

A Humanistic Perspective in Teaching Business Ethics in Accountancy

**Paper presented at the 6th Annual Ben-Africa Conference
University of Stellenbosch, Capetown, South Africa
26-28 July 2006**

**Rose Catacutan
Strathmore University
Nairobi, Kenya**

A Humanistic Perspective in Teaching Business Ethics in Accountancy

Introduction

The recent corporate scandals that led to the unexpected demise of Arthur Andersen have exposed the crisis which the accounting profession is currently undergoing in the United States. According to Stephen Zeff, the accounting profession has reached a stage where auditors seem to be more susceptible to compromise on questionable accounting practices as compared to earlier years. The transformation of accounting firms from being professional firms into business firms was an important factor in creating a climate in which serious confrontations between auditors and clients were destined to occur¹ This transformation started in the early 1980s as competition drove the big accounting firms to venture into the business of providing consultancy services to compensate for their declining revenues from audit engagements. Since then the big firms experienced rapid growth and began to function as business firms to the detriment of professionalism.

Members of the accounting profession had since then expressed their concern over the gradual degeneration of values in the big firms. In 1980 the President of AICPA William Gregory warned members over the fact that “accountants have subordinated courtesy, mutual respect, self-restraint and fairness for a quest for firm growth and a preoccupation with the bottom line”². Representatives of the big firms however denied ethical responsibility for the corporate scandals that occurred. According to them what happened between Enron and Andersen was not so much a consequence of the lack of ethics on the part of the auditors, but was due to the failure in the current financial reporting system that advocated for “backward-looking” financial statements³. They also held that these scandals were mere isolated cases perpetrated by a few corrupt individuals, and do not represent in any way the general manner in which the big accounting firms carry out their professional duties.

The Crisis in the Profession as a Crisis in Ethics

A number of measures have been proposed by the members of the profession in response to the crisis of credibility that is taking place. Among these is the need for more restrictive laws in order to fight corporate corruption. In July 2002 the US Congress responded with the Sarbanes-Oxley Act to legislate ethical behaviour both for publicly traded companies and their auditor firms. There is a growing consensus however that the far more lasting and effective solution lies in the need for ethical behaviour among the members of the accounting profession.

As Murphy Smith stated, “In the wake of corporate scandals and a shaky stock market, Congress passed legislation that established a new board to oversee auditors of publicly traded companies and increased prison sentences for fraud. However, new laws such as the Sarbanes-Oxley Act, while helpful, will not restore confidence in the stock market.

¹ Cf. Zeff, S. (2003), p. 189.

² Cf. Zeff, S. (2003), p. 268.

³ Cf. Penman, S. (2003), p. 78.

Confidence will be restored only by ethical leadership from the accounting profession, the business community and the government”⁴.

In the year 2002, the Public Oversight Board as mandated by the SEC emphasized that “in the final analysis, the most important determinants of audit effectiveness are the personal attributes and skills of the individual auditor. The personal attributes of individuals provide structure and definition for their role in society and establish the foundation for what constitutes a true professional. For the individual auditor, these attributes are independence in fact and in appearance, adherence to strong ethical standards, a great sense of personal integrity, and the will to act objectively even in the face of intense pressures. Most importantly, individual auditors, as members of a respected profession, should assign the highest priority to protecting the public interest”⁵.

For Walter Scheutze, former accountant of SEC, independence is key to the accounting profession; its absence constitutes a threat to the authority of auditing firms as “guardians of financial truth”⁶. The history of the accounting profession has shown that this lack of independence has characterized not only the relations of the big accounting firms with their client firms, but also their relations with the regulatory bodies of the accounting profession. The presence of senior partners of the big accounting firms in key positions both in the American Institute of Accountants (AICPA) and in the standard-setting body (FASB), opened the way for the corporate community, as client firms of the partners, to influence the standard-setting process to work to their advantage⁷. Members of the profession are therefore emphasizing the need for ethics at the institutional level as well.

Can Ethics be Taught?

The corporate scandals also brought to light the role of the academic community in strengthening the ethical values of accounting students as future leaders of the profession. Some members however remain sceptical, thus leading to debates about the effectiveness of the ethics programmes currently being taught in schools. Those who think that ethics cannot be taught base their arguments on the fact that moral foundations are built long before a person enters the university. By the time a student is taught ethics at the undergraduate or postgraduate level, they claim that his or her character is already formed and no amount of teaching can change a student’s moral life. Murphy Smith formulated the following questions that give a summary of the views of these educators: “Can ethics be taught? If a student lacks personal integrity, can a faculty member make a difference? Should he even try to make a difference?”⁸

Teachers of business ethics do face difficulties as they attempt to effect moral change in the life of their students, but this does not mean that such a task is impossible. It is common experience to find students who know the moral principles theoretically, but who fail to behave ethically in practice. It is therefore not surprising that this gap between theory and practice continues to exist later on in their professional life. There

⁴ Cf. Smith, M. (2003), p. 47.

⁵ Cf. Public Oversight Board (2000).

⁶ Cf. Scheutze, W. (1994), pp. 69-70; Levitt, A. (1996).

⁷ Cf. Zeff, S. (2002).

⁸ Cf. Smith, M. (2003), p. 48.

are accountants who know quite well the content of the ethics code as they were taught in school, but readily agree to engage in unethical accounting practices when their monetary or financial gains are put at stake.

The challenge for educators is to bridge this gap between theory and practice. This would mean that the teaching of business ethics should not only be aimed at providing rules of behaviour to guide students in their actions, but should also aim at instilling in them a sense of personal freedom and responsibility. Teaching ethics should be an occasion for the students to reflect on their own personal moral experience, on whether they are exercising their freedom in a correct and responsible way, and on the consequences of their own moral decisions in their lives. The classes in ethics should help students appreciate the importance of living a good moral life as a condition for their own happiness.

Students should realize that their moral decisions have repercussions in their personal lives, and that through their free choices they configure or modify themselves in one way or another. Each person is, in a certain sense, a product of his own actions. This would explain why people do react differently when confronted with an ethical dilemma. A person, who has always known how to exercise his freedom correctly and has consistently made choices that strengthened his personal values or virtues, will most likely choose to act with integrity when faced with the possibility of committing fraud. On the other hand, a person who has always chosen to sacrifice his integrity in exchange for wealth or prestige will most probably act dishonestly in a similar situation. This capacity to configure oneself through one's free choice is at the basis of the real possibility which every individual has to achieve a moral change.

The possibility of becoming better persons should therefore be presented to the students as an ideal and as a task which they should responsibly carry out. According to Melé, the goal of ethical education is to achieve good behaviour: insist on awaking moral sensibility, help make sound moral judgments, induce moral motivation and encourage moral virtues⁹. Ethical education is not only aimed at the development of moral reasoning but also of attitudes or virtues that favour ethical behaviour. The acquisition of virtues however is not a question of knowledge but is a result of deliberated and free actions. Thus ethical education cannot produce virtues by itself; what ethical education can do is to show virtues, exhort and motivate the students to acquire them and explain how. Educators play an important role in achieving this goal.

One of the ways in which teachers of ethics can help is to give their students appropriate advice as they encourage them to personally reflect on their lifestyle and on their goals in life. This reflection is usually difficult because the person would have to ponder on some of the serious moral issues that affect his life, and because it would eventually lead one to confront himself with the real possibility of changing his behaviour. Let us take the case for instance of a person who is accustomed to lying or to being dishonest in order to achieve his professional goals. If such a person were to seriously consider the possibility of a change, it would mean that he would have to choose to give up part of his professional ambitions and to set aside the dishonest means which he had chosen to achieve them. The personal contact of the educator with his students becomes crucial at this moment, in order to give the correct advice to help them in making these

⁹ Cf. Melé, D. (2005), p. 105.

fundamental decisions in life. Teachers of ethics should therefore not limit themselves to interacting with their students in class but should also keep in close contact with them outside the classroom situation. Apart from giving good advice, they can also help by setting good example because teaching becomes more effective when the values or virtues taught are personified.

The classes in ethics should also help students to acquire a sense of responsibility towards others in society. As human beings do not exist in isolation but live in a community with others, one's actions will certainly impact on society. Each one is therefore responsible for the consequences of his moral choices not only on his own life but also on the lives of other people. Students should be helped to reflect on the seriousness of social injustice as one of the consequences arising from one's lack of moral integrity. An accountant who commits fraud not only ruins his own moral being but also harms the interests of the other members of society who depend on him.

Accountants as professionals are expected to provide service to the public. But what does it mean to serve? Service is a fundamental attitude which underlies every human relation. It is based on the recognition that the others are one's equals, worthy of one's respect and esteem. It means the refusal to use others to one's advantage or self-interest. It is the basis of every act of justice, of treating the others as they ought to be treated, of ensuring that each one receives what is due. Service as an attitude opens the possibility of contributing to the good of others, which truly enriches a person's moral being. Egoism or the selfish pursuit of one's interest however deprives the person the possibility of exercising his freedom to configure not only himself but also to influence the lives of others in a positive way.

In conclusion, the teaching of business ethics in accountancy continues to be relevant because it can contribute to effect a moral change in the life of the students. The possibility of a moral change is within the reach of every individual through the configuring power of his actions. This change however entails a complex process because it involves a deliberate and free decision on the part of the person. Every individual is then capable of becoming better persons and it is the task of teachers of ethics to motivate and guide their students as future accountants to become good and honest professionals.

BIBLIOGRAPHY:

Gichure, Christine (1997), *Basic Concepts in Ethics*, Focus, Nairobi.

Levitt, Arthur (1996), "The Guardians of Financial Truth", en <http://www.sec.gov/news/speecharchive/1996>.

Melé, Domenec (2005), "Ethical Education in Accounting: Integrating Rules, Values and Virtues", *Journal of Business Ethics*, 57, pp. 97-109.

Melendo, Tomás (1990), *Las claves de la Ética Empresarial*, Rialp, Madrid, pp. 60-80.

Penman, Stephen (2003), "The Quality of Financial Statements: Perspectives from the Recent Stock Market Bubble", *Accounting Horizons*, pp. 77-96.

Pieper, Josef (1966), *The four cardinal virtues*, University of Notre Dame Press, Notre Dame, Indiana.

Public Oversight Board (2000), "Panel on Audit Effectiveness Final Report", en <http://www.pobauditpanel.org>.

Rodriguez Luño, Angel (2001), *Ética General*, EUNSA, Pamplona.

Scheutze, Walter (1994), "A Mountain or a Molehill", *Accounting Horizons*, vol. 8, no.1, pp. 69-76.

Smith, Murphy (2003), "A Fresh Look at Accounting Ethics", *Accounting Horizons*, vol. 17, no. 1, pp. 47-49.

Wyatt, Arthur (2004), "Accounting Professionalism", *Accounting Horizon*, Vol. 18, no. 1, pp. 45-53.

Zeff, Stephen (2002), "Political lobbying on Proposed Standards: A challenge to IAS", *Accounting Horizons*, vol. 16, no.1, pp. 43-54.

Zeff, Stephen (2003), "How the U.S. Accounting Profession got where it is today: Part I", *Accounting Horizons*, vol. 17, no. 3, pp. 189-205.

Zeff, Stephen (2003), "How the U.S. Accounting Profession got where it is today: Part II", *Accounting Horizons*, vol. 17, no.4, pp. 267-286.