

ETHICS AND ACCOUNTANTS

Ethics

Ethics is about morality, and acting in a way that is morally justified. Most individuals develop a sense of morality, and act in accordance with what they consider 'right' and 'wrong'. However, opinions about what is 'right' and 'wrong' can differ enormously.

As an accountant you need to be aware of: Personal ethics; Business ethics and Professional ethics.

'Personal ethics' describes the intrinsic moral principles and values that govern an individual's interactions with others. Personal ethics is neither enforced nor required by a prescriptive code – it reflects one's inner views on morality and right and wrong. Personal ethics are typically influenced by people's family, friends, experiences, culture and religion.

'Business ethics' describes the moral principles and values that guide how people and institutions behave in the world of commerce. Business ethics considers how the pursuit of self-interest (e.g. profits) impacts others through the actions of individuals or firms within business. Some businesses (particularly large multinationals) develop a formal corporate code of ethics that provides a reference point for employees' and other stakeholders' behaviour. A business code of ethics will apply to all employees whether they are members of a professional body (and therefore subject to a code of professional ethics too) or not.

Professional ethics' describes the moral principles and values that govern behaviour in the context of a particular profession such as lawyers, doctors, architects and accountants. Professional ethics are normally specified in a professional code of conduct that all members (and students) professing to be part of that profession must abide by. Adherence to an institute's professional code of conduct such as ICAN's Code of Professional Conduct is normally a requirement of membership and remains relevant throughout the professional's life, not just in the work environment.

As noted above ethics apply to organisations as well as to individuals and groups of people. Companies might be driven purely by the profit motive with all their actions determined by doing whatever is necessary to maximise profits. However, this may result in unethical behaviour such as breaking the law (e.g. breach of copyright, using child labour, paying bribes) or disregarding employees' religious beliefs (e.g. requiring staff to work 'overtime' on holy days). On the other hand, companies might recognise the need – and the benefits – of acting in an ethical way which could lead to an improved reputation and increased sales. For example a company may limit its supply chain to organisations that adhere to minimum ethical standards relating to the fair treatment of employees.

Accountants – both students and qualified professionals – are expected to behave in accordance with professional codes of ethics, and to maintain standards of moral behaviour that are ‘expected’ from a professional body. This remains fundamental to protecting the reputation of the profession which ultimately is in the public interest.

Personal ethics, business ethics and professional ethics are all therefore relevant to how an accountant should behave:

- Typically a professional code of ethics is the most onerous reference that an accountant must comply with at all times;
- Business ethics may help define the clients that an accountant is willing to deal with or the business they may wish to be employed by outside of professional practice;
- As personal ethics are intrinsically ever-present awareness of an individual’s morals and ethics will help them understand whether they are suited to a particular profession, industry or company. For example views differ around the morality and acceptability of gambling, the adult entertainment industry, tobacco, pharmaceutical companies that employ testing on animals and nuclear power.

Moral dilemmas

In practice, there are often pressures on an individual at work to ‘bend the rules’ and act in a way that is not ethical. Unethical behaviour might be illegal, but it is often ‘legal but immoral’. Pressures to act unethically can create a moral dilemma – what is the right thing to do? Sometimes it is not clear what the right course of action should be. When an individual thinks that something might be ‘wrong’, he could be faced with a decision about what to do. Making a moral or ethical decision might not be easy, especially when colleagues or bosses do not agree with you and will not listen to what you have to say. Some individuals might take the view that when they are at work, they act according to a different set of rules and with a different moral outlook, compared to the way they think and behave in their private life. This view can be used to justify decisions or actions at work that are unethical, on the grounds that ‘business is different’. However, this is not a view that accountants should take because accountants (including both students and qualified accountants) are bound by professional codes of conduct such as the ICAN Code of Professional Conduct at all times, not just in the work environment.

In complying with codes of professional ethics accountants should be prepared to make difficult choices (if necessary) when faced with an ethical (moral) dilemma.

Ethical Dilemma

An ethical (moral) dilemma involves a conflict between two moral principles whereby it can be argued that both perspectives are fair and reasonable. Ethical dilemmas typically arise in

situations whereby a particular action is likely to benefit one stakeholder whilst harming another. For example a private hospital may need to close a particular department in order to save costs and increase profits (thus benefitting the shareholders). However, the patients and community would suffer through the removal of the service. In summary then an ethical dilemma is a situation where guiding moral principles cannot unequivocally resolve the conflict and determine which course of action is right or wrong.

Acting in an Ethical Way: Moral Philosophy

As an accountant, you need to recognise the need to behave in an ethical way. If you do not intend to act ethically in your work, you do not deserve to be an accountant! To understand how to act ethically, it is necessary to have some understanding of ethics, how ethical codes of behaviour are established and maintained. It is also useful to recognise a link between ethical behaviour and good corporate governance. Good corporate governance is associated with integrity, honesty and transparency. These are ethical qualities in business. It is also important to recognise that individuals – and businesses – have differing views about ‘right’ and ‘wrong’. We might think that we know what is right, but others might disagree strongly. Differences in ethical views can be very large between different communities and cultures.

- There is general agreement that some actions are ‘wrong’ and unethical. It is wrong to steal and wrong to commit murder.
- Many individuals take the view that war is ‘wrong’, but others might think that war is sometimes necessary to achieve a desirable and morally worthwhile objective.
- There are strong differences of opinion on difficult moral issues such as abortion, euthanasia and medical research on animals.
- There are probably strong differences of opinion on many other issues. Is it wrong for a government to torture a ‘terrorist’ in order to obtain information that might reduce the risk of more terrorist attacks and deaths of civilians? Is it wrong to tell a lie to your boss at work in order to protect a colleague from dismissal for a minor disciplinary offence?

Why The Study of Ethics Is Important for Today’s Accountants

The study of ethics is important to today’s accountants due to the following:

- i. Accountants must abide by professional codes of ethics due to membership of a professional accountancy body.
- ii. It is in the public interest that members of the public have confidence in the accountancy profession. This is necessary to help facilitate commerce and industry, promote growth and prosperity and to help sustain a reliable and trustworthy economic mechanism.

- iii. Accountants must continue to be seen as ethical and independent for their opinion to be valued both within audit and advisory roles.
- iv. The study of ethics will help promote consistency in the ethical values and principles that can be expected of accountants.
- v. Adherence to professional codes of ethics remains ever critical in protecting the reputation of the accountancy profession in light of recent corporate scandals (such as Enron and WorldCom) and the global financial crisis.

ETHICAL THEORIES OF RELATIVISM AND ABSOLUTISM

Absolutism

The ethical theory of absolutism, or moral absolutism, is that there are absolute moral standards against which the morality of actions can be judged. 'Right' and 'wrong' are recognised by objective standards that apply universally, to everyone. Plato was a philosopher who argued in favour of moral absolutism and in 'good' that always holds its value.

Absolutism might be associated with religious morality, but an individual can have an absolutist view of morality without being religious. For example, an individual might believe that slavery, war, child abuse and the death penalty are all morally wrong and cannot be justified under any circumstances. Other terms related to ethical absolutism include:

- i. **Ethical universalism** which describes the situation whereby all of mankind accept and live by the same basic ethical standards regardless of culture, race or religion.
- ii. **Ethical objectivism** which describes the view that what is right or wrong doesn't depend on what anyone thinks is right or wrong but rather the pure facts irrespective of scenario.

Relativism

The ethical theory of relativism rejects the absolutist view. It states that there is no objective or absolute moral truth, and there are no universal standards of moral behaviour. There are two aspects to relativism:

- i. **Descriptive ethical relativism:** This is the view that different cultures and societies have different ethical systems and cultures. 'Right' and 'wrong' are concepts that relate to the particular culture. (There is no universal rule about right and wrong.)
- ii. **Normative ethical relativism:** The beliefs or moral values within each culture are right within that culture. It is impossible to judge the values of another culture externally or objectively. Moral values of a culture can only be judged from within the culture.

Religious relativism is an example of normative ethical relativism and maintains that one religion can be true for one person or culture but not for another. No single religion, therefore,

is universally or exclusively true. **Historical relativism** is another example of normative ethical relativism and provides context for ethical views to vary over periods of time. For example the elimination of suspected witches or the widespread adoption of slavery in the past may not be acceptable in today's society. Similarly trends may move in the opposite direction – for example the liberalisation of clothing fashions or the changing role of women in society.

Example: Absolutism vs. relativism

You might have your own view about which of these different approaches to making moral judgements is correct, absolutism or relativism. Suppose that a manager is given confidential information by an employee which he promises to keep confidential and not to disclose to anyone else. In your opinion, would there be any circumstances in which the manager might break his promise and disclose the confidential information to someone else, without the permission of the employee?

- The manager might take the view that having given a promise, he must keep it. A promise is given with the intention of keeping it, and there are no circumstances in which the manager would disclose the information to anyone else, without the prior permission of the employee. This would be an absolutist view of ethics.
- The manager might take the view that, having given his promise, there could be situations in which the information could be given to someone else, without permission from the employee. This would be unethical behaviour.
- The manager might give a promise not to disclose the confidential information to anyone else, but in giving his promise he might tell the employee that there are certain circumstances in which he might feel obliged to give the information to someone else (and give an indication of what those circumstances might be, such as legal reasons). In this situation, the manager would be saying that the right thing to do could depend on the circumstances and situation. This would be a relativist view of ethics.

It is therefore possible to take a moral position based on either an absolutist or a relativist view of morality. It is also possible to act unethically, from both an absolutist and a relativist point of view.

ETHICS: DEONTOLOGICAL AND TELEOLOGICAL APPROACHES

The absolutist and relativist views of ethics are concerned with moral reasoning and ethical opinions. These views lead on to the question of how should individuals apply their moral judgements in making decisions and taking action. There are two differing approaches to ethical decisions: the deontological approach and the teleological approach (also called the consequentialist approach).

Deontological Approach: The Ideas of Kant

A deontological approach to ethical decisions is based on an absolutist view of ethics. This approach is closely associated with the 18th Century German philosopher, Kant. Deontology is a belief in a sense of duty. It is based on the view that there are universal moral laws, and individuals have a duty to obey them, in all the actions that they take and irrespective of what the consequences might be. These universal laws or principles are binding on everyone: the absolute set of moral standards applies to us all. Actions are right or wrong in themselves, and there should be no regard for the consequences. For example, it is always wrong for a government to torture a captured terrorist in order to obtain information, even if the consequence might be that there will be more terrorist attacks and more deaths of civilians.

Kant and the categorical imperative

Kant argued that an action is morally right only if the person taking the action is motivated by 'good will'. In other words, an action is morally right only if it is done from a sense of duty and for reasons of principle. He developed the concept of the categorical imperative. He argued that we can judge whether an action is morally right by asking whether it would be consistent with the categorical imperative. The categorical imperative can be expressed as follows:

- Act so that you can want the principle for your action to become a universal law. At a simple level, this means judging whether an action is moral by asking what would happen if everyone behaved in exactly the same way.
- Act so that you treat other people as an end in themselves, never as a means to an end.

For example, Kant argued that it is always morally wrong to tell a lie. Imagine what would happen if everyone told lies: trust between people would come to an end. You cannot argue that sometimes it is morally right to tell a 'white' lie in order to achieve a just result: this would mean that the person who has been told the lie has been used as a means to achieving the just result

Teleological Approach (Consequentialist Approach)

The teleological approach, also called the consequentialist approach, to moral action is based on the relativist view of ethics. This approach takes the view that the morality of an action should be judged by its consequences. If the consequences are 'good', the act is morally correct. 'The end justifies the means.' An example of the teleological approach is utilitarianism. This is a view of morality most closely associated with the 19th Century British philosopher John Stuart Mill. Mill argued that an act is 'right' if it brings the greatest amount of good to the

greatest number of people. The teleological approach to ethical decisions can therefore be explained as follows:

- i. Actions in themselves do not have an intrinsic moral value.
- ii. The moral value of an action is determined by its consequences (not the act itself).
- iii. Using reason, it is possible to calculate the costs and the benefits of an action, to determine whether or not it is morally correct.

Taking this approach, for example, it would be argued that telling a lie can be justified and would normally be acceptable provided that the consequences are 'good' or 'benevolent'.

ETHICAL DECISION-MAKING MODELS

Tucker's 5 question model Tucker's 5 question model for ethical decision-making in business is based on the view that the profit motive is justified, and the purpose of decision-making in business should be to make a profit. However, profits should be made in an ethical way. In order to be ethically correct, business decisions and actions should be legal. Activities outside the law by a business cannot be correct. Business should also be conducted in a fair way, without deception or other 'under-hand' acts. For example, competitors should be treated with respect, and customers and employees should be treated in a fair way. Tucker's model is also based on the view that decisions should not be taken in business if they do not support sustainable business or could be damaging to the environment. The 5 question model involves asking five questions before making a business decision. If the answer to all five questions is 'Yes', the decision is ethically sound. The five questions about a decision are:

- i. Is it profitable?
- ii. Is it legal?
- iii. Is it fair?
- iv. Is it right?
- v. Is it sustainable or environmentally sound?

Example: An international company is planning to build a new manufacturing plant in a developing country. The country was chosen because costs of land and labour are cheap, so the forecast profits are high. The plant will be built on a 'brown field' site just outside the country's capital city, which used to be the site of another factory that has now been closed down. The company intends to build a plant that will use modern technology that keeps environmental emissions at a low level. The country's government has approved the building of the new plant, and the local population is eagerly waiting for construction to begin, bringing with it much needed commercial activity – and jobs. The government believes that the plant will bring economic growth to the country's economy.

Required: Is the decision to build the plant an ethical one? Use the Tucker 5 question model to reach an answer.

Answer

Question 1. **Is it profitable?** The answer seems to be Yes. The country was chosen because of its low cost of land and labour.

Question 2. **Is it legal?** The answer seems to be Yes, because the government has given permission for the plant to be built.

Question 3. **Is it fair?** There is no reason to suppose that it is not fair. The only stakeholders in the example are the government and the local population. Both seem to support the building of the plant, and this suggests that the project is fair.

Question 4. **Is it right?** The answer seems to be Yes. The project will bring jobs, wealth and economic growth. There are no obvious reasons why the project is 'Not right'.

Question 5. **Is it sustainable or economically sound?** The answer seems to be Yes, because the plant will be built using modern technology that keeps environmental emissions at a low level.

In this simple case, the decision to build the plant would be ethical.