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# **Ethics Education in the Accounting Curriculum**

**by**

**Ray F. Carroll**

**Submitted in partial fulfillment of the requirements  
for the degree of Doctor of Philosophy**

**at**

**Dalhousie University  
Halifax, Nova Scotia  
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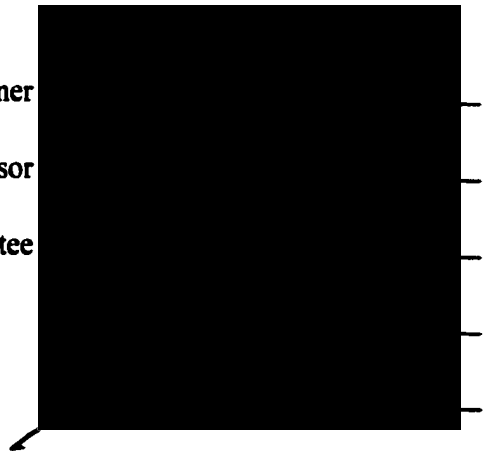
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in partial fulfillment of the requirements for the degree of Doctor of Philosophy.

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**Dedicated to Carole Anne Carroll**

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***Abstract:*** An argument for the existence of accounting education in the university and the importance of an ethical foundation for business ethics is presented to justify its place in the university. As public watchdogs in positions of trust, professional accountants are strongly obligated to refrain from unethical behaviour and to ensure the highest disclosure standards. The accounting profession has responded to this concern by establishing codes of professional conduct and using its influence to promote ethics education. Various objections have been raised to the teaching of business ethics and only gradually has the concern for ethics been recognized by business educators. As gatekeepers to the accounting profession universities play a major role in accounting education. There are numerous ideals as to what is the nature and purpose of higher education. Common among these ideals is that the educated person is a moral person. It is argued that accounting education is consistent with the nature and purpose of higher education. To perform his or her social function the accountant needs both technical expertise and moral expertise. A central organizing principle is needed to ensure that the accountant develops both types of expertise. This organizing principle is integrity. Integrity is a personal wholeness that includes acquiring the dispositions of open-mindedness, sincerity, commitment, courage and taking the moral point of view. Integrity applies to individuals who act as agents of corporations. As social constructions, corporations have a duty to be responsible to the society which permits them to exist. One way of measuring this accountability is through corporate reporting systems. In this sense integrity is actually linked to accounting numbers and firm disclosure. The integration of ethics into the accounting curriculum entails developing technical expertise in an educational environment which encourages reflective thinking about the role of the profession, the exercise of moral reasoning, and integrity to exercise one's personal moral responsibility. The thesis concludes with a model for ethics integration.

## **Acknowledgements**

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# 1

## Introduction

Accounting is widely referred to as the language of business. Upon receiving a professional designation such as CA, CGA, or CMA (these letters designate Chartered Accountant, Certified General Accountant and Certified Management Accountant) special status is conferred upon the accountant. This special status is in the form of high salary, power, practice rights and social prestige. A research of the literature on professionalism does not reveal a precise definition of professionalism. Rather, professionalism is defined in terms of an evolving set of characteristics which are given more or less emphasis by various social scientists. (Barber 1963; Wilensky, 1964; Parsons, 1968; Schon, 1970; Houle, 1980; Friedson, 1986, Cervero, 1988). The accounting profession is characterized by at least the following elements:

- 1) a specialized body of knowledge
- 2) specific business problems which need accounting expertise
- 3) a long period of formal training
- 4) an expressed commitment to social purposes
- 5) the capacity for self-regulation and the ability to enforce sanctions against members who violate the professional accounting body's code of professional ethics

6) status and prestige

7) special protection of various practice rights which vary among the provinces.

At a minimum the acquired practices which determine the boundaries of a profession involve social judgement, and professional services are perceived as valuable by at least some groups which comprise society. The nature of an accountant's work puts him or her in a special position of trust. Accountants are expected to adhere to rules of confidentiality, objectivity, and independence. As the conscience of business, professional accountants often find themselves facing competing obligations. It is arguable that they have obligations to shareholders, creditors, employees, suppliers, the government, the accounting profession and the public at large. In other words, their obligations go beyond their immediate client. The work of the accountant can affect the lives of many people. This is why ethics is so important to the education of professional accountants.

The role of the professional accountant, the business environment in which accountants work, and the role of the universities with respect to accounting education form a complex web of interdependencies.. There are age-old questions about the morality of business itself that have not been entirely settled. Critics such as J. K. Galbraith (1955) have argued that when economic goals have become the primary goals of a nation, it detracts attention from critical human issues, leading to a loss of freedom, individuality, and creativity. This is a threat to the very heart of what it means to be an educated person.

The main objective of this dissertation is to develop a model for integrating ethics into the accounting curriculum. Several related sub-questions will be addressed in the process.

Why is ethics in accounting an important problem? What is the nature and purpose of higher education and the place of the study of business within it? How can the principles of higher education be applied to accounting? What is the organizing principle for integrating ethics into the accounting curriculum? This is the first work to consider the fundamental role that accounting education should play in developing professional accountants in an ever changing business environment.

The problem of how to teach ethics is rich in controversy about nature, purpose and method. Other disciplines, however, can be a source of guidance. History can provide us with insight into how people have come to take various positions on matters dealing with ethics in accounting and business. Philosophy has provided us with ethical frameworks with which to analyze ethical issues. Psychology has linked with philosophy and generated interesting ideas about moral development. This dissertation takes a holistic approach to the problem of integrating ethics into accounting education. The moral point of view for those who teach accounting is that we aim at developing a curriculum which will help graduates to become morally autonomous, technically competent, caring members of society. The pillar upon which this goal rests is that of integrity: integrity in terms of curriculum content, the setting in which learning takes place, and the development of the moral virtue of integrity itself.

Business ethics and higher education both have huge literatures. The search included published articles, unpublished articles, and dissertations. Key word searches using CD-ROM technology were extensively used. This included ERIC, Sociofile, ABI INFORM, as

well as the Philosophers Index for the following key words: ethics, business ethics, corporate responsibility, accounting ethics, leadership, culture, morals, moral development, and higher education

Chapter 2 sets the stage by reviewing the growth of business education in universities and identifying the lack of concern for others in the business curriculum. The problem is discussed in the context of accounting practice and the dissertation describes how the profession and universities have reacted to raise the profile of ethics in accounting education and in professional practice. This chapter traces the development of business ethics and identifies the sources of resistance to bringing ethics explicitly into the business curriculum.

Chapter 3 discusses the characteristics of the educated person by examining various educational ideals and the university's role in the educative process. Because of the technical nature of accounting, the education versus training debate is raised in discussing the role of business education in higher education. The common goal that education should produce good people goes back to the days of Plato. To be educative, accounting education must not neglect the importance of ethics education.

Chapter 4 addresses the application of higher education principles to business education in general and accounting education in particular. It is noted that ethics and character development are central to becoming an educated person, and a challenge is placed before accounting educators to develop programs which inculcate higher education principles.

Chapter 5 looks to philosophy for ethical frameworks as a guide to commencing discourse about ethical issues. It is argued that these frameworks are useful in sensitizing students to ethical issues, but they fail to provide an overall organizing principle for integrating ethics into the curriculum. Chapter 5 argues that education must instill integrity in its students. Integrity is seen as the organizing principle and key ethical ideal to which accounting and business education should aspire, and suggestions are made on how to promote this all-encompassing virtue.

In Chapter 6 it is argued that ethics is best integrated into the accounting curriculum by providing students with substantive exposure to business ethics early in the curriculum. It is recommended that one-half of the introduction to business course be allocated to the teaching of business ethics. It is also recommended that an ethical component be built into each accounting course and that students be given a capstone accounting policy course which causes students to consider social responsibility issues of accounting and question taken-for-granted assumptions which influence and shape accounting policy. The ethical curriculum is configured as one which promotes a sense of history, broad knowledge, and a critical perspective. Business ethics and ethical issues peculiar to accounting are essential components of the accounting curriculum and to fostering integrity. Key pedagogical issues relating to ethics education in the accounting curriculum are discussed and a general framework is developed as a model for the integration of ethics into the accounting curriculum.



**Chapter 7 provides a summary of the main ideas in the dissertation and concludes that accounting education legitimately belongs in the university when accounting is taught in an environment which encourages reflective thinking about the social responsibilities of accounting and promotes integrity as the central organizing principle for ethical behaviour.**

**This work draws from the business ethics, education and philosophy literature and is the first comprehensive study that provides a normative rationale for developing an ethics-based accounting curriculum.**

# 2

## The Problem of Ethics in the Accounting Profession

Although ethics has been an issue in the accounting profession for years (as evidenced by the development by professional organizations' codes of conduct<sup>1</sup>), it has currently become a widely discussed and debated topic. Recently the *Business and Professional Ethics Journal* devoted an entire issue to accounting ethics (Vol. 13, Nos. 1 & 2, Jan. 1995). This has been due partly to the wide media publication of events involving a host of misdeeds such as insider trading, tax evasion, opinion shopping, audit failure, fraud, and the selling of defective merchandise affecting the life or health of users<sup>2</sup> There is a heightened awareness that business and accounting students are entering the work force with little background on how to deal with ethical issues. An article in the *Globe and Mail* (Nov. 11, 1991, p. B4) reported that Decima Research found that 45 percent of Canadians consider business leaders unprincipled, compared with 20 percent ten years earlier. In a

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<sup>1</sup> The establishment of codes of conduct to counter ethical deterioration will be discussed later in the chapter.

<sup>2</sup> For example, see articles concerning Union Carbide and the Bhopal plant. *The New York Times*, 25 April 1985, p. 34. 9 December 1984: "Lockheed to Pay full \$1.49 Million in Safety Penalties," *Los Angeles Times*, 5 February 1991: "Cleaning Up Wall Street," *Insight*, 23 March 1987; "Levitt sentenced to 30 years for theft from S&L," *Washington Post*, 3 July 1986; "Morals in the rat race," *Globe and Mail*, 27 February 1987; "Diamond ads bring record penalty. Simpsons-Sears is fined \$1 million," *Globe and Mail*, 1 July 1983; "Boesky affair fueling push for tougher rules," *Financial Post*, 24 November 1986; "Walgreens Pulls Bottled Tea. Tampering Suspected," *Chicago Sun-Times*, 26 April 1996.

1987 study of 2,000 National Association of Accountants members, 52 percent of the respondents in lower level positions, 47 percent in middle level positions, and 32 percent in senior accounting positions reported that they had felt pressured to alter financial results (Mihalek, Rich, and Smith, 1987). In a 1988 Touche Ross survey in the United States of 1,082 business school deans, business executives, and corporate directors, 94 percent of respondents said that the business community was plagued with ethical problems. Sixty-eight percent said that these problems were not overblown by the media. Indeed the moral climate of business itself has been described as a game which is devoid of ethical values:

It's all a game, but a game with very strict rules. You have to stay meticulously within the law, the least misstep, if caught, involves an instant penalty. But there is no particular moral opprobrium in incurring a penalty, any more than there is (in) being offside in football. A man who is found to have bought or sold stock on inside information, or misrepresented his assets in a loan application, or put his girl friend on the company payroll, is not "looked down on," except by sentimentalists. He's simply been caught, that's all. Even the public understands that. Watergate showed it. You break the rules, pay the penalty and go back to the game (Auchincloss, 1986, pp. 27-28).

The seriousness of the general problem of the role of ethics in accounting and business education will become apparent in examining some of the key ethical problems faced by accounting professionals. A review will be presented of what is currently being done by universities and by the accounting profession to help raise ethical standards.

### **Ethics in the Accounting Profession**

Ethics and professionalism are intertwined concepts. Professionalism implies trust, and trust is an ethical concept. According to Vickers (1974), professionalism consists of

elements which, for the professional, “invite[s] a more than usual degree of trust, so he has a more than usual responsibility to exercise his function rightly.” Integrity<sup>3</sup> is expected of all professionals, including doctors, lawyers, and accountants. However, the integrity and ethical behaviour of accountants is particularly scrutinized because of their responsibility and accountability to the public. “Of all the groups of professions which are closely allied with business, there is none in which the practitioner is under a greater ethical obligation to persons who are not his immediate clients” (May, 1985). However, because of reports of unethical behaviour in the business community, the accounting profession has come under increasing criticism, and public confidence in the profession has been shaken. Without this confidence, the economic system could be in trouble. “For capital markets to work efficiently in allocating resources among business enterprises, the investing public must have confidence in financial information and in the accountants who help to prepare and audit it” (Stanga and Turpen, 1991).

### **Common Issues Faced by Public Accountants**

Because of increased public criticism of the profession, it is clear that improvements are required to demonstrate to the public that accountants are performing their functions in an ethical manner. However, before this is examined, it is insightful to look at some of the common ethical problems faced by public accountants, so as to gain a better understanding of their situation and the ethical environment in which they operate.

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<sup>3</sup> The concept of integrity as a key organizing principle for ethical behaviour is central to this dissertation and will be the pivotal focus of chapter 5.

The nature of ethical conflict must first be defined. “When significant differences exist between the ethical beliefs of the individual and that of the organization, conflicts arise. The same is true when differences exist between the company and the societal context in which the company operates” (Cohen and Turner, 1990). Thus, ethical conflict is the result of contradictory obligations and duties to two or more interest groups.

A research study by Finn, Chonko, and Hunt (1988) identified four key areas of ethical conflict obtained from a questionnaire that asked accounting practitioners to describe the most difficult ethical problems they encountered. The first area of concern identified by the above study is client requests regarding tax avoidance and tax evasion. Although tax avoidance is legal, accountants are required to use their judgement in those cases where tax rules are not clear. The conflict results because the accountant must resolve the issue taking into account two opposing obligations—those to the clients who pay the accountant’s fees, and those to the taxation body which has vested confidence in the accounting profession. Tax evasion, on the other hand, is illegal, and a practitioner definitely should not allow oneself to be part of such unethical behaviour.

The study by Finn et al. also points to conflict of interest and independence problems as ethical issues. In performing an audit, it is necessary that the auditor be free from any personal interests or bias in the client. If this is ignored, the ability of the auditor to attest to the fairness of the financial statements is jeopardized and his or her behaviour may be considered unethical. Other key ethical problems are noted as being clients’ requests for alteration of financial statements and fee problems such as low balling. Low balling is the

practice of setting audit fees below cost with the intent of offsetting early losses with increased fees for later audits or for other work performed by the auditing firm. It discriminates against small firms and creates a possible threat to independence. One practitioner involved in the study summarized the ethical demands on the profession as

attempting to keep up with rapid changes in professional ethics, income taxation, auditing, accounting matters, payroll taxation, etc., so that I am not inadvertently compromised by not knowing some development through not being able to sift through the mountains of mail and information coming to my sole practitioner firm (Finn, Chonko, and Hunt, 1988, p. 611).

Much of accounting depends on the accountant's judgement and it is in the exercise of judgement that one behaves ethically or unethically. As business becomes more and more complex, greater opportunities for abuse arise. Accounting for financial derivatives, for example, is perplexing, and accounting standards are lagging behind, leaving the doors open for less than full disclosure (see Lavin, 1992). Scribner and Dilaway (1989) presented some interesting examples of ethical dilemmas from financial accounting (see Exhibit 1). Similar lists could be developed for management accounting, for example, making decisions to add or drop products which affect people's employment, justifying rate increases to public utility boards, or justifying cost allocations on contract bidding. It is noteworthy that the Institute of Management Accountants' Education Committee in the United States has developed a series of five-minute video vignettes for classroom use, to familiarize management accounting students with common ethical conflicts facing management accountants.

## **Exhibit 1**

### **Examples of Ethical Dilemmas in Financial Accounting**

#### **Opportunities to Exploit Judgement and Estimation Biases**

1. Abuse of doctrine of conservatism in either direction.
2. Use of percentage-of-completion method when future costs are excessively difficult to estimate.
3. Estimation of uncollectable receivables.
4. Capitalizing expenditures with questionable future economic benefits.
5. Propriety of expected service lives, cost allocation methods, and residual values.
6. Measurement of goodwill.
7. Judgements on whether investments have experienced a decline in market value that is other than temporary.
8. Likelihood judgements for loss contingencies.
9. Assurance of benefit of net operating loss carryforward.
10. Whether a long-term contract is "completed."
11. Adequacy of capitalized costs for self-constructed plant assets.
12. Ability and intent to refinance short-term debt.
13. Appropriateness of equity method.
14. Substance of creative financing arrangements—debt or equity.
15. Borderline cases involving capital versus revenue expenditure.
16. Appropriateness of discount rates in present value applications.
17. Reasonableness of current versus non-current classifications.
18. Appropriateness of market values in applying the lower-of-cost-or-market rule to inventories.
19. Appropriateness of estimates used in pension reporting.
20. Use of tax method of depreciation for financial reporting in order to avoid reporting deferred income taxes.
21. Existence of significant right of return for sales.

#### **Opportunities to Exploit Pronouncement Latitude or Absence of Relevant Pronouncements**

1. Conforming to the letter of a pronouncement while concealing the substance of a transaction.
2. Biased interpretation of disclosure requirements where sensitive information is involved.
3. Disclosure or nondisclosure of poststatement events.
4. Income statement classifications, especially operating versus non-operating income.
5. De-emphasising unfavourable items by reporting them as prior-period adjustments or extraordinary items.

6. Capitalization tests for leases in light of possible management incentives for off-balance sheet financing.
7. Structuring stock option plans to appear noncompensatory or to delay expense recognition.
8. Assessing whether a stock dividend is “small” or “large.”
9. Appropriateness of straight-line amortization of bond discount or premium in lieu of effective interest method.

### **Opportunities to Exploit Weak Internal Control**

1. Presence of excessive errors, possible obscuring fraud or Foreign Corrupt Practices Act violations.
2. Presence of excessive errors, possibly obscuring transactions that are questionable but not clearly fraudulent.
3. Existence of “special purpose” cash funds.
4. Proper accounting for items not commonly emphasized in accounting courses, such as debt issue costs.
5. Compensating balance arrangements with banks.
6. Losses on abandonment of assets.
7. Manipulation of cost of goods sold through inadequate inventory controls.
8. Ambiguity of items charged to miscellaneous expense.
9. Classification of employee as “contract labourers.”

### **Opportunities to Obscure the Substance of Related Party Transactions**

1. Sale-leaseback transactions with related parties.
2. Classification of debt versus equity, particularly in small businesses.
3. Fair valuation of assets contributed by shareholders of partners.
4. Constructive dividends.
5. Below-market borrowing by related parties.
6. Presence of significant “receivables” from related parties.
7. Recording of receivables and revenues for owner use of enterprise.
8. Actual availability of reported assets for use in the operation of the business.
9. Reasonableness and disclosure of owner-manager compensation.
10. Appropriateness of the reporting entity in a complex structure of investor–investee relationships. (This is especially important in an advanced course.)

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Source: *Journal of Accounting Education*, 7.1, E. Scribner, and M. P. Dillaway, “Strengthening the Ethics Content of Accounting Courses,” pp. 54–55, 1989, Pergamon Press plc.



Robert Sack (1985), who headed the Enforcement Division of the United States Securities and Exchange Commission, stresses that the trend towards commercialization of accounting has also created ethical problems for the profession. Non-audit activities such as management advising and tax preparation have become major sources of revenue. The possibility that accountants may compromise on auditing standards in order to gain more of this non-audit revenue raises questions about independence and objectivity and is a potential threat to ethical practice. Sack states that practitioners who get involved with opinion shopping, auditing growth companies, or loophole competition will be put at ethical risk (Sack, 1985). Opinion shopping involves clients who look for second opinions from other firms when they disagree on how to handle accounting problems with their current auditors. In order to act ethically in this situation, shopped firms must consult the initial firm to ensure that they have all the relevant facts before making a decision. With growth companies a problem is the temptation for them to invent sales or hide problems to raise false investor confidence. The demise of the Northlands Bank of Calgary and the Canadian Commercial Bank of Edmonton a decade ago are classic examples of auditors failing to question accounting practices which overstated assets and understated expenses (see Johnson, 1986). Also, an auditor must avoid designing loopholes to satisfy clients when there is no standard guiding a particular issue. Auditors, in making judgements, must behave competently and ethically by ensuring that accounting conforms to the substance of a transaction. Thus, when faced with ethical dilemmas, practitioners must put the public interest and their duty to the public ahead of commercialization. “[T]he success of the

business depends on public acceptance of the CPA's unique role as a public watchdog. This public service role demands a careful, consistent campaign to balance commercial concerns against public responsibility" (Sack, 1985, p. 126). Where there is no written accounting pronouncement about a certain event the auditor should look to the substance and not give in to management pressures which would potentially mislead an unsuspecting financial statement user.

### **An Important Problem**

The attainment of high ethical standards is a central problem for the accounting profession and for those in business schools who are responsible for the education of accounting professionals. The accountant is commonly thought of as a public watchdog. This phrase captures the essence of the very critical role which accountants play in society.

Accountants have a very strong social obligation to be trustworthy. Business, governments and the public at large depend on the accounting profession to provide fair financial reporting and business advisory services. This requires trust by clients and users of accounting information. Behaving ethically is an essential and expected trait. The daily work of the accountant involves dealing with confidential files about the personal and business affairs of countless individuals. Decisions made on information provided by accountants can materially affect the lives, not only of their clients but of numerous other individuals. Referred to as third parties; these individuals include employees, customers, creditors, investors, suppliers, government. and the general public.

Ethical problems have been costly for the profession. In the United States the Supreme

Court has ruled that," the Federal Deposit Insurance Corporation, acting as manager of a failed savings institution, could recover some of its losses by suing the institution's outside lawyers and accountants for professional malpractice." (*New York Times*, 30 November 1993, p. D1). Another article noted that Ernst & Young had agreed to pay \$400 million to the Resolution Trust Corporation and the Federal Deposit Insurance Corporation to settle charges that Ernst & Young had improperly audited federally insured banks and savings institutions that later failed. (*New York Times*, 26 January 1994, p. C3).

Those who use accounting information generally do not share accounting expertise. This information asymmetry puts members of the accounting profession in a special position of power and creates a strong obligation for accountants to act ethically. Users are not in a position to assess the work of accountants. Accountants have power due to their special expertise and power due to their access to confidential information. To be worthy of user confidence that this power will not be abused requires a high standard of ethical conduct.

Ethics is important to accountants and those who rely on information provided by accountants because ethical behaviour entails taking the moral point of view. That is, the effect that one's actions will have on others is taken into account. The seriousness of ethical behaviour in business is no trivial matter. The well-known Ford Pinto case of the late 1970s demonstrates how costing can be misused. The Pinto had a defective gas tank about which Ford failed to warn the public. The company used statistical analysis to do a cost/benefit analysis of steps required to correct the problem. It worked out that the cost

of lawsuits from burn deaths, burn injuries and burned vehicles was less than the cost of making the improvement; so Ford decided to stay with the original design. (see Dowie, p. 28, 1977 and Velasquez, pp. 110–114, 1991). Surely questions of harm to the life and health of others are not merely economic or scientific questions. From an ethical perspective one can condemn Ford for failing to consider the interest of all affected parties and for treating individuals as mere variables in a cost/benefit equation rather than as human beings who deserve to be treated as ends in themselves and not as means only. Other famous cases such as Hooker Chemical's waste disposal at Love Canal (*New York Times*, 5 August 1979, pp. 1 and 39), Nestlé's powdered milk scandal, A.H. Robins's marketing of the Dalkon Shield (Mintz, 1985; Grant, 1992), Dow Corning's experience with silicone breast implants and many others accent the serious impact that business decisions can have on human lives and on the environment in which we live.

### **Ethical Reasoning and the Accounting Profession**

Significant interest in business and accounting ethics has also been stimulated by research on cognitive moral development (CMD). Piaget (1932) theorized that moral development must account for the active interpretation and cognitive organization of the individual. Kohlberg (1969) expanded this research by proposing a stage theory of moral development. Believing that moral development emerges from the linkage between cognitive development and social interaction Kohlberg developed a six-stage model of moral development which he divided into three levels: preconventional, conventional and postconventional. The stage at which one can be placed depends on the reasoning used to arrive at decisions, not on the decisions themselves.

Kohlberg's theory proposes that changes in moral reasoning result from cognitive disequilibrium that occurs when an individual perceives a contradiction between his or her moral reasoning level and the next higher one (Turiel, 1969).

Kohlberg's preconventional level emphasizes the self. One's needs and rewards and punishments act as the bases for making moral decisions. Stage one is known as heteronomous morality. One obeys primarily to avoid punishment. Stage two is an instrumental relativist orientation in that the right action is that which serves the self first but recognizes the necessity of reciprocity to reach certain aims. It is sort of an, "I'll scratch your back if you scratch mine" type of reasoning.

In Kohlberg's conventional level of moral reasoning conformity to the expectations of other members of society drives one's decisions. Most adolescents and adults fall into this level, composed of stages three and four which focus on relationships. Stage three is concerned with interpersonal concordance where decisions are framed in a golden rule context where approval by others is sought. In other words, good behaviour is defined as what pleases other people. This stage is the first time that intention becomes important. For example, a wrong is considered less evil if it is committed accidentally or with good intentions. Stage four is concerned with law and duty to the social order, and the focus is on co-operation with society in general and the need to support the system.

Kohlberg's third level of moral development, the postconventional level, is the level at which moral decisions are made on the basis of individual internalized values and hosts stages five and six. Stage five is characterized by social contract and individual rights. It is a legalistic

approach that values the rights of others and majority rule. Emphasis is on the legal point of view but with the possibility of working towards changing the law in terms of meeting social needs. The key criterion by which acts are judged is the welfare of the majority. Stage six, the highest stage, is driven by universal ethical principles. The appeal for ideal principles is a more ultimate test of morality than social consensus. The individual follows self-chosen ethical principles in a situation of mutual respect and trust and assumes personal responsibility for his or her actions. The focus is on abstract universal principles of fairness, justice and equal rights. Research has confirmed a claim made by Kohlberg that few people reach stage six. A stage six scoring would require a sense of fairness which balances competing claims to the optimal advantage of stakeholders while removing the effects of arbitrary factors. Examples of ideal principles include Rawl's two principles of justice or Kant's categorical imperative (see chapter 5).

The research instrument used by Kohlberg is the Moral Judgement Interview (MJI) which is a series of standardized paradigms requiring a subject to resolve a complicated moral dilemma. The dilemmas encouraged subjects to answer on the basis of their general theory of morality (Brown, 1965). The subject's verbal protocol to the resolution of the dilemmas is analyzed according to a sophisticated scoring method, resulting in a single stage score. The interview and scoring is designed to, "elicit a subject's:(1)construction of his/her own moral reasoning, (2)moral frame of reference or assumptions about right and wrong, and (3) the way these beliefs and assumptions are used to make and justify moral decisions"(Colby and Kohlberg, 1987, p.61).

The following points should be noted with respect to Kohlberg's model: 1) Although moral stages are not guided by philosophical thought, higher stages tend to be defined in terms of justice reasoning. 2) Moral development is a hierarchical model in which higher stages are composed of all lower stages. 3) Moral development is invariant and progress is made in one direction through the six stage hierarchy.

A strong supporter of the Kohlbergian tradition has been James Rest (1979,1986). Rest has contributed to the psychology of moral reasoning by specifying a four component model of which justice is only one, explaining the link between ethical thinking and ethical action. According to Rest the relation of behaviour, cognition and affect is that moral behaviour results from these four inner cognitive processes:

1. Interpreting the situation, identifying a moral problem and imagining what courses of action are possible.
2. Figuring out which of the courses of action is right and formulating a plan of action which applies the relevant moral standard.
3. Evaluating the various courses of action in the context of both moral and other values and deciding what action to attempt.
4. Executing and implementing the action plan. This is a sustained effort to achieve the ideal moral action overcoming impediments and making appropriate adjustments.

Rest does not suppose that subjects go through each component one at a time in a certain order. Each component influences the others through feedback and feedforward loops. This model assumes that no single variable will ever predict strongly to behaviour and that the role

of concepts of justice in producing behaviour must be understood alongside other variables and mediators. For Rest, the goal of moral education is to promote the development of all four components. Deficiencies in any of these components may result in failure to act morally.

Another key contribution by Rest is the development of an objective measure of ethical reasoning ability (component 2) and is a self-administered questionnaire. His defining issues test (DIT) is composed of six hypothetical dilemmas describing situations which involve competing social claims. This test is derived from Kohlberg's six-stage theory but uses a multiple choice format that can be objectively scored (Rest, 1979). This has become the most widely used assessment technique for studying moral judgement (Gibbs and Widaman, 1982). After reading each dilemma, subjects are asked to decide on an appropriate solution and then rate 12 issues in accordance with each decision. The most used score from the DIT is the P index. P stands for "principled morality" and is interpreted as the relative importance that subjects attribute to Stage 5 and 6 items. It is calculated by summing the number of times that Stage 5 and 6 items are chosen as the first, second, third and or fourth important consideration, weighting these ranks as 4,3,2 and 1 respectively. DIT results are consistent with Kohlberg's stage-sequence model but its primary measures are based on a distribution of ethical capacities rather than a single stage score. Reliability checks are built into the questionnaire to test for random checking or checking based on verbal complexity rather than on meaning.

In assessing the moral reasoning of accounting students and of practicing accountants researchers have tended to rely on the DIT. Mary Beth Armstrong (1987) compared certified public accountants (CPAs) to college students, college graduate students and adults. The "P"



score was lower for CPAs and of accounting students tended to be lower than it was for the general population of college-educated adults and college seniors, respectively.

"...CPA respondents appear to have reached the moral maturation level of adults in general, instead of maturing even to the level of college students, much less to the level of college graduates. In other words, their college education may not have fostered continued moral growth. (Armstrong, 1987)

Further research by Ponemon (1988, 1990, 1992) and Shaub (1989,1991) found an association between ethical reasoning and the CPA's position within the firm. Ethical reasoning seemed to decrease steadily in the manager and partner ranks. According to Ponemon this decrease in measured ethical reasoning ability may be due to self-selection or socialization within the firm. Ponemon adds, " ...the ethical values encouraged by firm management are inconsistent with higher levels of ethical reasoning. As a result, the ethical development of those entering and remaining in the accounting is stymied." (1992, p. 32).

Other studies tend to support similar negative evidence of low DIT scores for accountants. A study by Lampe and Fin (1992) of accounting students and non-partner CPAs in public firms compared subjects DIT P scores to responses on a questionnaire containing seven short ethics scenarios. Results were that both accounting students and practitioners tended to have lower DIT P scores than college-aged students, college-educated adults and other professionals such as doctors and lawyers. They also found that DIT stage measures were better than P scores in predicting the ethical choice on the scenarios. These researchers also suggested that stage 4 moral orientation was more suitable for the rule-oriented accounting profession than was

principled reasoning. Perhaps this is true if the status quo is to be maintained, but if we really want our accounting professionals to exercise professional judgement that takes into account the interest of all stakeholders, a stage 4 orientation is not sufficient.

What these studies all suggest is that there is a need to instil higher moral principles to those entering the accounting profession. It has been shown by Ponemon (1992) in a study of auditor underreporting that there is a positive relationship between ethical reasoning and ethical behaviour. Since ethical reasoning ability can be improved through the education process, this strengthens the case for integrating moral education into the accounting program according to the Kohlbergian tradition. Indeed, the finding that cognitive moral development (CMD) decreases with experience level in public accounting firms may be ample justification for building a solid grounding in ethics into the accounting curriculum.

### **Business Morality**

The possibility exists that decreases in CMD are due to a socialization process that occurs as a result of working in an environment which encourages lower levels of ethical reasoning. Scandals such as those mentioned previously as well as others involving insider trading, bribery and the passing on of negative externalities<sup>4</sup> to third parties raise fundamental questions about the ethical nature of business itself. How this question is answered has educational relevance for university and professional accounting programs.

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<sup>4</sup> If, for example, the smoke from a factory makes a neighbour's house dirty and the air unpleasant to breathe, without the neighbour being able to charge the factory owner for the damage suffered, then there exists an "external" relation. Externalities can be positive or negative. The market does not allocate the effects of externalities.

If the system is inherently unjust then current accounting practice may be simply perpetuating the unethical. The more truth there is to such a statement the greater is the responsibility for accountants to be educated to develop and implement disclosure practices which may be helpful in bringing about change. On the other hand, if business is essentially an ethical activity then the ethical obligations of the profession may simply mean acting within the norms of accepted practice and providing fair disclosure. This is an important distinction which has historical importance.

Laissez-faire arguments sometimes rule out any imposition of social duties or conventional morality on business. Accounting therefore would not be concerned with such matters. Such thinking is rooted in the Social Darwinism of Herbert Spencer. Applying Darwin's well-known biological doctrine of the survival of the fittest to society, the Social Darwinists believe that competition should sacrifice the weaker businesses in the name of social progress and that the right to free market exchange is inalienable. A dichotomy between commerce and virtue was suggested by Bernard Mandeville in the well-known *Fable of The Bees* in the eighteenth century. Mandeville used this parable to argue that the adoption of Christian virtues of self-restraint and charity would be counter-productive. By giving in to one's baser motives business would thrive through a division of labour leading to the growth of markets and international trade. "Every part was full of vice Yet the whole mass an earthly paradise"(Mandeville, 1715/1969).

A strict interpretation of Mandeville would conclude that at least some virtues must be discarded to succeed in business. Proponents of laissez-faire capitalism are generally much

less extreme. Writers such as Adam Smith (1776) and David Hume (1737) believed that commerce actually contributed to the development of moral character through the practice of co-operation and exchange. The comparison they drew was between trade and war and it seemed morally preferable to seek self-glorification through trade than national glory through war and conflict. To associate of Adam Smith with a fanatical belief in self-interest is to misrepresent his work. In his *Moral Sentiments* (see Heilbroner, 1986) Smith wrote of natural principles which give rise to concern for others and “restrain our selfish, and ... indulge our benevolent affections”, and thereby, “constitutes the perfection of human nature.” This was certainly true in contrast to the global conflict between nations which characterized the day. The virtues of trade seemed highly preferable to conflict and war and Smith rejected as immoral the relationship between merchant princes and the state. For the invisible hand to work it is necessary that people save and invest and forego the pleasures of immediate consumption. “Capitals are increased by parsimony, and diminished by prodigality and misconduct, “ (See *Wealth of Nations*, book iv, chapter iii, p. 14). Smith also wrote, “In the middling and inferior stations of life, the road to virtue and that to fortune...are, happily, in most cases, the same.” He argues that the success of such people, “depends upon the favour and good opinion of their neighbours and equals; and without a tolerably regular conduct these can very seldom be obtained.” (see *Theory of Moral Sentiments*, part I, section iii, ch.3, paragraph 5)

Later writers such as Ludwig von Mises (1949) and Frederick von Hayek (1962) argued that commerce is an ethical activity in the sense that it respects individual freedom

and autonomy: These writers argued that morality and moral values will grow only in an environment of freedom and that moral standards of people are high only after a long period of freedom. Freedom, they believed, provided one with the opportunity to affirm existing values and that, through choice and introspection, freedom led to moral growth.

Freedom was indeed the source of all value:

It is...an old discovery that morals and moral values will grow only in an environment of freedom, and that, in general, moral standards of people and classes are high only where they have long enjoyed freedom—and proportional to the amount of freedom they have possessed...That freedom is the matrix required for the growth of moral values—indeed not merely one value among many but the source of all values—is almost self-evident. It is only where the individual has choice, and its inherent responsibility, that he has occasion to affirm existing values, to contribute to their further growth, and to earn moral merit (von Hayek, 1962, pp. 26–27).

This argument for freedom gives support for the following frequently quoted maxim of

Milton Friedman:

there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits, so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud (Friedman, 1970, p. 133).

This would reduce the role of the accountant to one of ensuring that business is conducted according to generally accepted norms, but the accounting profession should not be concerned with such matters as social responsibility accounting or the inherent inequalities which are inevitable under capitalism.. Friedman's argument draws support from popular microeconomics theory. The focus of the theory is that the market mechanism leads to the efficient utilization of scarce resources to maximize the production of wanted goods and services. Each firm is located between a market for substitutable input factors (materials,

land, labour, capital) and a product market for the output of goods and services. The demand for goods and services is dependent upon the preference functions of consumers who act to maximize their satisfactions (utility) from a limited selection of outputs. The firm produces each good to the point where marginal revenue equates with its marginal cost<sup>5</sup>. Demand for the input factors is a derived demand stemming from the production of goods and services. Profits are maximized and maximum benefit is provided to society by using the least costly inputs. This equilibrium point is called Pareto optimality and is the point at which no member of society can be made better off without making someone else worse off. Supporters of this economic model such as Friedman seem to be implying that whatever ethical values are needed are already built into the system, thus eliminating the need for any further effort. Stigler (1981), for example, holds that all ethics dissolves into the difference of cost and benefit and that a human being is always a maximizer of utility.

Pareto optimality, however, is an inadequate measure of social well-being. A society can be described as Pareto optimal with half the population starving and the other half living in opulence. This is “a legacy left by the earlier utilitarian tradition” (Sen, 1987, p. 33). In general utilitarianism is the belief that an action or state is good or right if it causes more good than bad to be produced. With Pareto optimality the only way the poor could be made better off is by weakening the relative position of the wealthy. It does not consider other frameworks such as fairness or justice such as those articulated by Rawls (1971). Because Pareto optimality does not give any intrinsic importance to rights,

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<sup>5</sup>Marginal revenue is the change in additional revenue which results from one more unit of sales. Marginal cost is the change in total costs which results from producing one additional unit.

economics has produced a very narrow perspective of ethics. It could be argued from this perspective that the free market trivializes human life, generates greed and promotes the tendency for individuals to see themselves as mere consumers, resulting in a rejection of the finer ends of life.<sup>6</sup>

One danger is that this concept of individualism leads to a neglect of ethics. Business is seen to be virtuous in the sense that success in business generally requires the cultivation of such character traits as self-confidence, risk-taking, hard work, and strong will to win. This is the so-called Protestant ethic which, according to Weber (1930), contributed, although unintentionally, to modern capitalism. The view was that wealth went to those who deserved it through hard work and was glorified as an end in itself. According to McHugh (1988), political economists from Malthus (1798/1967) to Chalmers (1832) argued that political economy was a morally justified system which included the inevitability of poverty, inequality, competition, private property, wage labour, and marriage, all of which are beneficial to society and of the “goodness, wisdom and design of God.”

The view that riches and profits accrue as rewards for living the good life also is rooted in Judaism (Vogel, 1991). A verse from Leviticus says, “When you sell your property to your neighbour, or buy any from your neighbour, you shall not wrong one another” (Leviticus 25:14). According to Tucker (1990) this biblical prohibition has been

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<sup>6</sup>Despite the dominance of utilitarianism in ethics many scholars have strongly supported rights based theories. Examples include Rawls (1971), Nozick (1974), Dworkin (1977), Mackie (1976). Similarly, other writers such as Alasdair MacIntyre (1985) argue for a return to a Greek and medieval tradition of belief in virtues.

taken in Jewish law as the basis for laws which forbid overcharging for merchandise, wilfully misleading another with regard to one's intention to buy, and other practices that violate the pursuit of profit within an atmosphere of trust and honesty. The reward of profit comes from fair exchange, and capitalism provides the machinery which permits one to acquire wealth by satisfying the needs of others at the same time. Such rewards are to be enjoyed for the sake of God, and virtues favourable to success in business such as self-control, sobriety, hard work, thrift, and austerity are strongly supported.

No doubt, the Protestant ethic and Judaism have led to a wide acceptance of business as an honourable life-style. The over-emphasis on individualism of these two influences, however, raises a serious ethical quandary. One can criticize the Protestant ethic for over-emphasizing economic values at the expense of cultural and liberal pursuits. The Protestant ethic demanded that there be "no idle leisure" (Tawney, 1947, p. 242). This is in conflict with the goal of becoming a full human person. According to Perry (1950) this narrow concept of individualism fostered by the Protestant ethic frees the mind from the tyranny of appetites only to enslave it in ignorance. He describes the Puritan as a moral athlete in training to suppress the appetites, the result being an over-emphasis on will at the expense of thinking. This makes it impossible to be truly virtuous, since moral problems often require judgement more than will for their resolution. If Perry is correct, this has important implications for the accounting curriculum. To produce "educated" accountants, something more than the promotion of the virtues of the Protestant ethic is needed.



This doctrine also fails to allow for human compassion. It is difficult to conceive of a truly ethical person lacking compassion. While Weber's notion of the Protestant Ethic (1930) considers success in business a virtue, poverty comes to be seen as a vice. Cultural and liberal arts pursuits are discouraged, and the leisure time needed to develop an appreciation for non-economic aspects of life is labelled as an idle waste of time. Consider the following passage from Tawney:

that the greatest of evils is idleness, that the poor are the victims, not of circumstances, but of their own "idle, irregular and wicked courses," that the truest charity is not to enervate them by relief, but so to reform their character that relief may be unnecessary (1947, p. 266)

This view is based, in part, on the myth that there is universal opportunity for advancement. It suggests that the accounting profession simply accept the great inequalities which exist as necessary and unalterable. This is not consistent with the moral point of view. The moral point of view requires greater empathy and compassion for our fellow human beings (see Baier, 1958) and renders this narrow individualism unacceptable.

If we too easily accept inequality as inevitable and fail to develop the virtue of compassion, it could blind us to the real causes of inequality. The fact that many people start out in life without being on a level playing field gets lost, and abuse of labour can more readily occur. History verifies this. Well-documented abuses of the robber barons (see Myers, 1936; Hofstadter, 1955) show how cut throat competition can lead to a general disregard for workers or consumers as autonomous individuals deserving of respect and fair treatment.

This all poses a tremendous challenge to the accounting profession and to accounting

educators. Much of the business environment today is characterized by oligopolistic and monopolistic industries in which business managers have information advantages over other constituents such as shareholders, customers and others. Ethical obligations are owed to a variety of stakeholders. Making accounting disclosure decisions that are just and fair often requires much more than technical accounting knowledge. The accountant needs to be able to recognize the ethical dimensions of accounting practice in meeting duties to a multiplicity of constituents.

### **Ethics in Terms of Professional Codes of Conduct**

One approach to countering the perception of ethical deterioration in the accounting profession and business community in general has been through the use of professional codes of ethics. Members of professional accounting bodies enjoy special rights and privileges which are not available to other members of society. The state grants autonomy, including the exclusive right to determine who can legitimately do the work and how it should be done (Gaa, 1986). In return for the autonomy granted to it, the accounting profession has a special public interest responsibility to society to carry on its business competently and ethically. One role of a code of ethics is to convince the state and those with whom the profession will do business that it is deserving of the confidence, respect, and financial benefits accruing to its members. In addition, accounting professionals obviously have greater technical accounting knowledge and expertise than their clients. Accountants have access to confidential personal and business information, and many users rely on the accountant's advice. A code of ethics may be used to persuade others

that the professional is trustworthy and will not take advantage of this information asymmetry. To quote Friedson:

A code of ethics can be seen as a formal method of declaring to all that the occupation can be trusted, and so of persuading society to grant the special status of autonomy. The very existence of such a code implies that individual members of the occupation have the personal qualities of professionalism, the importance of which is also useful in obtaining autonomy. Thus most of the commonly cited attributes of professions may be seen as consequences of autonomy or as conditions useful for persuading the public and the body politic to grant such autonomy (Friedson, 1986).

All major Western accounting bodies have a code of professional conduct in place. Such codes provide a set of standards which its members are to regard as the minimal level of professional conduct. The intent is to provide assurance to the public that the profession is monitoring itself, and that it has set high standards and has a disciplinary procedure in place to deal with violations of these standards. These professional codes are all high sounding. They use words like “due care,” “integrity,” “responsibility,” “public interest,” “objectivity,” and “independence.” In the United States the Anderson Committee, appointed by the American Institute of Certified Public Accountants, undertook the role to “evaluate the relevance of present ethical standards to professionalism, integrity, and commitment to both quality service and the public interest” (AICPA, 1986). In restructuring the Code of Professional Ethics, the Committee revised the rules and standards to meet the above stated goal.

The restructured Code will shift the emphasis from compliance with specific rules to an emphasis on achieving positively stated goals. Professionalism requires much more than compliance with specific rules. It requires a pattern of conduct—indeed a pattern of thinking—that results in the performance of all professional activities with competence, objectivity,

and integrity. Specific rules by themselves cannot be comprehensive and flexible enough to provide members with the incentive to achieve that level of performance (AICPA, 1986, p. 22–23).

However, of even more importance than the restructuring of the code is the influence that a professional code of conduct exerts on practising accountants. Beets (1992)) conducted a study to determine practitioner familiarity with the Code. The approach used was a set of hypothetical cases where a public accountant performed in an ethically questionable manner. Each respondent was required to comment on whether the accountant had behaved in a manner prescribed by the Code. The outcome demonstrated that the respondents were not familiar with rules which had changed since 1977, as evidenced by the fact that they evaluated only 52 percent of the cases dealing with these issues correctly (compared with 88 percent of the other cases). This indicates that perhaps a code of ethics is not the best way to improve ethical behaviour. Those respondents who had taken continuing professional education (CPE) courses in ethics did much better in the study. Beets (1992, p. 32) suggests that “While allowing practitioners to retain much of their current freedom in selecting CPE courses, the AICPA could mandate that some of the required hours be devoted to certain topics, such as accounting ethics” (p. 32). Likewise, Scribner and Dillaway (1989, p. 50) note that codes of ethics “are viewed as having limited deterrent value and are considered to serve at most an informational role.”

While the informational role is important, codes of ethics have some rather serious limitations. It is not possible to foresee all of the potential ethical problems which a professional accountant will encounter. To attempt to do so would result in an

unmanageable maze. A code may be effective in dealing with blatantly unethical conduct. In such cases it is not uncommon for a discipline committee, for example, to require a member who has been found to violate the code to actually take an ethics course before being permitted to continue using his or her designation. But what about borderline cases? Here codes are not likely to be of much use. They are often subject to broad interpretation due to sometimes vague and general wording. For example Rule 222 of the Certified General Accountants' Association of Ontario says, "A member shall safeguard the interest of the recipient of the service(s) and the general public." This code also says, "This section would not be contravened when an accountant sacrificed the interest of his client or his employer for the common good of the general public, notwithstanding any other sections of this code." Note that the auditor does not have a specific duty to act in the interest of either the client or the third party but has only a general fiduciary duty to act in the interest of others.

What is required is moral character and ethical reasoning ability, and no code can provide this. According to MacIntyre (1981, p. 47), when rules become the central focus of morality character is interpreted as the ability and desire to follow the rules, and sight is lost of fundamental qualities. Codes cannot serve as the final moral authority. To do so would eliminate the possibility of criticising the rules from a broader moral framework and would effectively silence debate. Ethical codes can also be used by the profession to limit the supply of members or restrict competition (Larson, 1977). Ethical codes can be used by individuals to hide behind rules as an excuse to avoid making appropriate decisions

(Heyne, 1968). One may agree with MacIntyre (1981) that ethical codes make rules, rather than moral character, the focus of morality. Perhaps it is necessary to go beyond codes of professional conduct, for an ethical code, by itself, is not sufficient:

But codes of ethics function all too often as shields; their abstraction allows many to adhere to them while continuing their ordinary practices. In businesses as well as in those professions that have already developed codes, much more is needed. The codes must be but the starting point for a broad inquiry into the ethical quandaries encountered at work. Lay persons, and especially those affected by professional practices, such as customers... must be included in these efforts, and must sit on regulatory commissions. Methods of disciplining those who infringe the guidelines must be given teeth and enforced (Bok , 1978, p. 260).

Ethics, however, goes well beyond enforcement. The essence of ethics is in that behaviour which is unenforceable and must be entrusted to self-regulated conduct. Ethical behaviour implies taking the right actions out of free choice. Codes, however, may help improve the ethical dimensions of practice by helping people develop the habit of doing the right thing and by providing a framework for ethical practice. Clearly, however, codes of ethical conduct are not sufficient. Without a firm commitment to morality, backed by a sense of fairness and integrity, the desire for money, power and position may take precedence over codes in the absence of effective enforcement.

### **Ethics in Accounting Education**

Due to highly publicized revelations of unethical practices in the business community, universities and educators are being pressured to teach business ethics. In general, there is widespread belief that students are not receiving adequate exposure to ethical concerns before entering the work force. "We're coming to the painful realisation that because we

aren't putting the social concerns in their proper context, students are getting the message that any behaviour is okay" (Reid, 1987). Several questions have been raised with respect to how business ethics material should be taught, and there is concern over whether it is even possible that ethics can be taught.<sup>7</sup>

The Bedford Committee chaired by Norton M. Bedford, past president of the American Accounting Association and former holder of the Chair of the Arthur Young Chair of Accounting at the University of Illinois, is one group which suggests the need for ethics to be integrated into accounting education. In studying the future direction of accounting education, the Committee concluded that "the current content of professional accounting education, which has remained substantially the same over the past 50 years, is generally inadequate for the future accounting professional. A growing gap exists between what accountants do and what accounting educators teach" (AAAC, 1986). In outlining the future scope and content of accounting education, the issue of ethics is recognized as being important to the ever-changing profession. "Professional accounting education must not only emphasize the needed skills and knowledge, it must also instil the ethical standards and the commitment of a professional" (AAAC 1986, p.179). In addition to this committee, in 1987 the National Commission on Fraudulent Financial Reporting (Treadway Commission) recommended that the ethical considerations involved in fraudulent financial reporting cases be included as part of accounting education. It recommends that factors which lead to fraudulent financial reporting be integrated into

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<sup>7</sup> Michael Levin(1989) in the *New York Times* argues that ethics courses are "useless" insisting that moral behaviour is the product of training not reflection. Also see Hanson (1987).

every business and accounting course. The American Institute of Certified Public Accountants (AICPA) includes ethics in its 150 hour program of studies. This program includes business ethics in its business administration component and includes professional ethics and responsibilities in its accounting component. Ethics is also included in its general education component. In addition, the American Accounting Association has established a "Project on Professionalism and Ethics" in which part of its mandate is to develop educational materials on accounting ethics and it is holding conferences on ethics in accounting education. Also, at least one international accounting firm, Arthur Andersen and Co., has developed educational materials relating to ethics in accounting, and it too is holding conferences on accounting ethics education (Langenderfer and Rockness, 1989).

The business and accounting curricula should emphasize ethical values by integrating their development with the acquisition of knowledge and skills to help prevent, detect, and deter fraudulent financial reporting... Business schools should encourage business and accounting faculty to develop their own personal competence as well as classroom materials for conveying information, skills, and ethical values that can help prevent, detect, and deter fraudulent financial reporting (NCFFR, 1987, p. 82).

### **Extent of Ethics in Accounting Education**

A number of studies have been undertaken to determine the extent to which ethics is taught in accounting programs. Karnes and Sterner (1988) conducted one such study by sending out questionnaires to a random sample of 281 accounting chairpersons of business schools. The results indicated that all accounting students received at least some exposure to ethics instruction at the respondent schools. The majority of schools integrate ethics into auditing or other accounting courses (58.2 percent). Only 8.5 percent of the schools



have a separate ethics course in the accounting program, although 33.3 percent offer a separate ethics course as part of the overall business program.

Another study was conducted by Armstrong and Mintz (1989). Questionnaires were sent to 254 AACSB-accredited schools of business/accountancy. Only 7.3 percent of the responding schools offered a separate course in accounting ethics. However, of this 7.3 percent, 90 percent offered the course only at the graduate level. The majority of schools (95.6 percent) covered ethics in an auditing course, while 19.7 percent covered ethics in either business law or in another accounting course. However, in these cases, the coverage of ethics averaged from only one session to one and a half weeks. In a study by Cohen and Pant (1989) it was also evident that it was in the auditing courses that ethics received the most coverage.

A 1987 survey of Canadian business schools showed that 55 percent had a course in business ethics; of the remainder close to half planned to have a course by 1989, which would mean that 74 percent of Canadian business schools would then have business ethics courses. In the majority of schools (80 percent) ethics courses are not required and are offered only as electives (Singh, 1989). It is noteworthy that one of the major accounting bodies in Canada, the Certified General Accountants Association (CGA), since 1994, has adopted a policy of integrating ethics content into all courses in their curriculum.

The CGA has also published an ethics handbook edited by Dr. Michael McDonald of the University of British Columbia philosophy department (McDonald, 1993). The CGA is unique in that it has a national program of studies even though education is a provincial

matter. Their curriculum is governed by an Education Committee which consists of representatives from each province who help set education policy. The other two major accounting bodies in Canada, the Canadian Institute of Chartered Accountants (CICA) and the Certified Management Accountants Association (CMA) do not have a national curriculum under their control. The CMAs in several provinces have delegated much of their educational program to universities. Standards may vary quite significantly not only from province to province but also from one university to another. Similarly the CICA is made up of provincial and regional bodies, each of which offers its own program of studies. Both the CMAs and the CAs have a common final examination for their respective students, but there is no common Canada-wide curriculum. This lack of a national curriculum is a major obstacle to the integration of ethics. Qualifying finalists must write a common final exam. If one jurisdiction were to introduce an ethics component into its curriculum, the ethics topics could not be tested on the national exam. The non-testable ethics material would be competing with testable topics and would consequently not likely be given much attention by either instructors or students. This problem, of course is not insurmountable. What is needed is a champion who will lobby all jurisdictions to make the changes necessary to bring ethics into the professional curriculum. If the profession actually tested ethical concepts on accreditation exams the universities, as feeder institutions, would also likely give ethics greater attention in the curriculum.

Although the accounting profession has been only partially successful in making ethics an explicit part of the curriculum, ethics has become a major concern. As mentioned

earlier, all major accounting associations have codes of ethics and standards and discipline committees to help enforce them. The major accounting bodies also occasionally offer professional development seminars and run articles on ethics in their respective professional magazines, to help raise the ethical awareness level of their members.

The evidence shows, however, that accounting ethics is still not seen as a separate area of study. Although ethics is addressed through a variety of sources and there is some coverage of ethics in auditing and other accounting courses, this is of a limited nature. Because of the recent recommendations stressing a need to increase coverage of ethics in the accounting curriculum, more effort is required to ensure that it gets done effectively.

In view of the fact that accounting is such a highly complex discipline, with unique ethical quandaries, it is desirable that students study ethics in the context of accounting. At the very least it makes sense that accounting students be exposed to general business ethics, since accountants tend to get involved in all aspects of business during their careers. The following sections will show that the acceptance of ethics into the business curriculum has been rocky and that it is still not yet fully accepted as part of the core of business studies.

### **Ethics in Business Studies – Source and Resistance**

Ethical discussions concerning both liberalism and socialism necessarily insisted on the moral values of economics and business.

During the two decades 1900–1920, moralists admonished the shady trader to mend his ways; voters called for legislation to improve the working conditions of women and children; workmen's compensation became an issue; and 'Truth-in-Advertising' became a catchword; the Better Business Bureau was

set up to safeguard the advertising industry; the first college courses in business ethics were put on offer; and...lecture series on business ethics were established. The Barbara Weinstock Lectures on the Morals of Trade...[were] directed to establishing...that good business is good morals (McHugh, 1988).

In the Protestant tradition one of the more vocal social critics was Reinhold Niebuhr, who in his 1932 text delivered a provocative and trenchant criticism of the capitalist system. Following his lead, many courses dealing with the social aspects of business such as just wages and the morality of capitalism (see DeGeorge, 1987) were developed in seminaries and schools of theology. Progress was slow in non-denominational settings. Up to the end of the 1950s there were no more than a few isolated texts on business ethics, and virtually no offering of business ethics courses in schools of business. At this time business education was not widely accepted by other units within the university as being a true academic discipline. Williams (1957), for example, argued that business stood for everything that is contradictory to the purposes of a liberal education. This was partly because business practice was not very sophisticated at that time and was considered mechanical in nature. The complex interrelationships between business and society and externalities imposed on society by business were not yet well understood. There was also a stigma placed on business professors because often they did not possess a Ph.D. and were not trained in research methodology (see the Gordon-Howell Report on Higher Education for Business, 1959). In addition, applied ethics was not considered to be good scholarship until very recently (see Baier, 1981), and there was therefore not much professional incentive to write on the topic of business ethics.

The 1960s was a period of student unrest and discontent with authority. Students

developed strong anti-business sentiments. They spoke out against pollution, the arms race, the manipulation of the political and legal system of foreign countries, exploitation of women, nuclear waste, and inner city poverty, blaming much of this on business. To counter this strong negative perception of business, business schools began to offer courses dealing with social issues. The issue of corporate social responsibility, seen mainly from the perspective of business managers, was an integral component of these courses. Eventually the content of social issues courses broadened to include the perspectives of other stakeholders such as employees, consumers, and the general public. The rate of universities offering courses in business ethics rose in the United States from 5.6 percent (Bunting, 1953) to nearly 20 percent by 1967 (Christian, 1970).

It seems paradoxical, but there was a tremendous loss in public confidence of business at the same time that business was achieving rapid growth, living standards were rising and business was boasting of myriad successes: “the period from 1965 to 1975 was one of enormous growth in anti-business feeling” (Lipset and Schneider, 1983).

According to Powers and Vogel (1980), the growing concern for business ethics was due to major social transformations:

...the new concern for corporate ethics and managerial ethics is the logical culmination of a series of social transformations through which the connecting tissues that make up the “organic” connection between management, institution, and society have eroded... The ability of the market mechanism to carry the normative freight between corporations and society increasingly turns to other ways to try to connect its changing values to corporate practice (Powers and Vogel, 1980, p. 7).

Corporations have become so powerful and barriers to entry so strong that, in many

cases, the market mechanism no longer functions as it would under perfect competition. The invisible hand has become paralysed. Powers and Vogel cite four factors which have fostered the interest in business ethics: (1) corporations have outgrown the market mechanism; (2) increasing legal requirements imposed on business by governments raise serious ethical issues; (3) there is a growing public awareness about externalities which are beyond the control of the market; and (4) human dignity and value of human life issues have become key social considerations (Powers and Vogel, pp. 7-8).

One can expect continued interest in business ethics as major social transformations continue to occur. Mass unemployment and concern over growing income disparities and the de-industrialization of North America raises serious ethical questions about the responsibilities of business to societies which have given birth to their existence. The ethical issues implicit in the current corporate and government restructuring taking place in Western societies are likely to stimulate even greater interest. Accountants play a key role in this reshaping which affects the lives of many. As influencers of system changes it is critical that accountants be educated to take the moral point of view. When arguments from the past are heard, the educated accountant, understanding the source of these arguments, should act with integrity in the spirit of fairness and open-mindedness.

It was actually the 1970s before business ethics began to take on the distinction of being a field of study. Academics from philosophy departments moved into the area, helping to enhance its credibility in the traditional academy. It was also at this time that Rawls produced his *Theory of Justice* (1971) which legitimized philosophical interest with

business and economic concerns. In addition the 1970s had been rocked with political and economic scandals. There was widespread disclosure of bribery, kickbacks, and strong reaction to Watergate:

The public reaction to Watergate, the DC-10 scandals, bribery, kickbacks, and other news items raised the interest of students in these issues and provided a market for philosophy departments as student interest turned to practical issues (DeGeorge, 1987).

All of this created pressures on business to meet greater social demands and to clean up its tarnished image. To help businesses cope with new social demands for greater responsibility, centres dealing with business ethics began to emerge. These centres provided a forum for interdisciplinary input involving business professors, theologians, philosophers, and social scientists from a variety of fields. According to Richard DeGeorge (1987), however, "Much of what was published was polemical, ideological, shoddy, and ill-informed."

Part of the problem was the battle for turf. Business people accused philosophers of having insufficient knowledge about business to be credible. Theologians accused philosophers of not having a serious interest in business ethics and of giving it interest merely because it was topical. Within philosophy business ethics was not considered to be central to the discipline.

In spite of these problems business ethics emerged from the 1970s as having addressed major issues of the times. The oil crisis heightened people's awareness about how the earth's non-renewable resources were being managed. However, there was still uncertainty about whether it was a passing fad or an area of lasting academic interest:

**But one explanation for the popularity of “business ethics” is surely also the human frailty of which Pascal accused the Casuists of his day: the lust for power and prominence of a clerisy sworn to humility. “Business ethics” is fashionable, and provides speeches at conferences, lecture fees, consulting assignments, and lots of publicity. And surely “business ethics” with its tales of wrongdoing in high places, caters also to the age-old enjoyment of “society” gossip and to the prurience which-it was, I believe, Rabelais who said it- makes it fornication when a peasant has a toss in the hay and romance when the prince does it (Drucker, 1981).**

**By the mid 1980s business ethics had become according to DeGeorge (1987) a legitimate and independent academic field. A number of societies and several journals on business ethics had sprung up across North America. Since the mid 1980s there has been a proliferation of textbooks, and literally hundreds of courses are offered on campuses in Canada and the United States. Large corporations too have joined in. In-house training on business ethics is provided by firms such as Allied, Chase Manhattan, CitiCorp, General Electric, Imperial Oil, and the Royal Bank of Canada. CitiCorp has even developed an ethics board game which teams of employees use to solve hypothetical ethical dilemmas. At General Electric employees are linked through interactive software to programs which provide answers to ethical questions. Other firms, such as Texas Instruments, provide weekly columns on ethics through international electronic news services. An increasing number of companies are now appointing full-time ethics officers at the vice-presidential level, reporting directly to the chairman or to an ethics committee of senior officers. Other companies use a hot-line service through which employees can get answers to ethical questions or can register complaints (Labich, 1992).**

**All of this in-house interest in ethics education may be due to the fact that good ethical**



behaviour may pay off by producing a better bottom line. Doing the wrong thing can result in huge fines, or subject the company to public embarrassment, as happened on June 1, 1993, to a video repair business in Halifax, Nova Scotia, which took parts from a customer's video cassette recorder and returned it to her after a year, still not fixed (reported on CBC evening news in Halifax). For a publicly traded company this can have a devastating effect on a firm's stock price. Since the scandal at Dow Corning over breast implants erupted, for example, the price of its shares fell 15 percent, even though the company is well insured and revenue from implants represented only about 1 percent of the company's total business. Unfortunately, ethics education will not put an end to unethical behaviour. Dow Corning had a significant ethics program in effect for 18 years prior to the scandal (see Byrne, 1992). It seems reasonable to assume, however, that ethics education can make a difference to ethically disposed people by giving them the tools to think analytically and reflectively about their actions. It also takes integrity for a manager to speak out about moral issues, especially to one's boss.

While ethics education, in-house or otherwise, may not eliminate unethical practice or completely stamp out corruption, it will at least sensitize professionals to ethical issues and provide guidelines for ethical choice. As DeGeorge puts it:

**Business ethics can help people to approach moral problems in business more systematically, with better tools than they might otherwise use. It can help them to see issues they might otherwise ignore. It can also impel them to make changes they might otherwise not be moved to make. But business ethics will not, in and of itself, make anyone moral. Business ethics just as ethics in general, presupposes that those who study it already are moral beings, that they know right from wrong, that they wish to be even better, more thoughtful, more informed moral beings (DeGeorge, 1986, p. 19).**

## **Resistance to the Extension of Ethics Education**

In Canadian business schools, business ethics is not yet part of the “core” of most programs. In Canada, only the University of Toronto has a management ethics course, which dates back to the 1970s (Olive, 1987). As noted earlier in this chapter, a 1987 survey indicated that only 55 percent of business schools had a course in business ethics and in about 80 percent of those schools, such courses are elective and not part of the core program (Singh, 1987). A similar study in the U.S. (Hosmer, 1985) indicated that only 26.4 percent of 1,200 institutions surveyed had any business ethics component in the curriculum. Hosmer gives three major reasons why schools reject the teaching of business ethics. One is that there is a lack of understanding about the nature of ethics in business:

The ethical problem in business is the conflict, or at least the possibility of that conflict, between the economic performance of an organization, measured by revenues, costs and profits, and the social performance of that organization, stated in terms of obligations to other persons both within the organization and within the society (Hosmer, 1985).

In a competitive market, cost conscious management may resist building quality into products or developing proper waste control procedures. Hosmer argues that ethics in business is more than a matter of asking whether one should do the right thing, but it means examining which of the available alternatives is the right action to pursue. “There is a world of difference between these two personal challenges [of doing the right thing and discovering the right thing] and the second requires instruction in moral reasoning to resolve” (Hosmer, 1985).

Hosmer’s second explanation for resistance to business ethics in universities is that

business operates under a restrictive economic paradigm which assumes that individuals make decisions on economic grounds alone. This is a narrow view which does not correspond with reality and reduces individuals to means rather than as autonomous beings capable of compassion for others. In Hosmer's words, assumptions of the economic paradigm, "about both the nature of human beings and the worth of human beings... are simply not tenable" (Hosmer, 1985).

The third major reason for the reluctance to teach business ethics is, according to Hosmer, is that ethics is considered by some to be non-empirical and therefore non-scientific. He says that those holding this view see ethics as dependent upon subjective values and are not ready to accept moral reasoning and ethical analysis as a distinct academic discipline.

In a report presented to the Social Sciences and Humanities Research Council of Canada (SSHRC), McDonald, Parizeau, and Pullman (1989) found similar reasons for not including business or professional ethics in the curriculum. In this Canada-wide survey McDonald consulted with over two hundred researchers, research-users, university officials, and others from the private and public sectors. From this group the authors identified four major objections to ethics in the curriculum. First was the "no effect" contention—suggesting that a student's character is already formed by university age and nothing can be done about it. To this McDonald responds, "While I agree that the study of...ethics... will not reform scoundrels, it will help others. It will encourage the morally weak and strengthen the morally strong" (McDonald, 1989). There is also strong evidence

from moral psychology (Rest, 1986) that ethical reasoning ability can be improved through education, even of adults (see Chapter 7).

The second reason given for objecting to ethics in the curriculum was that ethics is “too controversial” for class room discussion. In response to this contention McDonald notes that not all ethical matters are controversial, for example, to kill or injure those who have done us no harm would not be judged right. He also argues that classrooms are full of controversy and that ethics should not be singled out. He is also critical of the view that beliefs about facts can be verified while value claims cannot. This he calls “the ghost of logical positivism” and he asserts that the fundamental tenet of positivism—that factual claims are in principle verifiable—is itself unverifiable, ruling out even positivism as knowledge.

The third objection he calls the “too easy” contention—the view that ethics lacks the content to be a serious subject for institutions of higher learning. McDonald feels that this criticism seriously underestimates the intellectual complexity of moral problems, which often present themselves in contexts filled with ambiguity about the nature of one’s responsibilities: “Prior training in understanding and analysing moral difficulties can help them determine their moral responsibilities” (McDonald, 1989).

Finally, McDonald heard a fourth objection which he calls the “invisible hand” contention. This argument is identical to the second objection reported by Hosmer in the United States study discussed earlier that economics alone determines resource allocation. One can agree with McDonald that not only is this contention based on the unrealistic

assumption of perfect competition, but advocates of this position often fail to recognize that a laissez-faire system itself is based on the two basic moral constraints of no force and no fraud: “the market...is fundamentally a moral, not an economic construct” (McDonald, 1989).

In addition to the basic resistance described above to placing business in the curriculum, other barriers are also present. Ethical analysis is time consuming. That is, time taken to deal with ethical issues will mean less time available for more traditional subject matter. Also, most business professors have no training in ethical analysis and are afraid of appearing to impose their values on students, or they lack confidence in justifying their convictions.

Resistance to teaching business ethics must be overcome. Students will need strong moral fibre to cope with a business environment full of pressure and complexity. A considerable problem, for example, to be faced in the current economic climate is that during these recessionary times those who are not judged to be peak performers face the impending danger of losing their jobs. The newspapers are full of announcements of layoffs, and many workers at all levels are fearful that their jobs may be at risk. This puts tremendous pressure on individuals who under normal circumstances would never contemplate acting with impropriety. This challenge can be met partially by designing accounting control systems which reward long-term performance, coupled with continuing education programs aimed at providing life-time ethics education. Businesses also need to develop strong company codes of ethics which are strictly enforced. It would also be

useful for business and academia to work more closely together to develop meaningful courses on important and controversial business dilemmas which may realistically be encountered in professional practice.

A further problem is that business graduates often become part of what Galbraith (1992) calls a “culture of contentment.” Environmental pressures make it difficult for them to consider the moral and ethical consequences of everyday business and government activities. Galbraith expounds on the fact that business and government decisions often conflict with the basic human needs of a silent majority. The poor and unemployed, seeing no real alternative among political candidates, have given up in frustration and many do not even exercise their franchise rights. Referring to the United States, Galbraith argues that greed by the advantaged has resulted in numerous scandals, a bloated military, and reduced taxes for the wealthy. While greed is not a sin confined only to the wealthy, it is the rich and powerful who are in a position to actually exercise greed, affecting the lives of many. Galbraith makes a case for a return to government regulation, less expenditure on the military, but more spending on education, employment training, welfare services, and public libraries, financed by a progressive income tax system. It seems at this time in history that pressure ought to be exerted on business schools to address the social role of business in this age of a contented but powerful minority. Those who teach in business schools and those who attend such schools are part of this contented minority. If business ethics is taken seriously we will be forced to look inward to unveil, challenge and influence change which will take into account the effects of business decisions on the social welfare

of all members of society, including the discontented majority who are not being heard.

This problem is of immediate significance to the accounting curriculum.

### **Summary**

The purpose of this chapter has been to show that ethics is a concern within the accounting profession but one that has only gradually been recognized by business educators. Those who rely on financial reports as well as direct clients of accountants expect that these reports have been prepared according to generally accepted accounting principles, and that generally accepted auditing standards have been applied. This relationship demands trust in the accounting profession in general and in accountants as individuals who will perform their job competently, independently, and with full integrity. The profession has shown its concern with ethics by establishing codes of ethics, offering professional development seminars, publishing magazine articles, and by using its influence to make ethics a part of the accounting curriculum. A brief historical sketch of the development of business ethics has indicated the degree to which business ethics has been taken up by business schools and the obstacles which continue to block its entry into the mainstream business academic curriculum. Business ethics has only recently emerged as a separate field of study but believes that in spite of innumerable transgressions in business practice, public scandals, and resistance to ethics in the business and accounting curriculum, there is a growing awareness of the importance of ethics to the education of business professionals.

# 3

## **The Nature and Purpose of Higher Education**

### **Introduction**

Before dealing specifically with the problem of ethics in accounting education it seems prudent to first examine the nature and purpose of higher education. This chapter will discuss the characteristics of the educated person as this ideal has been refined in the history of educational thought. If general agreement can be reached on the criteria by which we define the educated person, then it will be possible to determine the extent to which the study of business in the university is contributing to these ends.

### **Characteristics of the Educated Person**

Throughout history various models of the educated person have evolved (see Nash, 1968). The ideal of the educated person deserves attention because the debate over this ideal has helped to shape the goals, methods, and structure of higher education. Because these ideals are well known from the literature only brief attention will be allocated to them, to illustrate the source of disagreement about ends which continues to influence the place of professional studies. From the Greek Aristocrats, for example, comes the idea that the true test of the educated person is the ability to perform great deeds. This is an elitist ideal



which stresses superiority over others. It is a view of the educated person as a rounded person who excels in physical strength as well as moral and social development. The Homeric nobleman had a duty to seek excellence and personal glory in matters of military valour, speech and action (see Marrou, 1956). A shortcoming of this early version of the rounded person is that the aristocratic ideal was the indifference placed on the importance of the disciplined mind. From the Middle Ages comes an aristocratic ideal that conceives of the educated person as ambitious, independent, and strong with a commitment to personal honour and always ready to take the initiative. Throughout the Middle Ages the aristocrats were disdainful of the universities which, as clerical institutions, were not deemed suitable for providing education which would be useful for life in the world (Morrison, 1935).

The idea of intellectual formation being the primary goal of education, in strong contrast to the Aristocratic ideal, has come to us from ancient scribe culture of Athens (Marrou, 1956). Education under the scribe ideal places things of the intellect above those of the body. The educated person is the learned person, one who is well-read and familiar with the classics. Rather than producing heroes of the aristocratic ideal, scribe education aims at producing people who acquire a body of knowledge useful in living productive lives and achieving prosperity while at the same time respecting others. The scribe ideal has a strong ethical component in its emphasis on the virtues of honesty, justice, and loyalty. Rather than stressing the development and achievement of the whole person as does the aristocratic ideal, the scribe ideal's main concern is with the formation of the

intellect. Particular emphasis was placed on building language proficiency and developing the skills of discourse. Perhaps it is from the scribe ideal that birth was given to the idea that cultivating the mind through the liberal arts would develop and free the mind. The scribe ideal implies that we can develop the highest faculties of the mind through books rather than through practice itself.

Another conception of the educated person is the civic ideal. This conception is found throughout history from the Greek polis to the Renaissance down to the present day. This ideal holds that the chief aim of education is to civilize and socialize people. As political and social beings we realize our potential to the extent to which we participate in community life. The civic ideal of the educated person is one who understands and acts out of moral duty to serve society. Individual wants are considered to be subordinate to moral duty. The conception of the educated person as being the good person in a social context is firmly entrenched into the civic ideal. The civic ideal has elements of the aristocratic ideal in the sense that its educational purpose is to prepare the individual for honourable achievement within the community. The difference is that Aristotle would regard aristocratic dispositions as ideal while more recent thinkers such as Dewey, would argue for the acquisition of democratic dispositions. The civic aim of education is to develop the whole person, emotionally, intellectually, morally and physically. The underlying assumption is that virtue can be realized through the development of the intellect, and the educated person is one who becomes intellectually disciplined. While it may be possible to choose the good if one knows what the good is, the world is full of

examples of people who know the right thing to do but nevertheless choose to do otherwise. It is this indisputable fact which casts doubt on the value of teaching virtue or integrating ethics into educational programs.

While the general conception of the civic ideal is that of conforming to the common culture, there is also a more radical version. The radical view is that the purpose of education is to develop the autonomous rational person capable of looking at the world objectively. Such a person is capable of taking the moral point of view, however unpopular, and exposing injustice no matter how well entrenched or how firmly it is rooted in our history (see Habermas, 1972).

In contrast to this radical civic view of the autonomous person, an alternative view of the purpose of education is to develop the autonomous person for personal self-cultivation. This conception strongly links education with freedom in the sense that the educated person is one who is liberated from the bonds of society. Kant, whose primary concern in education is morality, emphasized autonomy as essential to the moralization of man and the achievement of human perfection:

Practical or moral education is that through which a man is so informed as to be able to live as a free being...It is education for personality, education of a free being who is able to maintain himself and to be a member of society while keeping a sense of his own personal value (Kant, 1960, pp. 7–8).

Indeed, many variations on these concepts of the educated person have come to us through the ages. A problem with these ideals is that they are complicated and comprehensive abstractions about which it is difficult to get agreement. It may be more

useful to examine specific capacities and criteria which can be said, with some consensus, to define the educated person.

R. S. Peters (1967) reflects on education as a process of introducing people to worthwhile activities that provide them with breadth and depth of knowledge and understanding. For Peters, worthwhile activities are those through which truth can be discovered. There are many ways by which one can achieve breadth of understanding. Using Peter's conception, an accountant who does not know much about physics but who has a good grasp of history and in particular of how accounting has been shaped by history would likely count as being educated. Education is an open-ended, continuous process by which one is more or less educated. That is, there is no discrete point at which one can be said to be educated. Perhaps agreement can be reached that education is a continuing process of transforming and reorganizing one's current educational level as a means for achieving another educational stage. The idea that there is no end to education is nicely captured in the words of Peters: "For to be educated is not to have arrived; it is to travel with a different view" (1967, p. 8).

Robin Barrow (1981) has suggested four criteria that are necessary to being educated. He suggests that first of all, an educated person must have some awareness of our place in the totality. By this he means that one should become generally aware of the cultural and historical tradition to which we belong and to rival traditions as well. Second, Barrow insists that an educated person is, "one who appreciates and is alert to people as individuals and to the power of individuality... There will also be an awareness of the

responsibility we have, as an inevitable counterpart of man's ability to manipulate as well as react to circumstances." The point Barrow is making is that the educated person should be able to take individual personalities into account and be sensitive to the power of individuality.

Barrow's third criterion is the ability to distinguish logically distinct kinds of questions. By this he means that we should differentiate among empirical questions, aesthetic questions, and moral questions, and also distinguish between explanation and justification.

The fourth criterion which Barrow suggests as essential to being an educated person is the capacity for discrimination: "I mean the ability to think in terms of precise and specific concepts rather than blurred and general ones." One can agree with Barrow that developing the capacity for discrimination is key to good and critical thinking. Such thinking is essential to grasping the complex and rejecting the dogmatic and facile.

Barrow's conception of the educated person is appealing. It suggests that the educated person is intelligent, a critical thinker, and has some notion of individual responsibility—here too, common with other models of the educated person, education has a moral dimension.

In summary, there are many concepts of the educated person. We cannot go about the business of education without some ideal in mind. While it is advantageous to study past conceptions to avoid a narrow provincialism and blind rigidity, it may be possible to come to a consensus on criteria by which to define the educated person such as those presented by Barrow. If resources are going to be invested in educating citizens, however, there is

some obligation on the part of the educated to exercise those capacities. Dewey would argue that the educated person is one who confronts and attempts to solve society's continually changing problems. It is debatable and perhaps ultimately irresolvable whether educational ideals are rooted in society or whether the educated person is one who transcends the limitations of any given time and place.

One characteristic of the educated person that occurs in nearly every formulation of the educational ideal is the concept that the educated person is a moral person. This was the chief concern in education for Kant, for example, who argued that, "Education... must see to the moralization of man. He is to acquire not merely the skills needed for all sorts of ends, but also the disposition to choose only good ends" (see *Education*, 1960, p. 20). Implicit in our discussion so far is that the human personality is fundamentally malleable and that a central role of education is to help initiate students into time-honoured ways of knowing and attitudes toward scholarly discourse. This raises the question of what is the university's mission in the educational process; particularly in today's complex, urbanized, knowledge economy.

### **Characteristics of University Education**

In our pluralistic society the university exists for the purposes of teaching, research, and service. Considerable freedom is given by society to the university to decide for itself on academic grounds who may teach, what may be taught, and who may be admitted.

According to Clark Kerr (1964) in his announcement of the birth of the multiversity, there are "competing visions of true purpose, each relating to a different layer of history, a

different web of forces... The university is so many things to so many people that it must, of necessity, be partially at war with itself' (p. 9). In reality there is a long history of debate over the role of the university which goes back at least as far as Aristotle:

the existing practice (of education) is perplexing; no one knows on what principle it should proceed—should the useful in life, or should virtue, or should higher knowledge, be the aim of our training; all three opinions have been entertained. Again about the means there is no agreement (Aristotle, 1943, p. 321).

Aristotle recognized the need for “useful” education, but he placed it in a lower class than that of a “liberal” education:

There are branches of learning and education which one must study merely with a view to leisure spent in intellectual activity, and these are to be valued for their own sake; whereas those kinds of knowledge which are useful in business are to be deemed necessary, and exist for the sake of other things (Aristotle, 1943, p. 323).

For Aristotle the perfect end of education is an activity which is engaged in for its own sake. Education prepares one for happiness which, according to Aristotle, is found in the theoretic life. The theoretic life is the life of virtue; one which knows and acts upon the Good and seeks excellence and moderation in all respects. It is because of this ideal of “knowledge for its own sake” that Aristotle is given credit for being a progenitor of the ideal of a “liberal” education. Whereas in today’s context we, in the Western world, think of the term “liberal” in terms of democratic freedom, the beneficiaries of Greek education were the small percentage of “citizens” who were economically and politically free. Education was designed so as to perpetuate that undemocratic structure. This is relevant because there may exist those today who use Aristotle’s reasoning in making the case for

the exclusion of business or accounting education from higher education. Such an argument fails to take into account the nature of our pluralistic society, as well as the fact that we live in a democratic society with a social and political organization very different from an Athenian democracy and different from other pre-democratic times. Athenian ideals of education were based upon the needs of a narrow citizen class, but today we are all citizens. Citizenship is not exclusive to any social class. We are citizens, moreover, of a heterogeneous society. All education should be “liberal” in the sense that it should free one from ignorance, irrational thought and superstition, prejudice, and fallacious reasoning. There is wide support throughout history for this view. Locke (1690), for example, believed that the cultivation of reason would free man from intolerance, prejudice, presumption, passion, and lead him to make wise decisions. Rousseau (1762/1972) argued that man is born for freedom, and the enhancement of freedom, particularly civic freedom, was a major goal in the educational thought of master educationalists such as Hutchins (1943) and Dewey (1939).

Education tends to serve the prevailing culture; it is very resistant to change and slow in adapting to societal transformations. The Greek separation of the intellectual and literary from the practical persisted in various forms for centuries. In the Middle Ages, for example, the university curriculum still consisted of the trivium and quadrivium<sup>1</sup>, and not until the nineteenth century did universities begin to respond to the educational demands of a changing economy (McGrath, 1959).

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<sup>1</sup> In medieval schools, the course embracing grammar, logic, and rhetoric is known as the trivium. The quadrivium was composed of the sciences of geometry, astronomy, arithmetic and music. The quadrivium was considered the higher group of the seven liberal arts.



Much of the medieval curriculum was transferred to the Western hemisphere. Higher education came to be seen as the route to high office and to freedom from arduous tasks performed by the masses. This reinstatement of education for the gentleman strongly influenced higher education in America. The view that the educated person is one who confronts and attempts to solve society's problems is a theme throughout Dewey's educational writings. Education, in effect, was designed to serve the propertied class and contributed to the perpetuation of a stratified class structure.

Although today's higher education curriculum is characterized by a wide variety of liberal arts, science, and professional programs, tremendous resistance had to be overcome:

One would be remiss in any serious discussion of the history of curriculum making if he failed to remark parenthetically that every subject from Greek to French to physics to sociology to education has had literally to force itself into the curriculum against the prejudices of vested academic interests (McGrath, 1959, p. 15).

The lesson to be learned here is that earlier conceptions of the role of higher education were designed to serve elitist and non-democratic social structures. Those who oppose accounting or other professional education in the universities, for example, and insist on a return to past conceptions of a liberal education, may really be supporting a return to the social conditions which were served by that type of education. Social conditions today are very complex. We live in a pluralistic society and are faced with an uncontained growth of knowledge in every field of study. It is the diversity and complexity of society which impels us to think through the role of the university in this modern era.

A greater understanding of the role of the modern university can be gained from examining two underlying philosophies of higher education. One is based on epistemological grounds and the other is rooted in political consideration. The former stresses that the purpose of education is to seek knowledge as an end in itself, that knowledge is its own reward quite apart from any effect it might have on the glory of God or the good of man (see Veblen, 1918, pp. 7–8). The view that knowledge is its own reward was eloquently expressed by Cardinal John Henry Newman in 1852 when he wrote *The Idea of a University*. Newman argued strongly for a liberal education, saying that learning should form a connected view or grasp of things. He believed that all knowledge forms one whole or circle and that various branches of learning are abstracted from particular segments. Newman felt that research was important but that it should be carried on by other institutions, arguing that if a university's object were research, he could not see why a university should have any students. According to Newman, the university

aims at raising the intellectual tone of society, at cultivating the public mind, at purifying the national taste, at supplying true principles to popular enthusiasm and fixed aims to popular aspiration, at giving enlargement and sobriety to the ideas of the age, at facilitating the exercise of political power, and refining the intercourse of private life. It is the education which gives a man a clear conscious view of his own opinions and judgements, a truth in developing them, an eloquence in expressing them, and a force in urging them. It teaches him to see things as they are, to go right to the point, to disentangle a skein of thought, to detect what is sophistical, and to discard what is irrelevant. It prepares him to fill any post with credit, and to master any subject with facility. It shows him how to accommodate himself to others, how to throw himself into their state of mind, how to bring before them his own, how to influence them, how to come to an understanding with the, how to bear with them his own, how to influence them, how to come to an understanding with them. He is at home in any society, he has common ground with every class, he knows when to speak and when to be silent; he is able to converse, he is able to listen; he can ask

a question pertinently, and gain a lesson seasonably, when he has nothing to impart himself; he is ever ready, yet never in the way; he is a pleasant companion, and a comrade you can depend upon; he knows when to be serious and when to trifle, and he has a sure tact which enables him to trifle with gracefulness and to be serious with effect. He has the repose of a mind which lives in itself, while it lives in the world, and which has resources for its happiness at home when it cannot go abroad. He has a gift which serves him in public, and supports him in retirement, without which good fortune is but vulgar, and with which failure and disappointment have a charm. The art which tends to make a man all this, is the object which it pursues as useful as the art of wealth or the art of health, though it is less susceptible of method, and less tangible, less certain, less complete in its result (Newman, 1962, p. 135).

Newman believed that the idea of higher education has nothing to do with the acquisition of knowledge per se, but everything to do with the enlargement of the individual mind. He argued that useful knowledge was trash because it took the university away from its mission of cultivating the mind and expanding the intellect (p. 120). Intellectual culture had its own end, “for what has its end in itself, has its use in itself also” (p. 122). Newman’s ideas are profound. The idea that a university education offered an intellectual enlargement and was intended to form character and cultivate the mind carry appeal right to this day. For Newman the end of intellectual training is not “learning or acquirement, but rather is thought or reason exercised upon knowledge” (p. 105). Newman was offering a type of education that was liberal in terms of its effects on the individual; the chief being intellectual self-empowerment. It should be remembered that Newman was writing at a time of an emerging industrial society. Perhaps he felt threatened by industrialization which needed individuals with “useful” knowledge to support its infrastructure. Perhaps Newman could foresee that universities would be

pressured to turn from his vision of the idea of a university to meet industry's pragmatic needs.

Similar views were expressed by John Stuart Mill, who argued that "universities are not intended to teach knowledge required to fit men for some special mode of making their livelihood...Men are men before they are lawyers, or physicians, or merchants, or manufacturers; and if you make them capable and sensible men, they will make themselves capable and sensible lawyers or physicians" (Mill, 1861/1957, p. 1875). In this century, Robert Hutchins (1953) argued that the purpose of the university was to get people to think as profoundly as possible about society's most puzzling problems, and A. N. Whitehead (1929) pleaded that the justification of the university was in providing a setting for the mingling of young and old to engage in what he called the active imagination of the mind. Abraham Flexner (1930), whose work exerted a powerful influence on the shaping of North American universities in the twentieth century, insisted that the essence of the university is the cultivation of pure scholarship centred around specialized research leading to new discoveries. Flexner complained that universities had become "service stations" for the general public (p. 179). Flexner praised the German universities saying that they not only value education but know what it is (see Ulich, 1967). Flexner believed that the pulse of a university was its graduate school of arts and sciences and research institutes. He tolerated the medical and legal professional schools but he wanted Harvard to rid itself of its business school in the belief that business studies were in conflict with the mission of pure scholarship.

Another interesting view on the idea of a university appeared in 1946. Karl Jaspers in his *Idea of a University* (1946/1965) wrote about the university having four main functions: research, teaching, a professional education, and the transmission of a particular kind of culture. The central role of the university, however, was as a community of scholars to pursue knowledge and truth. Jaspers was concerned that the disciplines had become so fragmented that they had developed their own distinct cultures. This was problematic for Jaspers because it made the pursuit of universally valid knowledge more difficult. Jaspers was aware of the theoretical problems of determining the reliability of knowledge. He argued that knowledge is not absolutely objective and that what is acceptable as knowledge depends on the research framework of the investigator. (Jaspers, pp. 25–27). Jaspers believed that research was the path to truth and that different realms of knowledge complement each other. This, according to Jaspers, requires an interdisciplinary approach to knowledge that demanded a questioning and critical view that depended on interpersonal communication. University education for Jaspers was a form of self-transformation through “self-criticism” (p. 48). If Jaspers is right then university education clearly, must be concerned with much more than the mere acquisition of knowledge or career preparation. The interdependencies among students and researchers of various disciplines seem to suggest that critical importance be placed on building integrity among participants.

The epistemological justification of the university emphasizing research has led to the well known “ivory tower” image. A popular image of the university is that of an institution

wrapped up in pure research with little or no relevance to everyday current affairs. To an extent the ivory tower, that is, the university, can provide the self-disciplined scholar the atmosphere in which to seek out truth without distractions of the everyday world or pressure to show immediate results. If the main function of higher education is to conserve, teach and extend the frontiers of knowledge in pursuit of truth, then the ivory tower may provide a safe haven to do so. In *The Higher Learning in America*, Hutchins (1936) argued that the only university worth having was one strictly dedicated to the pursuit of knowledge for its own sake. Similarly, Kenneth Minogue (1973) in *The Concept of a University*, argues that academic inquiry is not concerned with practical matters. Minogue presents a theory of academic inquiry as a continuous, intellectual process based on an ongoing reinterpretation of the existing stock of knowledge. He sees this inquiry taking place by academics assisted by students through a form of Socratic dialogue. Minogue argues that there is a necessary dualism which exists between the university and the outside world that must be preserved. What is not so well accepted is that universities should exist *solely* to pursue knowledge for its own sake. This is an extreme position that would not serve our democratic society very well. Such a conception would exclude many capable students who value knowledge for its own sake but also value knowledge that is socially useful. This view is also naive in that it fails to recognize that there has always been exchange between the university and the wider society. On the other hand, it probably enriches a university to have some individual scholars pursue knowledge in the ivory tower sense. A mix of scholarly activity supporting both the pursuit of ivory tower

knowledge and socially useful knowledge is consistent with the values of a democratic society in which stakeholders have a say in what their institutions pursue. This view avoids the naive, elitist, non-democratic notion of the possibility that universities can reach a state of cognitive and social purity.

In a democratic society an alternative model that takes into account the politics of human association has educational as well as social merit. Universities are justified in becoming involved with more immediate and complex social problems involving government, industry, labour, global and environment issues, etc. With limited resources this quite naturally leads to conflicts over goals, resource allocation, and the sharing of power. In other words, education has a strong political dimension.

The political model is a more accurate portrayal of universities as they actually exist today. Universities in Canada and other Western countries consist of faculty and students of all social backgrounds. Universities depend on government, alumni, and others for funding. In addition, universities serve as gatekeepers of the professions. Given the interest of so many stakeholders, limits should be placed on the academic freedom of universities to ensure that the voices of those affected by universities can be heard. Cries for absolute autonomy are based on the argument that intellectual standards of truth and value will inevitably conflict with social standards. One can agree with Guttman (1987) that the conflict between intellectual and social standards is not between intellectual and social standards of judgement but between social standards and social practice. Guttman argues that, as communities of critics, universities play an important social role by making

it more difficult for professionals and holders of public office to violate widely shared social standards.

As gatekeepers, universities are in an excellent position to cultivate a sense of social responsibility among professionals by striking a balance between the intellectual distance of the ivory tower and the teaching of practical professional courses such as accounting. Universities are well positioned to contribute to the articulation of moral standards of professional life by offering a supporting environment conducive to rational debate and open criticism. Fostering in students the ability to think carefully and critically about important political and professional problems, along with the articulation and defence of one's views, is a form of moral education for which a university is well adapted.

Universities can aim to both criticize practice and also improve practice. As Kerr said:

A university anywhere can aim no higher than to be as British as possible for the sake of the undergraduates, as German as possible for the sake of the graduates and the research personnel, as American as possible for the sake of the public at large—and as confused as possible for the sake of the preservation of the whole uneasy balance (Kerr, 1964, p. 118).

Kerr's concept of a university nevertheless can be criticized on several grounds. In its support of specialization it has led to fragmentation and lack of coherence in the curriculum. In attempting to be relevant by bringing students and jobs closer together it runs the risk that the deeper relevance of universities is lost. Professors have a duty to observe scholarly standards of inquiry. This is accomplished, in part, by incorporating the important moral and social issues of the day into programs. This is a broader interpretation of relevance that considers a role of the university as cultivating a sense of social



responsibility. This role is key to the mission of the university, whose primary role is education as opposed to mere training. Universities benefit society more when they educate students who will some day occupy positions of influence. Professionals, such as doctors, lawyers, and accountants, for example, perform functions which have wider social impact than is immediately obvious by their technical dimensions.

In summary, the arguments for the role of the university to exist solely to pursue knowledge for its own sake are not totally convincing in a democratic society. Certainly fostering free scholarly inquiry is central to the role of the university, but it is not the only role. The long tradition of universities offering professional programs is evidence that their key stakeholders also demand that universities provide socially useful knowledge as well. The current broad university curriculum reflects the social fact that the university is intricately incorporated into the modern era. What the liberal view has to offer, however, is that whatever the university engages in should be subject to open examination, evaluation and reflection.

### **Education versus Training**

Insight as to why accounting belongs in universities can be gained by critically examining the continuing debate on the role of the university in education versus training. This debate originates from the clash of various conceptions of the idea of a university discussed earlier in the chapter. It is a fact that universities do train accountants and other professionals to perform technical skills. It was argued in the previous section that universities are well placed to furnish a sustaining climate conducive to rational debate and

open criticism. Although the terms “education” and “training” are often used interchangeably, they actually have very different connotations. The learner simply follows instructions and practices until mastery is attained. To quote Dewey, training is:

base or mechanical education...by suitable practical exercises for capacity in doing things...a mere matter of habituation and technical skill...through repetition and assiduity in application, not through awakening and nurturing thought (Dewey, 1916, p. 253).

R. S. Peters (1967) gives the following criteria for the concept of training: (i) there is some specifiable type of performance that has to be mastered, (ii) practice is required for the mastery of it, (iii) little emphasis is placed on the underlying rationale.

In contrast to education, training implies the unquestioning acceptance of means and ends. Judgement is less important than memory and the key question to be addressed is “how,” not “why.” The emphasis is on the here and now and not on historical and philosophical roots. Underlying values are unexamined and uncriticized. The danger with this, as Peters put it (1967, p. 6), is that:

Failure to grasp underlying principles leads to unintelligent rule of thumb applications of rules, to the inability to make exceptions on relevant grounds and to bewilderment when confronted with novel situations.

Many faculty members have been conditioned to generally over-emphasize training in accounting programs. This is evident from an examination of popular introductory accounting texts currently in use<sup>2</sup>. These texts, in general, heavily emphasize the technical

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<sup>2</sup> See, for example, Larson, Nelson, Zin, and Carroll (1996), *Fundamental accounting principles*, Times Mirror; Meigs, Meigs, and Lam (1995), *Accounting: The basis for business decisions*, McGraw-Hill; Short and Chesley (1995), *Financial accounting*, Times Mirror; Gibbins (1995), *Financial accounting: An integrated approach*, Nelson Canada; Granof, Bell, and Maher (1996), *Financial accounting: Principles and issues*, Prentice-Hall.

aspects of accounting. Much of it is ingrained into the system and it is simply perpetuated by those who feel comfortable with that orientation. This is perhaps the greatest shortcoming of an over-emphasis on training. Individuals become uncomfortable in dealing with the unaccustomed, and ill-prepared for coping with environmental uncertainties. This habitual routine nature of training may lead to boredom, inhibiting the imagination and stifling creativity. The ethical implication of such an approach to professional education is that students are being denied the opportunity to reflect on the moral and social dimensions of accounting.

Education implies a shift from ignorance and habit to knowledge and reflection. This is the essence of Dewey's philosophy. The emphasis is not on memorization but on understanding and critical thinking. The educated accountant not only knows "how" but also knows "why" and "why not." The trademark of the educated person is the ability to use judgement and to cope with uncertainty. The educated person has an historical perspective and understands how the present has been shaped by the past; understands that individuals help shape and are shaped by their environment. Education entails learning how to learn and stresses independence in learning, both by building on the work of others and being able to work with others. An orientation to education implies that means and ends are not fixed. The world is changing to a more turbulent economic and social environment, characterized by a knowledge explosion, rapid technological change and a global marketplace. To cope with these changes requires accounting professionals with both breadth and depth, who can see interrelationships and interdependencies that training,

by itself, fails to instill. Education involves developing the capacity to think critically, creatively, and to adapt to changing circumstances.

An illustration of the education versus training debate is evident in accounting education. For example, authors of accounting textbooks frequently address the training versus education issue with the buzzwords “conceptual” or “procedural.” The purpose of the conceptual texts (of which there are very few) is to provide a conceptual framework which allows generalizable ways of thinking. The reader is then challenged to apply theories and generalizations to specific situations and to take the initiative to seek out applications. This is a serious attempt by some authors to make their texts more educative by de-emphasizing the procedural aspects of the profession. Although many educators pay lip service to the importance of the conceptual approach, they often resist change:

What people in fact want or are interested in is, to a large extent, a product of their previous initiation. The job of the educator is not simply to build on existing wants but to present what is worth wanting in such a way that it creates new wants and stimulates new interests (Peters, 1973, p. 105).

In the context of accounting education this implies that the curriculum should be broad-based, with less emphasis on techniques and more on principles which can later assist the learner in evaluating the cogency of arguments and the wisdom of decisions. This is an exciting view of accounting education and suggests that the educated accountant will strive to make the discipline more relevant and in tune with changing demands. It recognizes that to divorce practical tasks from theoretical insights is alienating and enslaving. This was recognized by Dewey:

The great body of artisans are in one important respect worse off even than slaves. Like the latter they are given up to the service of ends external to themselves (Dewey, 1916, p. 252).

The ends to which Dewey was alluding were the values and scientific knowledge of theory. This separation of theory and practice has permeated itself through history as far back as the ancient Greeks. There was an elitist view that only a few people are capable of learning while the vast majority were of low intellect whose bodily desires and passions overwhelmed any intellectual interests they might possess.

The proposition made here is that the study of accounting needs both training and education. Training, in fact, can be made educative if students are taught to think critically, to understand underlying principles, to consider the social and ethical responsibilities of the profession and their role in the profession, and to continually challenge the accepted ways by which things are done. Education requires developing what Dewey calls the pattern of reflective thinking. The danger of over-emphasizing training is that the reflective focus will be lost. By reflective thinking he means “active, persistent, and careful consideration of any belief or supposed form of knowledge in the light of the grounds that support it, and the further conclusions to which it tends” (Dewey, 1910, p. 6). In a much broader sense than that provided by training, education aims at growth; or as Dewey put it, “the purpose (of education) is to set free and to develop the capacities of human individuals” (p. 147).

**Accounting education in universities provides an opportunity for the active utilization of knowledge, a chance to bring together thought and action to bring unity to our comprehension of experience.**

**The aim of education is the marriage of thought and action—that actions should be controlled by thought and that thoughts should issue in action. And beyond both there is the sense—for what is worthy in action (Whitehead, 1919, p. 127).**

**Training and education are inextricably intertwined in professional studies. If there is a change in an accounting standard, for example, the business school can update students on the technical aspects of the new standard. If the change, however, is discussed and reflected in the context of the economic, social, political, national, and international environment, on how people's lives are affected, then the university is meeting its educative role. By addressing intellectual as well as professional needs, the business school is helping to prepare graduates to better face the changes and challenges they are likely to encounter during their careers.**

**Norman Gronland (1985) has listed the following specific objectives which are an integral part of the educative process:**

**Distinguishes between fact and opinion  
Distinguishes between relevant and irrelevant information  
Identifies fallacious reasoning in written material  
Formulates valid conclusions from given data  
Identifies the assumptions underlying conclusions.**

**These are good examples of content-free objectives that could serve many different subjects. Certainly if these outcomes are met in the context of accounting education, the case for business education in the universities is strongly supported.**

Admittedly in a business or accounting program there will be parts of the curriculum which are entirely skill-based and could not be considered education by any stretch of the imagination. Education, however, is not the sole purpose of the university. People should be educated and given the opportunity to pursue their chosen vocation.

Training is focused more on the short term. Usually the goal of training is to learn a specific skill, often by rote or imitation. Learning debits and credits and mastering the accounting cycle are examples of such skills. Surely, in a pluralistic society, there may be disagreements about the purposes of education in general and higher education in particular. There does, however, seem to be general agreement that education should aim to produce good people. This has been a goal as far back as Plato. Plato said, "If you ask what is the good of education, the answer is easy—that education makes good men, and that good men act nobly" (see Adler, 1952). This is no less true for accounting education than it is for the liberal arts. The issue of business ethics will be discussed in greater detail in Chapter 6.

### **Summary**

A turbulent economic and social environment characterized by a knowledge explosion, rapid technological change, and a global marketplace yields both threats and opportunities to accounting educators. In examining what constitutes the educated person and the nature of the university, the position taken here is that the purpose of a university is to cultivate the intellect and to assist in character development consistent with widely accepted academic and moral values. As the next chapter will show, accounting education

can be congruent with these goals. This chapter has stressed education over training, while maintaining that both are necessary in business and accounting programs. As educators we have a responsibility to provide the kind of education which facilitates the nurturing of high ethical standards and responsible behaviour, in addition to ensuring that graduates can cope in the actual work environment. The conception of education as an open-ended continuous process with aims such as those provided by Barrow in the chapter is a compelling one. By providing a supportive environment which encourages rational debate and open criticism, the university can also contribute to the articulation of moral standards of the professions. The next chapter will discuss these higher education principles in the context of business and accounting education.



# 4

## **Business Education and Higher Education Principles**

### **Introduction**

In the previous chapter we discussed various educational ideals and characteristics of universities throughout the ages. It was noted that there has been a long history of resistance to curricular change by vested academic interests. In spite of spirited opposition, however, from advocates of liberal studies, business education seems well entrenched in higher education institutions.<sup>1</sup> Accounting is offered as a core course in all business programs, and students generally have the option of taking further accounting courses and obtaining a concentration in the area. Professional accounting bodies will recognize these university accounting courses by giving students advanced standing towards the earning of their particular accounting designation. Upon receiving a professional accounting designation, accounting students may be employed in a wide variety of positions such as external auditors, internal auditors, company controllers, tax

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<sup>1</sup> Currently there are 27 Canadian universities offering an MBA and 8 more offer business programs at the master's level. There are also 15 doctoral business programs in Canada. From 1970 to 1991 business degrees granted as a percentage of total degrees went from 5.5 to 13.2 percent (CFDMAS Fact Book . 1994).

specialists, financial analysts and general business consultants. Accountants obviously play an influential role in how business is conducted. Society ought to be concerned, therefore, with the kind of education which these people receive.

One lesson to be learned here is that earlier conceptions of the role of higher education were designed to serve elitist and non-democratic social structures. Those who oppose business and accounting education within the university, for example, and insist on a return to past conceptions of a liberal education are, by implication, supporting a return to the social conditions which were served by that type of education. Social conditions today are very complex. We live in a pluralistic society and are faced with nearly unconstrained growth of knowledge in every field of study. Business plays an intricate and complex role which permeates our daily lives. Indeed, individual lives of nearly all people are affected by business decisions (i.e., decisions which determine the quality of products, quality of the natural and working environment, decisions affecting employment, etc.). It is arguable, therefore, that knowledge and a critical understanding of business in society can have a liberating effect, not only on those who seriously study the field, but also on those who practice business, the business professions such as accounting, and those who have a stake in decisions made by business managers.

The potential liberating influence of business education is critical to the justification of business studies in the university. Because we live in a pluralistic society, the case can be made that the university should represent the interests of all stakeholders. These include students who wish to study business as well as those who are currently making their

careers in business. Because society is so strongly influenced by how business conducts itself, society seems justified in having some say in the kind of education which those who practice business receive.

An important issue is whether the purposes of business education are consistent with the purposes of higher education, which were discussed in the previous chapter. The point was made that the idea of the university as a community of scholars combined for the sole purpose of the pursuit of knowledge for its own sake may have suited ancient Greece, where work was done by resident aliens, slaves, and women, all of whom were excluded from citizenship. This is unacceptable in today's society, since it would exclude intelligent and motivated people only because they lacked independent income or because they were also interested in learning for the sake of being socially useful. It seems then that the university should exist for both the pursuit of knowledge for its own sake **and** for the pursuit of knowledge which is socially useful. This position can also be defended by appealing to the history of universities. From the very beginning universities have been involved in professional education. Special programs have existed for medicine, law, and engineering for centuries. Business education in the universities is the continuation of this long tradition of universities trying to meet social needs.

The reality, of course, is that business and accounting programs are offered in most Canadian universities from coast to coast. Whether business education in the universities is here to stay is yet an empirical question. These programs are often seen as "cash cows" by those who run the universities and there is a great deal of support from parents and

industry for their operation. A challenge is to ensure that these programs are of high academic quality, taught in an environment which fosters the free enquiry which is the hallmark of the university and arguably that of professionalism as well.

### **The Educated Person and Business Studies**

While it may not be possible to get agreement on the specific content of what a university education should consist of, perhaps some common ground can be found in the description of the types of abilities and personality traits that should be fostered by the university.<sup>2</sup>

The characteristics of an educated person were discussed in Chapter 3, where Barrow (1981) was cited for his contribution of four specific criteria. Recall Barrow's conviction that an educated person must have some awareness of his/her cultural and historical tradition, respect individuality, distinguish logically distinct kinds of questions, and develop the capacity for discrimination. Most would agree also that one purpose of the university is to provide essential knowledge about the major areas of learning. We are cautioned, however, by Alfred North Whitehead that "a merely well-informed man is the most useless bore on God's earth" (Whitehead, 1929). Moreover, because of the tremendous knowledge explosion which all disciplines are experiencing, it is simply an impossibility to learn everything. Nevertheless, the basic facts and underlying principles of

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<sup>2</sup>A study of the attitudes of faculty members in professional schools toward liberal education shows that the failure of liberal arts colleges to identify the basic elements in liberal education is one of the principal obstacles to the inclusion of liberal studies in professional curricula. (Dressel, Mayhew and McGrath, *The Liberal Arts as Viewed by Faculty Members in Professional Schools*, New York: Bureau of Publications, Teachers College, Columbia University, 1959).

the various disciplines are within grasp. If this were not true, progress would halt.

Advocates of business education programs must demonstrate that their business curriculum is complemented by a well rounded elective program of studies which exposes business students to the basic competencies which one would expect from an educated person. This would help counter the obsolescence risk of specialization that stems from an over-emphasis on specific skills of the day. If students are grounded in the fundamental modes of conceptual inquiry, they will have the means of adapting to change. They will have the intellectual mobility to continue their education throughout their careers.

Another widely accepted role of higher education is the cultivation of intellectual skills. The possession of knowledge, by itself, is not sufficient. In his writing on the aims of education, Whitehead proclaimed that we must go well beyond mere knowledge and avoid what he called "inert ideas," that is, "ideas that are merely received into mind without being utilised, or tested, or thrown into fresh combinations" (Whitehead, 1929). To move beyond inert ideas requires the cultivation of intellectual skills. According to McGrath (1959) a liberal education "ought...to cultivate those skills and habits of reasoning which constitute intellectual competence, the capacity to think logically and clearly, the ability to organize one's thoughts on any subject on which essential facts are possessed or obtainable." There is no apparent reason why these skills cannot be cultivated through business education as well as they could be fostered through any discipline. The cultivation of intellectual competence requires pursuing business studies through scientific and investigative methods. This can be fostered by developing

hypotheses, establishing experimental controls, and applying rigorous analyses to business problems. Accounting and business studies draw heavily from the social sciences of economics, history, sociology, psychology, and political science. If ideas from these liberal arts subjects are applied to business studies in a reflective manner that encourages open debate and critical assessment, business education is truly educative and deserving of its place in higher education. Through the use of historical analysis, case studies, and the scientific method, business studies can provide rich ground on which to nurture strong intellectual skills. In addition, the business and accounting curriculum provides a meaningful context in which a student may apply his or her education. According to Bell:

One cannot civilize a man “in general” for it is only by confronting him with problems that are meaningful to him, most directly by the moral choices that may occur in the pursuit of his own profession, that one can tell whether or not he has learned to apply the humane arts (Bell, 1965).

As well as providing essential knowledge and cultivating intellectual skills, higher education must aim at the cultivation of personality and character (McGrath, 1959):

Society needs citizens richly endowed with intellectual curiosity, aware of their moral responsibility to be tolerant, open-minded, intellectually humble... For even if the college graduate is equipped with essential knowledge and the skills of intellectual workmanship, he may nevertheless have failed to reach these important goals,... he may yet be intolerant, unwise, intellectually stagnant, and inept in the arts of human association.

According to Dewey (1960, p. 36):

character consists of an abiding identification of impulse with thought, in which impulse provides the drive while thought supplies consecutiveness, patience, and persistence, leading to a unified course of conduct.

Values such as tolerance, altruism, trust, respect, empathy, fairness, justice, truth, honesty, open-mindedness and the desire to know and to learn are likely to receive strong

support as ideals of higher education which form the basis of character development.

There is no reason why these very values cannot be fostered and developed through an accounting education curriculum as well as they could through the classics. More importantly, accounting and business professionals ought to be educated in an environment in which development of the educated person is the primary mission.

Accounting education belongs in the university, not only to give some assurance that those who practice accounting have been educated, but also to provide users of accounting information the opportunity to study the field in an open and reflective context that only a university can furnish. Accounting education can help cultivate the intellect and free the mind from ignorance. It is a matter of emphasis. Intellectual cultivation requires a curriculum which has an objective of “educating” students by developing their critical thinking abilities, as opposed to one that has an extreme technical emphasis with a too heavy focus on “training” which can lead to obsolescence. This concept of education was well understood and promoted by Albert Einstein:

It is not enough to teach a man a speciality. Through it he may become a kind of useful machine, but not a harmoniously developed personality. It is essential that the student acquire an understanding of and a lively feel for values. He must acquire a vivid sense of the beautiful and of the morally good. Otherwise, he—with his specialized knowledge—more closely resembles a trained dog than a harmoniously developed person. He must learn to understand the motives of human beings, their illusions, and their sufferings in order to acquire a proper relationship to individual fellowmen and the community (Einstein, 1966).

Traditional defenders of the liberal arts such as Adler (1939) would oppose accounting education or the introduction of vocational courses as false liberalism which crams truly

liberal courses out of the curriculum. Veblen (1918) had argued that business education was not compatible with the collective cultural purpose of the university: "It belongs in the corporation of learning no more than a department of athletics" (p. 154). Veblen thought that universities should not be preparing people to become what he referred to disparagingly as "captains of commerce." Similarly, Whyte (1956) in *The Organization Man* condemned the universities for dispensing with the humanities by admitting business education. Dewey (1938), on the other hand, argues that the traditional curriculum was designed in pre-industrial times for pre-industrial times. Advances in science and technology have provided a strong theoretical base and intellectual foundation to many of today's careers. These advances have certainly made business more complex and greatly expanded the role of the accountant and have made accountability more complicated and controversial. This increased complexity, coupled with the important social impact of accounting, reinforce the argument that accounting education is best provided by universities.

The problem of securing to the liberal arts their due function in a democratic society is in seeing to it that the technical subjects which are now socially necessary acquire a humane direction (Dewey, 1944, p. 393). This would suggest that accounting students be exposed to the historical, social, political, psychological, and aesthetic dimensions of the field. A university is well endowed with expertise in all these areas, making it well positioned to bring an enriching accounting education curriculum to students seeking a strong, academically respectable accounting program.



It is possible within the context of accounting education to provide a program of studies which meets all of the above criteria. It is arguable that the debate between a liberal and a vocational education rests on very soft ground. This point was made by Whitehead when he said:

The antithesis between a technical and a liberal education is fallacious. There can be no adequate technical education which is not liberal, and no liberal education which is not technical, that is, no education which does not impart both technique and intellectual vision. In simpler language, education should turn out the pupil with something he knows well and something he can do well (Whitehead, 1929, p. 48).

In his famous address to the Business School at Harvard University in defence of business education, Whitehead said that business education preserved the connection between intellectual adventure and the zest for life. Emphasizing the long tradition of responding to the intellectual demands of the professions:

The universities have trained the intellectual pioneers of our civilisation—the priests, the lawyers, the statesmen, the doctors, the men of science, and the men of letters. They have been the home of those ideals which lead men to confront the confusion of their present times. The Pilgrim Fathers left England to found a state of society according to the ideals of their religious faith; and one of their earlier acts was the foundation of Harvard University... The conduct of business now requires intellectual imagination of the same type (Whitehead, 1929, p. 95).

Accounting programs belong in the university for other reasons as well. Universities are uniquely endowed to help students view accounting from multiple perspectives. Accountants are in the information business and accounting disclosures affect resource allocation decisions and therefore impact on the lives of many people. If accounting education were left to industry, students would most likely be “trained” to serve particular interests only. The broader social questions of the discipline would likely be ignored and

critical thinking would be no more than solving narrow accounting problems. The goals of the university of developing the intellect and character of its students is essential if these future accounting professionals are going to meet their professional responsibility of serving society. This has been recognized by some since the inception of the Wharton School at the University of Pennsylvania, which is generally credited with being the first university level business school. This business school was established in 1811 with a \$100,000 gift from Joseph Wharton for the purpose of educating young men from prominent families for careers in business and government. The emphasis, however, was more on character development and providing a liberalized business education than on teaching specific business skills:

To provide for young men special means of training and correct instruction in the knowledge and in the arts of modern finance and economy, both public and private, in that order, being well informed and free from delusions in these important subjects, they may either serve the community skillfully, as well as faithfully, in offices of trust, or, remaining in private life, they may prudently manage their own affairs and aid in maintaining sound financial morality; in short, to establish means for imparting a liberal education in all matters concerning finance and economy (Herrick, 1904 p. 255).

There is also justification for the teaching of the technical aspects of accounting. It is true that education, not training, is the primary criterion for establishing what should be taught in universities. Although education is of central importance, it is not the only criterion for what should be taught. Students will eventually graduate and their chances of finding gainful employment are improved if they have acquired marketable skills while they were being educated. Universities should also be concerned with more than education so

long as those other things do not impose constraints on the freedom to think critically.

One can agree with Barrow who says:

we should not want vocational courses to oust education, for instance, or to impose constraints on thinking where there should be liberation of the mind, or in any other way to get in the way of or interfere with education... People should be educated and people should have the opportunity to pursue a vocation (Barrow, 1981, p. 59).

### **Challenge to the Educator**

From the discussion of educational ideals and higher education principles in both Chapter 3 and this chapter, it is clear that business graduates, like any other university graduate, should be critical, open-minded, disciplined, and inquiring. To that end, it is important that educators be much more than instructional technicians. Taking accounting as an example, educators in this field, in addition to being accounting specialists, have a professional responsibility to keep abreast of current accounting theory and research. This applies also to educational theory and educational research in so far as it is applicable to accounting education. Educators have a responsibility to avoid the passive “transmitter” role which results in uncritically reproducing the economic, political, and social relations of the status quo and making intellectual clones of their students. Taking for granted existing business and social structures is to ignore that these structures are historically produced human constructions. The unquestioning acceptance by accounting educators of the Canadian Institute of Chartered Accountants (CICA) as the official rule maker of accounting standards in Canada is an example of accounting education failing in its critical function to challenge the status quo. One wonders, for example, whether or not it would be better to

have standards set by an independent body with representation from all major accounting bodies instead of the present situation of having the body dominated by one group.<sup>3</sup> To exercise its critical function, accounting education must engage students, employers, education providers, and clients in curriculum decisions. This has obvious political implications since the interests of these divergent stakeholders are unlikely to be the same. As was recognized as far back as Aristotle, education and politics are inextricably intertwined. Education is political in the sense that some interests are served at the expense of others by distributing life-chances and gearing students for particular ways of making a living. Accounting educators are challenged to take into account the interests of these stakeholders by seeking their input when making curriculum decisions.

The real challenge here to accounting educators is to help students become autonomous citizens and independent professionals. We cannot ignore, however, the inherent conflict between those who support accounting education and hire its graduates and those whose goal is developing autonomous persons. Although employers articulate that they want skilled employees who can think for themselves and are of high moral character, such individuals may prove troublesome. Individuals who follow orders and toe the company line are easier to manage. The social price for graduating critically thinking autonomous persons is that these graduates may become critical of the behaviour and values of society's institutions in which they are engaged. If students have been taught to

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<sup>3</sup> In the United States accounting standards are set by the Financial Accounting Standards Board which is not under the direct control of the American Institute of Certified Public Accountants (the United States counterpart of the Canadian Institute of Chartered Accountants). It has broad representation and meeting are not held in camera as is done in Canada.

think rationally and reflect on underlying assumptions in a wide philosophical context, it follows that they will also be examining the values implicit in the business environment and the political and economic system in which it operates.

Employers may prefer accountants who are simply well trained in accounting technique. Accounting rules and standards have been developed over time to serve the interests primarily of investors and creditors. The rules of the game are fairly well understood and the accounting profession has a code of professional ethics which provides general guidance on matters of professional conduct. This can lead to blind adherence to serving selected interests rather than to open-minded responses to serve wider interests. Broader ethical issues regarding the interests of other stakeholders and the reporting of corporate responsibility to the society at large is seldom given more than fleeting attention. If accountants were to raise these issues, those in current positions of power would often resist discussing or responding to them. Employers are generally satisfied if schools of business graduate students who replicate the existing professionals. What is taught is largely driven by criteria derived from practice and by the division of labour within the business world. It is not easy to challenge the accepted conventions of practice without putting graduating students at a disadvantage in the job market. Student opportunities in accounting, for example, depend on the good opinions of the employers, and this fact makes it potentially more difficult to be very critical of the profession. Firms want people who can follow rules or perhaps manoeuvre around rules in the interests of the firm (i.e., minimize income taxes for clients). The thinking accountant is someone who can solve

problems within the existing framework. Ideally, however, the university should not be producing replicates but should be graduating autonomous persons who can think for themselves and who will work to continually challenge the scientific base and the social foundation upon which accounting has developed.<sup>4</sup> The professional accounting school should educate students to critically examine the professional and ethical dimensions of the accountant's domain and to consider models which intellectually restructure the field. In this way universities can lead practice instead of following practice, as is the current condition.

A challenge to the educator is to ensure that students learn the real discipline of enquiry and judgement. Students must go well beyond knowledge acquisition in order to develop fully as human beings. This means developing a caring and compassionate attitude towards others by developing the moral point of view. Critics such as Peters and Waterman (1982) argue that business schools are dominated by a numerative, rationalist approach that seeks a detached, analytical justification for all decisions. This approach, they argue, is right enough to be dangerously wrong and has led us astray. Similarly, Behrman and Levin (1984) maintain that business schools over-emphasize quantitative analysis. Too much time is given to data gathering, data manipulation, and problem solving, but not enough is spent on problem finding or on understanding interpersonal relationships and human development issues. At least one critic, Leonard (1984), actually blames the loss of United States dominance in the world car market not on lack of

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<sup>4</sup> It has long been argued by scholars that reasoned criticism of the profession is a major responsibility of any professional school. For example, see D. Bok (1979) and Hutchings (1953).

technical skills but on a lack of judgement, character, and values. A study by Porter and McKibbin (1984) spoke of management education as “undernourished curriculum” and pleaded for business schools to go beyond the organizational domain and pay attention to the ethical aspects of society. The importance of bringing ethics into the curriculum has been acknowledged by academics (Frederick, 1988; Long, 1984) and professionals alike (Shad, 1988).

To neglect the moral dimension of education is to fall far short of becoming an educated person. As noted in Chapter 3 ([p.52](#)) the concept of the educated person as a moral person is endorsed by nearly every formulation of the educational ideal. Universities are charged with the responsibility of recruiting and equipping people to enter the professions. This is ultimately a moral responsibility. It is a responsibility to develop the fullest realization of individual and group potential. Hobbes’ (1909, Pt. 1, Ch. 13, p. 96) well-known phrase that man’s life is in a state of nature that is “solitary, poor, nasty, brutish, and short” makes the point that the greatest freedom for individuals exists only in an ordered society. Survival of any social order depends on the freedom of individuals not only to support but also to make needed changes to the social order. This puts a challenge to the universities to graduate sensitive (i.e., those who can connect the intellect with feeling) and critical individuals who will challenge the status quo with the purpose of building a more stable and moral social order. The aim of education, however, is not advocacy. Education should provide students with depth of thought and the ability to observe and make independent choices. Rousseau (1762/1972), in rejecting the power-

seeking natural man of Hobbes, understood this aspect of education very well. In his creation of *Emile* he warns us against becoming slaves of changing fashions by exerting an independence which makes our will the servant of our education in virtue. The ability to impose laws on the appetites of the heart is an aspect of integrity that is an essential component of education. As business graduates enter the highly competitive and materialistic world of commerce, strong moral character is needed to balance rationality with irresponsible impulse.

Georg Hegel (1770–1831) argued that individuals need to develop an “inner citadel” to avoid being consumed by a materialistic society:

Have we not seen in our times that even states become unsteady, expose themselves to dangers and collapse, despite plenty of valuable resources, just because they had neglected and disdained to preserve such an inner citadel in the soul of their citizens, and because they were interested in profit alone and directed their citizens to treat things spiritual as mere means? (Hegel, 1948, p. 326).

With economic globalization (see Botkin, 1982) there is immense power in the hands of international corporations. Driven by global competitiveness, governments are forced to downsize and spend less on government services such as university education. This makes it more difficult to instill in students the critical moral reflection that is needed to think through whether or not people should simply accept current global trends. It may be that this globalization will lead to a better and more just world. The danger is present, however, that individual business persons running global enterprises can make decisions regarding the flow of capital and labour that impact severely on our lives. These unelected individuals have greater power than elected politicians and are accountable, at most, only



to their shareholders. At a minimum universities can play a role by ensuring that those who will work with and for global enterprises and those who audit enterprise performance have developed an inner citadel of the soul that will ensure that the moral dimensions of business decisions are not neglected.

The warning from Egerton Ryerson (1842) that failure to put moral science at the core of practical education seems ever more fitting for business education today. Ryerson argued that unless vocational education is linked with a sense of obligation and pious disposition, one could develop as shrewd, intelligent, and influential and yet be a slave to one's lower propensities. He pleaded for the integration of moral with practical education:

those principles and precepts of morality will be carefully inculcated and enforced which will guard the pupil from the contagion of vicious practice and example and will lead him to the love and practice of virtue (Ryerson, 1842, p.9).

Needed is a guiding principle to ensure the possibility of achieving this educational ideal within the context of business and accounting education. In the next chapter it is argued that integrity can serve as this determining principle.

## **Summary**

This chapter has discussed the application of the principles of higher education to accounting education. As professional schools operating in the university context there is an obligation to set goals consistent with those of higher education in general. Because of the special status and rights which are granted by society to accountants, however, the challenge is to graduate individuals who are autonomous, free-thinking people who will accept their social obligation to practise their professional skills competently and in an

ethical manner. In the next chapter we will introduce an organizing principle which can potentially guide both accounting education and accounting practice to harmonize with the nature and purpose of higher education.

# 5

## **Integrity: The Organizing Principle**

In the previous chapters it was argued that developing the moral, ethical dimension is a central element in what it means to be an educated person and that a role of the university is to provide programs consistent with this objective. In Chapter 4 it was concluded that an organizing principle was needed to guide both accounting education and accounting practice. The argument made in this chapter is that integrity can serve as this organizing principle. Literally, integrity means a wholeness, possessing a coherent and consistent set of principles and acting in accordance with these principles. In referring to the wholeness of human life, integrity has a moral quality and is an ideal which can never be fully achieved by everyone one hundred percent of the time. Alasdair MacIntyre has said that integrity cannot be specified at all except with reference to the wholeness of human life (1981, p. 189). Taylor (1981) is convincing in his argument that wholeness of character cannot be achieved without the individual possessing a firm grounding of moral values. These would include, among others, values such as tolerance, altruism, trust, respect, empathy, fairness and justice. According to Pincoffs (1986) virtues are dispositional properties that provide grounds for preference of persons. The list could be potentially

long and varied but Pincoffs argues that one can choose virtues by categorizing them based on “the aptness or appropriateness of the person for the accomplishment or achievement of goals or objectives” (Pincoffs, 1986, pp. 83–84). It is arguable that, for the accountant, integrity is essential to properly carrying out the duties of the profession and that the accountant must possess a solid foundation of moral virtues in order to maintain integrity.

It is argued in this chapter that integrity entails much more than conformity to a set of rules. It may even mean not following the rules when those rules conflict with reasoned moral judgement and the moral point of view. Integrity involves more than being able to reason according to well-established ethical frameworks, and integrity requires much more than just being clear about one’s values. It encompasses taking the moral point of view and is a wholeness that includes all of these things, and for the accountant, his or her integrity is, in part, reflected by the accounting numbers with which the accountant is associated. Beginning with a discussion on ethical frameworks, this chapter will argue that approaches to building values in accounting education are not sufficient without embodying integrity as the central organizing principle. It will be argued that integrity requires that one not hide behind the corporate veil or behind technical rules but that one accept individual moral responsibility.

### **Ethical Frameworks**

There are well-established frameworks of ethical behaviour that are used to direct human action and to assist in resolving ethical dilemmas. The typical textbooks which deal with business and accounting ethics frequently emphasize their use (see for example, Armstrong,

1993; May, 1992; Mintz, 1992). Frameworks provide theories to enhance moral reasoning and strengthen our ability to make decisions on what can and cannot be justified in terms of both business practice and educational activity. Frameworks have limitations but can potentially help one reach carefully thought out decisions. These frameworks are well-known in the literature. However, a brief review will summarize the main ones which appear in the accounting ethics literature: 1) utilitarianism, 2) deontology, and 3) justice.

### **Utilitarianism**

Utilitarianism, or consequentialism, originates with the philosophies of David Hume (1737), Jeremy Bentham (1823), and John Stuart Mill (1861). It is a teleological ethical system, that is, one which bases obligations and rights on values which hold that an action is right if it brings about good consequences. Teleological theories maintain that the morality of an action depends on the non-moral consequences which result from the action. Two teleological theories which dominate the literature are egoism and utilitarianism. Egoism is concerned with what are the best consequences of self, while utilitarianism is concerned with the best consequences for all or for the greatest number. Egoism can be rejected because it undermines the moral point of view that many ethicists contend is a necessary component of moral decision making. The moral point of view (Baier, 1958) is one of disinterest and impartiality that attempts to take into account all sides of an issue without being committed to the views of a particular individual or interest group. Utilitarianism takes the stance that the final end is the maximum general good. In the context of business, "utilitarian reasoning frequently manifests itself as a commitment

to the social virtues of the market system...greatest good comes from competitive decision-making...and market forces can be relied upon to minimize social harm” (Goodpaster, 1982).

There are two branches of utilitarianism, act and rule utilitarianism. With act utilitarianism an act is right if it maximizes utility by producing the greatest balance of good over evil for everyone. This is in stark contrast to ethical egoism which has as its objective the maximization of utility for the individual actor. Utilitarians may not always agree on what values to promote. Utility may be understood as pleasure (Bentham) or happiness (Mill). According to act utilitarianism, moral rules such as “do not steal” or “do not lie” serve only as rules of thumb which may be altered in the light of particular circumstances so that there can be the greatest good for the greatest number. In practice act utilitarianism is extremely difficult to apply because of inability to predict all the consequences or to determine individual and group preferences. The theory can also be criticized for not allowing rights to the minority. According to Ross (1930), the “essential defect (of utilitarianism) is that it ignores, or at least does not do full justice to, the highly personal character of duty.”

According to rule utilitarianism, one should consider the rule under which a particular act falls rather than the actual consequences. One should act in accordance with the rule that, if generally followed, would produce the greatest net good for everyone involved. If keeping a rule produces more total good than breaking it, we should keep it. This theory can be criticized on the grounds that it might discriminate against a disadvantaged segment

of society by generating rules which favour the advantaged majority. It is really a feeble form of act utilitarianism, since a rule will be followed or rebuffed depending upon the consequences of the action.

As a practical matter, utilitarianism seems quite attractive. The idea of providing the greatest good to the greatest number can be intuitively appealing. For example, when judging the effectiveness of an education program, utilitarianism provides a convenient rationale. With respect to curriculum content, utilitarians would judge educational activities according to how much pleasure or happiness is associated with the educational activity. One problem associated with the theory, however, is how to put a measure on, say, the pleasure of literature compared with the pleasure of accounting.

Another problem with utilitarianism was pointed out by Peters (1967) who maintained that education has its own intrinsic value. He viewed education as the process of introducing people to worthwhile activities which bring breadth and depth of knowledge and understanding. For Peters, there may be valuable activities which do not lead to pleasure but are considered worthwhile so long as the truth is pursued.

### **Deontologism**

Educational activities, however, can also be interpreted in a deontological way. Those who benefit from educational services are autonomous persons and, as persons, they can demand certain deontological obligations.

Theories of rights are known as deontologism, from the Greek word *deon*, meaning duty. Deontologists hold that right action ought not to depend on its consequences.

Deontology is the study of moral commitment. According to this framework, an act or rule brings into existence inherent value sprouting from moral principle, and a person has a moral duty to perform the right action regardless of the consequences. For example, some actions are right because they are just or because they keep a promise so long as they are internally consistent and universally valid. These actions are considered right in themselves, quite separate from any consequences which may stem from their application.

Much deontologism comes from religious doctrine and is considered the theory of divine command, but the most prominent deontologist was Immanuel Kant (1724–1804). Kant believed that morality can be summed up in one ultimate principle which he called the categorical imperative, from which all duties and obligations arise. A person should act so that the principle of his act may be willed as a universal law. Kant (1785/1959) said, “Act only on that maxim whereby thou canst at the same time will that it should become a universal law... Only this principle can prevent duty from becoming a vain delusion and a mythical notion.” Kant believed in telling the truth no matter what the consequences, since if no one told the truth communication would break down and chaos would result. To this categorical imperative he added a practical imperative, “So act as to treat humanity, whether in thine own person or in that of any other, in every case as an end withal, never as means only.” This second principle supports the idea of moral autonomy and the importance of humans as individuals by affirming that people ought not to be treated as tools to enhance the pleasure of others. Kant emphasized that every human being has inherent worth and possesses an “autonomous, self-legislating will.”



Kant's theory, however, has its problems. Duties frequently conflict, and Kant does not provide an obvious way of dealing with these conflicts. W. D. Ross (1930) takes a more flexible approach to deontological ethics by recognizing that an act may fall under multiple duties at the same time. Ross identified *prima facie* duties such as fidelity, gratitude, justice, beneficence, self-improvement, and non-maleficence that generally oblige us but may not apply in a particular case because of particular circumstances. His appeal for acceptance of these duties does not rely primarily on reason and argument but on intuition. When *prima facie* duties conflict, Ross instructs us to follow the more obligatory duty, our actual duty. For example, we have a *prima facie* duty to keep promises and also a *prima facie* duty to help persons in need. When these two duties clash, Ross would argue that the duty to keep promises usually takes priority over the duty to help others. The priority would be reversed, however, if the person seeking help were in dire distress. For Ross, primacy is self-evident to anyone with sufficient maturity who has given thought to the matter. Ross's work is problematic, however, because people may disagree on the list of *prima facie* duties and on their relative importance. When duties conflict it may not be possible to determine which duties are more obligatory, since the theory does not provide a method of assigning weights to the duties.

The deontological dimension of education is respect for autonomy. This suggests that the curriculum be designed to help individuals develop critical thinking skills. One can agree with McPeck (1981) that critical thinking is a "judicious reflection." Concentration should be on those dispositions which are essential to morality. This would be met by a

curriculum which fosters a sense of individuality and independence involving the cultivation of the capacity for rigorous and reflective analysis and the moral maturity to act on that analysis. In educating for autonomy, however, there is a hidden conflict. There may be a social price to pay for encouraging students to think critically. These educated people may very well challenge social values and social institutions. Rather than merely being trained to take their place in society, autonomous individuals may become critical of the values and institutions which compose society and may even seek major change. Most well-recognized accounting education programs encourage critical thinking in analysing and solving technical accounting problems. Very little, if any, time is actually spent encouraging students to examine the underlying values of the business environment which accounting helps to support. There are no accounting textbooks on the market which challenge students to examine the political and economic foundations upon which much of accounting is based.

The deontologism dimension of education can serve as an adequate basis for the ethical curriculum. The emphasis on autonomy and critical thinking, however, must conform to the concept of integrity. Without integrity critical thinking can manifest itself in skilful but selfish manipulation designed to serve self-interest or the vested interests of some groups at the expense of others.

## **Justice**

Guided by concepts such as equity, fairness, and impartiality, theories of justice go back as far as Aristotle and Plato. In business, issues of justice arise whenever there are conflicts of interest among stakeholders such as consumers, managers, shareholders, and others.

A major contribution to the issue of justice has come from the work of John Rawls (1971). According to Rawls, the concept of distributive justice (that equals should be treated equally and unequals unequally) must be maintained to prevent social unrest. He also contends that social unity is dependent on maintaining just institutions. Rawls takes the initial position of having people imagine themselves entering into a social contract from behind a “veil of ignorance,” not knowing what kind of society they are to be born into and not having knowledge about their own capabilities and potentialities, but assuming they have a rational concern for their long-term interests. Rawls believes that people will reason more honestly from this perspective. From this initial position he develops two principles of justice. The first is the principle of equal liberty, that “each person is to have an equal right to the most extensive basic liberty compatible with similar liberty for others,” and the second, “social and economic inequalities are to be arranged so that they are both a) reasonably expected to be to everyone’s advantage, and b) attached to positions and offices open to all.” This second principle, the difference principle, is intended to govern society’s economic and social institutions. In a business context this demands that resources be allocated fairly and equitably among stakeholders, and in an

educational context it means that education should be available to those who are capable of learning.

There are competing theories of justice, and no single theory is universally accepted. Justice, however, is central to the idea of an autonomous person, and philosophers have provided a rich literature which can be of benefit to accounting educators. Textbooks in accounting and finance often identify the purpose of management as that of maximizing shareholder wealth. When justice reasoning is imposed it is possible to come to other conclusions. The institutions of business and education are social institutions. Justice demands that social institutions be structured such that all persons have the ability to participate actively in the political, cultural, and economic life of society. For business this may mean less emphasis on short-term profit maximization to protect the employment rights of workers, and for educational institutions it implies a commitment to accommodating the various needs of students and offering programs which better enable their graduates to exercise their social and civic responsibilities.

Ethical frameworks can be a useful vehicle for sensitizing accounting students to ethical issues and giving them the tools to analyse what may be their intuitive positions, or at least reasoned out positions, on any given ethical problem. Ethical frameworks are helpful in determining the basic ethical principles at work in business and in applying ethical principles to ethical problems. Frameworks are beneficial when controversial moral judgements can be supported by alternative basic moral principles, but are less helpful when these principles produce different moral judgements. Controversial problems in

business such as whistle blowing and affirmative action are very difficult to solve by applying normative ethical frameworks. This has led some writers to claim that it is not worth spending time teaching ethics because ethical foundations do not provide clear answers to ethical questions (see Bahm, 1982). The strength of frameworks, however, is that they help determine the basic reasons supporting ethical judgements. A moral theory may not solve a particular moral dilemma but this is insufficient reason to abandon theory. Moral theories allow moral deliberation to take place and help one organize and interpret the facts of a given situation. Frameworks make it possible to give reasons why one chooses or rejects a particular ethical decision.

Frameworks alone are not sufficient. If a chief goal of higher education is developing character and promoting the moral point of view, then one must go beyond discovering and clarifying the basic reasons for moral judgements. A very prominent study by Raymond Baumhart<sup>1</sup> (1968) revealed that questions of right, wrong, and what one ought or ought not to do are determined by prevailing ideals. This is consistent with the thinking of the early Greek philosophers. Socrates, Plato, and Aristotle believed that human character is shaped by basic ideals and that basic judgements and behaviour depend on this foundation. While recognizing the merits of ethical frameworks and of ethical reasoning ability, in this chapter it is argued that virtue is a critical component to carrying out

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<sup>1</sup> Baumhart, who later became president of Loyola University in Chicago, actually completed the study in 1961 and published an article in the *Harvard Business Review*. In 1968 the write up was expanded and published in book form. It is interesting that 99 percent of the respondents believed that "sound ethics is good business in the long run" and over two-thirds agreed that "for the corporate executive to act in the interest of shareholders alone, and not also in the interest of employees and consumers, is unethical."

business and professional responsibilities according to social contract.. The organizing principle upon which virtue depends is integrity. Without integrity ethical frameworks can be manipulated to prop up arguments to support particular positions or points of view. One may flip-flop from one competing theory to another, depending on which one best supports one's situation. There is a potential loss of sincerity. The moral point of view, however, demands sincerity. It demands that individuals act in good conscience and that they take responsibility for their behaviour and become committed to doing the right thing while respecting others. This idea of good intentions was well understood by Kant, who said:

Intellectual talents such as intelligence, cleverness and good judgement are undoubtedly good and desirable in many respects; so also are character traits such as courage, determination, and perseverance. But these gifts of nature can become quite evil and harmful when they are at the service of a will that is not good (Kant, 1785).

As a character trait integrity encompasses all of the natural virtues, that is, justice, prudence, temperance, and fortitude. It is an ideal which is particularly relevant for accountants to pursue and for accounting educators to cultivate since the work of accountants touches the lives of so many people.

### **The Professional View of Integrity**

In late 1987, the National Commission of Fraudulent Financial Reporting in the United States (the Treadway Commission) and the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants addressed the issue of fraudulent financial reporting practices. Their work is characterized by the shift of the auditor's

attention from reliability to reliability plus integrity of the financial statements. New responsibilities assigned to the internal auditor by the ASB statements include: 1) identifying fraudulent financial reporting, 2) auditing the reasonableness of uncertainties such as accounting estimates and the company's future as a going concern, 3) applying analytical procedures and examinations of internal control structure risk, and 4) communicating responsibly in matters relating to the nature and scope of the audit, and its findings. The work of the Treadway Commission and the ASB also encourages the auditor's involvement in quarterly and annual financial statements. While this can be interpreted as progress, it is a very narrow, rules-oriented conception of integrity. One can agree with Gaa (1992) that technical rules can never be a complete guide in all situations that the accountant may encounter in professional practice. Technical knowledge may not be sufficient in situations where the facts are ambiguous or stakeholder interests conflict. Writing about auditing, Gaa argues that in addition to technical expertise, moral expertise is also needed so that the auditor is able to make ethical judgements in accordance with a moral view that takes into account the interests of others. Gaa raises the question of how much moral expertise is required by auditors in order to carry out their professional responsibilities. The answer, he asserts, depends on the amount of sophistication required in order to resolve the ethical issues actually confronted by auditors. It may be that conventional reasoning is sufficient. One reason, Gaa suggests, that most people do not reach post-conventional stages of reasoning is that they do not often enough face situations where conventional reasoning is insufficient.

According to Gaa, the degree of moral expertise required by auditors is also a function of the set of rules which they are expected to follow. If these rules are consistent with the moral point of view then a stage 4 level of moral reasoning may be adequate. The field of auditing is inundated with rules and it may be that auditing attracts people who are comfortable following rules but lack post-conventional ethical reasoning ability. A rules-oriented conception of integrity, however, falls short of challenging the social role of accounting itself, or the business system which it serves, and leaves the impression of integrity as mere conformity to rules of reporting. To give integrity its proper accord, attention must be given to the concept of moral responsibility. This includes coming to agreement on the nature of the corporation itself and on the nature of individual responsibility.

### **The Business Corporation**

Many business and accounting students eventually become employed by or work with corporations after graduation. Corporations account for 90 percent of all sales in Canada. A corporation is a separate legal entity and in the law it is treated as an artificial person in that it can enter contracts and it can sue and be sued. But can it possess integrity? There is disagreement among philosophers regarding the ethical status of corporations. On one extreme is the position of John Ladd (1970) who argues that corporations are analogous to machines and the sole standard of evaluation is their effectiveness in meeting corporate goals. Corporate managers make decisions impersonally. Rational behaviour, under this view, is to do whatever is necessary to reach corporate objectives.



Thus, for logical reasons it is improper to expect organisational conduct to conform to the ordinary principles of morality. We cannot and must not expect formal organisations, or their representatives acting in their official capacities, to be honest, courageous, considerate, sympathetic, or to have any kind of moral integrity (Ladd, 1970).

Drawing on the concept of language-game advanced by Wittgenstein, Ladd argues that morality is excluded as irrelevant in organizational decision making by the rules of the game. It is corporate objectives which dictate moral principles and these may be very different from ordinary standards of morality. People may behave quite differently in business than in their private lives. This inconsistent behaviour, however, is in complete contradiction to integrity. Integrity does not tolerate such double standards.

Ladd's position is that moral concepts such as honesty are not in the vocabulary of the "organizational language-game." For Ladd the way to bring corporate behaviour into conformity with the demands of morality is through external sanctions. An accounting curriculum with a heavy legal emphasis would be consistent with this position.

At the other extreme is the position of philosophers such as Peter French (1986) and Kenneth Goodpaster and John Matthews (1988). French, for example, argues that corporations have corporate internal decision structures which can synthesise the actions of human beings. His position is that corporations and persons function analogously and, like persons, corporations are morally responsible for their actions. Goodpaster and Matthews support French's position and go even further. They argue that a person is morally responsible if that person is trustworthy or reliable and that corporations too meet this test. They take the human analogy to the extreme, maintaining that a corporation has a

conscience and even a heart. Not only can a corporation be rational, in that it can act without impulse and carefully weigh alternatives, but it can act also with respect. That is, it can take into consideration the needs and interest of others. Not only is there an internal decision structure, as French says, but there is also a built-in managerial system which deals with respect for those affected by corporate decisions. Goodpaster and Matthews, however, believe that their position is not yet part of the conventional wisdom and therefore, they, too, would be in favour of external sanctions.

It seems that neither of these extreme positions has confidence in the free market with control over non-economic values. However, both positions are incompatible and unacceptable because they are not in accord with integrity. Ladd's position is that the corporation is an amoral machine in which the end justifies the means. By grounding morality on rationality alone, and implying that amorality in business is a matter of necessity, he has given no role to personal integrity. He supports pressuring the corporation through legal means or through public opinion so that these pressures would be impounded into the rational decision-making process. While there is some validity to the analogy of the corporation as a machine, there are too many dissimilarities. It is people who run corporations. There may be pressures to avoid responsibility, but people, after all, are moral agents capable of exercising empathy and caring. As ends in themselves, people have moral obligations which extend beyond a corporation, which is just an instrument created by people. Ladd's position is overly pessimistic and fails to consider what role

education may play in cultivating autonomy and integrity which individuals can take to the workplace.

Similarly, the positions of French, Goodpaster and Matthews that a corporation is the equivalent of a moral person is difficult to defend. The moral corporation depends on the character and virtue of those who comprise the organization. Therefore the education of those who will build their careers in business and those who report on business performance must have the development of moral character as a primary aim.

It is arguable that corporations and persons are not similar enough to attribute moral status to the corporation. It is sometimes argued, however, that corporations are trustees (Davis, 1990), that companies owe society (Sohn, 1982) and that business has a “duty of gratitude” (Bowie, 1987). These authors share the view that corporations exist to serve society and that they benefit from the society in which they operate. They benefit from society because consumers buy their products and services and because they have access to many public goods provided by society. In return corporations act as “trustees” of society’s resources. One can agree with this trustee concept so long as we do not lose sight of the fact that it is individual persons who serve as spokespersons for corporations and who ultimately make decisions for or against society’s interest. It is these individuals who are the “moral trustees.”

Den Uyl (1984) takes the view that businesses exist by social permission. Supporting this position, DeGeorge (1990) says that society can legitimately demand that the corporation engage in certain kinds of activities, even if those running the business prefer

otherwise. He also says that corporations can be legitimately restricted, changed, or even eliminated if they are found to harm the public good. It is clear that the very nature of the inter-relatedness of business decisions to the social system obligates business to take into account the effect that their actions have on the interests of others. This is a much broader obligation than the currently accepted notion that corporations exist primarily for the interest of shareholders and that the sole objective of business is to maximize profit.

In summary, when we talk about such things as corporate social responsibility (CSR) or professional responsibility, we should not speak as if these organizations had a mind of their own. The reality is that corporations are run by people, and it is people who make decisions. Corporations can be socially responsible and exercise integrity only to the extent to which individuals acting as agents for the corporation make socially responsible decisions. The same is true of professional responsibility. The accounting profession is made up of individual members. It is by the actions of these individuals that the profession will be judged as ethical or otherwise. This is why the education these people receive is so critical. Because of the pervasive influence which business has on individual lives and on social structure, it is vitally important that accountants, as the conscience of business, be educated both to exercise integrity and to recognize when others are violating integrity. The balance of this chapter will explore integrity as an ideal to be pursued by accountants and how open-mindedness can contribute to its realization.

## **Integrity and Open-Mindedness**

Integrity can be a source of frustration as one compares oneself to the unattainable standard. Integrity is a difficult concept to evaluate. Poor judgement can lead to incorrect evaluations of colleagues and subordinates for failing to measure up. People can over-conform to rules and procedures without taking the context into consideration. This can lead to communication breakdown and deterioration of organizational morale.

Integrity has been defined as an interactive event, an evolving transformative process, that occurs at exceptional moments in which individuals give special attention to the development of others (Srivastva, 1988). This idea of doing what is best under conditions of adversity is also supported by Halfon (1989) who says that integrity is characterized by one who maintains “a consistent commitment to do what is best—especially under conditions of adversity” (p. 36). One can agree with Halfon that integrity requires that one has the intention to do what is best and takes action consistent with this perceived good intention. This suggests that one can possess integrity but still make incorrect judgements. Integrity would require, however, that one be reflective and willing to change actions when the evidence warrants.

It is arguable, therefore, that integrity depends on another ideal. This ideal is open-mindedness (Hare, 1981, 1985). Open-mindedness is a disposition which is aimed at finding the truth. It requires objectivity and impartiality as essential features for reaching its goal, traits thought to be essential to practising accountants. An open-mindedness about integrity would recognize shortcomings of failing to reach the ideal but would

support a continual striving to reach it. This is not self-deception as long as one is willing to admit to these shortcomings and to further pursue the idea.

To possess integrity means that one's actions reflect natural virtues. Aristotle in writing about the vagaries of human conduct wrote that human good turns out to be activity of soul in accordance with virtue (see Jones, 1977). Aristotle discussed two types of virtues: the intellectual, consisting of prudence and knowing how to acquire knowledge, and the moral, consisting of truthfulness, temperance, courage, and friendliness. By emphasizing virtues as desirable dispositions, Aristotle stressed the importance of good conduct. He believed that by habitually acting as one who possesses those desirable virtues one would gradually take on these traits as one's own. Aristotle says that we inquire into virtue "in order to become good" (1103b 27 in *Nicomachean Ethics*). To accept this view is to believe that ethics is primarily practical.<sup>2</sup> To behave with integrity, accountants need to know which traits are virtuous, so that standards of achievement can be set. Aristotle's doctrine of the mean, the idea of striking a balance between excess and deficiency, encompasses this concept of integrity. This is necessary to prevent integrity from becoming the vice of fanaticism. According to Newman (1994) the identification of fanaticism with commitment functions as a propaganda weapon in the hands of extremists and apologists of extremism. Integrity is more properly construed as sound commitment and is a virtue free of hypocrisy and weakness of will.

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<sup>2</sup> There is a dispute as to whether ethics is practical or theoretical. G. E. Moore in *Principia Ethica* says that ethics is an inquiry into what good is.

Integrity strongly implies the virtues of honesty and truthfulness—virtues which are widely regarded as essential to the accountant. Reaching the truth is the goal of open-mindedness. It is arguable that each requires the other, that is, open-mindedness demands integrity and integrity demands open-mindedness. For the accountant this means being open to the reporting needs of various interest groups and not just the needs of those with economic power. It means much more than just uncovering fraud or the fudging of figures but of finding and reporting true costs and benefits to society as a whole. To accomplish this, accountants must acquire a genuine concern for others—the moral point of view. Accounting education can be geared toward reaching this ideal by addressing the issue of values and helping accounting students clarify their values. But is values clarification enough?

### **Integrity and Values Clarification**

Conflicts in values are inevitable in today's diverse and complex society. The values one possesses are a function of many variables, including one's environment, family upbringing, and education. Individuals sometimes feel confused and unclear about what values they actually hold. According to Combs (1982), this can lead to apathy, inconsistency, over-conforming, or over-dissenting. A case can be made for accounting students and professionals to attend values clarification seminars to heighten their awareness where doubt exists. Raths, Harmin, and Simon (1978) set out seven steps for values clarification: "choosing freely, choosing from alternatives, choosing after thoughtful

consideration, prizing and cherishing, affirming, acting upon choices, and repeating... as a pattern in life.”

On the surface, values clarification sounds attractive. It is a quantum leap from indoctrination and seems to support individual autonomy and appears consistent with the ideal of open-mindedness. On closer examination, however, values clarification is in direct opposition to the goal of open-mindedness. Central to values clarification is the idea that one moral view is as good as another. This relativism encourages false subjectivism and downplays the importance of basing decisions on sound rational thinking. Further, it fails to foster the attitude that revisions to one’s views must be changed when the evidence warrants. If it were true that one view is as good as another, the whole idea of belief revision would have no meaning, and there would be no standards by which one’s integrity could be expected to conform. Values clarification may help one to articulate and organize one’s own values, but at the same time may leave one relativistic, like Protagoras the Sophist at the time of Socrates, about recognizing that others may have different values. Given its underlying assumptions, values clarification proposes no basis for objection, even in extreme cases such as decisions which are life-threatening to others or result in other forms of serious damage or loss.

Moral understanding based solely on values clarification fails to take the concept of integrity seriously. The tolerance and mutual respect taught under this concept are too loosely held. One must be clear about one’s values, but clarity by itself is not enough.



Open-mindedness demands a tenacious defence of positions taken and is tolerant only of well thought out positions arrived at through reflection and critical thinking.

### **Other Threats to Integrity**

In Chapter 2 in the discussion of business morality (pp. 23–31) it was noted that underlying myths endure through time which conflict with the moral point of view. One is the over-emphasis on individualism and another is the myth that there is universal opportunity for advancement. These are business value systems which have persisted through the ages—manifested, for example, in the Protestant ethic and by the robber barons—that clash with integrity. The assumption made here is that business philosophy influences the value system of business decision makers, and moral character is shaped by one's value system. A problem with extreme individualism and the myth of equal opportunity is that success is couched solely in economic terms. Cultural and other non-economic values in this context are viewed as an infringement on one's ability to make money, and are seen as unimportant. Possible consequences are that individuals fail to develop the capacity to enjoy life's broader dimensions, and the social and ethical responsibilities of business get neglected. Business failure, under this value system, is equated as moral failure stemming from defects in will or character. The lack of empathy and compassion for those who do not succeed in business is unacceptable from the moral point of view and is inconsistent with integrity.

Paradigms which restrict or inhibit the development of the whole person thwart the inculcation of integrity. This can be seen by briefly examining depictions of the modern

manager by writers such as Whyte (1956) in *The Organization Man* and Maccoby (1976) in *The Gamesman* (see Klein, 1993). According to Whyte, specialization which has accompanied industrialization has left individuals with feelings of insignificance and has aroused a strong sense of wanting to belong. This has led to what Whyte calls the organization man. On the positive side, the organization man is characterized as trustworthy, loyal and responsible. The negative effects are the excessive concern with security and conformity that leaves one insensitive to individual needs and weakens one's courage to differ from the crowd. Morality is reduced to good manners and to a superficial concern for others. The organization man has no real commitment to self-development and is driven by a concern for rewards and fear of punishment. The moral inadequacy of the organization man is its inability to foster integrity. Integrity demands courage and tenacity along with the willingness to stand up for what one believes is right.

In the *Gamesman*, Michael Maccoby maintains that business needed an entrepreneurial type of manager who could overcome the organizational stagnation of the organization man. The result in the late 1970s was the appearance of a new business ethic which represented the co-operative, group-belonging values of the organization man but combined these attributes with a new tough, more aggressive nature that was intolerant of weakness. Maccoby characterizes the Gamesman as manipulative and lacking in compassion. As with the organization man, this prevailing business ethic is defective because it conflicts with the concept of integrity and the moral point of view. One can agree with Maccoby that the conflict with integrity is due to a failure to properly balance

what he called traits of the head, such as initiative and flexibility, with traits of the heart, such as honesty, friendliness, and compassion. This is a failure to develop the wholeness of character which is fundamental to integrity.

For integrity to be nurtured and developed in business, it is important to understand the moral failings of business ethics that tend to persist. If one can accept the Socratic idea that immorality originates in ignorance, then the onus falls on educational institutions to evaluate managerial values so that inadequate ethics can be replaced with morally sound ones which promote integrity. If the problems both of extreme individualism and excessive desire for conformity are understood, then the way is paved for building a new business ethic with integrity as the organizing principle.

### **Building Integrity through Discourse**

Key to developing integrity throughout the profession is the instillation of practical discourse. This means actually giving voice to all relevant constituents, both internal and external, to the organization with which the accountant deals. This includes clients, employees, customers, shareholders, suppliers, and government. This kind of behaviour is not likely to just happen when graduates enter the work force. The disposition to hear and be concerned for others is something that must be learned and cultivated, preferably throughout one's entire education, but certainly it needs to be encouraged and reinforced in the business and accounting curriculum.

Integrity demands that recognition be given to valuing the ideas which others have to offer. For the accountant it means providing users with the information they need in order

to make a fair assessment. It also demands open-mindedness and an intense respect for the truth. Integrity requires not only truth telling, as quite naturally comes to mind, but also truth finding. The very act of participating in a discourse suggests that genuine consensus is possible and that it can be distinguished from a consensus which is false. According to Habermas (1984, and see McCarthy, 1978), rational decisions about truth claims requires a structure which is free from constraints such as neurotic or ideological distortions. His thesis is that the structure is free from constraint only when all participants have an equal opportunity to be heard. This means that each participant has the same chance to command, to oppose, to permit, to forbid, and to express his or her attitudes, feelings, and intentions.

Genuine discourse is a socially constructed learned behaviour. This behaviour can be built into the curriculum itself and developed as a skill at the pre-professional level. The business communications course, advanced accounting courses, and other courses which use the case method of teaching, can be geared to consciously and sincerely take into account what others have to say. This is essential to the integration of ethics into accounting education.

These ideas can be carried from the classroom to the business world. As an illustration we can refer to the practice of accounting. In performing audits, accountants often focus on economy, efficiency, and effectiveness. The moral point of view is that these objectives be met in harmony with giving full respect to persons. In other words, these economic goals should not be achieved at the expense of the dignity of individuals. This requires

listening to the concerns of others and acting fairly. Traditional business organizations are not designed to facilitate such discourse. The hierarchical structure, by design, vests more power in positions which are higher on the corporate ladder. When bureaucratic structures emphasize division of labour and specialization, stress is often on rules, regulations, and standard operating procedures, and on impersonal and formal communication (Thompson, 1961). Authority is tied to job positions. Alasdair MacIntyre (1984) has written, "Each of us is taught to see himself or herself as an autonomous moral agent; but each of us also becomes engaged by models of practice, aesthetic or bureaucratic, which involve us in manipulative relationships with others" (p. 68). With power unequally distributed, those lacking power have more to risk by being open and honest. On the other hand, organic structures (Burns and Stalker, 1961) are characterized by co-ordination, control, and communication which is informal and personal, with power and knowledge dispersed throughout the organization, creating multiple centres of authority. With organic structures organizational goals are set with broad participation while obedience and loyalty are de-emphasized.

A consequence of a more participative organizational structure is that individuals develop loyalty and identification with the group. According to social contract theory, feelings of moral obligation tend to grow out of common agreements (Habermas, 1984). As participants make promises and commitments, they hold each other accountable for bringing them to fruition. As a result of openly committing to certain obligations, individuals are also likely to feel a strong will to hold to their pledges. This commitment

is central to the meaning of integrity. The importance of making and keeping commitments is an essential part of the hidden curriculum and is fundamental to ensuring that business itself is an ethical activity. In summary, integrity is fostered through an organizational structure that facilitates free and open discourse. Organizational structure should be less hierarchical, with power dispersed throughout. In the context of accounting education, accounting students in their study of organizational design can be made cognizant of how to design organizational structures which share power and respect others thereby providing a setting for integrity to flourish.

### **Educating Future Leaders for Integrity**

In the pursuit of the ideal of integrity, special responsibility falls on the shoulders of those who actually lead organizations. These positions are frequently held by people with professional accounting qualifications or by those who rely heavily on information provided by professional accountants. Traditional management theory recognizes the importance of building consensus. Drucker interprets Herbert Simon's concept of optimal "satisficing" as follows:

**A manager...needs to think through what the constituencies are that can effectively veto and block...decision, and what their minimum expectations and needs should be. This is bound to induce a certain schizophrenia. When it comes to the performance of the primary task of an institution...the rule is to optimize...but in dealing with the constituencies outside and beyond this narrow definition of the primary task, managers have to think politically—in terms of the minimum needed to placate and appease and keep quiet constituent groups that otherwise might use their power of veto. Managers cannot be politicians. They cannot confine themselves to ‘satisficing’ decisions. But they also cannot be concerned only with optimization in the central area of performance of their institutions. They have to balance both approaches in one continuous decision making process (Drucker, 1980).**

**The foregoing is an attempt to be value neutral and is not a serious approach to finding truth and building integrity within an organization. It provides no guidance on how to deal with situations which involve ethical conflict. The educated person cannot be value neutral.**

**In terms of how leaders behave, two well -known approaches are Theory X and Theory Y. Theory X is a coercive style of leadership based on the assumption that man is generally lazy and dislikes doing what is “right.” The objective of Theory X is to compel others to do the right thing from the leader’s perspective. Theory Y begins with the basic assumption that individuals have a natural desire to do the right thing. With Theory Y the leader listens to subordinates and allows them to contribute to decisions. Unilateral decisions, however, are still made by the leader (McGregor, 1960).**

**Building on Theory Y, integrity can be further encouraged through dialogic leadership (Neilson, 1990). Dialogic leadership offers guidance in dealing with conflict situations which help ensure integrity of leadership. While Theory Y may result in agreement on**

ethical issues it may not be because of any ethical belief conversion. As Braybrooke (1987) has said, "To accept 'in effect' is not the same thing as accepting with moral concern." Dialogic leadership is based on serving the needs of the larger community and not just the needs of a particular leader or his immediate peers and subordinates. This requires an intense search for truth through dialogue. Gadamer (1975) and Lawrence (1984) have presented a five step Socratic dialogue method that is presented by Neilsen (1990) as follows:

1. One begins and continues civil dialogic conversation with at least something of an open mind and without an unrevisable preconception that one already knows what the outcome of the diverse lines of thinking will reveal in the course of the conversations.
2. The "I" tries to make the "other's" initial opinion as strong as possible in relation to the perspective of the ethical issue under discussion.
3. The disadvantages are considered.
4. The "I" invites the "other" to similarly consider several related and/or alternative positions, diagnoses and/or solutions.
5. The partners in the dialogue try to be understood as thoroughly as possible in searching for the concrete and appropriate decision/action in a context of the transcendent. That is, to some extent, there is a sincere intention of mutual searching for ethical truth in spite of the possibilities that on some or even key points the individual and the organization might not "win".

These are useful guidelines as long as one does not compromise on standards for the sake of arriving at a consensus. In the case of moral issues there can be no compromise without a loss of integrity. To act in opposition to what one truly believes is a moral failing. This is very different from revising belief based on new evidence or a deeper interpretation of old evidence as is accomplished through open-mindedness. To avoid a



loss of integrity one must examine all relevant evidence that is available, with the firm intent of pursuing a justifiable course of action. Open-mindedness entails the giving up of beliefs only if they have been dispelled by reasoned argument, and firmly rejects any notion of one idea being as good as any other. From this perspective dialogue may be interpreted as a way of learning and coming to a true ethical perspective, leading to actions performed with full integrity.

As an accounting professional one has a duty to society to hear and respond to the reporting needs of all who are affected by accounting standards. One should not merely accept the current power relationships that exist in business. The moral point of view is not that financial reporting should serve the needs of the current power elite, but should serve society in general. This critical perspective does not just happen. People must be educated to think for themselves and become autonomous persons capable of taking the moral viewpoint. It is this combination of the autonomous and ethical dimensions of human behaviour upon which integrity depends. Accountants need integrity to guide them both within the profession, to pursue a continuous improvement in standards, and in their capacity as business leaders and influencers, to better serve society. In summary, situations of ethical conflict have the potential of resolution if dialogic leadership is practised. The emphasis is on seeking ethical truth and not on control or on the exercise of power.

### **Fulfilling the Social Contract**

Most graduates of business and accounting programs either work for or provide client services to business corporations. The Canada Business Corporations Act states that “A

corporation has the capacity and subject to this Act, the rights, powers and privileges of a natural person.” If corporations are “legal persons” can they not also be “moral persons” capable of acting with or without integrity? As discussed earlier, several well-known theorists have supported this view, that corporations should be treated as full-fledged moral persons (French, 1990; Goodpaster and Matthews, 1988).

It is arguable, however, that it is individuals who run corporations and direct professional associations; that individuals should not be permitted to hide behind the corporate veil but should be fully accountable for their actions. Lack of personal accountability is a failing of integrity. A corporation is merely a metaphor. It is people who make decisions. It is people who enter contracts. It is people who perform good or bad actions. Corporations are not capable, by themselves, of being honest or dishonest, truthful or untruthful. From this perspective moral responsibility must be attributed to its constituents. Corporations cannot hold ideas, and therefore the concept of revision and open-mindedness in this context is an illusion.

Open-mindedness requires thinking persons, capable of deciding on issues after careful thought and deliberation, and capable of revising beliefs in the event of new and conflicting evidence. This puts the onus on accountants as well as on individual members of boards of directors and individuals who serve as spokespersons for corporations to act with full integrity.

Open-mindedness requires that actions be justified. Why should corporations act with integrity by being socially responsible? One answer to the question comes from the

stakeholder approach, which argues that corporate social responsibility is due to a web of relationships which results from individuals and groups who have a stake in the corporation:

a stakeholder is any identifiable group who can affect or be affected by organizational performance in terms of its products, policies, and work processes. In this sense, public interest groups, protest groups, local communities, government agencies, and the press are organizational stakeholders (Bruono and Nichols, 1990).

Another justification for socially responsible behaviour comes from Richard DeGeorge (1990), who takes a “legal creator” view of the corporation, arguing that since the corporation is created by the state it must exist for the common good of society. Society can therefore legitimately demand that it do certain kinds of activities, even if the corporation itself, or those running it, do not wish to do those things. DeGeorge argues further that if corporations are found to harm the public good, they can be legitimately restricted, changed, and even eliminated. In this sense corporate social responsibility involves the acting out of integrity.

### **Individual Moral Responsibility**

To be meaningful, corporate social responsibility must be couched in terms of individual moral responsibility (IMR). This is because it is really individual agents who actually make business decisions. Individual moral responsibility is pivotal to the idea of integrity.

To be morally responsible, certain criteria must be met. For example, IMR implies causal responsibility. One is causally responsible for an event if that event would not have occurred without that person’s involvement. IMR requires that the accountant be a

rational agent. In other words, the person acting must be capable of acting with purpose, and of understanding and choosing among alternatives. These are learned behaviours that are central to the educational process.

IMR also demands both knowledge and freedom. Ignorance, however, does not always excuse one from responsibility. There is such a thing as culpable ignorance; that is, a case in which one lacks knowledge that one would be expected to possess. A professional auditor, for example, would be expected to have a repertoire of audit techniques at his or her disposal and be up to date with current developments in the field. Failure to take these professional responsibilities seriously shows a lack of integrity. This neglect is culpable ignorance.

One can be causally but not personally responsible for events of which the agent is inculpably ignorant. Reasonable audit procedures, for example, cannot be expected to find fraud, where fraud exists, one hundred percent of the time. Integrity requires that when one intentionally and freely engages in an act, one accepts responsibility for the effects of that act. There may also be times when the individual can be held responsible for unintended effects resulting from carelessness or culpable ignorance. In cases where there are potential environmental hazards, an accountant could be held morally responsible for not seeking advice from environmental experts before making disclosures. To be free from blame one must demonstrate that there are justifiable limitations in knowledge or freedom. A characteristic of professionalism is that one does possess special knowledge as well as autonomy. Personal moral responsibility increases in accordance with the possession of

this increased knowledge and freedom. The recognition and acceptance of personal moral responsibility is an aspect of integrity which should be cultivated through the educational process. This is a conception that individual moral responsibility can be learned. It is arguable that explicit attention should be paid to the notion of IMR so that students take the time to reflect on its importance.

An interesting aspect of IMR has to do with the problem of joint effects. Often in business there are several people involved in making business decisions. If a decision is made that harms others—for example, pollutes the environment or endangers the user of the firm's product or service—it is arguable that each person is personally responsible and subject to blame. This is true even if that individual's participation would not be a sufficient condition for the harmful effect. In other words, IMR has no distributive properties, as might be the case with legal responsibility. Personal moral responsibility for jointly determined effects is the same as that for singly determined effects. IMR cannot be legislated. It must be learned. In summary, integrity includes the recognition that individual moral responsibility increases in proportion to the amount of knowledge and autonomy held by the professional. It is conceivable that the cultivation of IMR can be pursued by explicitly emphasizing its importance throughout the entire accounting curriculum.

### **Measuring with Integrity**

Individual moral responsibility is a critical element of integrity which the educational process should seek to instill. Consistent with this view of IMR is that accounting

professionals also have a strong social obligation to serve society in return for the special rights and privileges which society bestows upon professionals (autonomy, high incomes, etc.). Social responsibility can be partially met by providing full and accurate disclosure. Accounting professionals have a critical role to play here. Integrity demands that accounting reporting systems should reflect the interests of a broad constituent base. Currently, corporations produce financial reports that are audited by public accounting firms, which attest to whether these reports have been prepared by generally accepted accounting principles. Finding and reporting the truth is an important aspect of accounting. Truth in accounting, however, is an elusive concept. This is because many accounting measurements are based on arbitrary assumptions regarding amortization of assets and on the allocation of costs for asset valuation. Although many of the numbers reported can be objectively reported, much is not reported, and the emphasis of what is reported is more on stewardship and less on providing relevant information for current and future use.

Integrity in accounting demands a pursuit of the truth. Accounting numbers themselves are therefore linked to integrity. However, because accounting is a socially constructed discipline, as opposed to a natural science, it lacks the preciseness needed for full objectivity. Although attempts have been made to develop a conceptual framework, accounting has no single unifying structure (see Skinner, 1987, pp. 25–37). Generally accepted accounting principles and generally accepted auditing standards are merely socially constructed guidelines. Many accounting choices are left to “professional

judgement.” It is theoretically possible to tighten the rules to allow for fewer choices, but this is unlikely to happen. Professional judgement is considered to be a key characteristic that distinguishes the professional from other occupations (see Houle, 1980). Professional status would soon disappear if the judgement factor were removed. In addition, it is a virtual impossibility to foresee every possible reporting alternative. Attempting to do so would result in an unmanageable preponderance of rules. Through experience the professional learns to tackle each problem, taking into account the total pattern of circumstances but constantly aware that the outcome is uncertain. Freidson (1968, p. 207) has written about this problem referring to what he called, “the impurity of professional authority.” As a consequence, the integrity of the accountant has special importance.

The questions of what to measure and how to measure are perennial problems for professional accountants. Material discretion among accounting practices has paved the way to the problem of earnings management. Earnings management has been defined as

purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain (as opposed to, say, merely facilitating the neutral operation of the process) (Schipper, 1989, p. 92).

Without fraud, falsifying records, or circumventing internal controls (obvious moral failures), it is possible to manage reported net income. Because there is so much discretion with respect to the time period chosen to recognize expenses, net income can be controlled through the accrual process. That is, the portions of revenue and expenses which are not represented by cash flows makes it possible to shift costs to or from one accounting period to another. Examples include the following:

1. The CICA Handbook allows some discretion in reporting amortization, for example, depletion of oil and gas based on cost and quantity estimates.
2. There is a discretionary element in the reporting of accounts receivable. Changes can be made in the allowance for doubtful accounts. By increasing this allowance, for example, one will increase expenses and consequently decrease reported earnings.
3. Flexibility in how a manufacturing firm accounts for inventory also opens the door for earnings management. The choice of what portion of fixed overhead to include in the cost of inventory versus what portion to charge immediately to expenses will obviously affect reported earnings.
4. There is also discretion in the reporting of accounts payable and accrued liabilities. One can be more or less optimistic about warranty provisions, and there is room for judgement in accounting for certain items as contingencies, with footnote disclosure rather than as accruals, which would immediately affect total expenses and net income.

From the perspective of the user it is difficult to determine whether earnings are being manipulated or whether an honest attempt is being made to apply generally accepted accounting principles in a consistent and objective manner. Where earnings management occurs, however, it is unethical because it gives unfair advantage to some interest groups over others. When one constituency (management) exercises its power to control net income to suit its private interest, that is, maximize company bonuses, etc., integrity has been undermined.



A survey of 649 managers revealed two major problems concerning the ethical and moral implications of earnings management (Bruns and Merchant, 1990). The survey concluded that not only is some form of short-term earnings management being practised in many, if not all, companies, but there existed a wide dispersion in managers' views about which practices were ethical. The authors argue that the numerous liberal definitions of what is ethical "should raise questions about the quality of financial information that is used for decision-making purposes by parties both inside and outside a company" (Bruns, 1990, p. 22). This is a warning that one ought to be sceptical about the quality and accuracy of financial statements which may be providing information that has been manipulated and is deliberately deceptive. If some stakeholders are taking advantage of information asymmetry at the expense of other stakeholders, it is clearly out of step with the moral point of view. It is disturbing that this study reported a lack of consensus about which practices are unethical. This may be due to ignorance or not having thought through the ethical implications of earnings management. Exposure to accounting ethics in the accounting curriculum would sensitize stakeholders to such issues and raise expectations for greater integrity. It is because of the highly technical nature of accounting that general ethics education is not sufficient. Ethics must be taught in a setting which provides practice in identifying ethical issues which may be unique to accounting and business situations. Otherwise, honest people with high integrity may fail to act ethically simply because they are not sensitized to the context.

Stepping away from earnings management, numbers also lack integrity because they fail to reveal the true costs and benefits to society. Business decisions often have significant impact on the ecological environment or on family and community life. Some attempt should be made to record such costs or benefits as part of the corporate report. Many important events cannot be easily quantified in terms of monetary consideration. Nevertheless, information such as number of jobs created, number of customer complaints, products returned, measures of employee satisfaction, customer satisfaction, and so forth, are important quality measurements that help reflect the integrity of an organization and its contribution to society. A greater mixture of quantitative and qualitative information will produce a more complete picture, thereby enhancing the integrity of the disclosure. Unfortunately, social responsibility reporting is seldom part of the accounting curriculum. Open-mindedness demands that current practice be critically evaluated with a view towards improvement. Greater disclosure of both economic and non-economic information may lead to decisions that more fairly represent the interests of all stakeholders. This is an ethical issue relating directly to the content of the accounting curriculum and will be discussed more fully in Chapter 6. With current technology, reports can be generated which supply such information at reasonable cost. In the interest of integrity this broader approach to disclosure is essential. In summary, integrity demands truthfulness in reporting. The scope of financial reports must be expanded to include more qualitative information so that a more accurate assessment can be made of the entity's contribution to societal goals.

## **Summary**

It is the contention of this chapter that individual agents for a business or professional organization ought to act with integrity. One can agree with both Taylor (1981) and MacIntyre (1984) that integrity is personal wholeness. It has been argued that this involves acquiring the disposition of open-mindedness, engaging in serious discourse, and practising dialogic leadership. This engages the wholeness of what it is to be human. For the accountant, as a professional, this wholeness must include both technical expertise and moral expertise. Acting with integrity also includes the dispositions of sincerity, acting in good conscience, accepting responsibility, and the courage to maintain sound commitment even under adversity.

The question was raised as to whether personal integrity could also apply to corporations which, in law, are considered to be persons. Integrity, however, applies to the people who act as agents of the corporation. Ultimately, if corporations are to be socially responsible there should be reporting systems which generate accurate, reliable, and more complete information. In this sense, integrity is linked to accounting numbers. The general issues developed in this chapter will provide a framework to guide the development of integrity in business and serve as a guide to the education of professional accountants who will play a major role in how businesses are run. The next chapter will deal specifically with the ethical curriculum as a means of promoting integrity in accounting education.

# 6

## Issues in Implementation

Developing an ethical curriculum implies a program of studies which helps students to reach their intellectual potential while building qualities of tolerance, altruism, trust, respect, empathy, fairness, justice, and open-mindedness which are central to constructing integrity. The challenge is to develop an accounting curriculum that is consistent with the idea of the educated person and the role of the university as discussed in Chapters 3 and 4, with integrity as the organizing principle as developed in Chapter 5. While there is probably not much one can do to change the behaviour of someone who is truly evil, the premise here is that it is possible to develop a curriculum which encourages the morally weak and strengthens the morally strong by sensitizing students to moral issues with the aim of building integrity. The essential theme in the ideal ethical curriculum presented in this chapter is that individuals must be educated to deal with explicit ethical issues such as code of ethics violations, be sensitive to implicit ethical issues such as the use of accounting controls which favour the interests of capital providers over other interests, and also develop the professional technical and moral expertise to begin their careers.

From a review of standard text books in the field, it is clear that accounting has traditionally been taught in terms of technical accounting rules, with little concern over its

ethical impact on those affected by accounting information. Where ethics is mentioned it is generally in the context of rules of conduct and seldom integrated into chapter contents or into the end of chapter problem material. A noticeable exception is a text on introductory accounting by Kermit Larson et al. (1993). Many chapters of this text deal with an ethical issue in accounting in case format. A provocative problem that deals with the ethics case is added to the end of chapter problem material. A typical illustration follows:

Falcon Corporation's board of directors and officers have been meeting to discuss and plan the agenda for the corporation's 1994 annual shareholders' meeting. The first item considered by the directors and officers was whether to report a large government contract that Falcon has just obtained. Although this contract will significantly increase income and cash flows in 1994 and beyond, management decided that there is no need to reveal the news at the shareholders' meeting. "After all, one officer said, "the meeting is intended to be the forum for describing the past year's activities, not the plans for the next year."

After concluding that the contract will not be mentioned, the group has moved on to the next topic for the shareholders' meeting. This topic is a motion for the shareholders to approve a compensation plan that will award the managers the rights to acquire large quantities of shares over the next several years. According to the plan, the managers will have a three-year option to buy shares at a fixed price that equals the market value of the shares as measured 30 days after the upcoming shareholders' meeting. In other words, the managers will be able to buy shares in 1995, 1996, or 1997 by paying the 1994 market value. Obviously, if the shares increase in value over the next several years, the managers will realize large profits without having to invest any cash. The financial vice president asks the group whether they should reconsider the decision about the government contract in light of its possible relevance to the vote on the stock option plan (Larson et al., 1993, p. 809).

The purpose of these ethics cases is to raise student consciousness to moral issues which provide ethical dilemmas. For the above illustration, students would be expected to

discuss the ethical implications of the tentative decision to avoid announcing Falcon Corporation's new government contract.

Research has shown that students can improve their ethical reasoning ability through exposure and practice (Rest, 1986). Research from the Kohlbergian tradition has shown that ethical reasoning ability can be raised if students are exposed to ethical reasoning which is one stage higher than their current stage (Kohlberg, 1969), (Rest, 1979a,b, 1986, 1988). Students in any one class are likely to encompass several of these stages. By encouraging debate within the classroom, students have an opportunity to be exposed to the stage of reasoning which is needed for improvement. Those who are already at the higher stages can also gain by increasing their exposure to ethical issues and reinforcing the habit of ethical thinking. It is one thing to have ethical reasoning ability, but it is quite another to have developed the habit of bringing this ability into action. In highly specialized areas like accounting it is arguable that even people at the higher levels of ethical reasoning need formal exposure to the ethical issues of their profession. While greater ethical reasoning ability may not translate into moral action, it is reasonable to assume that a person with this ability is better able to address complex moral problems<sup>1</sup>.

Whenever humans interact with other humans, or decisions are made which affect other people, there are ethical implications. Therefore, in most subjects it is possible to integrate problems and issues which nurture ethical reasoning ability and foster the habit of

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<sup>1</sup> The relationships among moral judgement, moral education and moral conduct are extremely complex. There are many unresolved problems associated with the developmental approach to moral development (see Gilligan, 1982; Kurtines and Greif, 1974; and Peters, 1975). This line of research, however, should not be abandoned unless and until alternatives are available.

thinking about ethical and moral consequences. Values of a democratic society which promote deliberation and concern for others are important to building an ethical culture. Students, however, must be educated as perceptive and wise critics of their discipline and of society. It was argued in Chapter 3 that this idea of being a reflective thinker who can think carefully and critically about one's discipline and the role of that discipline in society is a form of moral education for which the university is well adapted. In the accounting curriculum there is plenty of opportunity for bringing students into the arena of ethical choice and value judgement.

Taking introductory financial accounting as an example, students are taught that generally accepted accounting principles (GAAP) permit alternative methods of revenue and expense recognition. The choice of one method over another can have ethical consequences. To clarify, assume a business partnership is formed and the partnership agreement specifies that profits are split in a 3:1 ratio the first year but evenly in future years. If one method allows the recognition of say \$80,000 revenue in year 1, and another method allows a deferral of revenue to year 2, then the interests of the individual partners are affected by the decision. The decision chosen should not be based on favouring one partner over the other but should be made after gathering full information on the nature of the transaction and industry practice. Similarly, in a management accounting course many opportunities arise which raise ethical issues. For example, assume that the company president is about to approach the bank for a loan at the beginning of the next fiscal period. It is in the borrower's financial interest to have the company income statement

look as good as possible. This could occur through actions such as increasing year end sales by offering liberal credit terms extending well beyond the normal invoice period. This would bring sales into the current period that would normally not be booked until the subsequent period. The president could also add extra work shifts to eliminate all back orders. In addition, idle assets could be sold to generate extra profits. Each of these steps to improve earnings can be discussed in the context of managing earnings. These actions are unethical if the intent is to deceive. The president is misleading future creditors as well as shareholders. Extra costs are imposed on the business from the extended credit terms and with the overtime work. Students can be taught that morality extends beyond what is legal. These manipulative actions are not illegal and may even be in the best interest of the company if the company can borrow at lower interest rates. However they are unethical if they are taken without consideration of their adverse effect on other stakeholders. Full disclosure, however, can help minimize the effects of these actions. The sale of idle assets at year end, for example, should be separately identified on the income statement as an unusual item so that readers will not be misled by the reported operating profit.

The ethical curriculum is one which helps students develop a moral point of view. It is one which taps the students' capacities for logical thinking, critical analysis, and inquiry that are essential for ethical reasoning. Since Aristotle it has been widely believed that these capacities grow out of experience, encouragement, and habit of use. This curriculum should aim at improving literacy skills of writing, reading, speaking, and listening. Such skills potentially improve thinking and increase the life chances of students in the



competitive world of business. These skills can be partially met through a combination of specific accounting and non-accounting courses.

An ethical accounting curriculum is one which aims at developing a truly educative program that will help to prepare students for their life experiences, designed with the goal of maximizing students' chances of living full, productive, and ethical lives. In addition to teaching technical content it is important to teach ethics as well so that students are prepared to meet the technical and ethical responsibilities of the profession. This demands a curriculum which balances training and education and focuses on both the moral and the intellectual development of students. Model objectives have been proposed by the Accounting Education Change Commission (AECC) (see appendix ). Although not designated by the commission as specifically "ethical," these objectives contain much that is compatible with the idea of the educated person. It will be shown, however, that the AECC guidelines are not sufficient as a model for accounting education.

### **Accounting Education Change Commission**

Much has been written in recent years on the concern for quality education. In 1983, "A Nation at Risk," a report to the United States Department of Education, was published recommending major changes in the high school, college, and university curricula (USDE, 1993). Numerous other articles and books have been written expressing concern over deteriorating standards in education and have stressed the importance of increasing rigour and providing a broad-based education deemed imperative to cope with future challenges

in an ever more complex society.<sup>2</sup> Accounting professionals and academics have not been immune to these concerns. This is most evident in the establishment of the Accounting Education Change Commission (AECC).

The AECC is a task force appointed by the American Accounting Association in 1989 to serve as a catalyst for improving accounting education. The AECC was established in response to reports from a series of committees such as the American Accounting Association's Committee on the Future Structure, Content and Scope of Accounting Education (1986) (the Bedford Report) and the report of the "Big Eight" accounting firms, "Perspectives on Education: Capabilities for Success in the Accounting Profession" (1989). The work of the AECC is an excellent illustration of how a professional body has taken on the responsibility to exert its influence in the education versus training debate discussed in Chapter 3. The American Accounting Association has been concerned that business schools have over-emphasized technical and procedural skills development at the expense of providing students with the broad conceptual background which is necessary to function in the new knowledge economy. In response to concern over the integrity of existing university-based accounting curricula, in September 1990 the Commission issued Position Statement No. 1, entitled "Objectives of Education for Accountants." This document clearly goes well beyond training and emphasizes the importance of life-time

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<sup>2</sup> See for example *Time for Results The Governors' 1991 Report on Education* (Lamar et al., 1991); *Academic Work and Educational Excellence* (Tomlinson, 1986), and *The Schools we Deserve: Reflections on the Educational Crises of Our Time* (Ravitch, 1985)

learning and education. For a summary of these objectives see the appendices at the end of this study.

Exhibit B in the appendix shows that the AECC proposes a composite profile of capabilities needed for accounting graduates. This includes general knowledge, intellectual skills, interpersonal skills, communication skills, organizational and business knowledge, accounting knowledge, accounting skills, and personal capacities and attitudes. This profile is consistent with the model of the educated person which we developed in Chapter 3. For example, it would be hard to conceive of Barrow's educated person as lacking the above qualities and still be aware of one's place in the world, appreciate and be alert to one's responsibility to individuals, distinguish logically distinct kinds of questions, and have a capacity for discrimination. The capabilities proposed by the Change Commission would seem to be quite essential to reaching Barrow's concept of the educated person.

One can agree with the AECC for its encouragement given to universities to move toward more broad-based learning. Note, however, that there are only brief references to ethics. This is a serious deficiency given that the concept of the educated person as the moral person is central to models of the educated person from Plato to the present. Under the heading of Intellectual Skills is the goal, "Ability to identify ethical issues and apply a value-based reasoning system to ethical questions." The second reference is found under the heading of Accounting Knowledge, "Ethical and professional responsibilities of an accountant." One can deduce from the first reference that the AECC would favour the teaching of ethical frameworks. No explanation is given to explain the second reference

but it likely means that students should become familiar with accounting codes of ethics. The strengths of the AECC document are that it appears to promote a sense of history, broad knowledge, and an interdisciplinary focus which are, arguably, essential components of the ethical curriculum. Abilities developed in these areas better equip one to recognize ethical issues and defend one's judgements regarding ethical matters.

### **A Sense of History**

The well-educated accountant has a sense of history. This has been recognized by the Education Change Commission, but the AECC could go further in its rationale. A keen understanding of history can instil in each of us the reality that things are often not what they seem. Conditions of ambiguity and complexity are the norm in both business and everyday activity. An appreciation of history helps one to realize this and to be on the alert for unarticulated historical forces that underlie many problematic situations. Raising the level of historical consciousness among accountants can potentially reduce the likelihood of basing decisions on shallow evidence and unchallenged data. This sense of historical consciousness means much more than being able to cite names and dates of historical events. It means being able to connect one's knowledge of, say, the industrial revolution and the current knowledge revolution to current accounting practices, or relating a current accounting practice to a specific past event.

Courses in accounting, particularly at the intermediate and advanced levels, could be made significantly more effective (and more interesting) by integrating a historical perspective. When analysing current accounting standards, for example, a study of the

circumstances which led to a particular accounting pronouncement; what the alternatives were, why they were rejected, how the decision was influenced by social and political events, and so forth, help bring the student to a deeper understanding and place him/her in a better position to make a critical assessment of the pronouncement. In studying the current accounting standard for foreign currency translation, for example (section 1650 of the Canadian Institute of Chartered Accountants (CICA) Handbook or Financial Accounting Standards Board (FASB) 52 in the United States), a history of foreign currency standards conveys to students that lobbying efforts of the management constituency can be powerful enough to force the standard setting bodies to abandon a sound, economically supported standard and to replace it with a standard which management finds to be more practical. FASB issued statement 8 (SFAS8) in October 1975. Accounting under this statement was consistent with expected economic effects of exchange rate changes on cash flows and equity. Under SFAS8 gains and losses on net monetary liabilities (cash and accounts receivables less accounts payable and bonds payable) would be reported on the income statement. These translation adjustments were volatile and uncontrollable by managers. SFAS8 was consistent with purchasing power parity theory and interest rate parity theory, two well-known economic theories, but theory was not powerful enough to overcome the practical complaints of management. Management argued vigorously against unrealized gains and losses being included in net income. Intervention of the management lobby was so strong that the FASB retreated from SFAS8 to a more politically acceptable alternative with SFAS52. Under SFAS52

reported net income is less volatile because management is able to by pass the income statement and report unrealized gains and losses as an adjustment to shareholders' equity.

SFAS52 was well accepted by management because it excluded translation gains and losses from the income statement and relegated them to a separate component of shareholder's equity. There does not seem to be any economic theory which supports SFAS52. By studying the historical development of this standard, students learn that accounting standards can be moulded to favour particular interest groups, and this is very much an ethical issue. SFAS8 had no cash flow effects since exchange gains and losses were paper items only. According to efficient market theory, prices of shares of affected multinational companies would not be affected by exchange gains or losses because there were no cash flow effects. Perhaps management opposed the volatility because it affected lending agreements or management bonuses. One cannot help but question the integrity of the standard setting board which has allowed itself to be unduly influenced by one interest group. Similarly, history can provide insights into accounting methods employed in the past as a basis for assessing cost accounting procedures. For example, a study by Johnson (1981) of the rise of nineteenth-century cost accounting provides a foundation for addressing concerns about outdated management accounting practices.

History can better help students understand how economic, legal, political, and social factors influence financial reporting. After the depression, for example, the emphasis of financial reporting shifted from that of presenting information to managers and creditors to that of informing investors and shareholders. Students will deduce that this was due to a

separation of the ownership of firms from management. This separation of ownership necessitates periodic reporting to shareholders who are divorced from the daily activities of the firm and desire knowledge on how their investments are faring. This can bring discussion to the current environment in which other stakeholders have a need for information about the firm's accountability. Because this type of educational experience helps to shape student perspective, and potentially student action, when that individual enters the profession then we are really talking about the integrity of the curriculum. This is an ethical issue in the sense that by failing to help students to develop the habit of taking a historical perspective, they may make judgement errors which have human consequences. Having historical knowledge may not necessarily change how one acts but it at least it makes one's decisions conscious by forcing one to think about the validity and wisdom of our choices. Historical knowledge broadens our experience through dialogue with the past, but as put by Marrou:

Because this kind of dialogue is valuable, that does not mean that we are obliged to stop being ourselves; it is simply a means of acquiring culture, enlarging our perspective and stripping us of that naive self-sufficiency which prevents us from imagining that anyone could be different from ourselves (Marrou, 1956, p. xii).

### **Broad Knowledge**

Recognizing that graduates must cope with constant change in the business environment, the AECC comes out strongly in favour of life-time learning and stresses the importance of developing intellectual skills, such as the ability to find and organize data and identify and solve unstructured problems in unfamiliar settings. In addition to business knowledge

the Commission also emphasizes the importance of general knowledge. In the words of the Commission, "Such general knowledge should include an appreciation of the flow of ideas and events in history, an awareness of the different cultures and socio-political forces in today's world, a broad understanding of mathematics and economics, and an aesthetic sensibility. It will lead to an improved understanding of the world-wide economic, political, and social forces affecting society and the profession" (see appendix B). A broad general background can serve as an attractive bridge between intellectual discipline and the profession and may provide to the accounting profession more creative and imaginative individuals who have a sense of the complexities of human society and a reverence for the virtues of the social world of which business is a part. The life-chances of such individuals are improved since they can more readily adapt to changes in their work environment. This should place our future business leaders in a position to make better decisions leading ultimately to a better society. One can argue, therefore, that the AECC position on broad knowledge is an integral component of an ideal ethical accounting curriculum.

### **An Interdisciplinary Focus**

Accounting professionals have a duty to themselves, to the profession, and to society to behave ethically and responsibly. Vickers (1974) argues that the accounting profession invites more than the usual degree of trust and so the accountant has a more than usual responsibility in exercising the accounting function. According to Jennings, Callahan and Wolf (1987), "Each of the professions is undergoing, to some degree, a process of



intellectual ferment, social transformation, and ethical redefinition... The new 'social contract' between society and the professions... will require that the professions take their duty to serve the public interest and the common good much more seriously than ever before" (p. 1). This requires an integrated view of accounting that links accounting to other disciplines. Events of recent years in Eastern Europe and the former Soviet Union, and a threatened ecological environment, signal both opportunities and threats for the accounting profession. This challenge may be met in part by providing accounting students with an interdisciplinary focus in their studies. The AECC seems to be in support of an interdisciplinary focus when, in writing about general education, it says, "It should develop speaking and listening skills, historical consciousness, international and multicultural knowledge, an appreciation of science, and the study of values and their role in decision-making" (see appendix B).

Without an interdisciplinary focus, the professional accountant is simply not equipped to give a full account of an enterprise's stewardship to its stakeholders. Ethical issues, culture, international aspects, environmental concerns, and the role of women in the profession, as examples, require knowledge from a variety of fields. Ignorance of these matters cannot excuse the business graduate or accounting graduate from taking these concerns into account when making decisions. It was argued in Chapter 5 that culpable ignorance is a breach of integrity. Business schools have an ethical responsibility to provide the interdisciplinary foundation as a fundamental part of the ethical accounting

curriculum. This should better equip graduates for the challenges they will face as future business decision makers.

### **Critical Inquiry**

The AECC has stated that the development of intellectual skills is an essential for accounting graduates, including “capacities of inquiry, abstract logical thinking, inductive and deductive reasoning and critical analysis” (see appendix B). The AECC sees the “ability to identify ethical issues and apply a value-based reasoning system to ethical questions” as an essential intellectual skill. As shown earlier in this chapter, the AECC makes only scattered reference to the importance of values, ethics, and aesthetic development. The AECC also falls short by not promulgating the importance of critical inquiry. Critical inquiry is challenging because it forces one to look inward and perhaps question the purpose itself of the accounting profession, and can lead to controversy. It is likely that this interpretation is not what the AECC has in mind when it uses the phrase “critical analysis.” According to Fay (1977, 1987; and see Carr and Kemmis, 1986) educational institutions take social structures for granted and play a “transmitter” role of uncritically reproducing the social, political, and economic relations of the status quo. Higher education institutions have a responsibility to encourage serious deliberation on such issues and to help inculcate in their students the habits of critical inquiry. For accounting students this may result in a greater understanding of the need to report cost and revenue information that takes into account more than the narrow interests of shareholders. A greater appreciation of aesthetic values, more awareness of environmental

impact of business decisions, and a stronger sensitivity to human costs and political expediencies are new challenges to the accounting profession. These issues have strong ethical content.

In compiling cost data which will influence decisions, for example, accountants have an ethical responsibility to disclose the full cost, including social costs which may not be borne directly by the firm. In some cases this additional disclosure could potentially reverse an otherwise sound decision. This is a view of accounting which may create an ethical dilemma for the accountant in instances where one has to make a choice between loyalty to the firm or loyalty to society. As a member of a profession, the accountant has a particularly strong obligation to society which has granted the profession special privileges. If the accountant is an employee of the firm rather than an external auditor, the dilemma can be very serious for the practising accountant, who will need integrity in order to take a stand and do what is ethically right.

The critical component of education aims at exposing students to multiple and conflicting perspectives on themselves and their society in order to test and challenge their previously unexamined assumptions (see Habermas, 1970). Critical education strives to create a setting which facilitates intellectual, moral, and emotional growth, so that students may mould their skills in a more mature, humane, and compassionate setting of values. Critical education purposely tries to stimulate students to reformulate their goals, their cognitive map of the world, the way they think, and their view of the accountant's role in society (Keniston and Gerzon, 1972, p. 53). When the student enters the world of work,

this ability to reflect on conflicting perspectives puts the accountant in a position of greater social responsibility. The ability to recognize when change is needed and to take the decisions to implement necessary changes after considering the interests of those affected is an ethical responsibility of the professional accountant. In cases where the individual does not actually have the authority to make these decisions, a concerted effort should be taken to make one's views known to those who are in the position to make decisions.

At times it takes a person of strong moral character and conviction to challenge the status quo or to recommend actions which may be politically unpopular but are morally right. It may not be possible to act with integrity without having developed the ability to take manifold perspectives into account. One cannot guarantee that individuals in practice will always act with integrity. Providing them with a strong educational foundation at least equips them with the ability to consider different points of view, and seems to be a reasonable goal of accounting education. Accountants typically work with the interest of investors and creditors in mind, even though the health and well-being of the organization depends on contributions from employees, customers, managers, and others who have a deep stake in the enterprise. The AECC does not explicitly address this very fundamental element of accounting education.

Implementation of this new curriculum may require the rewriting of many of the current textbooks. In other cases it may be feasible to supplement current texts with carefully selected readings and to consider alternative delivery mechanisms. To build an

interdisciplinary perspective, accounting faculty may find it necessary to seek help from peers in other disciplines such as education, sociology, history, and philosophy, and to accept that, as faculty, they too are students in the life-long quest for knowledge and truth.

### **Beyond the Basics**

It has been argued thus far that the ethical accounting curriculum should be broad-based and provide historical perspective, an interdisciplinary focus, and critical inquiry. The recommendations of the AECC were presented as generally educationally sound, but they fall short in that they give only minimal support for the integration of ethics into the accounting curriculum. While these goals should provide the foundation of an accounting education program, they are not sufficient. Because business rests on a moral base, it is imperative that business ethics be an explicit component of the curriculum. Ethics is already an implicit part of the accounting curriculum whether this is intended or not. As put by Etzioni:

There is no ethically neutral teaching. Everything in the classroom communicates an ethical position. The only difference between business ethics courses and all others is truth in advertising: Ethics courses state explicitly when value positions are communicated; the regular curriculum embodies hidden assumptions of which even the professor may be unaware (Etzioni, 1989).

This raises three basic questions: 1) what should be the goals of ethics education in business programs; 2) how should it be implemented into the curriculum; and 3) what should be the content and method of business ethics.

## **Goals of Teaching Business Ethics**

At least five goals of moral education have been identified in the literature. Callagan (1980) has suggested the following: 1) stimulating the moral imagination, 2) recognizing ethical issues, 3) developing analytical skills, 4) eliciting a sense of moral obligation and personal responsibility, and 5) tolerating—and resisting—disagreement and ambiguity. Each of these goals will now be briefly examined for their relevance as goals for integrating ethics into accounting education.

Callagan suggests that ethics education should be more than an intellectual exercise; that it should stimulate the feelings and imagination of students. Students need to be taught that we live our lives in a web of human relationships such that moral actions can cause pain or joy to others. Callagan does not mention accounting education or business practice, but this web of moral relationships is a very appropriate description. Actions by managers can powerfully influence the lives of those under their control. As John Kenneth Galbraith (1955) has said, “the privilege of controlling the actions or affecting the income and property of other persons is something that none of us profess to seek or admit possessing.”

Callagan’s second goal, developing the ability to recognize moral issues, is closely related to the first goal. It means, however, going beyond feelings and emotional responses to rationally sort out emotionally charged reactions. According to Callagan, “A course in ethics should strengthen an ability to detect hidden value biases and tacit moral premises and to discern when and how issues of morality are present...(the effect on)

human beings, for instance, or conflicting moral obligations” (1980, p. 49). In the context of accounting this may mean developing the ability to recognize and disclose obligations to workers, consumers, creditors, and owners and being able to weight their conflicting claims in a rational manner. To apply rational moral reasoning properly implies that the correct moral issues have been identified, and this may be a difficult skill to develop.

The development of analytical skills is necessary in order to make a proper moral evaluation. Callagan recognizes the complex problem in dealing with concepts such as “justice,” “right,” or “good,” but stresses the importance of coherence and consistency as minimal goals for the development of analytical skills. Ethical frameworks such as utilitarianism or deontology can provide very different answers, but the ability to work through these frameworks, as discussed in Chapter 5, is fundamental to ethical reasoning. Business people are already very familiar with the concept of utilitarianism. Economics, for example, is largely driven by this principle. An educated person should be able to reason from and understand the perspectives of others, and this may mean recognizing that there are situations where moral principles are more important than the utilitarian idea of choosing what is best for the majority.

The goal of eliciting a sense of moral obligation and responsibility is one over which a teacher may have the least influence. As Callagan says, “Why ought I be moral?...is a fundamental question...It is an old and exceedingly complex [one]... There are no easy answers.” The notion that we can acquit ourselves of moral responsibility is as old as Cain but, in the words of John Donne, “no man is an island.” The idea that people must be free

to make moral choices and be responsible to others for their choices is fundamental to the notion of ethics. If students of accounting lack this feeling of moral responsibility, ethics education may not have much influence. A role of education is to help students who do possess this sense of moral responsibility or integrity to see its relevance in business situations, and it is these people who will be best equipped to meet the accounting profession's obligation to society.

Callagan argues that students need to learn to tolerate the disagreements and to be prepared to accept the inevitable ambiguities in attempting to examine ethical problems. However, there must also be a strong attempt to "locate and clarify the sources of disagreement" (1980). Accounting education needs to emphasize that moral disagreement should not be an excuse for abandoning ethics altogether. A serious attempt should be made to find and understand what underlies the disagreement. Paying attention to the moral view of others through discourse, as illustrated in Chapter 5, may help to reduce much of the disagreement, or at least bring it to the point where the ability to tolerate differences is achieved in the spirit of open-mindedness.

Finally, a key consideration with respect to goals of applied ethics relates to the setting itself in which courses are offered. Higher education institutions have a tradition of open inquiry. Goals of teaching ethics should be consistent with this tradition and should strongly resist indoctrination or any attempt to close off conversation. Accounting values and codes of conduct may simply be professional socialization, but to subscribe to those distinctive values in a university setting without debate may be a form of indoctrination.



The university should go beyond clarifying business values that the student has already accepted as a condition of professional membership. The university should continually reflect on the underlying values of the profession.

Callagan's goals seem to provide a framework for bringing business ethics into the accounting curriculum. For accounting education a sixth goal, however, should be added to reflect the additional responsibility of professionals. This goal is to instill a heightened sense of moral and social responsibility that encompasses critical inquiry. Because of the special power and privilege which society bestows upon professionals, society has a right to expect that professionals acquire a heightened sense of moral and social responsibility that would ensure that integrity is exercised in carrying out professional functions. This would entail a strong and consistent commitment to do what is right and not to abuse their positions of trust or be unduly influenced by powerful individuals or interest groups. Recall from Chapter 5 that integrity involves a consistent commitment to do what is right, especially under conditions of adversity. If these goals can be reached it will be possible, in Dewey's terms, to replace customary morality with reflective morality. Higher education can play a key role here in providing students with the acquisition and cultivation of the knowledge, skills, and abilities for moral reflection, with the ultimate aim being to improve practice. The goals of teaching ethics in the accounting curriculum must be made explicit, communicated clearly, and reinforced continuously so that a clear message is sent to students and faculty that integrity is an important and essential aspect of professional accounting responsibility.

## **Place in the Curriculum**

Given the acceptance of the preceding goals of teaching ethics in the accounting curriculum, the question of implementation immediately comes to mind. McKibbin and Porter in their well-known report on management education concluded:

no reasonable person, in our opinion, could argue that business schools should ignore ethical aspects of business behavior and business decisions or should emphasize them less than currently, but how best to implement an increased emphasis is the challenge. Even more difficult is the question of how to make a concerted focus on ethics in the business curriculum have an impact on graduates' subsequent behavior, to go beyond merely making faculty and students "feel better" because they have discharged their obligations by giving consideration in their courses to moral standards and principles of conduct (McKibbin and Porter, 1988, p. 86).

Although this study strongly supports integrating ethics into the accounting curriculum, it must be qualified that the case for teaching business ethics has not yet been made on empirical grounds. There is not yet "proof" that a course in business ethics is effective in meeting the goals discussed in the last section. A study by Hoffman and Moore (1982) found only three studies supporting the effectiveness of a business ethics course. This is a very small number given that there were 337 schools teaching the course.

There have been several other studies designed to measure effectiveness of ethics education. Among them are Arlow and Ulrich, 1985; Boyd, 1982; Martin, 1982; Stead and Miller, 1988. With the exception of Boyd, all showed improvements in students' perceptions of course effectiveness in that there was an improvement in ethical reasoning or ethical awareness. These studies all used different measures of effectiveness and this has restricted the ability to make meaningful comparisons among the studies. Where improvements have been made, not enough is known about the lasting effects. In the case

of the Arlow and Ulrich study, however, students were contacted years after taking the course and it was discovered that students showed a significant regression in their ethical awareness four years later. If it is true that an ethics course has a short-term impact on the ethical reasoning of students, then perhaps greater emphasis needs to be put on integrating ethics throughout the entire curriculum. A single course may need to be supplemented by ethics exposure in all classes.

Only four studies have attempted to assess the effectiveness of ethics education in accounting. Hildebeitel and Jones (1991), showed that after receiving ethical instruction students placed greater emphasis on higher level considerations such as integrity, professional responsibility, and legal responsibility than on lower level considerations such as keeping one's job, gaining peer respect, or getting promoted on the job. Studies by St. Pierre, Nelson and Gabbin (1990) and Shaub (1991) used the Defining Issues Test (DIT) (see Rest, 1986) to assess the influence of ethics courses on accounting students' ethical reasoning. Neither study found that participation in a college ethics course consistently influenced students' ethical development as measured by the DIT. Ponemon (1992) studied the effect of ethics interventions integrated into a one-semester introductory auditing course at both graduate and undergraduate levels. Using the DIT, Ponemon did not find that ethical interventions resulted in an increase in DIT scores.

Although these results are not encouraging, much more research is needed on the effectiveness of ethics programs. Given that improvements have been made, there is, however, at least some room for optimism (see Rest, 1986). It is an empirical question but

it seems likely that if ethics were integrated into every accounting course over a four year period in addition to a separate course in business ethics, that more positive results will be realized. It is also possible that people who have high ethical reasoning ability when tested may not use this ability in real life situations if it is not nurtured through habit of use. The ability to reason ethically is not sufficient. Ethical effectiveness should also take into account the other goals that were discussed earlier. To behave ethically also requires integrity. The concept of integrity as discussed in Chapter 5 is the cornerstone of what it means to be ethical.

The effectiveness of business ethics may be a function of its place in the curriculum. Hidden messages about the seriousness of business ethics can be sent to students based on where and when it is taught. If, for example, business ethics is taken as an elective in the last year of their program, it gives students the message that it is merely an add-on, a filler, and of not much significance. The consequences of doing nothing are even worse:

Granted the consequences of doing nothing are plainly intolerable. A university that refuses to take ethical dilemmas seriously violates its basic obligations to society. And a university that fails to engage its members in a debate on these issues and to communicate with care the reasons for its policies gives an impression of moral indifference that is profoundly dispiriting to large numbers of students and professors who share a concern for social issues and a desire to have their institutions behave responsibly. Moreover, any administration that fails to discuss such questions openly and in detail will allow the campus debate on serious moral problems to degenerate into slogans and oversimplifications unworthy of an institution dedicated to the rigorous exploration of ideas (Bok, 1982).

There may be other acceptable approaches: there is a strong argument for teaching business ethics as a separate course and that it should be offered early in the program. This

indicates to students that business ethics is a subject that is integral to business studies. This, however, implies a trade-off. Students may lack the technical competence and business and accounting skills to apply concepts as much as they would if the course were offered later in the curriculum. There will, however, be an adequate supply of business issues with ethical implications that are within the grasp of their understanding. This fact, combined with the very positive signal that business ethics is a foundation course, outweighs the disadvantage. It is arguable that the measure of the seriousness of any subject is that it is a course of its own, and it is also probably necessary to ensure that the core ethical theories are treated in sufficient depth. The length of the course is open to debate, but one possibility is to take the current Introduction to Business course which is offered in many accounting programs and divide it into two quarter courses, one of which would be devoted entirely to business ethics. Students will not have enough background in accounting at this time to pursue ethical issues peculiar to accounting, but it is not too early to study general issues of business ethics.

Signalling is important. It is critical to gaining the interest and commitment of students as well as faculty. How this course is staffed is vital to its success and is a powerful, even if unintended, signal about how important the university perceives business ethics to be. One way to send the signal that business ethics is important is to have it taught by a senior faculty member as a sign of its relevance to the entire program.

However, any benefits can soon be lost if ethical issues are not addressed in other courses across the entire business curriculum. If the accounting course, for example, fails

to discuss the ethical issues of fair reporting and responsibilities to clients, or if related courses such as marketing fail to discuss the ethical issues inherent in advertising and pricing, then efforts may have been in vain. It is very important that students be given the opportunity to reflect on the broader personal, social, and cultural dimensions of particular business subject areas that fall within the moral domain. Ethical choices are intertwined with virtually all managerial decisions. Accounting students need to be exposed to business ethics from the perspective of all functional areas, because accounting interfaces with all aspects of business operations. Broad exposure will better equip accounting students who will eventually be called upon to perform audits. In performing an internal audit of the marketing department, for example, the accountant needs to understand the full context in which that department operates; this includes the ethical dimension. The capacity to recognize the ethical dimensions of decisions, and to articulate them, needs to be cultivated. Ethical decision making can then become an integral part of accounting practice and managerial decision making. It is also important to be forthright about the goals of the non-ethics course. That is, the integrity of ethics as a discipline and the integrity of the non-ethics course should be protected by drawing students' attention to the ethical goals as well as the technical and non-technical goals of each particular course.

Integration throughout the curriculum represents a formidable challenge. This is due in part to the objections to the teaching of ethics which were raised in Chapter 2, as well as to a lack of faculty support. Difficulties of attaining integration throughout the curriculum have been pointed out by Bok and Callagan (1980) and by Piper, Gentile and Parks

(1993). One can agree with Piper and et. that barriers must be overcome in order to engage the power and competence of the faculty. For example, there is need for a visible incentive system that encourages attention to ethical issues. This could take the form of research assistance for faculty interested in pursuing ethics research.

The integration of ethics into the accounting curriculum provides special problems for accounting professors. Professors themselves may not have sufficient moral expertise for the task. This barrier can be partially overcome through a mentoring process that would engage faculty, for example, from the philosophy department as well as business school faculty who have demonstrated interest and competence in business and accounting ethics. If possible the selection of the accounting area group head should in part be based on his or her commitment to the integration of ethics into the curriculum. Such support is necessary to help the accounting professor cope with the inevitable change that is likely to occur in the classroom that results from paying more attention to ethics issues in accounting. Through the mentoring process accounting faculty can be made aware of the influence they have as role models to their students. As role models, faculty have a responsibility to foster the notion that business is a system of relationships that requires trust, commitment, and the recognition of responsibilities to numerous stakeholders. This is an essential attitude for building integrity and it can be promoted through the teaching process. For example, faculty members can employ case studies that encourage discourse which inspires students to consider the ethical dimension of business and accounting decisions

Ethics integration requires strong, continuing faculty support in legitimizing business ethics issues early in the program, preferably in the first year, and providing opportunities later to delve more deeply into ethical issues in specific accounting courses. This should lead to a greater understanding, since it provides a chance to focus on particular aspects of ethical issues unique to the course speciality, for example, financial reporting, management accounting or auditing. Also, the course instructor is more likely to feel comfortable discussing these issues in the context of his or her own area of expertise.

The recommendation, then, is for both a separate course in business ethics and for integration of ethical issues throughout the curriculum. It is also recommended that the separate course be mandatory. This is to convey the message that the subject is important and to avoid the problem of only teaching those students who self-select to study business ethics.

### **Some Content Issues**

When ethics is introduced into an accounting course or supporting course, there will always be a trade-off in terms of course coverage. Faculty will be forced to leave out content from their particular specialities. Care must be taken to preserve the integrity of the business subject areas such that the course is not, for example, an ethics course disguised as an accounting course.

Special attention needs to be given to the content so that students are given the opportunity for reflection so that indoctrination will be avoided. Students need to be given the tools of analysis and be exposed to the various ethical frameworks which permit



rigorous treatment. However, care should be given to the delicate balance of allowing students to come to their own conclusions and yet providing mentorship and guidance which comes from wisdom and experience. If professors never take a stand and the course deals only with complex issues full of ambiguity and dilemmas, students may be led to the dangerous view of relativism, that ethics is just a matter of personal opinion. Every ethical issue in business is not a grey area. There are many issues for which a resolution can be found through rational open-minded discourse. It was argued in Chapter 5 that such discourse was important to building integrity among individuals. Discourse among students and between students and faculty opens up the question of whether the course instructor should take sides on an ethics issue or attempt to remain neutral.

The argument for neutrality is based on the notion that freedom of thought should be promoted and that faculty should not infringe upon the democratic rights of students to think autonomously. There is a fear of being accused of moral indoctrination. This is to be applauded, but neutrality should not mean that one cannot take a stand on moral issues. If we interpret neutrality, for example, in the sense of being open-minded (Hare, 1985), then such a notion becomes acceptable. That is, one can defend one's position and may tolerate alternative views as long as the positions taken are argued logically and one is willing to change one's mind in the light of new evidence. From a pedagogical point of view, however, it may be a useful strategy for the professor not to take a position too early in the discussion. This is to avoid the danger of students merely accepting this position without going through the reasoning process themselves.

It should be borne in mind that since we are discussing the teaching of business ethics in higher education, it seems reasonable to assume that students have developed sufficiently, emotionally and intellectually, to be independent moral agents. By this stage their previous education should have helped them to develop the personal virtues of courage, temperance, self-respect, love of truth, and so forth, as well as the social virtues of honesty, cooperativeness, trust, benevolence, and non-malevolence. These are necessary for developing relationships between autonomous beings. It may be that humans violate these ideals from time to time and need reflection to be reminded of their importance. It is doubtful, however, that business ethics will do much to change people unless they have at least developed some respect for virtue. This, however, is an empirical question. There is little doubt that educators can teach about virtue to students of any age. However, teaching about virtue is not the same thing as teaching virtue.

A course in business ethics should reinforce the importance of the virtues, but a major contribution is that it should help to sensitize students to ethical issues which might otherwise go unnoticed. It seems likely, for example, that good people who worked near and around Ivan Boesky would have exposed Boesky before he had done so much damage if they had been more sensitive to what was happening.

Another possibility, as suggested earlier, is that ethics integration may help raise the ethical reasoning ability of students. While there is no guarantee that improving moral judgement will necessarily lead to more ethical behaviour, there is little doubt that moral judgement is a major influential factor. One can agree with R.M. Hare (1981,p.38) that if

students gain experience reasoning through typical difficult situations that are likely to encounter in the business world, they will be less inclined to “cook” their ethical thinking when faced with actual stressful situations. In this sense ethical reasoning ability is supportive of the larger integrity.

### **The Capstone**

Teaching will have its greatest impact if ethical issues are raised continuously throughout the entire accounting program. This, of course, is an empirical question, but it certainly makes intuitive sense. Four years of exposure to ethical issues in business and accounting would help to develop a habit of thinking about ethical issues and help to stamp out moral ignorance. Exposure may not change the morally corrupt, but it should help to strengthen ethical sensitivity and improve ethical reasoning.

From an ethical perspective, the traditional model of accounting is constraining. The emphasis is on stewardship to investors and creditors. While it is known that others have legitimate interest in an enterprise’s performance, fairness is usually thought of in the context of meeting the information needs of these two groups as specified by generally accepted accounting principles (GAAP). This conception of fairness can be criticized as one which is too narrow. It fails to recognize the extensive interdependencies which exist among business persons and others in society. To help free students from this moral ignorance, an accounting course can be structured to explicitly take these interests into consideration. Social responsibility accounting (SRA) attempts to do this. Matthews (1995) argues that the most persuasive moral argument in favour of increased social and

environmental disclosures in annual reports lies with the social contract between business and society.

Much was written about SRA in the 1970s and it was quite popular in England and Germany. Unfortunately it has received less attention in North America,<sup>3</sup> although there has been pressure from environmental groups for more “green” reporting. Widespread media coverage of events such as the Exxon Valdez oil spill has added to the urgency of the problem. The costs of rectifying past environmental damage, including legal costs, make environmental practices and disclosure of these practices a priority. Pressure also comes from insurance companies which demand that firms seeking coverage must fulfil certain environmental requirements. A sound environmental reporting system facilitates compliance with such demands (see O’Kane, 1994). There are also a growing number of equity funds<sup>4</sup> which will invest only in environmentally responsible businesses. In spite of the fact that environmental auditing is not yet required by statute, existing federal and provincial environmental legislation in Canada and abroad is putting pressure on accountants to at least recognize the potential obligations which firms are increasingly facing. According to Rubenstein (1991), companies are spending more money on the environment, as well as more time in the board room, discussing what they are doing to the environment and what the environment will be doing to the bottom line.

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<sup>3</sup> Several researchers, however, such as Abraham Briloff (1972, 1976, 1981, 1990) and Tony Tinker et. al. (1985, 1991a, 1991b) have actively promoted social responsibility accounting.

<sup>4</sup> There are 15 ethical funds in Canada managed by 5 mutual fund companies. Source: <http://www.web.net/ethmoney/perform.htm>

Business plays a key role in issues involving the environment, but also with issues concerning civil rights, employment equity, product safety, consumer satisfaction, gender issues and many others. To structure accounting reports to serve the interest primarily of investors and creditors, as is the current practice, underestimates the impact which business actually has on society. One can agree with Lehman (1988) that accountants are implicated in social issues whenever they set disclosure rules. Rules such as those for restructuring debt, for funding pension plans, or for keeping externalities off the balance sheet favour some interest groups over others. The moral point of view is that an accounting is owed to all interest groups. It is this argument that provides the rationale for social responsibility accounting. SRA is the integration of ethics into the curriculum in the sense that the issue of fairness becomes a primary concern for the accounting student. Students are plunked right into the middle of issues involving respect and concern for others. Attention is directed at serving society's information needs regarding the relations between the business enterprise and its constituents. The business enterprise is an institution created by society to serve society. It is society that gives production and distribution rights to business. Business relies on society's educational system to provide it with employees, on society's maintenance and transportation system, on a stable social and political setting in which to conduct business, and on a legal system to settle disputes. In return for special rights, privileges and protection, a duty is owed to all of society. The corporation incurs private costs and accrues private benefits from the role society has permitted it to play. The traditional accounting model captures these private costs and

benefits. Social costs, such as environmental pollution, are usually not reported. Similarly, social benefits, such as aesthetic buildings and grounds, hiring of minorities, and so forth, are not disclosed.

As agents concerned with the rights of those who receive accounting reports, accountants can be educated not only to provide measures of net income but also to report measures of corporate contribution to the environment, to quality products or services, and to the community internal and external to the organization. I suspect that due to cost and competitive concerns, businesses will resist such extensive disclosure. Educating accountants, however, to their full professional responsibilities to society is an essential step to achieving fair reporting and promoting integrity and ethics in business.

In summary, the model for integrating ethics into the accounting curriculum presented in this chapter is as follows:

- 1) Devote half a semester of the Introduction to Business course to general business ethics
- 2) Integrate ethics into each and every accounting course throughout the curriculum
- 3) Develop a capstone course at the senior level which deals with complex issues of business social responsibility and professional responsibility.

This approach to ethics integration provides the student with both broad and specific exposure to business and accounting ethics. Society will benefit from educated individuals with high ethical reasoning ability who are sensitized to ethical issues and who have developed the habit of careful reflection. This combination of ethical reasoning,

**sensitization, and reflective thought are the seeds for building integrity, the central organization principle of ethical behaviour.**

# 7

## Summary

Ethics has become a widely debated topic in business and in the accounting profession. A sampling of common problems and opportunities for unethical behaviour in the accounting profession were presented in Chapter 2. Accountants enjoy special benefits stemming from their role as professionals. Many of these opportunities exist because of information asymmetry and special powers which are granted to the accounting profession.

As public watchdogs in positions of trust, accountants are strongly obligated to provide fair disclosure and to refrain from unethical behaviour or undermining stakeholder interests. Stakeholders such as employees and consumers often have very little power in a business environment characterized by oligopoly and monopoly. The social obligation for members of the accounting profession is to ensure fair reporting that reflects the interest of all stakeholders.

The accounting profession has addressed the problem of ethics by establishing codes of conduct for its members. Codes provide serviceable guidelines and are a useful starting point for ethical inquiry. Codes, however, cannot serve as the final moral authority. Professionals need to acquire strong moral character and ethical reasoning ability to ensure that accountants practise their discipline with integrity.



Codes of ethics are useful but are not sufficient. Many people believe that ethics must be part of the formal education of accounting professionals. The concern for ethics in business education has grown out of strong anti-business sentiment relating to issues such as pollution, the arms race, exploitation of women, and inner-city poverty. This interest led to a rise in the rate of business ethics offerings by universities from 5.6 percent in 1953 (Bunting) to 20 percent in 1967 (Christian). Powers and Vogel (1980) cited major social transformations that have stimulated an interest in business ethics. These include corporations outgrowing the market mechanism, complex legal requirements placed on business, public concern about externalities, and a growing interest in human dignity and value of life issues. In the universities it took the influence of John Rawls (1971) with his influential book *The Theory of Justice* to give business ethics the academic respectability it deserves. The accounting profession has been generally supportive of the thrust to bring ethics into the curriculum. Strong support, for example, has come from the Bedford Committee (1986) and the Treadway Committee (1987) which have recommended the integration of ethics into accounting education.

In spite of this growing interest in business ethics as an academic discipline, studies by Hosmer (1985) and McDonald (1989) noted that ethics is still not a part of the core curriculum of most business studies programs, for a variety of reasons. Hosmer noted :

- 1) lack of understanding about the nature of ethics,
- 2) universities adopt a constraining economic paradigm,
- 3) ethics is seen as non-essential and subjective.

McDonald found similar resistance, citing the following frequently heard objections: that ethics 1) has no

effect, 2) is too controversial, 3) is too easy, and the broad contention, 4) that ethics is not necessary. These objections were refuted in Chapter 2.

Accounting firms and most other employers of accountants recruit most of their employees from universities. This raises questions about the nature and purpose of higher education. If general agreement can be reached on the characteristics of the educated person and on the role of the university, then these principles can be applied to business and accounting education. This is essential background in helping to frame the debate about ethics in the curriculum.

Various ideals of the educated person were examined in Chapter 3, including the ability to perform great deeds (Homeric ideal), intellectual excellence (scribe ideal), the civic ideal, and the ideal of developing the autonomous person for personal self-cultivation. Ideals, however, are complicated abstractions about which it is difficult to reach consensus. It was argued in Chapter 3 that it was probably easier to find agreement on learned capacities that would characterize the educated person.

Accepting the ideas of Peters (1967) that education involves an endless journey in search of truth, it seems relevant to move away from conflicting educational ideals and instead seek agreement on specific criteria that would characterize the educated person. Barrow (1981) suggested that the educated person must develop an awareness of one's cultural and historical traditions, be sensitive to the power of individuality, distinguish logically distinct kinds of questions, and develop the capacity for discrimination.

Whether one looks to traditional educational ideals or to the work of scholars such as Peters or Barrow, there is at least one feature of education that is common. That common

feature is the concept of the moral person. This central characteristic makes legitimate the idea that ethics should not be a neglected component of education.

Shifting from the concept of education to the role of the university, it was shown in Chapter 4 that conceptions range from the ivory tower to the multiversity. Most would agree that universities should provide education that is liberal, in the sense that education frees one from ignorance, irrational thought, superstition, prejudice, and fallacious reasoning. This suggests that a primary goal of education should be the cultivation of the intellect so that one is equipped to use reason to overcome logical constraints on freedom.

Universities of course are social constructions. One could argue, therefore, that while pursuing truth and excellence, universities ought to be sensitive to stakeholder needs for which universities are well suited. For example, a mix of scholarly activity and socially useful knowledge should be pursued by universities. This is, in fact, what most universities actually do. As gatekeepers to the professions, universities can play a unique role in cultivating a sense of social responsibility by providing a setting that facilitates rational debate and open criticism. Accountants occupy positions of influence that have wide social impact. It is to society's benefit that universities educate future professionals to high standards of intellectual and moral competence.

The argument was made that universities exist both to pursue scholarship and socially useful knowledge. Universities can legitimately engage in both education and training. Where possible, training should be made educative by encouraging students to think critically about their future profession, understanding underlying principles and the social and moral responsibility that professions owe to society for the special status bestowed

upon them. It is especially important that students adopt a reflective focus. If a university over-emphasizes training, the possibility of losing this reflective focus is ever present.

With respect to business studies and accounting education, it was argued in Chapter 4 that universities should adopt goals that are consistent with higher education principles in general. This would include the cultivation of the intellect and the pursuit of criteria such as those proposed by Barrow. Accounting studies can be made educative by encouraging students to take a scientific and investigative manner, and drawing heavily from the social sciences of economics, history, sociology, psychology, and political science. These disciplines have a strong theoretical base and add intellectual content to accounting. Accounting education can take its rightful place in university studies when students are encouraged to reflect, openly debate, and critically assess both the technical and social dimensions of accounting. The university can provide the setting for open and reflective thought about the accounting profession that no other setting provides.

It was noted in Chapter 4 that the work environment that accounting students will eventually enter may be hostile to students who can think for themselves and who will work to continually challenge the scientific and social base upon which accounting has developed. It is in this role that integrity is needed as the organizing principle to guide accountants in assuming their professional moral responsibility.

The main contribution of this dissertation is the identification of integrity as the organizing principle guiding both professional accounting practice and accounting education. It was pointed out in Chapter 5 that ethical frameworks were helpful in identifying the basic ethical principles at work in business and in applying ethical principles

to ethical problems. Without integrity, however, ethical frameworks can be misused as manipulative devices to support particular interests.

Integrity has frequently been addressed by the accounting profession (e.g., the Treadway Commission report). The professional interpretation of integrity has been a narrow, rules-oriented approach, focusing on identifying fraudulent financial reporting, auditing the reasonableness of accounting estimates, the application of analytical procedures for internal control, and acceptance of the traditional views on the nature and scope of the audit report.

Integrity, however, entails much more than following rules. It demands strength of moral character and a wholeness that encompasses the entire realm of virtuous behaviour. Integrity means consistently taking the moral point of view, even against adversity. Integrity demands accepting moral responsibility, being sincere, and not using corporate metaphors as a screen to avoid personal responsibility. Integrity possesses a reflective quality that is consistent with the characteristics of the educated person and the role of the university.

When linked with open-mindedness, integrity is a powerful integrating force built on the search for truth and respect for others. Integrity goes well beyond values clarification (Raths and Simon, 1978) by recognizing that clarity, by-itself, is not sufficient. Without courage and a sincere commitment to the moral point of view, values clarification is a potential threat to integrity. Other threats to integrity include the over-emphasis on individualism and the myth of universal opportunity for advancement. The acceptance of these extreme positions negatively influences the value system of business decision

makers, leading to neglect of cultural and non-economic aspects that help make up the wholeness of the human dimension. Examples from Whyte (1956) and Maccoby (1976) illustrate the generally deleterious effects of expunging non-economic values from the business value system.

Integrity can be fostered through an education system that promotes discourse based on recognizing and respecting concerns of all stakeholders. This requires empathy and the removal of ideological constraints on what stakeholders have to say, and the redesign of organizational structures that allow for power sharing. Under unequal power relationships those with less power have more to lose by being open and honest. Participative structures promote loyalty and commitment as individuals within a group feel morally obligated to hold to their pledges. This sense of commitment is a very important component of integrity.

Integrity can also be fostered through dialogic leadership (Neilson, 1990). The five step Socratic method of dealing with conflict as described on page 114 is consistent with the moral point of view in that it is based on a sincere concern to hear the views of others. Although the aim of such discourse is to reach consensus, it is critical that there be no moral compromise. To maintain integrity, revisions of belief must be in accordance with the principles of open-mindedness and truth seeking.

Integrity demands commitment and responsibility of individual persons. Students must be taught that legality may not always harmonize with morality. The corporation is a legal being but it is not a moral being. It is individuals who direct corporations and who must accept individual moral responsibility. Integrity requires this. Individuals occupy positions

of influence as part of a greater interdependent society. Since the corporation owes its existence to society, those who speak for it are obligated to be socially responsible by demonstrating concern for the interests of multiple stakeholders.

Responsible behaviour can be discovered through rational debate and consideration of alternatives. In this sense responsible behaviour is learned behaviour, and therefore is fundamental to the educational process. The point was made that professionals must be educated to accept responsibility for their actions, including unintended effects stemming from culpable ignorance.

For accounting professionals, issues of individual moral responsibility are particularly complex. This complexity is due in part to the lack of precision and full objectivity relating to questions of what to measure and how to measure. An example of culpable ignorance is the widespread acceptance of earnings management. Integrity would demand that the ethical implications of earnings management be given serious attention. The ethical problems which arise from information asymmetry need to be given consideration in the accounting curriculum, so that students become aware of the deceptiveness of earnings management as a first step in eliminating this practice. Integrity demands truthfulness. Accountants should be educated to disclose, within technical limitations, the true costs and benefits of business decisions to society. This includes disclosure of externalities and qualitative non-financial information as well as information that can be quantified in financial terms.

There are plenty of opportunities within the accounting curriculum for bringing students into the arena of ethical choice and value judgement. Students can be taught, for

example, to take into account the effects of alternative methods of revenue and expense recognition on various stakeholders. The ethical curriculum is one that encourages students to take the moral point of view, while at the same time helps students to develop sufficient technical expertise with which to begin building their career.

One can agree with the objectives of the AECC that the accounting curriculum ought to promote a sense of history, develop broad knowledge, and encourage an interdisciplinary focus. Although not explicitly stated by the AECC, this is really an ethical concern, because such knowledge would better arm the accountant to assess the full impact of accounting choices on stakeholders.

It was argued that the AECC did not promote strongly enough the importance of integrating ethics into the accounting curriculum. The issue of ethics in the accounting curriculum needs to be addressed head on. More emphasis must be placed on critical inquiry that takes into account the fact that a firm's success is due to contributions from employees, customers, managers and others; all with a legitimate stake in business performance.

The point was made in Chapter 6 that ethics is already an implicit part of the accounting curriculum. As Etzioni (1989) asserted, everything in the classroom communicates an ethical position. For this to be expressed in a forthright manner, ethics education should be made explicit with a clear statement of goals, how ethics is to be implemented into the curriculum, and a consensus established as to what should be the content and method of delivery.



Callagan (1980) proposed the following five goals of teaching ethics: stimulating the moral imagination, recognition of ethical issues, developing analytical skills, eliciting a sense of moral obligation and personal responsibility, and tolerating and resisting disagreement and ambiguity. In the context of accounting education, one can agree with these goals. However, because accountants occupy special positions of trust and influence, the goals of teaching ethics to accountants should explicitly recognize that accountants have special ethical disclosure responsibilities to society. A sixth goal, therefore, is to develop integrity through a curriculum which encourages the habit of deep moral reflection and critical inquiry.

Studies on the effectiveness of ethics education have not been encouraging. This may be because the results of ethics interventions tend to relate to one-semester courses. As Bok (1982) asserted, however, the consequences of doing nothing send a message of moral indifference. Failure to openly discuss moral issues will degenerate from rigorous debate to that based on slogans and over-simplifications that are unbecoming to higher education.

Business is built on a moral base, and accountants can help to keep that moral base secure. Ethics education needs to go well beyond one-semester ethics interventions to full integration throughout the curriculum. It is recommended that students be given early and substantial exposure to business ethics. The Introduction to Business course could be divided into two quarter courses with one quarter devoted to ethical issues in business, taught by a senior faculty member to signal the importance of business ethics in the curriculum. Ethics should also be integrated into each separate accounting course. Finally,

there should be a capstone course offered during the senior academic year dealing with complex professional and social responsibility accounting issues such as problems involving environmental pollution, civil rights, employment equity, product safety, customer satisfaction, and gender.

A theme throughout this dissertation has been that a fundamental role of the university is to produce educated people and that moral integrity is central to being an educated person. Accounting education provides socially useful knowledge. When the accounting curriculum is taught in an environment that encourages reflective thinking about the social responsibility of accounting professionals, and promotes integrity as the central organizing principle for ethical behaviour in business, accounting education legitimately belongs in the university.

# **APPENDIX**

## **OBJECTIVES OF EDUCATION FOR ACCOUNTANTS**

### ***Accounting Education Change Commission Position Statement No. One***

**September 1990**

The Accounting Education Change Commission was appointed in 1989 by the American Accounting Association and supported by the Sponsors' Education Task Force, representing the largest public accounting firms in the United States. Its objective is to be a catalyst for improving the academic preparation of accountants so that entrants to the accounting profession possess the skills, knowledge, and attitudes required for success in accounting career paths.

## **OBJECTIVES OF EDUCATION FOR ACCOUNTANTS**

The purpose of this Statement is to set out the Commission's views on the objectives of education for accountants. The Commission believes such a statement will provide a focus for those participating in the work of improving accounting education.

The Commission's aim is to enlist the cooperation and creativity of the academic community and other stakeholders to bring about needed changes in accounting education. The need for changes has arisen because accounting programs have not kept pace with the dynamic, complex, expanding, and constantly changing profession for which students are being educated. The need has been documented in "Future Accounting Education: Preparing for the Expanding Profession" (the Bedford Committee Report) and "Perspectives on Education: Capabilities for Success in the Accounting Profession".

The Commission defines the accounting profession broadly. It includes career paths in public accounting as practiced in large, medium, and small firms, corporate accounting (including financial management, controllership, treasury, financial analysis, planning and budgeting, cost accounting, internal audit, systems, tax, and general accounting), and government and nonprofit accounting.

### **DESIRED CAPABILITIES**

Accounting programs should prepared students to **become** professional accountants, not to **be** professional accountants at the time of entry to the profession. At the time of entry, graduates cannot be expected to have the range of knowledge and skills of experienced professional accountants. To attain and maintain the status of a professional accountant requires continual learning. Therefore, pre-entry education should lay the base on which life-long learning can be built. In other words, graduates should be taught how to learn. The base on which life-long learning is built has three components: skills, knowledge, and professional orientation.

#### **Skills**

To become successful professionals, accounting graduates must possess communication skills, intellectual skills, and interpersonal skills. Communication skills include both receiving and transmitting information and concepts, including effective reading, listening, writing, and speaking. Intellectual skills include the ability to locate, obtain, and organize information and the ability to identify and solve unstructured problems in unfamiliar settings and to exercise judgment

based on comprehension of an unfocused set of facts. Interpersonal skills include the ability to work effectively in groups and to provide leadership when appropriate.

### **Knowledge**

Accounting graduates should have general knowledge, organizational and business knowledge, and accounting knowledge. General knowledge will help accounting professionals to understand the complex interdependence between the profession and society and to interact with diverse groups of people. Such general knowledge should include an appreciation of the flow of ideas and events in history, an awareness of the different cultures and socio-political forces in today's world, a broad understanding of mathematics and economics, and an aesthetic sensibility. It will lead to an improved understanding of the world-wide economic, political, and social forces affecting society and the profession.

Professional accountants must understand the work environments found in organizations. They must understand the basic internal workings of organizations and the methods by which organisations change. Because organizations are affected by rapidly increasing dependency on technology, accounting professionals must understand the current and future roles of information technology in organizations.

A strong fundamental understanding of accounting is necessary for successful accounting careers. This understanding includes 1) the ability to identify goals, problems, and opportunities, 2) the ability to identify, gather, measure, summarize, verify, analyze, and interpret financial and nonfinancial data that are useful for addressing the goals, problems, and opportunities, and 3) the ability to use data, exercise judgments, evaluate risks, and solve real-world problems. The focus should be on developing analytical and conceptual thinking, not on memorizing professional standards.

### **Professional Orientation**

Accounting graduates should identify with the profession and be concerned with developing the knowledge, skills, and values of its members. They should know and understand the ethics of the profession and be able to make value-based judgments. They should be prepared to address issues with integrity, objectivity, competence, and concern for the public interest.

### **COURSES AND COURSE CONTENT**

The overriding objective in developing course content should be to create a base upon which continued learning can be built. Professional accounting

education has four components: general education, general business education, general accounting education, and specialized accounting education. The components can be addressed in a variety of ways. No one model of accounting education will be appropriate for all colleges and universities. Nevertheless, some minimum coverage of all four areas, including integration of the areas, should be part of the education of every accountant.

### **General Education**

The curriculum for general education should develop in students the capacities for inquiry, abstract logical thinking, and critical analysis and should train them to understand and use quantitative data. It should improve their writing to the degree that they can perform at the level acceptable for professional accountants and should give them some awareness of the ingredients of sound research. It should develop speaking and listening skills, historical consciousness, international and multicultural knowledge, an appreciation of science, and the study of values and their role in decision-making. And it should include the esthetic experience. This goal will not be met by a random set of courses. Some structured set of courses is required, but the structure should not be overly restrictive.

### **General Business Education**

Professional accountants must understand the environments in which they work. Accounting programs should therefore include courses designed to develop knowledge of the functional activities of business, government, and nonprofit organizations. The courses should cover finance, marketing, operations, organizational behavior, and how the general manager integrates all these functions.

The introductory accounting course should be given special attention. It must serve the interests of students who are not going to enter the profession as well as those who are. The broad approach recommended in these objectives serves the interests and needs of both groups. The course should teach, reinforce, and reward the skills, abilities, and attitudes that are necessary for success in the accounting profession. This will give students accurate knowledge about the nature of accounting careers, which will help them make a well informed choice about entering the profession.

### **General Accounting Education**

Accounting courses should present accounting as an information development and communication process. The central theme should be how information is identified, measured, communicated, and used. The courses' essential components should be: 1) decision making and information in organizations, 2)

design and use of information systems, 3) financial information and public reporting, including attestation, and 4) knowledge of the accounting profession. Courses should focus on both basic concepts and the application of these concepts in real-world environments, including international and ethical issues.

### **Specialized Accounting Education**

Specialized accounting education should follow only after attainment of general accounting, organizational, and business knowledge. Therefore, it should be offered primarily at the post-baccalaureate level and via continuing education. Specialized accounting programs may include advanced study in financial accounting, management accounting, taxation, information systems, auditing, government (or nonprofit) accounting, and international accounting.

Continuing professional education may overlap considerably with specialized accounting education offered by universities. The principle of comparative advantage should govern which types of specializations are offered by universities and which by others.

### **INSTRUCTIONAL METHODS**

The overriding objective of accounting programs should be to teach students to learn on their own. Therefore, accounting programs should not focus primarily on preparation for professional examinations. Students should be taught the skills and strategies that help them learn more effectively and how to use these effective learning strategies to continue to learn throughout their lifetimes.

Students must be active participants in the learning process, not passive recipients of information. They should identify and solve unstructured problems that require use of multiple information sources. Learning by doing should be emphasized. Working in groups should be encouraged. Creative use of technology is essential.

Accounting classes should not focus only on accounting knowledge. Teaching methods that expand and reinforce basic communication, intellectual, and interpersonal skills should be used.

Faculty must be trained to apply appropriate instructional methods. Doctoral programs therefore should give more attention to teaching methods. Faculty who are effective teachers and those who develop and implement new or innovative approaches to teaching and curriculum design should be recognized and rewarded for such scholarly activities.

Knowledge of historical and contemporary events affecting the profession is essential to effective teaching. It allows teachers to make lessons more relevant

**and to lend a real-world perspective to their classrooms. Faculty should therefore have current knowledge of the profession and its environment. Incentives should motivate faculty to be knowledgeable about and involved in the current professional accounting environment.**

**Instructional methods and materials need to change as the environment changes. Measurement and evaluation systems that encourage continuous updating and improvement of instructional methods and materials should be developed.**



## **APPENDIX A**

### **LEARNING TO LEARN**

Learning is often defined and measured in terms of knowledge of facts, concepts, or principles. This “transfer of knowledge” approach to education has been the traditional focus of accounting education. One goal of the Accounting Education Change Commission is to change the educational focus from knowledge acquisition to “learning to learn”, that is, developing in students the motivation and capacity to continue to learn outside the formal educational environment. Learning to learn involves developing skills and strategies that help one learn more effectively and to use these effective learning strategies to continue to learn throughout his or her lifetime.

Academic programs focused on teaching students how to learn must address three issues: 1) content, 2) process, and 3) attitudes.

The **content** of the program must create a base upon which continued learning can be built. Developing both an understanding of underlying concepts and principles and the ability to apply and adapt those concepts and principles in a variety of contexts and circumstances are essential to life-long learning. A focus on memorization of rules and regulations is contrary to the goal of learning to learn.

The **process** of learning should focus on developing the ability to identify problems and opportunities, search out the desired information, analyze and interpret the information, and reach a well reasoned conclusion. Understanding the process of inquiry in an unstructured environment is an important part of learning to learn.

Above all, an **attitude** of continual inquiry and life-long learning is essential for learning to learn. An attitude of accepting, even thriving on, uncertainty and unstructured situations should be fostered. An attitude of seeking continual improvement, both of self and the profession, will lead to life-long learning.

## **APPENDIX B**

### **COMPOSITE PROFILE OF CAPABILITIES NEEDED BY ACCOUNTING GRADUATES**

#### **1. General Knowledge**

- **An understanding of the flow of ideas and events in history and the different cultures in today's world**
- **Basic knowledge of psychology, economics, mathematics through calculus, and statistics**
- **A sense of the breadth of ideas, issues, and contrasting economic, political and social forces in the world**
- **An awareness of personal and social values and of the process of inquiry and judgment**
- **An appreciation of art, literature, and science**

#### **2. Intellectual Skills**

- **Capacities for inquiry, abstract logical thinking, inductive and deductive reasoning, and critical analysis**
- **Ability to identify and solve unstructured problems in unfamiliar settings and to apply problem-solving skills in a consultative process**
- **Ability to identify ethical issues and apply a value-based reasoning system to ethical questions**
- **Ability to understand the determining forces in a given situation and to predict their effects**
- **Ability to manage sources of stress by selecting and assigning priorities within restricted resources and to organize work to meet tight deadlines**

#### **3. Interpersonal Skills**

- **Ability to work with others, particularly in groups, to influence them, to lead them, to organize and delegate tasks, to motivate and develop people, and to withstand and resolve conflict**
- **Ability to interact with culturally and intellectually diverse people**

#### **4. Communication Skills**

- **Ability to present, discuss, and defend views effectively through formal and informal, written and spoken language**
- **Ability to listen effectively**
- **Ability to locate, obtain, organize, report, and use information from human, print, and electronic sources**

the major economic, legal, political, social, and cultural forces and their influences

- A basic knowledge of finance, including financial statement analysis, financial instruments, and capital markets, both domestic and international
- An understanding of interpersonal and group dynamics in business
- An understanding of the methods for creating and managing change in organizations
- An understanding of the basic internal workings of organizations and the application of this knowledge to specific examples

#### **6. Accounting Knowledge**

- History of the accounting profession and accounting thought
- Content, concepts, structure, and meaning of reporting for organizational operations, both for internal and external use, including the information needs of financial decision makers and the role of accounting information in satisfying those needs
- Policy issues, environmental factors, and the regulation of accounting
- Ethical and professional responsibilities of an accounting
- The process of identifying, gathering, measuring, summarizing, and analyzing financial data in business organizations, including:
  - \* The role of information systems
  - \* The concepts and principles of information system design and use
  - \* The methods and processes of information system design and use
  - \* The current and future roles of computer-based information technology
- The concepts, methods, and processes of control that provide for the accuracy and integrity of financial data and safeguarding of business assets
- The nature of attest services and the conceptual and procedural bases for performing them
- Taxation and its impact on financial and managerial decisions
- In-depth knowledge in one or more specialized areas, such as financial accounting, management accounting, taxation, information systems, auditing, nonprofit, government, and international accounting

#### **7. Accounting Skills**

- Ability to apply accounting knowledge to solve real-world problems

#### **8. Personal Capacities and Attitudes**

- Creative thinking
- Integrity
- Energy
- Motivation

- **Persistence**
- **Empathy**
- **Leadership**
- **Sensitivity to social responsibilities**
- **A commitment of life-long learning**

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