practitioner journal examined, JofA, provided a more immediate and substantial increase in the number of ethics-related articles, but that increase has not been sustained. The academic journal examined, TAR, provided an increase in the number of ethics-related articles that has been sustained despite changing economic conditions. Once the storm passed, practitioners tended to shift their emphasis to other matters. On the other hand, academicians continued to emphasize ethics in publications and presumably in the classroom after the storm. Thus, future accountants will continue to be sensitized to the importance of ethics whether in the midst of an ethical crisis or not. Perhaps it will not take another rapid succession of accounting scandals to stimulate writing and emphasis on ethics in accounting education.

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