Ethical theories and accounting philosophy essay

One area that should be considered when planning an ethics courses is a philosophical basis for decisions and ethical theories. There have been many different theories posited in ethics, for example, virtue ethics, deontology, consequentialism, egalitarianism, libertarianism, social contract theory, stakeholder theory, human rights theory, and postmodernism. (McPhail and Walters 2009; Flower 2010) Most of these theories are based on philosophy, dating back to Plato and Confucius, and ancient religions, e. g., Buddhism, Hinduism, Judaism, and Taoism. Philosophers have devoted lifetimes to study these theories, and many books have been written on the general application of each theoretical perspective. Furthermore, there has been much written about the business and accounting application of ethical theories. In this section of the paper, we limit our discussion to three ethical theories that have been frequently applied in accounting and business: consequentialism, deontology, and virtue ethics.

According to Duska, Duska, and Ragatz (2011, p. 48), “[a]n ethical dilemma is a problem that arises when a reason to act in a certain way is offset by a reason not to act that way.” There are a wide range of ethical dilemmas within the accounting profession, ranging from erroneous time reporting to deviation from financial presentation rules. The way that accountants deal with ethical dilemmas will in part be based on the theoretical ethical perspective to which they adhere.

Consequentialism, or Teleological ethics, focuses on the actual outcomes of a decision and not the rightness or wrongness of the decision process. In other words, even though this is an oversimplification, the ends justify the means. When consequentialism is applied at an individual-level, instead of at a societal-level, it can devolve into egoism where such statements as " Greed is Good" by Gordon Gecko (Pressman and Stone 1987) and Ayn Rand's book " The Virtue of Selfishness" (Rand 1964) become the basis for " ethical" decision-making (Duska, Duska, and Ragatz 2011). Obviously, from the accounting profession's perspective, this type of reasoning is dangerous. However, when consequentialism is applied at the societal-level, it can be viewed as the greatest good for the greatest number of people. On the surface, this seems to be a very reasonable approach. However, in this case, consequentialism has been used to justify abhorrent things such as torture and slavery. (McPhail and Walters 2009; Pakaluk and Cheffers 2011) One particular form of consequentialism that has found favor in accounting and business is utilitarianism. The primary philosophers behind utilitarianism are Jeremy Bentham and John Stuart Mill. Utilitarianism is the basis of economic utility theory and cost-benefit analysis. As a result, it is very tempting for accountants to adopt this theoretical approach as a basis for all ethical decision-making. There are two primary types of utilitarianism: rule and act. Rule utilitarianism suggests that the decision-maker should find the most appropriate rule to use for a particular situation. The rightness or wrongness of the decision is determined by the consequences of following the chosen rule. Given the rule-driven approach that is popular in accounting practice today, it is not surprising that rule utilitarianism is popular among accountants. On the other hand, act utilitarianism deals with the rightness and wrongness of the specific act. In this case, the rightness or wrongness of the decision is based simply on the outcome of the specific act. That is, there is no general rule to follow; only a calculation that shows the greatest " utility" for the act being considered.

There have been three major criticisms of utilitarianism as a basis for ethical decision-making (Flower 2010; McPhail and Walters 2009). First, utilitarianism requires a set of assumptions: the utility of an individual can be measured, that the utility of one individual is comparable to another individual's utility, and the utility functions of all individuals are the same. It is unclear how one would measure the number of utils that a person receives for a given consequence. And, if you can't really measure utils, then how can you compare them or assume that everyone has the same utility function. These three assumptions are simply unrealistic. Second, the actual implementation of a utilitarian approach is very problematic. In this case, Flower (2010) describes three sets of problems: expensive tastes, differential needs, and anti-social preferences. In the first two cases, the problem is with regards to the allocation of resources. For example, if we consider a two-person society, it is possible for one person to require a greater allocation of resources to reach the same utility of the second person. The last problem can best be demonstrated by the example of the first person, in our two-person society, deriving a great deal of pleasure by torturing the second person. If the level of pleasure received by the torturer were greater than the level of pain experienced by the tortured, utilitarianism would support the torture. Utilitarianism tends to support the tyranny of the majority that can lead to the victimization of the minority. Considering these criticisms, utilitarianism as a basis for ethical decision-making is questionable.

From an ethical perspective, how do consequentialist-based theories help us determine the rightness or wrongness of a decision? Consequentialism has the potential of encouraging behavior that is incompatible with the purpose of accounting. For example, many of the accounting firms use a risk-driven approach, which is consequentialist in nature, in deciding whether to perform an engagement. This type of reasoning could help explain some of the recent accounting scandals. In another example, Pakaluk and Cheffers (2011, p. 175) point out that utilitarianism encourages a " make the numbers" approach to accounting that could encourage fraud. Finally, " utilitarianism is unable to account for the inherent worth of professional integrity in accounting." (Pakaluk and Cheffers 2011, p. 175) Therefore, at this point in time, it may be best to avoid consequentialist-based theories for sound, ethical accounting decision-making, although knowledge of the theories may help the accountant understand the decision-making processes (and consequences) of a client.

Deontology

The second major ethical school of thought considered is deontology. Deontology is mostly associated with Kant. Kant's approach to ethics is based on his belief in deductive reasoning and respect for other individuals (McPhail and Walters 2009). Kant felt that the underlying requirement for ethical decision-making was what he called a good will. From his perspective, an individual with a good will has a sense of moral duty and from this sense of duty individuals will make moral decisions. The possession of a good will, from Kant's point of view, is what separates humans from animals.

Kant defined three formulations of his categorical imperative to aid us in making moral decisions. His first formulation is stated as " Act so that you can will the maxim of your action to become a universal law" (Duska, Duska, and Ragatz 2011, p. 63). When considering the first imperative, it is quite evident that the emphasis, in comparison to consequentialism, is on the means and not the ends. In other words, Kant believed that the intention of the action, regardless of the outcome, should be the focus of any system of ethics, i. e., our duties should override our desires. The application of this imperative simply ensures that the underlying principle that we use to make an ethical decision can be generalized to a higher rule. Practically speaking, you could consider using this imperative to develop the rules that would form the basis for a rule utilitarianism based approach to ethics. A simple example is whether it is ethical to break promises. If promise breaking was generalized to apply to ethical decision-making, no one could trust anyone to keep a promise since it would be considered acceptable to break them. Note, this does not mean that all promises would be broken. It simply means we would no longer be able to know whether someone would break a promise or not. Obviously, allowing promises to be broken does not pass Kant's first imperative.

Kant's second formulation states that we should " Act so as never to treat another rational being merely as a means" (Duska, Duska, and Ragatz 2011, p. 63). Whereas with the first imperative Kant's focus was on the deductive reasoning abilities that are unique to humans, this imperative is based in his concern for all human beings respecting all other human beings. In many ways, this imperative is similar to the " Golden Rule" found in most religions. Using this imperative, racism, sexism, slavery, and torture are morally wrong regardless of the outcome. From a business perspective, this formulation requires businesses to treat all stakeholders with respect (Bowie 1999).

Consequently, it would preclude business activities such as false advertising, exploitation of employees, and from an accounting perspective, the creation of intentionally misleading transactions and financial statements. Furthermore, this formulation provides support for increasing the transparency necessary for limiting the amount of information asymmetry among the different stakeholders. Essentially, following this formulation of the imperative prevents individuals from using coercion or deception when dealing with other stakeholders. If the accounting profession had followed this formulation, the vast majority of the accounting scandals may have been avoided.

The third formulation of Kant's categorical imperative states that we should " Act on the maxims of a member who makes universal laws for a merely possible kingdom of ends" (Kant, 1964, p. 106 (439)). According to Bowie (1999, p. 87), " Loosely put, this formulation of the categorical imperative says that you should act as if you were a member of an ideal kingdom of ends in which you were both subject and sovereign at the same time." This formulation effectively describes a Kantian-based moral community where all stakeholders have equal rights and duties and further, they must follow the same universal laws. Based on this formulation, business should be expected to act in a moral manner where they treat their employees, customers, vendors, and all other stakeholders with respect and where all decisions are based on a set of universal principles in which all stakeholders have had input into their creation and to which all stakeholders have agreed to be held responsible to follow. From an accounting perspective, following this formulation would put the accounting profession's focus back onto the interest of the public instead of limited interest of the client firm and its shareholders.

One of the major criticisms of Kantian ethics is that it is simply too general and virtually impossible to apply in a concrete manner. Most real-world decisions tend to involve multiple stakeholders and multiple criteria that must be considered at the same time. In these complex cases, Kant provided no guidance as to how one would go about making a moral decision. Kant's only suggestion is a reference to Smith's impartial spectator (Smith 1790). Smith wanted decision-makers to imagine being able to objectively evaluate in an impartial manner all criteria associated with a problem. Essentially, Smith viewed the impartial spectator as a conscience. However, Kant only suggested that an impartial spectator was one that possessed a good will. Again, this provides us with very little guidance.

In an attempt to advance the deontological position, Rawls (1999) created a set of ethical constructs that is useful in assuring compliance with Kant's categorical imperative and, even though he did not seem to be aware of Smith's impartial spectator, provides a way to operationalize the impartial spectator. These constructs were the original position and the veil of ignorance. The original position refers to the idea that " Free and equal human beings meet together to agree the principles of justice that would regulate the basic structure of the society in which they are to become members. ... However each person is completely ignorant of the position that he would hold in society..." (Flower 2010, p. 37). That is, the decision maker is behind a veil of ignorance. Given that Rawls assumed that all human beings are self-interested, he felt that the only way that society could be just was to have decision-makers adopt his original position behind the veil of ignorance so that they could indeed become an objective and impartial spectator. From a practical perspective, this approach would enable decision-makers to perform a more complete stakeholder-driven analysis by imagining themselves as being each of the different stakeholders. The major criticism of this approach is whether decision-makers are actually capable of adopting the moral imagination necessary to place themselves into the original position behind a veil of ignorance. (McPhail and Walters 2009)

From a business and accounting perspective, deontology is a viable approach to support ethical decision-making. Furthermore, having business and accounting decision-makers attempt to place themselves into Rawls' original position behind a veil of ignorance to become an impartial spectator could enable them to better appreciate the ramifications of different business and accounting practices. (McPhail and Walters 2009)

Virtue Ethics

The final major school of thought that we are including in our discussion is virtue ethics. Virtue ethics is one of the oldest schools of ethical thought. It can be traced back to Plato, Aristotle, Aquinas, and Confucius. Unlike consequentialism and deontology, virtual ethics focuses on the characteristics or virtues that a moral person should possess. Virtue ethicists believe that a moral person tends to do the right thing. Not because it is the law; but simply because it is right. (McPhail and Walters 2009) This is similar to Kant's position regarding a moral person having a good will. There have been many virtues posited over the centuries. For our purposes, we only focus on the so-called cardinal virtues first proposed by Plato: courage, temperance, justice, and prudence. (McCloskey 2006) Pakaluk and Cheffers (2011) provide a mapping of the cardinal virtues to a set of virtues that accountants should possess.

Courage, the first virtue, addresses how one handles fear. A courageous individual will stand up and fight for what is right and not run away. This is best demonstrated with the uncommon valor many soldiers show on the battlefield. In the case of accounting, accountants must show courage to ensure that accounting treatments are not misleading. In some cases, this could lead to the loss of a client or the loss of a job. A former manager at KPMG points out, the question of how aggressive an accounting treatment is appropriate can put new accountants into a precarious position. " The new hire has no power to say ' no.' Their job is on the line to get a ' yes' answer. … The new hires fear very strongly for their job." (Callahan 2004, p. 145) In some extreme cases, the accountant may morally find themselves in the position of becoming a whistleblower. (Pakaluk and Cheffers 2011)

The second cardinal virtue, temperance, deals with an individual doing everything in moderation. The lack of temperance typically leads to a lack of self-control. From an accounting perspective, the lack of temperance could cause an accountant to not do their job in a professional manner. For example, having an uncontrolled desire for a certain lifestyle (such as substance abuse or gambling) could cause the accountant to look the other way to prevent personal income loss, instead of raising a flag when questionable accounting treatments are suggested. (Pakaluk and Cheffers 2011)

The third cardinal virtue suggested by Plato is justice. An individual possesses this virtue if in his or her " relations with others [he or she] formulates and embraces the correct ideal of equality, and does so habitually, as a kind of second nature, and with a solid persistence…" (Pakaluk and Cheffers 2011, p. 87) There are two basic types of justice: jurisprudence and distributive. Both of these types deal with merit. From our perspective, both businesspersons and accountants should be concerned about both forms of justice. Accountants, in particular, must be resolute in pursuing and stating the truth when it comes to the financial position of the firm. Obviously, this could require a good dose of the first virtue, courage, also.

Prudence, Plato's fourth virtue, is also known as wisdom. A prudent or wise individual is an individual that has the ability to evaluate which things are truly important in life and those that are not. Furthermore, it is possible to over emphasize one virtue to the detriment of another. This concern is the underlying purpose of this virtue. Consequently, it takes a prudent individual to render truly just decisions. Pakaluk and Cheffers (2011) describe three different subclasses of prudent judgments: enduring, occasional, and particular. As you might guess, enduring judgments are those that should always be true, occasional judgments tend to be heuristic in nature, and a particular judgment is one that only applies in a specific situation. As Aristotle pointed out, it is possible for an individual to go to an extreme on any given virtue. For example, it is possible for someone to have an extreme value of courage. In one case, the individual could be coward; while in the opposite case, the individual could be reckless. Without prudence monitoring the other three virtues, the virtues could become vices. Consequently, Aristotle developed the idea of the mean where a moral person would keep the emphasis on each virtue in the middle between the potential extreme values. Obviously, from an accounting perspective, prudence is very important. The accountant must be able " to put things in the right order and pursue them correctly …" (Pakaluk and Cheffers 2011, p. 98) Accordingly accountants must always base their professional judgments first on principles and then on rules. Rules should simply be operationalizations of principles.

Unlike consequentialism and deontology, virtue ethics does not necessarily help us judge the rightness or wrongness of a particular decision. Instead, the question becomes does the decision reflect the virtues of a moral person. When compared to consequentialism and deontology, virtue ethics is another viable approach on which to base business and accounting ethical decision-making.

Summary of ethical theories

Based on the above description of consequentialism, deontology, and virtue ethics, the authors believe that a combination of deontology and virtue ethics makes the most sense on which to base ethical decision-making in accounting. That is not to imply that consequentialism has no benefit as a school of ethical thought. It is simply to point out that with its cost-benefit emphasis, it is an approach that can be abused easily. From an accounting education perspective, students should be made aware of it, but the other two schools of thought should be emphasized.

From Lydia's section:

3. 1. 3. Theoretical frameworks [I INCLUDED THIS SECTION IN ORDER TO ADDRESS WHAT THEORIES HAVE BEEN USED IN ETHICS CLASSES, NOT TO USURP YOUR PART, DAVID.]

The design of instructional methods to teach accounting ethics should include a consideration of what theoretical frameworks to bring into the course. There are philosophical, psychological, education, and sociological frameworks that have been drawn upon for ethics research and pedagogy. The choice of ethics framework has educational implications (McPhail, 2006). For example, according to Van Hise and Massey (2010), since students need to be familiar with a set of principles in order to make principles-based decisions they begin their ethics course by covering a review of four classic philosophical approaches to ethics: consequential, nonconsequential, virtue, and justice theories.

Several often-cited works that are used to examine accounting ethics, and which accounting instructors could benefit from referring to in planning ethics course work, include Kohlberg (1958, 1979) and Rest (1979, 1983, 1986, 1994). These studies develop theoretical frameworks, within which to examine ethical issues and the development of ethical reasoning, that are referred to as Kohlberg's model of Cognitive Moral Development [CMD] (McPhail and Walters, 2009) and Rest's Model of Moral Action (Thorne, 2000). Kohlberg's model (based on a cognitive-developmental perspective) assumes three levels of moral development: at the pre-conventional level, moral reasoning is based on rewards and punishments; at the conventional level, moral reasoning is based on group norms; and at the post-conventional level, moral reasoning is based on ideas of universal fairness (Kohlberg, 1958; Thorne, 2000). Cognitive-developmental theorists posit that individuals' cognitive moral capacity (the moral reasoning that one is capable of) increases over time and is not related to an ethical context, whereas moral reasoning (the actual cognitive moral structure used to resolve an ethical dilemma) is affected by context (Thorne, 2000). Both aspects (moral capacity and moral reasoning) imply a need for considering ethics in an academic setting: to guide and enhance cognitive-moral development, and to provide a context for " practicing" moral reasoning skills.

Rest's model of ethical decision making has four components: (1) recognizing an ethical dilemma, (2) prescriptive reasoning (which is about determining what should be done), (3) deliberative reasoning (which is about determining what one intends to do), and (4) choosing a moral action or behavior (Thorne, 2000). Jones (1991) extended Rest's model with a six-factor component, moral intensity, which is assumed to impact all four of these stages of ethical decision making. Moral intensity describes the magnitude of the moral imperative in an ethical dilemma by identifying six components or attributes of an issue: " magnitude of consequences, social consensus, temporal immediacy, probability of effect, proximity and concentration of effect" (Sweeney and Costello, 2009, p. 77). Accounting instructors can consider, for their particular level of coursework, an appropriate way to develop and measure (or evaluate) students' skills in any or all of these aspects of ethical decision making.

Cognitive Moral Development theory assumes that as individuals develop morally they become less self-interested and more altruistic; this is in contrast to Rational Choice Theory [RCT][i]which assumes that individuals make rational choices based on self-interest regarding material well-being (Roberts, 2010). However, if " Rational Choice Theory is to have value to explain individuals' behavior in ethical contexts, the theory needs to be expanded to include the achievement of personal values and psychological payoffs in addition to material payoffs" (Roberts, 2010).

From a sociological theoretical perspective, according to Abbot (1983) there are three non-mutually-exclusive theories of professional ethics: (1) functionalist theory, which is derived from the fiduciary nature of a profession,[ii](2) monopoly theory, and (3) " high status" theory. These frameworks describe a rationale for the development of professional ethics codes, and fall within the field of " descriptive ethics."

Prior accounting ethics research has contributed much to the area of descriptive ethics, but, according to McPhail and Walters (2009), the accounting profession needs also to focus on " normative ethics," which addresses how accountants should behave. There are several philosophical frameworks that fall into the normative ethics category; for example, deontological ethics (involving deductive reasoning based on universal principles), teleological ethics (involving the consideration of consequences of an ethical decision), and virtue ethics (involving a focus on the importance of having a virtuous and moral character) (McPhail and Walters, 2009). Virtue ethics emphasizes the importance of having the character and motivation to do the right thing (an " agent-based approach to ethics"), in contrast to utilitarianism[iii]and rights theory which are rules-based and focus on the reasons for ethical actions (Mintz, 2006, p. 97).[iv]

Van Hise and Massey describe in detail how they followed a pedagogical framework, known as the Ignatian Pedagogical Paradigm (IPP), to provide for principles-based accounting ethics instruction. Educators aiming to incorporate ethics into accounting classes should consider the scope of coverage of various theoretical ethical frameworks that are relevant to accounting ethics.