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Accounting and the ethics challenge: Re-membering the professional body

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Abstract

Based on the P.D. Leake Lecture given at Chartered Accountants' Hall in May 2007, this paper looks beyond recent financial reporting 'scandals' to consider the 'standing challenge' that ethics represents for accountants and the professional bodies that represent them. It examines the notion of a profession and argues for a position that recognizes both the potential benefits of professionalization and the self-serving tendencies to which professions can be prone. Such a position entails a view that the outcome of professionalization for society is a contingent matter rather than an inevitability (whether positive or negative) and therefore something that is worth attempting to influence. In developing the argument, two major areas from the business ethics/corporate social responsibility literature, oriented towards business enterprises but also of relevance to professional bodies, are reviewed: whether being ethical 'pays' in financial terms; and whether formal codes are useful in promoting ethical behaviour. The paper concludes by positing three models of the professional body and contending for a renewed notion of membership if professional bodies are to function as effective 'moral communities'.

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Accounting and the ethics challenge: Re-membering the professional body

Introduction

The title of this paper and the lecture on which it is based refer to the ethics "challenge". Before I go on to explore what I mean by this, I would like to begin by noting one challenge that faces me: there tends to be an expectation that anyone who dares to speak or write on ethics should be ethical. I don't wish to make any special claims here, but perhaps those on the receiving end of expositions on ethics often have in mind the old adage "practise what you preach". I suppose that, to the degree that academics are more than mere observers or detached analysts, to the degree that we hold forth on what should be done, we lay themselves open to a special requirement to be ethical. However, for very particular reasons that will become clear below,[1] I will attempt to keep my "preaching" to a minimum.

Another feature of what I am doing is that I will attempt to cover quite a lot of ground, more than might be the case in a conventional academic paper. Part of the reason for that is that, when invited to give the P.D. Leake Lecture, I was encouraged not to focus on financial reporting and audit – which is where so much of the public debate about accounting ethics tends to concentrate – but to look at ethics in a way that might be relevant to all members of the profession. After all, one of the notable features of the British accountancy profession is the variety of roles its members occupy, particularly as – for various reasons – accountancy has served as a general management qualification in the UK (Armstrong, 1987; Matthews et al., 1998). One of my tasks, *inter alia*, will therefore be to review some aspects of the general business ethics literature in a way that might be of interest to accountants and relevant to their thinking about ethics.

In roundtable discussions with Chartered Accountants[2] during the preparation for the Lecture, two questions addressed in the business ethics literature seemed to stand out. First, does being ethical pay? In other words, what are the financial consequences of taking an ethical stance? Second, are codes of ethics an effective means of promoting

[1] See my later comments on "moral community".
[2] I.e. members of the Institute of Chartered Accountants in England & Wales. The discussions used a focus group research method.

ethical behaviour? I shall address both these questions in due course, but I shall situate them in the context of an argument to be developed through the paper.

Because of my brief to look beyond financial reporting and auditing, my starting point will not be the familiar "scandals" of Enron, WorldCom, Parmalat and the like – which, it might be contended, have little to do with the UK profession, even if it has felt the backwash from them – but rather the question of what it means to be a profession. Not only is this relevant to all qualified accountants and those with an interest in their activities, but it also provides a good starting point for considering ethics, which for many people today seems a rather vague and slippery matter.[3] I am therefore going to look at what I call "the professional challenge", which will be the first of three challenges within the overall "ethics challenge".[4]

The professional challenge

My starting assumption is that professional ethics matter. How much and in what ways, I will consider below, but I take it as given that the claims of professions and their members to act ethically – or, rather, the degree to which they fulfil them – have an impact on society. This is why, though scandals may come and go, ethics is a *standing* challenge to professions. It is important for professions to think about ethics not only in times of turbulence, or moral panic indeed, but in times of relative calm too. Ethics is, or should be, an everyday feature of professional life, and it is not just – or even – about preventing major misdemeanours.[5]

Consider two classic professions – medicine and the law – with which accountants have traditionally compared themselves (Macdonald, 1984, 1995). What if doctors were just in it for what they could get, taking advantage of sick and vulnerable patients in their hour of need? Or what if lawyers cared only about money, not their clients? Perhaps you think the second example a poor one;[6] in which you are possibly in agreement with a widespread view that professions – to use George Bernard

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[3] It is a more concrete, "grounded" starting point than, say, philosophical ethics – though I will say a little about ethical theory below when I sketch a position regarding professional ethics.
[4] The others are "payoff challenge" and the "practical challenge".
[5] It might be contended that "major" misdemeanours (however defined) are, or should be, a matter for the law. I do not want to consider that question here though.
[6] There was considerable laughter among the audience at the Lecture at this point, providing the opportunity for further 'lawyer jokes', which I have, perhaps wisely, chosen to omit from this written version.

Shaw's memorable phrase – are "a conspiracy against the laity". If so, that at least supports my point that professions and professional ethics (or lack of them) matter. On the other hand, if you think that, even if (say) lawyers tend to exploit those who lack their expertise, accountants do not, or at least not always, then you are probably sympathetic to my overall stance on professions. In order to explain that stance, I want to delve a little further into what it means to be a profession.

The term 'profession' is generally employed quite loosely in everyday speech, often being used to refer to any, or almost any, occupational group. However, it has a narrower, more technical sense when used by people like sociologists. Much of the academic debate about professions has asked what it means to be a profession and hence what marks off professions from other occupational groups (e.g. see Johnson, 1972; Taylor et al., 1995). It is an interesting debate, but whatever definition is invoked and however vague its boundaries, it is clear that accountancy qualifies as a profession. This can be appreciated by examining the characteristics that tend to be associated with professions or, rather, professional bodies. I think the following list is a fair summary of the broad consensus, even if is not the final word on the subject.[7]

- There is a widely agreed and extensive specialist skill and knowledge base, the latter often of a somewhat theoretical kind.
- The deployment of the knowledge base involves the use of discretion and judgment, not just the application of rules to routine circumstances.
- Acquisition of the requisite skill and knowledge base involves a long period of training, with formal certification of competence (usually involving written examinations) and, frequently, some form of licence to practise.
- It enjoys independence and self-regulation, with control over the knowledge base, setting of entry standards and criteria for membership, and responsibility for the disciplining of members.

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[7] It might be better to view this list as being indications of family resemblance (see Wittgenstein 1958) rather than providing the basis for an essentialist definition. It, and the discussion in which it is located, draws on various sources, particularly Abbott (1988), Davis (1997), De George (2006), Jary and Jary (1991), Larson (1977), Parry and Parry (1976), Reed (1992) and Taylor et al. (1995). See also Pierce (2006). See also Lord Benson's list of nine obligations to the public in a 1992 House of Lords Debate ('Criteria for a group to be considered a profession' as recorded in Hansard (Lords), 8 July 1992, 1206-1207, quoted in BCS (2006)). I am grateful to Michael Izza for pointing me to Lord Benson's list.

- In many cases, there are high levels of personal and financial reward.
- There are ethical codes (often formal, but not exclusively so), independent of contract or state law, and these are self-enforced. These demand more than conventional morality and law.

The final item contains a clear reference to ethics, but it is worth considering why it is there. I think the reason can be discerned in two of the themes that appear in the list.

The first theme is expertise. It is not enough to stipulate and examine the expert skills of professionals, for there is the question of what they then do with those high-level skills, how they use them. Technical expertise puts the professional in a position of power and provides opportunities for exploitation of the inexpert lay person, who is in a weak position to reach a judgement on the quality of service provided – and who may be vulnerable in other ways too.[8] The controlling of opportunities to take advantage of lay persons would appear to make professional ethics publicly potentially beneficial.[9]

The second theme is self-regulation. Holding itself to a higher standard of ethics than ordinarily required by law and conventional morality (see Davis, 1997; De George, 2006) can be viewed as a promise that a profession makes to society, and the reward for that promise is self-regulation. Or, to put it the other way round, the promise of higher standards of ethics is the price that a profession pays for the privileges that it enjoys, which include a degree of self-regulation. Self-regulation tends to be jealously guarded, which suggests that it is highly valued by professions. Accountants are no exception in this regard.

These are two good reasons – among others – for hoping for a high standard of ethics from professionals. However, the crucial question is: do professions live up to this vision of higher-than-average ethics? According to many critics, at the heart of the professional "project" is the pursuit of economic –and to some extent social – advantage. In this view, professions are not about ethics at all. Such critics seem to

[8] This is not just a question of the asymmetry in expertise though; it is also because professionals tend to supply 'credence goods' (Darby and Karni, 1973), such as advice, the quality of which is never apparent, or is apparent only after much delay.

[9] Of course, one might respond with 'caveat emptor', but in situations such as these the lay person would often have to rely on a further professional to vouch for the work of the first, which is both inefficient and, conceptually at least, subject to infinite regress. It is probably sensible for the lay person to keep 'caveat emptor' in mind, but it is of limited value here when compared with many other, everyday transactions.

have at least some circumstantial evidence on their side for, as noted earlier, one common feature of professions such as accountancy is the superior earning power of their members.

The essence of the argument of the critics is that professional bodies seek to secure a privileged position in the market for their services. They control entry into the profession itself, thus ensuring not so much quality – which might appear a reasonable justification – but restricted supply. Given the demand for a profession's services (which professional bodies also seek to stimulate), this tends to increase remuneration to levels above what it would otherwise be.

Thus not all observers are convinced that professions really do serve the public interest; quite the contrary. For example, there have been sustained Marxist and, more recently, consumerist critiques of professions' use of their privileged position to their own advantage.[10] The negative assessment of professions – whatever the particular intellectual form it might take – is that they are fundamentally self-interested endeavours, and that claims to ethics and serving the public interest are either a 'smokescreen' (Taylor et al., 1995) or, at best, a misleading 'sideshow'. The criticism is that the rhetoric of ethics and public service is just that, and no more.

How should we assess and respond to such criticisms? The first step is to acknowledge what the critics have got right. They point to a real risk that professions as we know them tend to run. However, the problem with such "totalizing" or "blanket" views is that they leave no room for considering whether some professions, in some places or circumstances, at some times, are less prone to abusing their privileged position or, indeed, are of significant public benefit – even if members continue to reap considerable rewards.[11] While a healthy scepticism might be called for, dismissing professions *tout court* amounts to little more than cynicism, which closes the door to productive possibilities. My contention is that the actual contribution of a particular profession is a contingent matter, not an inevitability. If I am right that there can indeed be variation in the social contribution that professions

[10] Perhaps there is also a wider challenge to "authority" and distrust of entities seeking to advance collective interests.

[11] Luetge (2005) argues that critics of business have to move beyond pre-modern ethics to recognize that, at the heart of modern economic life, are non-zero sum games. Thus it is insufficient and far from satisfactory, when launching an ethical critique, to focus on the fact that one party gains from the situation. Mutual advantages should be recognized and assessed.

make, to which "blanket views" are inevitably blind, then it is worth considering how that can occur, and how a positive contribution can be encouraged.

In a business-related profession (broadly conceived), a positive impact can occur via two principal routes. First, there is the external role as provider of advice and services to clients. This is the classic professional form which 19th century Chartered Accountants saw in doctors and lawyers and sought to emulate as they pursued professional status (Macdonald, 1995). It is the site for the provision of audit, which can make a positive contribution to the quality of financial reporting and hence to the operation of markets – but which, of course, faces its own ethical challenges, particularly (so some would argue) when the cross-selling of non-audit services is involved. However, this is not an issue I want to deal with directly, not least because plenty has been said about it already (e.g. Coffee, 2006; see Cowton, forthcoming). The principal point is that accountants have the *potential* to make a positive contribution through working to high ethical standards within the setting of a professional firm.

The second route for accountants to have a positive impact is through their status as employees of non-professional firms – ordinary businesses, in the main, but also other sorts of organisations. If, as noted earlier, professional accountants are supposed to be following higher-than-average ethics, one of the ways in which they can have an impact is highlighted by the concept of organizational-professional conflict (OPC). OPC is present when there is a tension between what the employing organisation is demanding and what professional ethics would require (Sorensen, 1967; see Brierley and Cowton, 2000). If professional ethics dominate, then they will have had a positive impact on the ethical quality of organisational functioning. Perhaps just as significantly, though, the position of qualified accountants in many organisations also means that they have the opportunity to influence the ethical tone or climate of the organisation for the better, if they bring their professional ethics to bear.[12]

Such moral leadership could have a positive impact. However, it is not necessarily the case that the contribution of qualified accountants to the ethical climate of business, whether as an outsider or as an employee, is in opposition to what those in control would otherwise wish to do. Perhaps being more than averagely ethical

[12] A further potential contribution, in relation to the "business case" for ethics, will be discussed below.

actually pays off financially. Certainly there are those who want to see business being more ethical and assert this opinion with great regularity and confidence. I will briefly review the evidence regarding this "payoff challenge" and develop what I hope is a helpful perspective on it.

The payoff challenge

Many times when I talk to people about business ethics, one of the first questions they ask is: does it pay? Is there money in being moral? Can you do well by doing good? Is there a "business case" for ethics? The question is posed in many forms, but the same basic question is nevertheless posed.

At one level the speed and frequency with which this question arises is quite depressing, but in defence of some of the people who pose it, they are not (necessarily) asking what's in it for them but are interested in promoting what they take to be higher standards of behaviour. They think, quite reasonably, that it will be easier to persuade people to follow an ethically desirable course of action if it can be shown that it is in their own interests to do so. At the back of their mind is probably the assumption that commercial life is tough – which it can be – and that actions assumed to entail a financial sacrifice would not be seriously considered. Perhaps they have in mind, too, a view of business as *purely* profit-oriented, the implication of which is that £1 of extra profit is worth the sacrifice of any amount of ethics (cf. Hooker, 1998). Many people take this to be well summed up in the words of the late Nobel Prize-winning economist, Milton Friedman (1970):

> 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'.

It is perhaps ironic that Friedman has become one of the most frequently quoted authors in business ethics, where he is usually being presented as a stalking horse– though often a misrepresented stalking horse. I will not pursue a detailed analysis of his position here. Rather, based partly on my perception of "Friedman-abuse", I will highlight a few points to indicate the inherent weaknesses in the view that Friedman rules out business ethics.

- Friedman was not referring to owner-managed or closely-held businesses such as private companies or partnerships. He explicitly states this, and yet some writing on the ethics of SMEs (small and medium-sized enterprises) implies that he thought they have to be focused purely on profitability. Friedman clearly said that if owner-managers wish to indulge their particular ethical interests or social agenda through their business, that is their choice. What concerned Friedman was executives in publicly listed corporations not pursuing the interests of shareholders, which he took to be increasing profits and hence dividends and/or capital gains. We might note that he was writing before the advent of a noticeable contingent of ethical investors, but I will leave this particular interest of mine on one side here.[13] My point is that there is a large part of the business sector which is not, subject to the need to survive, caught on the horns of any ethics *versus* profits dilemma. Many accountants advise, or work in, these businesses, and it would be wrong to presume that they are all focused *exclusively* on making money. The weight accorded to profits in the objective function of such businesses is a contingent matter, not one determined by institutional form.
- Many parts of our economy are not constituted as for-profit businesses. Of course, Friedman never said otherwise – though he was not in favour of an extensive public sector. My point here is that an ethical agenda fits very naturally with the operations of many organisations with or for which accountants work, and as public and voluntary organisations are encouraged to be more "business-like", I think it would be wrong to suppose that this has to drive out ethics: far from it, if they are to be properly managed and to meet their legitimate objectives.

When put this way, it is obvious that, in a large swathe of organisational activity, ethics simply does not have to give way to making money all the time. However, this is often neglected in debates about the ethics of accounting and the ethics of organisations, where such realms tend to be forgotten. It is important that we remember to think about ethical issues related to accounting and how they might play out in these contexts too.

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[13] See, for example, Cowton (1994, 1997a, 1999).

- Nevertheless, publicly listed companies, with a divorce of ownership and control, are very important. Does a Friedmanite position require that such businesses are "red in tooth and claw", seeking to subjugate or compromise on ethics all the time in the pursuit of profits, subject only to the constraints of law.[14] The simple answer to this is that they do not; and the simple reason is that, if ethics pays, managers should choose the ethical option. *If* it pays, a Friedmanite would have no objections.

So does taking the ethical option pay? There has been plenty of research over more than 30 years into this question (Margolis and Walsh, 2003; Orlitsky et al., 2003), but the results are not wholly conclusive – or so it might seem. There are various reasons for this. If I depict the question in the simple form:

E→P?

which should be read as asking whether being ethical leads to superior financial performance, I can begin to indicate some of the reasons that make the question so difficult to answer empirically. I will deal with the expression from right to left.[15]

First, how should we conceptualise and measure P? This might seem relatively straightforward, but anyone with a knowledge of accounting and finance will quickly realise that it poses certain challenges. For example, if we focus on profits, we have the difficulty of deciding on the appropriate form of profitability[16] and the relevant time span: too short, and we might miss some impact, too long and we might lose any statistically discernible effect in a lot of noise, in spite of our attempts to control for other variables. For publicly listed companies, at least, we might look for an impact on share prices, but if the financial benefits of an ethical stance are recognised by the stock market, they will be impounded in share prices at the point of recognition, not over the years that the stance is actually implemented. Yet many studies examine periods during which a particular company's 'superior' ethical stance will have been constant.

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[14] Note, though, that some businesses might choose to break the law in the interests of profitability, depending on the probability and consequences of being caught. This point is covered by Wagner-Tsukamoto (2008) in an exploration of different approaches to business ethics through his 'rationality-of-ends/market-structure grid'.

[15] Much of the literature in this area uses the abbreviations CSP (corporate social performance and CFP (corporate financial performance). Because of the focus of this paper on professional ethics, to which I will be explicitly returning below, I employ a more generalized form.

[16] As well as the issue of the reliability of disclosed profit figures, of course.

Second, what sort of link ($\rightarrow$) should we look for? Many studies (and, implicitly, anecdotal examples) have used correlation, but if we rely on correlation, how can we be sure that we have found a link in the direction indicated? Correlation is not causation, and some studies find a positive link the other way; namely, increased financial performance tends to lead to more ethical behaviour. Together with other findings, this suggests the possibility of a 'virtuous circle' (Orlitsky et al., 2003).[17]

Third, and perhaps most challenging, how should we conceptualize and measure E (see Wood and Jones, 1995)? Bear in mind that we are interested in some companies being more ethical than others and whether that confers any competitive advantage. The research question is therefore concerned with relative rather than absolute 'ethical performance'. More important, 'ethics' seems to encompass so many possible dimensions – voluntary pollution control expenditure, keeping delivery promises, paying suppliers on time, honest advertising, charitable donations, progressive employment policies, to name just a few –and its basis, as well as its content, seem to be subject to so many different opinions. Not surprisingly, different researchers take different approaches. Some focus on particular dimensions, which sacrifices generalizability of findings regarding the question of whether ethics pays in favour of tractability (as well as expressing an interest in particular issues). Others attempt to capture a broader concept of ethics, perhaps even using a general reputational measure. However, what should enter such a construct, and what weights should be attached to the various components, is a moot point; and the chances of finding something both significant and useful are thereby limited.

The conceptual and methodological challenges in undertaking such research are formidable and its results therefore prone to contestation. Many researchers think they have found a positive link from ethics to financial performance, but some do not find any such link. Some even find a negative one. The results are described as 'inconclusive' by Jones and Wicks (1999: 112) and 'very mixed' by McWilliams and Segal (2001). Yet from their review of 127 studies, Margolis and Walsh (2003) were able to conclude that the balance of evidence is in favour of a positive link. Moreover, from their meta-analysis[18] of 52 previous studies, Orlitsky et al. (2003)

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[17] Of 127 studies reviewed by Margolis and Walsh (2003), 109 examined E$\rightarrow$P and 22 P$\rightarrow$E (i.e. four examined both). Support for a positive relationship was found by the majority of studies in both cases.

[18] Meta-analysis is a quantitative review method used to re-evaluate the relationship between variables across existing studies (see, e.g. Brierley and Cowton, 2000). A major advantage over narrative

were able to suggest that corporate responsibility and, to a lesser extent, environmental responsibility, is likely to pay off.

Nevertheless, even if it is not clear that ethics pays – and some claim it is – the findings certainly tend not to imply that it never pays. To put it colloquially, sometimes the good guys finish first, or at least in the medal positions; sometimes the bad guys do.

Perhaps the problem is that the question is actually not a particularly sensible one to tackle empirically, certainly not at the level of generality at which it is typically posed, and which I have gone along with for the purposes of this argument. Asking whether ethics pays is a bit like asking whether marketing pays, or whether management accounting does. The terms cover such a vast range of practices ('ethics' even more so), and the value of those practices is going to depend on the situation and how they are carried out. Thus, I would contend, the question is really the starting point for a research agenda but not a serious research question in isolation.

Much more could be said about that research agenda, but for present purposes I would prefer to draw what I think is a strong practical conclusion from this possibly inconclusive body of empirical research: namely, that ethical initiatives in business should not be rejected automatically, without thought, even if the business concerned happens to be focused exclusively on making money. I think that this kind of "ruling out" by business people might actually be quite common, eliminating the consideration of certain actions rather than taking them seriously; a kind of prejudice,[19] if you like. Managers often tend to view themselves as more constrained than they really are, and the assumption that a more ethical stance would involve financial sacrifice is fairly widespread – hence the clear desire of some empirical researchers to prove otherwise. Accountants in business have an important role to play here, because if they also make this kind of assumption, if they fail to look for and quantify, or at least mention, the financial benefits that an ethically desirable course of action might generate, then the win-win opportunity will be missed.

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reviews is its power to provide for more valid inferences when conflicting results observed between small sample studies arise from statistical artefacts such as sampling error and measurement error – two concerns expressed about this particular tradition of research (Ullman, 1985; Waddock and Graves, 1997.

[19] I.e. prejudging.

Because there are many dimensions to what it might mean for a business to be ethical, there are many ways in which a positive link might occur between ethics and profitability. Many writers focus on the top line effects on revenue that result from customers appreciating what the business is doing or how it does it, but there are also possible cost advantages. One of the crucial aspects that many people have remarked upon is how an ethical approach leads to a good reputation, which in turn leads to trust on the part of various stakeholders, and this can bring about things like improved sales, lower employee turnover or better terms from suppliers.

Furthermore, we should not forget that sound ethics which lead to trust have also been identified as of great benefit for the economy as a whole. Money might make the world go round, but one of the things that has been learnt from watching emerging economies is that trust makes it go round far better. We know ethics pays at the macro level, promoting healthy markets. This is an area where the accountancy profession can make a significant contribution, in all sorts of economies; which brings me back to the question of the profession, rather than the individual business.

Issues of trust and reputation are also important at the level of the profession, for it is reputation that is the key to the rewards it receives and trust that is critical to the self-regulation it enjoys. As many businesses have recognized, a good reputation can be thought of as an intangible asset, and like all assets it is at risk of impairment. This impairment may not always be accidental. It is not difficult to show that the self-interested development of a good reputation on the part of an individual actor – such as a business – is potentially unstable and subject to the risk of being deliberately depleted in what I would term “marginal” situations, for example, where survival is at stake or a decision has already been taken to exit. In other words, a choice might be taken to exploit the trust that has been built up, to liquidate or “cash in” the reputational capital when there is insufficient incentive to maintain it. I think this is less of a risk with a professional body than with, say, a small business, but there is nevertheless a significant “cashing in” risk. That comes about because of the way in which a professional body’s reputation works.

Individual members gain from the professional body’s reputation, particularly if their own individual “brand” – if I might put it that way – is not well known. They are a qualified accountant able to use particular designatory letters, and that provides valuable signals in the marketplace including, if the professional body has got things right, about the standard of behaviour that can be expected from the individual member. There is a sense in which the professional body's reputation is lent out or entrusted to members, to the individual member's advantage. When a member acts correctly, which will usually be the case, that reputation is maintained and perhaps even enhanced a little. But when the member acts wrongly, the professional body's reputation is damaged – usually in a small way, but sometimes in a big way. A member might be happy to use the reputation of the professional body responsibly much of the time. However, in certain situations they might put that reputation, which they have done little or nothing to create or develop, at significant risk, seeking to "cash in" some of it in their own interests. That is one way in which you can read many of the disciplinary cases on professional bodies' websites, where a member has exploited the trust which his or her qualification has engendered on the part of a client or employer. The question is: how can such misbehaviour be discouraged, and how can ethical behaviour be encouraged? This is the "practical challenge" to which I now turn.

The practical challenge

As I turn to the practical challenge (or part of it, at least) of influencing professions to be ethical, I want to look at codes of ethics for two principal reasons. First, as mentioned earlier, they are an expected feature of professions, and professional accounting bodies have recently been re-visiting this topic, following the promulgation of the IFAC code.[20] A code is a key aspect of professional accountancy bodies' ethics offering. Second, codes have also become one of the most visible features of ethics in business[21] and have accordingly attracted the interest of business ethics researchers. Therefore, rather than provide a critique of a particular accounting code I will, in keeping with the level of argument of this paper and in order to make my comments relevant to the organizations in which accountants work as well as the body to which they belong, instead look at what we can learn from the research on codes in general.

[20] International Federation of Accountants – see http://www.ifac.org/Members/Pubs-Details.tmpl?PubID=10456070402914590&Category=Ethics
[21] Some companies, though, prefer not to use the term "code of ethics". They might, for example, refer to their "code of conduct" or use some other such term.

Given what I said earlier about whether ethics leads to improved financial performance, it is not surprising that it is difficult to draw firm, detailed conclusions about the positive impact of codes of ethics from the empirical research literature. This might seem to accord with the views of sceptics like Warren (1993), who condemns codes as 'superficial and distracting answers to the question of how to promote ethical behaviour in corporate life' (p.186). On a little reflection, mixed results might indeed be expected. Codes vary from company to company in their intentions and content. It is one thing to identify that a company has a code; it is a rather different matter to judge that the code a good one. Furthermore, beyond what it says, there is the vital question of how (or even whether) the code is implemented. To research the impact of codes therefore requires considerable sophistication and a large volume of research to cope with all the complexity. We do not yet have sufficient, high-quality empirical studies to provide a comprehensive evidence base, and possibly never will.

Nevertheless, there are some useful insights and some sensible advice available (e.g. Webley and Werner, forthcoming). For example, some writers have drawn attention to the importance of the "tone from the top". This isn't just leaders of the business (or profession) occasionally remembering to mention the ethics code, though that helps. Rather, it is that everything that is said is consistent with what the code of ethics states.

One of the crucial things when drawing up a code is to get the balance of rules and principles right. Principles alone too easily look like vague moral exhortation. They will be viewed sceptically by outsiders and will be of limited practical help to those to whom the code is intended to apply. Detailed rules are needed, therefore, to put some flesh on the bones of the principles, providing practical guidance for the most common issues and situations that are likely to be met. However, it should be recognized that the rules cannot cover all eventualities, and ambiguities will remain (Page and Spira, 2005). That is clearly the case for a professional code intended to apply to members in a wide variety of settings, even if some attempt is made to explore various possible contexts. There will always be gaps, which is why the principles have to be emphasized, in the hope of preventing the unscrupulous from treating those gaps as loopholes. The rules are then expressions of the expected outworkings of the principles in some anticipated situations, but the responsibility of the person to whom the code applies is to give effect to the principles. The focus on principles-based integrity, as discussed in *Reporting with Integrity* (2007), not just rules-based compliance, is therefore quite right.[22]

That's the theory, or good advice at least. It is important to attempt to avoid legalism or moral 'dumbing down', a defensive or unthinking adherence to the rules, which – amongst other things – would amount to de-professionalization, if you recall the earlier point about professionals not simply applying formulae. In this regard, one of the encouraging things that emerged from my discussions with qualified accountants was that they easily recognized, indeed tended to bring up, the distinction between principles and rules. I think it fair to say that they supported the idea of putting principles first. However, they also thought that, whatever a code or those promoting it might say, they were under great pressure to pay attention to the letter of the rules and found it difficult to gain much leverage from the principles, although there was a suggestion that this might apply less to members in business, who are under less threat of litigation.

Another relevant factor regarding the rules versus principles issue is that there is some research evidence to suggest that accountants have a relatively strong preference for rules, which – if true – would tend to put them at one of the lower stages of moral development.[23] Not all accountants are like this, of course, but it might be a tendency, which would tend to increase the risk of failing to follow the spirit of the code.

Another interesting perspective, voiced by some of the accountants that I talked to during the preparation of this Lecture, was that the growth of other regulations and codes was diminishing the significance of any accounting ethics code for their day-to-day professional experience. The extent to which this is the case will vary from industry to industry – financial services are relatively heavily regulated, for example – but you can see the potential impact of what some business commentators have referred to as "code overload".

Some people – correctly – point out that a code does not stop bad things happening. For such people, the presence of an apparently excellent code at Enron is some sort of

[22] This line of thinking will be familiar to accountants from the substance-over-form debate in financial reporting.

[23] A clear outline of Kohlberg's theory of moral development can be found in the *Reporting with Integrity* paper. For relevant research results, see Lampe and Finn (1992), Ponemon (1990) and Shaub (1994); though cf. Fulmer & Cargile (1987), Green and Weber (1997) and Jeffrey (1993).

proof that codes are a waste of time. But a code itself cannot stop someone breaking it, no more than a law ensures that the behaviour legislated against never happens again. This comparison with the law makes it unsurprising that one thing research has suggested is that there should be enforcement mechanisms to discourage the code's being broken and to reassure others to whom it applies and outsiders that it is taken seriously by the body to which it belongs (Molander, 1987). But in the final analysis, the only way to ensure that codes – or indeed laws – are not broken, is not to have them in the first place!

Of course, codes of ethics are not the same as law. Some of the reasons for this are obvious, but there is one important respect in which they differ that is easily missed in discussions of professional ethics. It was argued earlier that professional ethics should be above and beyond what law and ordinary morality demand; this is certainly the claim of professional accounting bodies. However, this sets up a tension regarding enforcement, in relation to the disciplining of members. First, in practice, many disciplinary cases seem to involve the sanctioning of members who have already been found guilty of a criminal offence; this is a necessary "tidying up" operation for a professional body to engage in, but it is of limited significance for the maintenance of professional ethics. Second, of the remaining cases, how many are about an alleged failure to observe *high* standards of professional ethics? I would suggest that very few, if any, are. Instead, they are focused on lower level breaches. Of course, this is only to be expected, for all sorts of practical reasons. My point is not that a large proportion of the profession should be subject to formal disciplinary procedures, but rather that – given the importance of enforcement mechanisms – there is a natural limit on the degree to which codes of ethics can drive high standards of behaviour. They are better suited to dealing with ethical shortcomings than to raising aspirations – though that does not mean that they should not have aspirational content.

Perhaps this seems a little negative, but I would not agree with those critics who say that codes are always a complete waste of time – or worse. Perhaps some company ethics codes are little more than PR, published as a knee-jerk reaction to some bad publicity or a pressing issue and then forgotten about. But sometimes they are rather more useful. In this I am echoing my earlier comments about the nature of professions; I am seeking to avoid a negative generalization that then neglects and indeed suppresses any potential a code might have. And in the final analysis, I think it difficult to argue that a profession should *not* have a code at all.

Some people might point out that, traditionally, no attempt was made to codify ethics in written form at all, yet ethics was not absent. It was purely an oral tradition, built into the culture. In the research I conducted prior to this Lecture, some of the accountants talked about how they "just know" what they are supposed to do. But they were highly experienced members and, as they acknowledged, entered the profession in different circumstances from those that obtain today. In any case, if properly used, a code does not necessarily undermine a culture.[24] In fact, it can be used to express it, or at least something about it, both to outsiders so that they have some sense of what to expect, and to insiders – especially new recruits. This is particularly important now that business is so international and entrants to the profession come from increasingly diverse backgrounds. What some recruits "just know" might be very different from what established member of the profession hope they will think, and a code can provide useful explicit guidance, even if it is only a start. In this day and age, a code might be necessary – but, of course, it could hardly be sufficient (Webley and Werner, forthcoming), and not too much should be expected of it, even while it is being treated with appropriate seriousness. It's the same with any tool used in isolation when seeking to influence something as complex as human behaviour in the large. If we are to be practical about ethics, if we are to take it seriously, we have to do many different things. Ethics – good or bad – is at its most powerful when it is just part of the way you do things, part of the culture, part of the way qualified accountants think. Tools can help support this, but they cannot really replace it.

However, what should be the content of ethics? If we are to be practical, should we not specify what we mean by being ethical? Earlier, I stated that I wanted to keep my "preaching" to a minimum, and I do not wish to launch into an attempt to lay out a scheme of ethics for accounting. I will do so by outlining a way of thinking about ethics.

Let me change the subject (apparently) to territory in which accountants will find themselves more at ease. What is 2+2? I hope you will immediately think "4". How

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[24] See Moore (2006) for a perspective on the risks involved though.

or why do we know that 2+2=4, though? I would suggest it is because we have joined a community of practice, the community of practitioners of arithmetic. We have learnt the rules, become competent practitioners of them, been imbued with them to such an extent that the answer is obvious and in need of no justification. Some philosophers who have wrestled with the nature of ethics have suggested ethical knowledge is rather like this, and I think it has a lot to be said for it. We join a moral community, albeit one that through engagement within itself and with those around might come to evolve its rules over time. If one metaphor for ethics is taking fundamental truths as a foundation and building a sturdy structure on top of that foundation (but these days worrying that we don't know what the foundations should be or won't agree on them), the metaphor here might be the idea of joining a boat afloat on the seas, which undergoes a continual process of maintenance and, sometimes, change: a boat that is made both for us and by us. I hope you don't get the wrong impression here though: a moral community is not a club for talking ethics. Moral communities do things, real things, but they share ethical "software".[25]

This notion of a moral community, and the idea of a profession as a moral community, fits well with the idea of becoming competent practitioners of what a code of ethics stands for, of "just knowing" what the principles mean in the situation in which you find yourself – even if in the early days you had to follow the rules in a more mechanical fashion. As I said earlier, though, professions vary in the extent to which they seek to meet seriously the standing ethics challenge that they face. And so it follows that the degree to which they are an effective moral community will vary. It is particularly challenging for large, diverse associations such as many of the professional accounting bodies; members come from, or work in, different cultures, and they undertake a large variety of roles, with the "practice/industry" split being a very significant one.[26] One way of thinking about this is to look at the various tools available, but I have already looked at one principal tool, a code of ethics, and made some comments on that.

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[25] The way of thinking about ethics being obliquely referred to here can be associated with the work of writers like John McDowell (1981, 1983), drawing on Wittgenstein's rule-following considerations (see Wittgenstein, 1956). McDowell is (in part) responding to philosophers such as Mackie (1977) who in various ways ("error theory", in the case of Mackie) seek to undermine "realist" conceptions that attempt to ground ethics in something (for want of a better word) solid. McNaughton (1988) contains an excellent review of this meta-ethics debate. Although he might be viewed as a (modern) realist by some, it would be better to see McDowell as an anti-anti-realist.

[26] This came up quickly and frequently in the roundtable discussions I held while preparing the Lecture.

Instead, in the time remaining I want to take a slightly different tack. I will identify three versions of a professional body (there may be more) which can be seen to reflect various strands of the preceding discussion. These are general models.[27] I am not saying that any particular professional body is exactly like this; I am referring to possibilities and tendencies.

<u>Version 1: the qualification professional body</u>

This professional body does little more than act as an examining institution. It is responsible for testing students and certifying their knowledge. It might have ethics in the exam syllabus – indeed it should – but on its own this will have limited impact and will do little or nothing to build a moral community, though there may be other helpful processes going on during training, depending on how it is organized. To be a member is to be little more than just someone who holds a qualification.

<u>Version 2: the customer-focused professional body</u>

This professional body has a more sustained relationship with those who have qualified with it. It continues to provide them with benefits, for which they pay their annual subscription. These benefits might include the borrowing of the professional body's reputation through the use of designatory letters and other signs of professional competence and trustworthiness, as discussed earlier, but it will also include services. In this case the members are seen as customers. Several of the professional accounting bodies based in the UK are large organizations, which enables them to exploit economies of scale, but with that size based on the professional success of accountants in the UK (Armstrong, 1987; Matthews et al., 1998) comes a varied membership, with many different roles performed and hence the challenge of providing a sufficient range of services to meet members' needs and expectations.

Viewing our relationship with an organization to which we pay money as a transactional one is a familiar one. Many members no doubt wonder about whether the annual subscription is worth it, and professional body staff worry about whether enough is provided to such members to coax them to continue to part with their money. If such members think of themselves as customers, then it is not a bad idea for professional body staff to think of them that way too. "What do we provide to

[27] Or "ideal types" in the Weberian sense.

members in public practice? What do we provide to members in business? What do we provide to members who never come to HQ?" There, and others, are sensible questions to ask.

However, I think this "member as customer" notion has corrosive effects if it becomes too dominant. Some people even suggest it is not the best way of running a conventional business; your customers have to be more than customers, they say. The problem is that the notion of customer is apt to reduce everything to a question of transactions, and this tends to drive out any notion of relationship.[28] What scope for moral community then? This brings me to my third version.

Version 3: the "membered" professional body

The third version goes beyond the idea of the member as customer and finds its way back to the roots of the word "member" and, indeed, "body", as in "professional body". We often forget about this in everyday usage, but just think what a member is: it is a limb or, by extension, part of a body. We still use it in that sense when we talk about "dismembering". A member is joined in, indeed jointed in. A professional body, like any body, is made up of its members. This version of a professional body is the one that can best carry the idea of a profession being a moral community. At one level then, my principal proposal for meeting the ethics challenge face by professional bodies is simply:

Re-member the professional body

It's certainly an easy slogan to recall. What it points towards is the need to keep in view what it means to be a member of a professional body as a moral community – hopefully a well-functioning one.

So to recap. What does it mean to be a qualified accountant, to be a member of a professional body? Is it someone who has passed the exams and can use the designatory letters as a passport to a well paid and rewarding career (see Version 1)? Yes, but it is more than that. Is it someone who continues to pay the annual subscription because they value what they get out of their professional body (see Version 2)? Yes, but it is more than that I hope, and it needs to be more than that if members are to develop some form of shared culture. Members should have their

[28] I explore these ideas further in the context of universities, as a response to the Tomorrow's Company report, in Cowton (1997b).

own fleshed-out view of what it means for them to be a qualified accountant. That will include in their natural place, not as an add-on, a whole lot of things that the member "just knows" when it comes to matters related to professional ethics, and hopefully those things will bear a strong resemblance to what other members "just know".

So my position is that, while we don't forget ethics as something to focus on for special attention, we make sure that it is one part of a well-rounded notion of what it means to be a member of a professional body. Although I am not attempting to spell out a practical programme of action to accomplish this, one way of taking this agenda forward a little is to think about how people join, participate in and perhaps fail – and therefore need to be disciplined by or even expelled from – that community.

So, for example, what are the messages given to potential students – or "junior members", as we might think of them – in the recruitment material that is provided to them? They know that many qualified accountants make lots of money. Perhaps they think the work, especially in the early days, will be dull and involve lots of hard study; but they are willing to put up with that for the prospect of the money – and we can try to tell them that it really can be fun. But what else do we tell them? What other messages do we give them about what it means to be a qualified accountant, a *member* of a particular professional *body*?[29]

And once they have qualified – having studied some ethics, of course – what do we expect of them? To keep up to date, technically, in their area of specialism and to pay their annual subscription? Of course. But what about their participation in the body, in the moral community, which entails both their further integration into it and their contribution to it? Of course, it is difficult to get busy members to participate in activities and local societies do not appeal to all, as many professional bodies know. What we need is plenty of different ways for members to participate and interact, and no doubt professional bodies' staff give lots of thought to this.[30]

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[29] I am not saying that professional bodies, in their material, say nothing of value regarding the responsibilities of qualified accountants. I am merely raising the issue for attention and reflection.
[30] The Lecture and subsequent reception was, in its way, an example of such interaction. Every ICAEW member who attended therefore deserves some credit, not just for listening to my ponderings but for *being there* in the first place, for doing more than simply paying the annual subscription and – hopefully – staying out of trouble.

As something of an outsider, I would not wish to claim any special insights and come up with a list of naïve proposals about professional participation, but I would like to mention one possibility for consideration. Many professional bodies distinguish between different levels of membership, with UK accountancy bodies offering both "associate" and "fellow" status, with appropriate designatory letters available. What should you have to do to be up-graded to "fellow". Different models are possible: serving so much time, without getting into trouble, and then paying a higher fee; proving that you have been operating at a certain level of responsibility; or perhaps even writing some sort of thesis. But note the difference between the words "associate" and "fellow". The latter sounds much more joined in, part of things, a "real member". Perhaps before an associate becomes a fellow, the question ought to be asked: how does this person engage with the professional body beyond paying their subscription? Are they more than merely "associated" with it? I raise the issue both because of the difference in what the words "associate" and " fellow" connote in everyday usage and because it seems to be one of the few opportunities or levers available for addressing the part that individual members play in the professional (moral) community.

Finally, talking of levers, there is the question of the disciplining of those who fail the community – possibly even to the point of expulsion from it, thus severing the offending member from the body. Again, space precludes me from attempting a detailed critique of what professional accounting bodies do on this front, though I would note two things. First, as mentioned earlier, research on codes of ethics suggests enforcement mechanisms are important. Second, and again as mentioned earlier, it is worth reviewing disciplinary cases to see where professional bodies are exerting some pressure and where they might be failing to do so. I think we can, from the "higher-than-average" professional ethics point of view, treat those cases which concern the disciplining of members who have been found guilty of breaking the law as of marginal interest. The question is: what are the other cases about, and what is missing? For example, if there is an apparently disproportionate number of cases dealing with members from public practice rather than business, what is the significance of this? Ending my exposition on disciplinary issues might appear to strike a negative note, but if the ethical pronouncements of professional bodies do not come to be reflected in their disciplinary activities, how seriously are external observers likely to take those pronouncements?

Conclusion

In seeking to explore the nature of the "ethics challenge" facing accountants, I have broken it down into three subsidiary challenges; the professional challenge, the payoff challenge, and the practical challenge. Two issues addressed under the second and third challenges – whether being ethical pays and how useful codes of ethics are – played a dual role in the exposition of the paper: they are relevant to the organizations, especially businesses, in or for which many accountants work; and they are also relevant, to a greater or lesser extent, to professional bodies themselves.

I began the main part of my analysis by looking at the notion of a profession. I suggested that professions can vary in the degree to which they serve the public interest by being ethical. Implicit in what I have been saying are two very simple models linking those three elements of profession, ethics and rewards (especially financial).

1. A profession is a valuable technical and ethical endeavour and therefore deserves its considerable rewards.
2. A profession is a successful conspiracy against society and seeks to justify its considerable rewards through a smokescreen of ethics.

The challenge for professional accountancy bodies, or at least those persons who would seek to influence them, from within or without, is to ensure that they fall squarely within the former and do not drift into the latter.

So what are the prospects for successfully following model 1 on a consistent basis? It is easy to be cynical. Certainly the challenges are always there and human behaviour and motivations are, as ever, somewhat mixed. My overall view is that the prospects are mixed too. There will always be members who fail to live up to professional standards. But it is the fact that they are seen to have fallen short that shows that there is an understanding that standards exist and should obtain. Moreover, there will from time to time be failures that, for one reason or another, take on the status of "scandals", and the profession will have to deal with their consequences. Professional ethics in general and accounting ethics in particular will never be perfect. However, if failures are no longer seen as failures but as "par for the course", if you think that talk of professional ethics is a nonsense– as the "blanket" condemnations referred to earlier would tend to encourage – then you end up in a worse position than if you try and only partially succeed. As long as professions and professional bodies exist there should be a creative tension between what they are and what they should be; the real problem is when there is no tension but just a gap that no-one wants, or feels able, to do anything about.

Many of the things that the accountancy profession is doing now – such as codes of ethics, the ICAEW's *Reporting with Integrity* paper, the coverage of ethical matters in examinations – are to be applauded. On their own, they can perhaps achieve relatively little – certainly it would be wrong to expect too much of them in isolation. However, taken together and in the context of "re-membering the professional body" they have the potential to help build a decent moral community. The real ethical failure would be not to try to do anything, or to pretend to try and not take it seriously. Ethics is a serious business,[31] and so are professions.

[31] See Crisp and Cowton (1994) on hypocrisy and moral seriousness.

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