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Accounting Theory and Practice: the Ethical Dimension

Michael Gaffikin

It has often been suggested by some that the expression business ethics is an oxymoron – it employs contradictory terms because business seeks to optimise or maximise gains from its operations while ethics implies a very different basis for business practices. However, although the more cynically minded would seriously subscribe to this view, there has been a very dramatic upturn in an interest in ethical considerations by business leaders and professional business organisations partly as a result of the demands of societies which have had to bear the cost of spectacular corporate collapses and the unscrupulous business activities of a minority of business practitioners. In fact the subject has become an industry with several books on it being published, several courses, seminars, workshops and lectures devoted to the subject, numerous models promulgated and an ever increasing number of comments and debates in the public media.

All people have some inner understanding of what constitutes ethical behaviour but when it comes down to defining ethics this is found to be extremely problematic as it is shaped by personal, cultural, societal and professional values all of which are difficult to specify. Some people will stress the importance of the society's interests others will stress the interests of the autonomous individual. These conflicting viewpoints have dominated discussion of ethics for a long time. Most are agreed that ethical belief systems emerge from a community – a social or cultural context or what Blackburn has called “the surrounding climate of ideas about how to live” (2001. p 1)

Basic Moral Considerations

When examining the issue of ethics there are some basic moral considerations on which to reflect. They involve questioning the extent to which the following affect attitudes to determining what constitutes moral behaviour and how this impacts on an understanding of ethics:

- 1 Religion – divine command theories
- 2 Conscience
- 3 Selfishness
- 4 Respect
- 5 Rights
- 6 Utilitarianism
- 7 Justice
- 8 Virtue

Many people believe that ethical behaviour is shaped by moral principles laid down in religions – there is an authoritative code of instructions on how to behave. However, while this sounds well and good, history has demonstrated that in most religions the determination of these principles has been subject to considerable debate and even has resulted in practices which seem, to an outside observer, to have little connection with

moral behaviour. For example, one of the commandments said to be at the base of Christianity is thou shalt not kill yet societies throughout history have rationalised this away in times of war, the burning of witches and capital punishment generally. Christianity of course is not alone in this! Hinduism is built around a caste system which subjects certain groups to what outsiders see as extreme forms of prejudice and disadvantage. Islam has a penal code with what seems to outsiders as involving extremely harsh forms of punishment. There are probably similar apparent inconsistencies in other religions all of which suggest the connections between religions and moral behaviour are not necessarily absolute. Also, in Western societies with the rise of humanism, so much a part of the post-Enlightenment modernist spirit, the influence of religion on societies has diminished. There has been an increasing secularisation, a breakdown in the influence of organised religions - yet people still behave by and feel the need to abide by “moral principles”.

The question of whether humans are innately good or bad has not only troubled religious scholars but philosophers as well (in the significant field known as moral philosophy) For example, the 17th century philosopher Thomas Hobbes introduced the notion of *psychological egoism* which holds that humans are intrinsically nasty entities. Such a question, of course, is hugely reductionist – is it possible to generalise this view to *all* human beings? To attempt to overcome this difficulty Hobbes’s solution was to develop the notion of the *social contract*. This is an “agreement” entered into by people in a society in order to avoid social conflict. Everyone agrees to a legal agreement not to engage in activities such as killing others or stealing from others because it is in their own best interests. This social contract is enforced by a neutral third party – government – so for Hobbes and his followers strong governments are desirable.

Initial Questions

Prior to arriving at an understanding of what is ethical behaviour there are some preliminary considerations: issues about which we must have some idea (a priori) in order to arrive at some theoretical basis for deciding what is and what is not ethical.

1. What is the basis of human nature/behaviour?
2. Are some people better at being moral?
3. Do we have the right to dictate morality?
4. Are there acts which are universally wrong (eg torturing children) – if so what are they?
5. Is ethics a special kind of knowledge?
6. Is morality about obeying some rules or considering consequences?
7. Is there a difference between society’s laws and moral laws? If so what are they?
8. Why should we be better people?
9. When people say they know something is wrong (eg murder) how do they know it?

As the previous section indicates the basis of human nature is a big question and involves a great many considerations. Most ethical theorists or philosophers usually start with what they perceive are the defining characteristics of human behaviour. Being such an unresolved area this of course means that it opens up any subsequent discussion to

question. However, it does provide an overall framework for that subsequent discussion. Thus, Hobbes was able to develop an argument for the need for strong government because he conceived humans are innately nasty. Other ethicists have different “definitions” on which they base their arguments. Actually, most of the questions listed are closely interrelated. So, if there is some “definition” of human behaviour then it will be easier to decide whether some people are more predisposed to being moral than others. Some people start with an assumption diametrically opposed to Hobbes. That is, humans are intrinsically “good”, not nasty. Some even believe this is genetic – that we have a “social gene” so that morality is instinctive behaviour.

Whether we have the right to dictate ethics to others involves deciding on the issue or *moral relativism* as opposed to *moral absolutism*. Moral relativism means that morality is determined by the culture or subculture (country, tribe, class, time or whatever) in which one exists. This argument has been used to justify the payment of bribes to procure business favours in some countries on the basis that it is “acceptable business practice” in that country. Ethical absolutists (also referred to as universalists or realists) would disagree with that suggestion because there are universal “standards or rules” of ethical business behaviour that prohibit the payment of bribes. Obviously both positions are somewhat precarious. There are much bigger issues than bribery – torture, genocide, poverty for example – so the issues are very complex. Absolutists have a problem is defining and always justifying an adopted stance whereas relativists would have us ignore certain behaviours which could be quite abhorrent to most people. The ontological basis for moral relativism is constructionist, for moral absolutism it is realism. Therefore, many of the arguments for each position discussed in previously (such as the critique of various ontological presuppositions) are relevant here.

Normative Theories of Ethics

Two people who figure large in any discussion of ethics are Jeremy Bentham and Immanuel Kant. Bentham, along with J S Mill, is the founder of a movement known as *Utilitarianism* and both have also significantly influenced economic thought. According to utilitarianism an action is right if and only if it conforms to the principle of utility, that is, it will be more productive of pleasure or happiness or better prevent pain or unhappiness than an alternative. Just how right an action is depends entirely on its consequences and this why his theory is also referred to as *consequentialism* (or act-utilitarianism). In determining whether a particular act is right it is the value of the consequences of that act that is important. This sounds dangerously like the ends justifies the means and one of the main criticisms of act-utilitarianism is that the actual act is not considered, just the consequences, Therefore the position was reformulated as rule-utilitarianism. The value of consequences is considered on a sort of cost-benefit analysis. However, rather than looking at the value of a particular act, rule-utilitarianism is concerned with determining the value of the consequences by following the best *rule of conduct*. One disadvantage of this, of course, is that it works on generalisations rather than specific situations because rules are generalisations. Therefore, it might not help in some specific circumstances. Also, it is not likely to be a simple process to determine

what the best rule is. Nevertheless, rule-utilitarianism has been for many years held to be a valid means of assessing ethical behaviour.

When discussing values and consequences, it is necessary to ask the consequences for whom? A Hobbsean position would look at the individual's self-interest – psychological egoism – whereas a consequentialist would be concerned to determine the consequences for all the parties affected by a particular action. Recall from that psychological egoism influenced economic thought – the pursuit of self-interest. Consequently it seems paradoxical that it is also the basis of a perspective on ethics – ethical egoism. However, there are numerous variants of utilitarianism each differing in the extent to which they assess the pursuit of self-interest, pleasure or happiness and the rightness of actions.

Purposive explanations are said to be **teleological**, that is, explanations in terms of final causes. Utilitarianism is teleological because actions are assessed in terms of the consequences – the final or end result. Kant believed morality rarely had anything to do with happiness. Thus, a moral action is one which is done from a *sense of duty*. Ethics is about what these duties are. Kant's position is known as a deontological one – he is a deontologist, a believer in duties and the right conduct. In **deontology** the emphasis is on individual duty such as telling the truth, acting justly or keeping promises. Kant held that there are two foundational principles. First, always act on a principle that you are willing to have everyone else act upon. Secondly, always be respectful to others (and yourself). These form part of what Kant referred to as the *categorical imperative*, which is a compulsory moral law designed as a method to guide free human action. These are determined by applying the *universality test* – a process of using our reason to ask what would happen if we “universalised” what we wanted to do, for example what would happen if everyone stole from everybody else? So, do not steal. This is an act according to the principle (maxim) that you believe should be a universal rule of behaviour.¹

Although hugely influential in the field of moral philosophy Kant's deontological position is at times too inflexible – it is absolutist in its claim that there is a single moral “truth” to which all people should comply. For example, *always* telling the truth may sometimes be inappropriate such as at times when the safety or well-being of others is involved. In other words it may at times be necessary to lie to protect others.

The teleological and deontological theories of ethics are usually classified as normative theories of ethics. Although they are very different they both classify actions as right or wrong and seek to establish standards of rightness or wrongness. Thus, they are concerned with norms of behaviour.

Metaethics

David Hume, who lived around the same time as Kant, introduced a type of moral philosophy known as metaethics. This was the study of moral language and its meaning and certainty. It is the investigation into the nature of ethical concepts and propositions

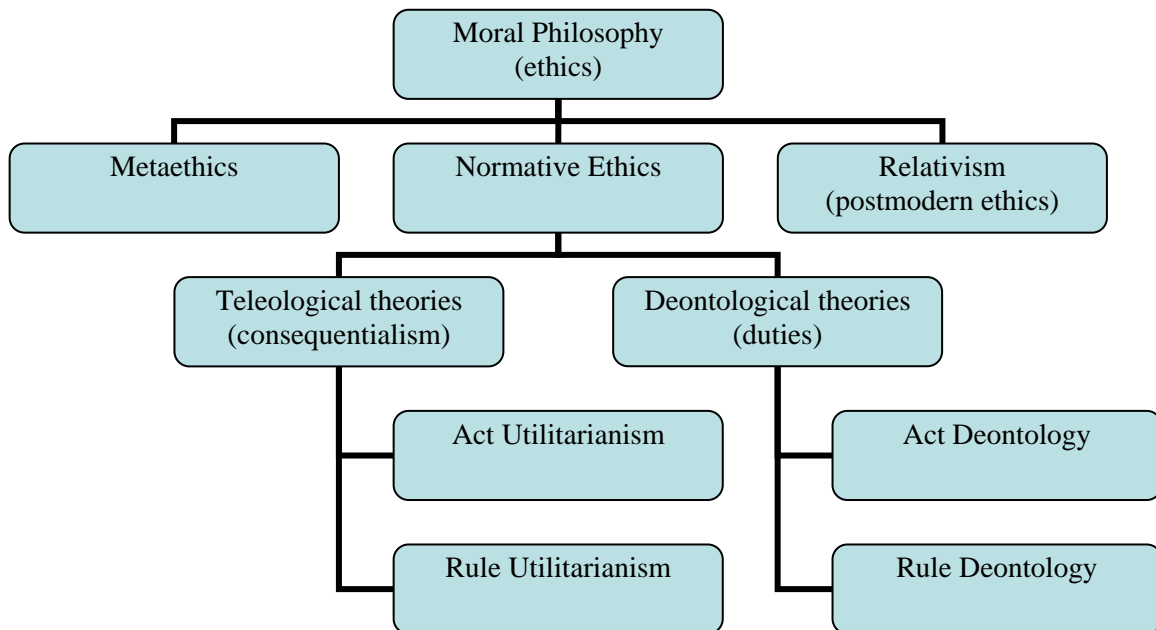
¹ Hence this is referred to as rule deontology.

and applies strict rules of deductive logic. Metaethics addresses the following type of questions:

1. semantic questions such as the meaning of moral terms such as good, right and ought;
2. logical questions such as the (syllogistic) validity of moral arguments;
3. ontological questions such as the existence of moral facts; and
4. epistemological questions such as the possibility of moral knowledge and, if so, the scope of such knowledge.

An often quoted example of Hume's concept of metaethics is in the statement, "murder is wrong". It is not possible, according to Hume, to "prove" such a statement because it is not an empirical observation, it is a moral belief. Hume was a radical empiricist and, like the positivists, made the distinction between factual and moral statements. It is the same claim made by positive accounting theorists: the distinction between "is" and "ought" statements. Therefore, someone who says murder is wrong is merely stating that she or he disapproves of murder. Hume argued that moral beliefs are psychological rather than logical or empirical but, unlike the later positivists, he argued that they are far from trivial or meaningless. This is the position adopted far more aggressively by the positivist philosopher A J Ayer for whom moral language was indeed meaningless. To him moral philosophy was some kind of linguistic and logical error and there is no such thing as moral knowledge. Such discourses he called *emotivism*.²

The relationships between the various theories of ethics can be seen in diagrammatic form in Figure 8.1.



² Emotivism "is the doctrine that all evaluative judgments are nothing but expressions of preference, expressions of attitude or feeling, insofar as they are moral or evaluative in character" (MacIntyre, 1984, p 12).

Figure 8.1 Theories of Ethics ³

Rights and Justice

Returning to the deontological positions described above there are two notions that need to be considered as they underlie more recent developments in deontological thinking (since Kant) – rights and justice. A right is an entitlement and should not be confused with a duty (an obligation). The American political and moral philosopher, John Rawls was interested in what social and legal agreements would make a more just society. His work has become part of what is referred to as **social ethics** and his book, *A Theory of Justice*, is generally regarded as one of the most significant works on political philosophy in the twentieth century. In the book he attempts to develop a justification for a concept of social justice, namely, justice as fairness. He also revived the notion of a social contract – a series of rules that society considers necessary to make a just and fair community. These “rules” are so created to ensure the least well-off in a society are protected and because of an uncertain future (what he called a “veil of ignorance”) societies will preserve these “rules” to protect themselves (in case they fall into the less well-off category). Two principles emerge – justice and fairness.

1. First Principle: Each person is to have an equal right to the most extensive total system of equal basic liberties compatible with a similar system of liberty for all.
2. Second Principle: Social and economic inequalities are to be arranged so that they are both:
 - (a) to the greatest benefit of the least advantaged, consistent with the just savings principle, and
 - (b) attached to offices and positions open to all under conditions of fair equality of opportunity.

The first principle takes precedence over the second.

Rawls’s theory has been criticised from many angles such as those who argue he ignores individual property rights (Nozick) to those who argue he ignores community interests!

Virtue

Another American philosopher, Alasdair MacIntyre, believed modern ethics is in deep trouble. He argued that the arguments between deontology and utilitarianism were basically irresolvable and sterile. There was too much concentration on individuals and their private moral decisions. What was needed, he argued, was attention to the community and moral health and welfare. In returning to Aristotle’s position he suggested that we should be concentrating on what sort of people we should be rather than the things we do. This is referred to as *Virtue Theory*.

³ This diagram was influenced by (but is not the same as) an exhibit in Paul Northcott’s, *Ethics and the Certified Practising Accountant*. (Australian Society of Certified Practising Accountants, 1993, p 4)

The Ancient Greeks spent considerable time in pondering what makes a “good person”. Their thoughts have formed part of the background for western moral philosophy throughout history. Generally, to them the “good person” was a “good citizen” and contributed to the state. Therefore, there are political undertones to how they envisaged morality. A well known catchcry of Socrates was the “the unexamined life is not worth living” Therefore, to him it was important that people continually questioned themselves and their motives. His thinking was teleological in that humans have an ultimate purpose and there is a “real self” inside which is only discovered through self reflection and through this process what is right and just will become known. His pupil, Plato, was a rationalist. He believed (basically) that pure forms, including morality, existed and could only be discovered through reasoning. Plato, therefore, was a moral absolutist – moral facts exist. To him morality of the individual and of the state were the same thing. The individual needs to discover this morality, the moral facts, through reasoning.

Perhaps the most important of the Greek thinkers was Plato’s student Aristotle whose best known relevant work was his *Nichomachean Ethics*. Everyone says the good life is happiness but it is hard to know what happiness consists of. Therefore, to him, the answer lies in determining what humans are – their function. Happiness results when humans function well. He was not interested in abstractions but in the everyday “goodness” that most people choose. We live in societies and need to behave morally to one another. Governments should reflect this and encourage justice, fairness, temperance, courage and so on; this is the virtuous life and people need to be educated to bring out the latent goodness in people. Virtue theory is communitarian.

Thus, MacIntyre resurrected and updated many of Aristotle’s positions. In his virtue theory the focus is on the personal disposition and character, the moral qualities of a person. In summary:

- the good person knows the right thing to do
- it is necessary to identify qualities that are virtues
- societal virtues arise from community/profession/tradition
- it is necessary to distinguish between
 - external goods, for example, wealth, status, power, pleasure
 - internal goods, for example, honesty, respect

For the Classical Athenians the notion of a “good man” had a concrete factual meaning. MacIntyre argued that this position had been eroded by sceptics like Hume and Ayer while Kant had made morality a cold and unsympathetic exercise in reason and the Utilitarians had reduced it a set of pseudo-scientific calculations. This constant erosion of moral beliefs had led to the emptiness of philosophies such as Ayer’s emotivism which totally ignored all notions of community or communal value. This, according to MacIntyre, has led to societies devoid of moral values in which people were at times utilitarians, at other times Kantians but generally utterly confused. However, MacIntyre concluded that we are all essentially communitarian with lives bound by moral traditions. We should continue to develop these traditions. Although many philosophers agree that the direction MacIntyre has taken is the most promising for establishing ethical

behaviour, one major problem remains – what will the virtues be? Historically and culturally there have been many differences in what has been considered virtuous.

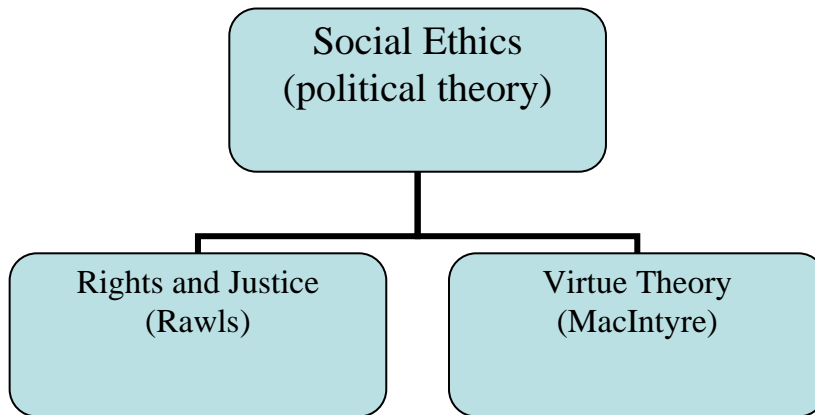


Figure 8.2 Contemporary Theories of Ethics

Moral Development

An alternative approach to ethics is to consider the processes people follow in decision making and what level of moral reasoning is involved. Thus, while not a theory of ethics this approach is useful in discussing business ethical behaviour because decision making is a central feature of business analysis. This was the approach adopted by American educational theorist Lawrence Kohlberg. Although Kohlberg was interested in examining the moral development of students his work has been generalised to other fields. The emphasis is on the moral development of individuals as reflected in the reasoning they employ when making decisions. Kohlberg identified three levels of development each with two stages. The levels are hierarchical in that people move from the lowest level to the highest – they progress (through social interaction) in their moral reasoning from pre-conventional (the lowest) through conventional to the post-conventional level. He was not concerned with the decision (yes or no) but with the reasoning behind the decision. His work was influenced by and built on the work of the Swiss psychologist, Jean Piaget who had built a two stage theory. Kohlberg's stages can be summarised as in Table 8.1.

LEVEL	STAGE	SOCIAL ORIENTATION
Pre-conventional	1	Obedience and punishment
	2	Individualism and exchange
Conventional	3	Good interpersonal relationships
	4	Maintaining the social order
Post-conventional	5	Social contract and individual rights.
	6	Universal principles

Table 8.1 Kohlberg's Stages in Moral Development

In the first stage of the pre-conventional level, people behave according to socially acceptable norms because they are told to do so by some authority figure. It is assumed that powerful authorities hand down a fixed set of rules which must be unquestioningly obeyed. This obedience is compelled by the threat or application of punishment. The

second stage is characterized by a view that right behaviour means acting in one's own best interests because it is recognised that there is no *one* authority but many authorities each with a different viewpoint.

At the second level of moral thinking there is a shift from unquestioning obedience to a relativistic outlook and to a concern for good motives. Stage 3 is characterized by an attitude which seeks to do what will gain the approval of others stage 4 is one oriented to maintaining the social order: "what would it be like if everyone stole?" is the typical sort of response. Therefore while the response in stage 4 is the same as in stage 1 the consideration is now for social order.

At stage 5 there is an understanding of social mutuality and a genuine interest in the welfare of others with the view to having a good society which is one best conceived as having a social contract into which people freely enter to work toward the benefit of all. The final stage (stage 6) is based on respect for universal principles and the demands of individual conscience the pursuit of which could even countenance civil disobedience.

Individuals move through each of the stages – that is, they do not skip a stage but progress through them from a lower to the next highest. However, not all (probably very few in fact) reach the post conventional stages despite this being the level which Kohlberg saw as the most desirable and believed to be the best outcome (that is, moral development of each individual).

Not all people agree with Kohlberg's analysis. There are epistemological issues. For example to what extent is the hierarchy universal – does it apply universally (which is probably what Kohlberg believed). It has been argued that in developing his theory he ignored cultural and gender issues. Does it have a Western bias? Does it apply in Eastern cultures? Does it apply at traditional village cultures? Is it male oriented? Conservatives do not accept his post conventional stage because of the implications of possible social disruption by those arguing for universal principles. That is, it may not be desirable to have people put their values above society and the law. His theory indicates moral reasoning and not moral actions. Commentators looking for quantitative indicators are also disappointed because it is very much the result of qualitative analysis. There are also questions surrounding the sequencing which some people have found awkward: how do people proceed through the levels and are the levels in fact hierarchical? So, once someone reaches a higher level does that mean the previous levels are inferior?

Despite the criticisms and the fact that he was looking at moral development of children, he has presented a very useful framework for investigating moral reasoning. For example, the independence of auditors requires them to have reached a high stage of moral development in order that they avoid conflicts of interests. A study by Gaffikin and Lindawati (2005) used Kohlberg's framework to investigate the extent to which accountants in Indonesia resist pressures from corporate clients in exercising independence in undertaking auditing responsibilities. Several other studies have been undertaken investigating the level of moral reasoning by accountants and in public accounting firms (see Dellaportas et al, 2005, pp 48-49).

Ethics and Professional Practice

There is little doubt that the general public concern about ethical issues has impacted on business practices. Most professional bodies have some form of ethical statement in respect of the operations of their organisations. Professional accounting bodies usually have codes of ethics with which they expect their members to comply. These have changed over the years from statements governing how members interacted with other members to ones with a greater attention to ensuring that members' behaviour complies more with perceived public expectations. Members' involvement with large corporate collapses and fraud scandals obviously reflect badly on the profession, the vast majority of which do not become embroiled in such matters.

The notion of professional body codes of ethics is inextricably linked to the notion of professionalism. Parker (1987) has shown that as professional accounting bodies in Australia developed so too did ethical rules for accountants – they were a part of the professional bodies' requirements on members. Late in the twentieth century the two major professional accounting bodies in Australia (CPA Australia and ICAA) developed a *Joint Code of Professional Conduct*. This was a set of ethical requirements common to both professional bodies. However, with the growing internationalisation of accounting regulation it is intended that the *Joint Code* be replaced by a Professional Standard, *APES 110 Code of Ethics for Professional Accountants*. This emerged as a requirement of the International Federation of Accountants (IFAC). Members (national professional bodies) are not permitted to issue ethical requirements less stringent than those proposed by IFAC, so, similar to accounting standards (IFRS), the Australian professional accounting bodies have adopted the IFAC statement as that for the Australian bodies (with some very minor differences being clearly indicated with the letters AUST).⁴

Although the details of this, and other codes, is interesting, the primary concern here is with theoretical considerations⁵. To this end some elements of these statements are important, for example, what is meant by the term profession and what is the public interest and how does the imposition of codes of behaviour relate to the discussion of regulation in previous working papers? In addition, the Code claims to have set out a “conceptual framework” (for determining ethical behaviour) – what are its elements? It is interesting to note that the Code requires members to not only comply with the terms of the Code but with the spirit of the code – how is this achieved?

The Idea of a Profession

One of the earliest statements in the Code is the claim that “A distinguishing mark of the accountancy profession is the acceptance of the responsibility to act in the public interest”. However, the meaning of profession is elusive and it has been the subject of

⁴ The implementation has been the responsibility of The Accounting Professional & Ethical Standards Board Limited (APESB) a body initially set up jointly by CPA Australia and the ICAA but later joined by the National Institute of Accountants (NIA). Its web page can be found at: <http://www.apesb.org.au>

⁵ A more “practical” orientation is taken in AAA (1990) which presents a so-called “a model of decision-making”; this is discussed by Dellaportas (2005) in his chapter 4.

considerable debate over the years. As Longstaff (1995) states, “professions do not have a right to exist. They are not the product of a law of nature. . . . Rather, the professions are a social artefact”.

In earlier (pre-modern) times there were only three recognised professions – law, medicine and divinity. Sometimes officers in the army or navy were also afforded the title. A typical dictionary definition is likely to suggest that a profession is an occupational group characterised by claims to a high level of technical competence or expertise, autonomy in recruitment and discipline and a commitment to public service.⁶ There have been many lists of characteristics of a profession provided by different authors and six of the most commonly mentioned in these lists⁷ are:

1. possession of a skill based on theoretical knowledge,
2. provision of training and an education,
3. testing of competence of members,
4. organisation,
5. adherence to a code of conduct, and
6. altruistic service.

It is interesting to note in all these discussion on professions that a commitment to public service and ethics is a dominant characteristic.⁸ More recently the discussion has moved away from defining a profession to an interest in the power that professions have in societies. That is the power of professionals to delimit and control their work. Traditionally, professionals have exercised a high degree of self-regulation free from external control. It has been argued that

professions are exclusive occupational groups which exercise jurisdiction over particular areas of work. This jurisdiction is held to rest on the control of a more-or-less abstract, esoteric and intellectual body of knowledge. (Abbott in Kuper and Kuper, 2003, p 677)

To some, the status of a profession is more a reflection of self-interest rather than public service. That is, maintaining control over entry in order to command high material rewards. But, Samuels argues that “the destructive consequences of untrammelled economic exploitation are held at bay by professionalism . . . where service rather than profit becomes the professional label” (Samuels, quoted by Longstaff, 1995, p 3) Thus, societies tolerate such occupational grouping in the belief that the interests of the community will be promoted; in fact privileges are accorded professionals in return for social benefits. This has echoes of Hobbes’s social contract and Rawls’s rules.

⁶ In Wikipedia, for example, the definition provided is: A **profession** is an occupation that requires extensive training and the study and mastery of specialized knowledge, and usually has a professional association, ethical code and process of certification or licensing. [<http://en.wikipedia.org/wiki/Profession>]

⁷ Summarised in *The Social Science Encyclopedia*, 2 ed (edited by Kuper, A and J Kuper), London: Routledge, 2003,

⁸ It is also interesting to note that the issue of defining a profession has been a largely Anglo- American concern with other Europeans not appearing to be so troubled by the matter.

It is clear from the above quotation from the *Code* that in accounting service in the public interest is seen as a defining professional attribute. This certainly meets Longstaff's requirement that "If accountants are to remain part of a true profession, then their response to the community should be an unambiguous declaration of allegiance to the overriding principle of public service" (p 17). However, does this hold in practice? What role did accountants play in recent corporate fraud scandals and collapses? Why was the profession silent in the debate on the AWB wheat sales to Iraq scandal⁹?

In the Public Interest

While there are many pronouncements about public service or public interest, determining any sensible meaning of these terms is fraught with uncertainty and ambiguity. Not only does this involve all the philosophical issues discussed above but there are strong political implications. Public interest can only be defined or described in the context of political preconceptions. Plato indicated, "any theory of man, implicit or explicit, will be reflected in a theory of the state" and Aristotle always held that ethics was just a branch of politics. This is simply because we are all members of a community, a society, over which there will some form of governance. It is important to determine the appropriate role of the state and the level of this governance. This is not a simple matter and to some extent the argument is circular in that the state influences what the public interest is yet it is the public interest that shapes the form of the state; it will be a matter of balancing individual interest with community or group interests and this has been a concern of philosophers for thousands of years. For the development of individuals Hobbes and his followers argued for strong governments yet in the modernist era (Western) societies have rejected absolutist governments. Thus, any use of terms such as "in the public interest" necessitates some notion of the balance between individual and community interests. In recent times these interests have been described as rights and so the debate revolves around what are individual rights as opposed to communal rights? This is the question for which Rawls provided a solution – his just society (discussed above).

The public interest will always be determined by the form a society takes. There are many different societal "forms". For example, some are dominated by a particular religion; some are dominated by a strict class or caste system; some are dominated by a single political party which has central economic planning; some will be dominated by traditional strong family ties; some will be governed by military interests; and some will be dominated by those able to wield strong economic power. In practice most societies will comprise a combination of many of these factors in varying proportions. Consequently, in an Islamic state business and professional ethics will be determined by Islamic precepts (Sharia law).¹⁰ In a totalitarian - say communist – state, business ethics will those determined by the state (government). In a military dictatorship, military law or might will determine acceptable order. In a caste system society relationships between

⁹ Accountants were involved as auditors and financial advisers. In the AWB situation this was a matter of national significance yet the accounting professional bodies (appeared to) remained silent.

¹⁰ "The case of Israel is unique in that secular Zionists ground the secular state on a religious tradition which they reject." (Rist, 2002,p 230)

certain classes will be prohibited or clearly defined. Modern (or Late) capitalist societies will generally sanction the pursuit of economic gain and consumerism but with varying degrees of restriction and this is the core of the issue at hand: the balancing of social or community benefits against the pursuit of individual economic gain.

At the core of capitalist societies is the ideology of individualism – the freedom to make (economic and other) choices. This individual freedom has to be balanced with some level of community or social responsibility. Many commentators (philosophers, sociologists, politicians and the like) argue that this balance is determined through reason, that is, rationally.

Many ethical theorists believe that it is reason itself that makes these demands, to go beyond intuitionism into a more fully articulated ethical theory. They think that what I have called rationalism simply follows from being rational. (Williams, 1995, p 101)¹¹

This raises the equally complex matter of defining rationality. Rationality involves knowledge and knowledge is power. Knowledge is presented by those in power positions as objective knowledge about human beings – rationality. Therefore those with this “knowledge” will present it as universal – it is rational so must apply everywhere (universally). Anyone who disagrees with this “knowledge” is adjudged irrational, even “mad”. Thus, rationality is defined by the powerful and represents the dominant societal ideology. The “powerful” will represent those who can wield political power or influence. Hence, what is in the public interest will be determined politically which is consistent with what Plato was espousing in the quotation above – the significance of a “theory of the state”. It is also a necessary prerequisite for Rawls’s just society. To Rawls the process of arriving at a public interest must be transparent in that his just society is comprised of people committed to living closely together as a society so they should arrive at publicly stateable, and therefore *rational*, principles. Recall from the earlier discussion of his work that there is a “contractible” obligation of members of the society to have some agreed beliefs and authoritative procedures – the publicly stateable principles - for resolving conflicts and avoiding violence.

Therefore, to summarise the discussion so far, defining characteristics of a profession include that it have a code of ethical conduct that demonstrates its members will offer their services to the public and work in the public interest. However, when examined more closely it is revealed that while this may sound attractive it involves the confusing and complex task of determining just what the public interest is – a highly contestable and elusive concept. This in turn involves the equally complex processes determining just what is rationality and of balancing the rights of individuals and groups. There have been many theoretical positions presented over the years yet the issues still remain clouded and open to conjecture and complicated because every suggested position has strong political overtones.

¹¹ Early in the 20th Century there were ethical theorists who believed there were basic truths know by intuition – sort of a priori. However, this position came under such critical scrutiny that it became no longer acceptable. Later the notion was revived in the work of linguistic theorists (eg Chomsky): we know by intuition that certain uses of language are unacceptable.

Balancing Individual and Group Rights

A dominant theme in this book is the role of regulation in contemporary capitalist societies such as Australia. The question again arises in determining which policies to pursue in balancing the rights of individuals against those of broader groups or society generally. It is relevant to this discussion because it has been shown that questions of ethics always intimately involve political considerations - problems for public policy as well as the lifestyles of individual members of society. However, there will be a wide range of circumstances and the individual and the community represent the two extreme positions – there will be very many situations between these two positions as contemporary societies are made up of many groups of citizens (and many instances of cross membership of these groups). For example, a profession is one group. Therefore, there may be a conflict of interests for an accountant who may have to balance his or her interests as a member of a professional accounting body with those of his or her religious (or family or other) community – which takes precedence? Ethical considerations are not always linear!

Modern Western societies claim to promote and protect individual freedoms. Such freedoms take various forms and Rist has called the two extremes Tolerant Diversity and Corporate Unity (2002, p 229). Societies will be tolerant of the desires of individuals in the interests of diversity in society. However, individual goals will tend to be “destructive of the goals of others” so regulation is necessary to allow opportunity for others. It is very difficult to decide the form and extent of this regulation in order to promote fairness to all: “it will be *unfair* to some to tolerate the ‘excesses’ of others, or that there is no *reason* to tolerate the claims of one at the expense of another” (Rist, p 229, emphasis in the original). A variation on individualism is the development of group individualism – pressure groups “whose leaders view their organizations as extensions and organs of themselves” (p 230). These groups include minority and other similar organisations, for example, gay rights groups, the religious right even women’s rights and seemingly less socially desirable groups such as the gun lobby. Toleration is the catchcry and Rawls would have the state as arbiter to determine the fairest distribution of freedoms. Just how it does this is quite perplexing. Although democracy is the political form in many countries not only are governments voted in by a minority of the population – especially where voting is not compulsory – they are subject to pressures from various interest groups as in the case of lobbying with the interests of some groups going beyond traditional national boundaries. As Rist has so eloquently pointed out:

Confronted with the gradual materialization of the global village, its ever expanding demands fuelled by advertising and consumerism at the economic level, and potentially even more destructive at the political level: threatened, that is, by an exteriorized unity of mankind without community; what sort of public policy should we advocate? (2002, p 231)

This is evident in accounting in the lobbying of the IASB and other bodies in its (successful) pushing for the adoption of IFRS. Professional accounting bodies themselves have created further uncertainties in respect of defining public interest. They have done this with their peculiar growth mentalities in aggressively extending their membership

and spheres of influence across national boundaries. Thus we have professional bodies granted a charter (which usually states that the public interest is the foremost consideration) in the United Kingdom which have branches through Asia, Africa and Australasia. Even Australian bodies have similar growth expansion strategies. Are they really representing their members' (professional) interests or, more importantly, advancing the public interest or have they taken on a form of their own ("bigger is better") whereby the body representing professionals is not being very professional itself?

The issue of public interest continues to be a deeply contested notion yet it remains the cornerstone of claims to professional status. Puxty, Sikka and Willmott (1994) have demonstrated that in the UK professional accounting bodies have resisted the responsibility of the detection of fraud being thrust upon auditors. In fact the Chairman of a committee report set up by the ICAEW is quoted as saying

. . . the normal business relationship between the auditor and the client company was founded on trust and confidence. We do not feel that the business could be sensibly conducted if the auditor was recognised as a mole or informant who could secretly inform a Government agency that he suspected wrongdoing in the conduct of a client's affairs . . .", Lord Benson quoted in Puxty, Sikka and Willmott (1994).

Given the public reaction to scandals such as the Enron collapse in the US or the HIH demise in Australia, it would seem that Benson's sentiments do not convey a sense of the public interest¹². Puxty, Sikka and Willmott also show how, over the years, the accountancy bodies in the UK have lobbied company reform committees to prevent companies being required to make full financial disclosures in published financial statements. Clearly this is action in the interests of the clients of their members and not the public interest. These are the sort of pressures (the lobbying by apparently influential interested parties) facing regulators and would seem to be an argument against self-regulation by the profession – another claimed hallmark of professionalism. As stated earlier, knowledge is power so if those with that knowledge claim a special status and that they are preserving the public interest that knowledge must be used judiciously.

Righteousness in an Age of Uncertainty

It was relatively easy for those like Kant, the citadel of certainty, to know what was right from wrong behaviour. To him morality had nothing to do with happiness, as the utilitarianists had suggested, a moral action is done out of a sense of duty; such duty being determined through *reason*. The certainty he had was a hallmark of modernist thinking. However, as the discussion so far has demonstrated, an accountant today will be far from certain which of the many arguments on ethics will lead to the most appropriate course of action. Unfortunately, we do not have the certainties the modernists claimed and have to choose from a wide range of alternative courses of action. There is no *rational* basis of morality, it is shaped by circumstance, politics and ideology of "the powerful" – those with the capacity to persuade or prescribe what is appropriate. A young accountant may be directed to follow a course of action in a particular situation because a

¹² See CCH (2001), *Collapse Incorporated*, especially chapter 2, Andrew White, "Flow on effects of recent collapses".

superior says it is the best for the firm and the client even though she or he believes it to be unethical.

The lack of moral certainty has led to appalling situations such as genocide, repression, torture, terrorism, environmental destruction and several other evils many of which have been justified on the basis of some so-called principle, and even public interest! In the business environment this has been manifest in untrammelled greed, nepotism and corporate corruption often ending in the economic injury or ruin of many innocent participants. Despite the enthusiasm of modernist thinkers, this lack of certainty has long been recognised and can be dated back several thousand years to Ancient Greek scholars such as Protagoras (and the Sophists) or Socrates's friend Antisthenes (and the Cynics) but is also associated with the late 19th century philosopher, Friedrich Nietzsche. It was to overcome this uncertainty that Alasdair MacIntyre resorted to a notion of another Greek scholar – Aristotle – in developing his virtue theory discussed earlier.

Aristotle argues that a “good man” is one who possesses what he called *eudaimonia* a word which has been difficult to translate but would include blessedness, happiness and prosperity. “The virtues are precisely those qualities the possession of which will enable an individual to achieve *eudaimonia*.” (MacIntyre, 1984, p 149). In using Aristotle's notion of virtues MacIntyre has a problem attempting to define them in today's society. However, he believes that they can be derived from traditions – the wisdom of the ages. Francis (1990) has addressed the question insofar as it affects accountants. He suggests five possible virtues that could be unique to the practice of accounting:

- Honesty,
- concern for the economic status of others,
- sensitivity to the values of co-operation and conflict,
- communicative character of accounting, and
- dissemination of economic information.

However, there exist obstacles to the realisation of the virtues and he suggests three of these as:

- the dominance of external rewards,
- the corrupting power of intuitions, and
- the failure to distinguish between virtues and laws.

The “worship of money”, he argues, has, in recent times, infected accounting practice and he concludes the “Accounting, if it is to be virtuous, must celebrate itself as the unique creation of human labour and moral agency that it is” (Francis, 1990, p 15).

The Relevance of Gender?

As accountants have for so long believed they act value neutrally they would also consider that there are no issues in respect of gender in accounting. However, there are many who believe that gender is an important considerations in many facets of our societies. This does *not* mean there is an essential difference in the *nature* of men and women. The issue of whether there is an essential female nature is not relevant and some would argue that that view is merely an ideological construct. As with MacIntyre's position the issue here concerns virtues rather than rights. Attention was drawn to the

significance of gender in respect of ethics when Carol Gilligan pointed out that Kohlberg had only used a male sample in developing his stages of moral development. As Reiter has pointed out “Gilligan showed that in moral discourse male subjects exhibit an orientation toward maximum autonomy and objectivity and an adherence to universal principles, while female subjects produce contextual responses” (1997, p 300). This gives rise to different ethical perspectives – the former the ethics of rights while the latter has been referred to as **the ethics of care**. In Kohlberg’s model (a rights theory approach) the individual moves to greater independence and self-sufficiency. Gilligan (and others), however, argued that the ideal of a concerned and caring adulthood is a more appropriate basis for a just society. In practice, traditional “female virtues” have been seen to be those of greater cooperation and caring; hence the name the ethics of care, which is more associated with feminine characteristics.

Reiter has argued that an ethics of care approach could assist the accounting profession in respect of matters of auditor independence in at least three ways:

- (1) In responding to crises concerning auditor independence, the profession’s rhetoric moves away from the ethics of rights or separative thinking. But, to what extent does the profession move towards a more caring approach?
- (2) The analytical framework of the ethics of care versus the ethics of rights enhances understanding of some of the root problems with auditor independence.
- (3) Application of the ethics of care ideal to accounting practice enables us to see the adequacies and inadequacies of the profession’s response to current and future problems in financial reporting and assurance, (1997, p 299)

It may well have been that an ethics of care perspective would have enabled the profession to respond more effectively to the criticism it attracted over recent major corporate collapses!

Morality versus Ethics: Discourse Ethics

To most people (and in much of the discussion here) ethics and morality are fairly synonymous. However, to some this is just not so. Bernard Williams “a leading influence in philosophical ethics in the latter half of the twentieth century . . . rejected the codification of ethics into moral theories that views such as Kantianism and (above all) utilitarianism see as essential to philosophical thinking about ethics, arguing that our ethical life is too untidy to be captured by any systematic moral theory”¹³. Thus, to Williams the “moral system” is too abstract and artificial to be used as the basis of ethical practice. For example, to him, utilitarianism is a “too simple” systemisation of our ethical thinking. While Kantianism is too impersonal – it abstracts moral thought from the identity of persons, utilitarianism abstracts from any goodness of the actions of individuals to who produces good consequences. Thus, Williams opposes attempts to reduce ethical ideas to any morality system – there are too many situations with ethical implications to simply reduce them to a morality system.

Another philosopher who believes there is a distinction between morality and ethics is Jurgens Habermas. He has developed a complex theoretical framework for understanding

¹³ The Stanford Encyclopedia of Philosophy [<http://plato.stanford.edu/entries/williams-bernard/>]

ethical issues which is referred to as **discourse ethics**. Discourse is not simply language or speech but, to Habermas, it is a reflective form of speech that aims at reaching a rationally motivated consensus (Habermas, 1991, p 42). The notion of rationally motivated consensus is important because discourse is not an esoteric activity of philosophers but an everyday mechanism for regulating societal conflicts. In other words, it is an observable process which aims at repairing failed consensus in order to establish a rational social order. Discourse attempts to make good a validity claim to rightness – it is the way a speaker convinces the hearer of a particular claim. It is not a simple process and Habermas has had to devote a considerable amount of his writing to establishing it as a serious discipline with particular rules and it has become an essential part of his social theory.

Habermas is very much a modernist with a belief in the importance of the Enlightenment principles. Thus, the idea *rationality* is an essential part of his work. So too is *communication* and therefore those who communicate effectively are able to resolve conflicts through discourse. Consequently he set out to establish the basis of rational communication. In doing this he distinguishes between a *discourse of morality* from a *discourse of ethics*. The former is concerned with how we establish valid moral norms (which are used to resolve conflicts). The validity of a norm will depend on the agreement of many people. Norms are behavioural rules which take the form of imperatives, for example, do not steal. To Habermas, mature moral agents are at Kohlberg's stage 6.

Whereas the discourse of morality seeks to establish valid norms, discourse ethics is concerned with *values*. Consequently, ethical discourse only produces advice which has conditional or relative validity; “what is good for me or us” rather than a broader social behavioural rule. To that extent ethical discourse is purposive and much less general than moral discourse which seeks universal principles. Therefore, *APES 110 Code of Ethics for Professional Accountants* would be an example of discourse ethics in that it sets out the conditions of the values to be adopted by a group of individuals acting as the profession of accounting. If this is true then it is important to know how the “rules” (the values) are established and the language used to articulate them. They are certainly rules for reducing conflicts between members and how members should (must?) act in society.

As indicated, Habermas's work is complex but what this brief introduction to it demonstrates once again is the importance of language. To Habermas language is critical to resolving conflict within groups or societies. Societies create language in order to facilitate the communication necessary for their proper functioning. Habermas has attempted to establish the rational basis for this communication in the belief that only then will communication work for the betterment of societies through avoiding and resolving conflict.

Threats to Ethics

The question of ethics is a highly complex matter. It is a subject that has troubled thinkers and policy makers for thousands of years. Some, such as those of the Utilitarians, have

produced simplistic sets of principles. Some, such as Kant and his followers, have insisted on universal duties and obligations. Aristotelians, and neo-Aristotelians, believe that ethical behaviour is the result of the essential character of the individual. Whatever the approach taken to try and understand ethics, it remains a central concern of contemporary societies and it remains the basis for their “proper” functioning. It affects all aspects of society and is generally regarded as the hallmark of a profession. This has been recognised by accountants and the profession has issued a Code by which it expects its members to behave. However, members are expected to comply not only with the “letter of the code” but also the “spirit”. Thus it is important that accountants have an appreciation of the subject well beyond the statement of the Code.

The philosopher, Simon Blackburn (2001) has suggested seven threats to ethics. First, there is the increasing secularisation of societies and the failure of religions to accommodate the problems in contemporary societies. Secondly, there is the issue of a lack of belief in any universal principles of ethics. His third is egoism or selfishness. This of course, is institutionalised in neo-liberal ideology and neo-classical economic theory. His fourth is closely related to the third and he refers to it as “evolutionary theory”. This can be interpreted to mean a belief in social Darwinism – the mistaken belief that there is a fundamental scientific reason for acting in our own interests because it is necessary that only the fittest survive. Fifthly, he lists determinism. This is the belief that there is not much point to acting altruistically because “life” has all been predetermined. His sixth threat is unreasonable demands – we expect and demand too much. Finally, he lists false consciousness by which he means we are often “fooled” into actions for the wrong reasons so we need to carefully reflect on why we undertake certain actions.

These threats are those which Blackburn sees as the more obvious ones and there may well be more. Anyone entering a professional vocation needs to be aware of implications on others and society generally of her of his actions and bear in mind that a professional is one who works to serve the public interest.

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