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Only when accounting educators no longer rely on the narrowly construed neo-classical economic theory as the theoretical foundation of their discipline, can we truly bring in ethics and values in accounting education. Only when the accounting reporting models measure what accrues to the society as well as to individual entities, can we cultivate our accounting students with virtues and characters. Is this something unreachable? I believe it isn't.

— Dr. Otto H. Chang

Accounting Ethics Education: An Authentic Value-Based Approach

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Abstract

This paper proposes an authentic values-based approach to ethics education in accounting. Instead of following the majority of studies in the literature which focus on an individual's ethical decision-making process and the factors that influence the decision, the author believes that it would be more effective if values-based ethical principles were integrated into the foundation of accounting theory and practice. Such an approach to accounting ethics education is argued to be a more holistic and effective way to achieve the intended goals for accounting ethics education.

Introduction

Despite different definitions and meanings associated with "ethics," the word generally refers to the principles involved in the actions of people and how these actions affect both one's welfare and the welfare of others. Ethics in accounting, however, is often narrowly identified with personal integrity or professionalism. Ethics education for accountants, therefore, means teaching students how to make the right decisions in contexts where ethical value (such as integrity or professionalism) conflicts with other payoffs (usually economic gains) (Gaa and Thorne, 2004, p.2). Much less attention was given to personal values or character traits (virtues) that help to drive the choices that accountants make in practice. Ethics research in accounting has also focused primarily on investigating an individual's ethical decision-making process and the factors that influence the development and/or resolution of this process (Rest et al., 1999).

There is a good reason why accounting ethics education has focused mainly on ethics decisions in lieu of values or virtues. In business curriculum, many business decisions are framed as economic decisions where decision-makers' utility functions or value systems are exogenously determined; thus, it is not the responsibility of business professors to discuss or teach ethics or values. Even if the opposite were considered the norm, the acquisition of value or virtues are a life-time process (some would even argue that it is a process of many lives or that it is genetically determined). How realistically then can accounting ethics education influence a university student's values system? There is no wonder that many accounting educators believe that ethics cannot be taught in a meaningful or effective manner. Some empirical evidence seems to bear out this pessimism (Peppas and Diskin, 2001).

More optimistic educators, however, believe that a person's utility function or values system is not entirely exogenous and advocate that the right thing to teach students is not the decision-making process which involves ethical dilemmas, but rather emphasizes the right values and virtues (Armstrong, Ketz, Owsen, 2003; Thorne, 1998; Mintz, 1995). This latter approach is admirable and worthy of support because it represents a courageous endeavor. However, under the current academic environment, a fundamental problem would prevent it from achieving its results. Unless the problem is identified and effectively addressed, the teaching of value-based accounting ethics will have the slightest chance of success.

The Fundamental Problem

Mainstream accounting theory and curriculum, which derived from the neoclassical economic theory, has an inherent assumption that all decision-makers are selfish opportunists. By making this inherent assumption in all decision-making contexts, the theory actually glorifies and reinforces ego-centrism and narcissism for students who are learning to make the right decisions in various scenarios. It promotes a values system that is in direct conflict with ethical values practiced by most people in most cultures and religions. A common value shared by most people, for example, is consideration for others. Neo-classical economics, as Hahn and Hollis (1979, p. 14) emphasize, is characterized by an overriding concern with the individual conceived in isolation from the social, political, and economic institutions in which he or she exists. Shearer (2002) provides an account concerning how "others" can be commoditized into objects in a neo-classical society where there is only one subject (self) and a world of objects (others). Under such a self-centered view, each individual is properly held accountable only for the pursuit of his or her own private good. Schweiker (1993) observes that to hold economic actors accountable in exclusively self-interest terms is, however, contradictory to the moral identity that is enacted in the practice of providing an account. When somebody is required to give an account of his or her actions or behavior, the implicit assumption is that the person is responsible for someone other than him or herself, most likely, the society or the community in which he or she lives or works. In other words, the juxtaposition of accounting and neo-classical economics is an oxymoron. Accounting or accountability, by its original intention and definition, cannot co-exist with a theory that assumes a human motif that contradicts the implied relationship describing the concept and the context of accounting. Not only in theory does the concept of accounting require a person to be accountable for other persons, in practice, accountants are expected to have a professional responsibility to many third parties. A long history of public policies and accounting regulations in this country clearly spell out this common expectation. The *Securities Act of 1933*[1], the *Securities Exchange Act of 1934*[2], and the more recent *Sarbanes-Oxley Act of 2002*[3], are prime examples.

Unfortunately, because of the triumph of the neo-classical economic theory in our time, our society has become dominated by individualism and commercialism. The "virtue" of self-interest is internalized in the deep consciousness or sub-consciousness of most individuals in every place and in every occupation. It permeates the fundamental culture of most economic entities as reflected in the maximization of profits for its owners or shareholders. This self-interest even enters the underlying reward and incentive structure of higher education and learning. What accounting educators teach and research, in effect, perpetrates a values system that is contradictory to the original concept of accounting. By employing the neo-classical economics theory as the theoretical foundation of accounting, we implicitly accept its self-interest assumption as our censored value. We spend most of our time teaching our students that it is acceptable to make decisions solely from a self-centered economic point of view; that it is appropriate to measure profits purely from the self-interest perspectives of the owner; and that it is permissible to disregard all other social benefits and/or social costs in accounting and other management decisions. After accounting students followed these instructions to their hearts and souls and created big scandals in the media, we suddenly realized that something is wrong. We tried to remedy this problem by allocating maybe ten percent of class time teaching them that there is such a thing as business ethics or accounting ethics; that there are standards of conduct or ethical codes; and that there is something called professional responsibility or social responsibility. The remaining ninety percent of the class time is still spent on accounting or business decision models that are based on the neo-classical economic theory and assumptions. This approach is not only ineffective, it is psychopathic or psychoneurotic.

The Alternative: An Authentic Values-Based Approach

If we really care about ethics and believe that ethical education should be an integral part of accounting education, there is a better alternative. Instead of teaching ethics as an add-on to a fundamentally ethics-stripped discourse of accountability, let us make it authentic by making ethics the foundation of accountability. Let us make individuals as well as other economic entities responsible for not only themselves but also for others and the Earth's environment. Let us not make profit maximization the only goal of economic entities. Let us measure profit from

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[1] *Securities Act of 1933*, (May 27, 1933, Ch. 38, Title I, Sec. 1, 48 Stat. 74)
[2] *Securities Exchange Act of 1934,* (June 6, 1934, Ch. 404, Title I, Sec. 1, 48 Stat. 881)
[3] *Sarbanes-Oxley Act Of 2002* also referred to as *The Public Company Accounting Reform and Corporate Responsibility Act*, (January 5, 2009, 15 U.S.C. Chapter 98)

the perspective of private interest as well as public interest. Let us evaluate economic entities not only on measurable financial gains but also on qualitative contributions to other social goals. Let us develop normative economic theories based on the balanced principle of self-interest as well as public interest. Let us make ethics and virtues inherent and pervasive in every step of economic and accounting activities.

The alternative proposed above is not an easy route. What is required is an overhaul of the fundamental concept of accountability and the underlying economic theories. For too long, accountants and economists are too complacent with the tractability and workability of the neoclassical economic theory, and have ignored the dysfunctional consequences of over-applying the theory to economic problems, in particular, its unintended detrimental effect to ethics and morality in our society. Developing a new concept of accountability and new economic theory congruent with universally-accepted ethic values definitely is not an easy task. In fact, it is a very risky business. It requires researchers to move away from research agendas that will give them immediate recognition and the accompanying monetary rewards and to enter an area that is considered less scientific, less scholastic, and definitely less fruitful based on the payoffs. There will be more effort and less payback. But if there is a breakthrough, the social benefits are enormous. We will have a society and economy that is truly operated on ethical principles. This is a real ethical dilemma faced by accounting or economics researchers. To many of them who are well-trained and versed in the neo-classical economic theory, the answer to this dilemma is obvious: continue the status quo. But what did we accomplish by perpetrating of the same old story of self-interest as the savior to the world? Don't we have enough? If we truly think ethics is indispensible for the function of a healthy and productive society, it worth a try that we search for an authentic approach of integrating ethics into accounting curriculum and accounting education.

If we attempt to trace the origin of modern economic science, most people would agree it has to be the *An Inquiry into the Nature and Causes of the Wealth of Nations* authored by Adam Smith, in particular, his description of self-interested individuals who were better off after trading their labors and products in a free market. The unintended higher social benefit was obtained as if there were an invisible hand to make it happen. Although Smith mentioned the phrase "invisible hand" only once in Chapter Two of the Fourth Book, over the years, the phrase was interpreted out of context and very often considered as the main hypothesis of Adam Smith's economic thought. It is very important to note that Smith never advocated a social policy that people should act in their own self-interest. He was merely describing an observed reality that people do act in their own interest. Moreover, Smith was not claiming that all self-interest behaviors are beneficial to the society. He did not argue that self-interest is always good; he only pointed out that self-interest is not necessarily bad.

In fact, if we follow carefully how Smith developed his thoughts over his life, a very different interpretation of Smith's theory would emerge. Before the *Wealth of Nations*, Smith wrote another two books: *The Theory of Moral Sentiments* and *Lectures on Jurisprudence*. If we consider the three books in a unified manner, it is very difficult to believe that Adam Smith was a radical individualist who argued that government should play no role in economic affairs, and that the market is autonomous and self-regulating. A more appropriate reading of Smith is: human beings are not motivated only by self-interest, nor is the market an autonomous regulator. An economy only functions well when its participants act with prudence, when there is proper coordination of competitive activities, and when competition is balanced by social justice. Werhane (1991) argues that it is justice, not self-interest or benevolence, that is the most fundamental virtue to Smith, and that a system of natural jurisprudence is necessary for a viable political economy.

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Alvey (1999) traced the historical evolution of economics science and found that it had been a moral science until the last century. He described early economic thoughts before Smith and economic theories developed after Smith. Even though there were various emphases by different economists before the last century, most of them started their theories from the philosophy of moral science. During the last century, economic science took a sharp turn in its approach. In response to the pressure and the desire to make economics a "hard" science such as physics, economists gradually adopted a reductionist approach by assuming that everyone is only motivated by economic self-interest and nothing else. Such a simplistic assumption of human nature successfully removes all the discussion on morality from economics. Economics became an amoral science. Even worse is the long-term effect of the self-interest assumption on human behavior. Several studies have documented that the self-interest assumption in economic theories actually promotes unethical behavior among those who immerge themselves in the study of economics or business. When self-interest is perceived as the norm, people will behave in a self-interested manner and expect others to do the same (Cohen and Holder-Webb, 2006). Empirical evidence shows that students trained in economics exhibited more self-interested behavior and less interest in the public good than students in other disciplines or than themselves before the training (Ferarro et al., 2005; Frank et al., 1993). The prevalence of neo-classical economic theories in the mainstream economics textbooks has contributed to shape a self-interested behavioral norm among businessmen and self-centered consumerism among consumers around the whole world.

In the last three decades, some economists have attempted to restore ethics or morality in their enquiries. Margolis (1982) investigated both self-interested and group-interested behaviors and considered them as distinct and competing sphere of behavior. Allocation criteria that maximize the private interest sphere may not necessarily maximize the group-interest sphere. Hirschman (1992) provided some persuasive arguments against a free economy based on economic self-interest. Buarque (1993) discussed the impasse of market mechanism, the disorder of progress and the role of ethics in the economic life. Stackhouse et al. (1995) provide great discussion on the issue of faith, how it has shaped economic life, and how it can continue to do so globally. It also contains a very complete anthology of classical and contemporary resources for ethics in economic life.

In accounting, a considerable and diverse body of literature also explored the broader concept of accountability proper to economic entities. This literature include studies addressing the theoretical or political determinants of the moral obligation of business (Gray et al., 1997; Lehman, 1999), the feasibility and desirability of environmental accounting (Cooper, 1992; Lehman, 1995), the potential for an "emancipatory" accounting (Gallhofer and Haslam, 1996, 1997), and the development and implementation of social accounting and auditing practice (Gray et al., 1997; Woodward et al., 2005). In different ways, all these studies attempt to illustrate the ethical and social responsibility of economic entities, holding them responsible to the community of others.

If accounting educators are serious about teaching virtues or value-based ethics to accounting students, they should first reduce their reliance on narrowly-defined "anti-ethics" economic theories. For example, accountability or profitability as currently defined in accounting totally ignores social benefits and social costs. Revenues and expenses in accounting is strictly defined as private benefits and private costs accrued to an economic entity.   Any incidental benefits or costs to other parties are ignored or assumed to be non-existing. This approach definitely makes the accountant's job much easier and manageable. However, it severely distorts the true benefits and costs of business transactions executed by individuals and firms. If accountants are serious about ethics and social responsibility, shouldn't they create measurements that truly reflect the impact of business activities on society as a whole?   Shouldn't they devise measurements that reflect not only the economic impacts, but also the social, cultural, and environmental impact? Shouldn't they include social benefits and social costs when they prepare financial statements and when they analyze investment return? Shouldn't our students deserve to be trained in analytical models that based on ethical and social responsibility? Shouldn't our students be fully immerged in accounting theories and practices that consider others' interests as well as self interest?

Only when accounting educators no longer rely on the narrowly construed neo-classical economic theory as the theoretical foundation of their discipline, can we truly bring in ethics and values in accounting education. Only when the accounting reporting models measure what accrues to the society as well as to individual entities, can we cultivate our accounting students with virtues and characters. Is this something unreachable? I believe it isn't. The recent development of Global Reporting Initiative (GRI) in 1997 is an indication of the strong potential of this authentic approach to value-based accounting ethics education. Formed by the Coalition for Environmentally Responsible Economies (CERES) and the United Nation Environment Programme (UNEP), GRI developed a framework and reporting guidelines for businesses to report the economic, environmental, and social impacts of their operations. In its most recent G3 version, a total of 79 indicators are suggested for businesses to use in reporting their benefits and costs to the society. In 1999, UN Secretary-General Kofi Annan announced the UN Global Compact Initiative to encourage the businesses worldwide to adopt policies on sustainability and social impacts. The Compact listed ten principles related to human rights, labor rights, environmental protection, and transparency. Similar efforts to improve corporate social responsibility include AccountAbility AA1000 standard, Social Accountability International's

SA8000 standard, and the ISO 14000 environmental management standard. (Chen and Bouvain, 2009). Although more and more businesses are reporting on their social and environmental impacts (Sethi, 2003), and the quality of these voluntary reporting are improving, more widespread and further improvement of quality is questionable in the absence of legislation and other forms of direct encouragement (Milne and Gray, 2008). If accounting educators are serious in promoting ethics and social responsibility, a better use of their time should be devoted to refine the conceptual framework and guidelines of GRI and to advocate for the establishment of mandatory international assurance standards in sustainable reporting. A good example of such efforts is illustrated by McElroy et.al. (2009). They suggested that sustainability is best understood in terms of the impact an organization can have on the carrying capacity of non-financial capital, or what the sociologists call "anthro-capital." They designed a quantitative, quotients-based method for measuring and reporting on the social sustainability of an organization — a process they refer to as the social footprint method. If more implementable methods and reporting standards can be developed and discussed in the accounting curriculum and classrooms, accounting students will naturally integrate ethics and social responsibility seamlessly into their professional studies and careers. They do not even need any ethics course to teach them ethics and virtues. They will automatically acquire the highest ethical and professional standards in pursuit of their degree programs.

Advantages of the Authentic Values-Based Approach

Very recently, there is a call in higher education to eliminate the artificial separation between liberal arts education and professional education (AACU, 2002; Lemann 2004, Katz, 2005). The background and the reason for this movement come from the excessive specialization or departmentalization of knowledge in modern society. As a consequence, our knowledge is too fragmented to offer any real help when dealing with the complexity of human problems. The separation of ethics from neo-classical economic theory is a typical example. For the purpose of

Ethics education is inherently included in accounting or economic education. Virtues or values are automatically instilled in the students' hearts and minds. Education is not only the preparation for a job or a profession, but the cultivation of a whole person in a civil society. Human knowledge is no longer disconnected and dysfunctional, but holistic and synergetic. The task is big, but the payoff is also gigantic.

becoming a more rigorous "science," economists made a reductionist choice to exclude ethics or social responsibility from its theoretical foundation. Homo sapiens are reduced to Homo economicus. All human experiences are perceived from an economic perspective. Later, when the economic model and theory were found to be inadequate to deal with the whole spectrum of human problems, economists made a patch to their theory by subjugating ethical decision to the framework of economic decision (Stigler, 1981) or by arguing that under perfect market conditions, self-interest is consistent with public-interest (Friedman, 1970; Benston, 1982). There was little attempt to revisit the foundation of economics so that ethics and values are integrated into economic analysis. This reductionist approach to human economic problems, of course, is a grave offense to the liberal arts side of the academy. Philosophers and artists cannot believe any intelligent man would take such an absolute simple view of human race. They are dismayed because their subject of investigation is considered to be so insignificant and irrelevant. The wall of separation is so high that a university actually becomes a multi-versity. The biggest loser, of course, is our students who represent our future and our hope.

The proposed approach will avoid the dichotomy between science and values, or between self-interest and public interest. It provides an authentic and integral approach to teach ethics in business or accounting curriculum. By restoring ethics and social responsibility to become the foundation of modern economic and accounting theories, a true integration of liberal education and professional education occurs. Ethics education is inherently included in accounting or economic education. Virtues or values are automatically instilled in the students' hearts and minds. Education is not only the preparation for a job or a profession, but the cultivation of a whole person in a civil society. Human knowledge is no longer disconnected and dysfunctional, but holistic and synergetic. The task is big, but the payoff is also gigantic.

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Dr. Chang is a reputed accounting and business educator with specialty in several areas, including taxation, management and international accounting, business ethics and philosophy, corporate governance and social responsibility. Born in Taiwan and of Asian Heritage, Dr. Chang attended National Taiwan University, receiving a bachelor's degree in Economics. He came to University of Illinois in 1978 to complete his Master and Ph.D. degrees in Accountancy. He taught at the University of Wyoming, Texas Christian University, and California State University at San Bernardino (CSUSB). He was the Chair of the Department of Accounting and Finance and the Associate Dean for Administrative Affairs at CSUSB.

Throughout his educational career, Dr. Chang received numerous awards and recognitions for his outstanding teaching, excellent research, and dedicated service to the university and community. His professional activities include more than forty publications; some of them appear in major academic journals, such as *Journal of Accounting Research*, *Journal of American Taxation Association* and *Management Accounting*. He is often called upon to conduct various professional workshops to top-level management from all over the world and serves as consultant to several major firms in the United States and China. He was president and officer of a long list of professional and business organizations in several Pacific Rim countries.