

# From Austen to social Darwinism: changing ethics

KEITH HOOPER CA and GINA XU PROV CA discuss how accounting ethics have changed from gentlemanly ideas of honour to an emphasis on quality and technical ability.

**In** 1927, the New Zealand Society of Accountants adopted its first guide on professional ethics.

The short document was so full of gentlemanly notions that it could have been written by Jane Austen and came at a time when the accounting bodies in the Dominions were lobbying for the privileged title of “chartered”. The term was then held officially only by the English and Scottish branches of the profession.

Since then there has been a major shift in ethical emphasis. The 2003 Code of Ethics (COE) can be viewed as a shift from Kant to social Darwinism via utilitarianism, but also a shift from a focus on the character of an accountant to the character of accounting.

The first paragraph in Professional Ethics 1927 reads:

“Every member of the Society in the practice of his profession or in the course of his service to his employer should give such service with absolute fidelity and should be actuated by a spirit of fairness to client and employer, considerate to the fellow practitioners, loyalty to his country, and devotion to high ideals of courtesy and honour.”

The essentials of the 1927 Professional Ethics contained in the four concepts enumerated above, however, were deontological and contained a sense gentlemanly character that even by 1927 was probably out of date. They assume a moral expectation of how accountants should act as good people.

By contrast, the current 2003 COE identifies some different fundamental principles from the 1927 version: integrity, objectivity and independence, competence, quality performance and professional behaviour. Table 1 compares the two versions.

The latest code represents a socio/ethical shift from 1927. Objectivity has replaced fairness and would seem to ignore Tinker’s (1991) contention that accounting

inevitably favours one side in the social conflict. There is more emphasis attached to technical ability which may be seen as consequential ethics — part utilitarian (the greatest happiness principle) and part social Darwinist (survival of the fittest) in origin. Some of this shift may be explained by the confusion that the “new burst of interest in business ethics in universities” has evoked (Stackhouse, 2004, p238):

“Textbooks written for these [ethical] courses seldom treat theological issues, focusing instead on some combination of Kantian principle, utilitarian calculus and various versions of social Darwinism.”

In the current New Zealand COE, competence and quality performance are arguably primarily technical issues aimed at legitimising the profession’s monopoly, while the section on professional behaviour is concerned with members’ behaviour (confidentiality etc) to the profession rather than the wider community — again with a nod to utilitarian principles.

It may be considered that the modern concepts of integrity and objectivity are reassuring to members and the public alike although the duty to the wider community is no longer explicit. Independence, according to Allen (1997):

“Is not a value in and of itself. Independence in this context is an instrumental value. We value it because we think it helps produce something else: efficiency (of the capital markets and thus efficiency of the economy as a whole).” (p3).

Mitchell et al (1994) go further, declaring that, “The ideals of independence and integrity, they are little more than a smokescreen, or fig-leaf, for the pursuit and protection of sectional interests” (p48). They observe that whereas trade unions are organised openly to promote their members’ interests, the accounting profession does the same indirectly by stressing the ethical conduct and independence of their members.

The old gentlemanly notion of “honour” has gone

TABLE 1

1927 Professional Ethics	2003 Code of Ethics	Comparison
fairness	objectivity and independence	belief that accounting can be neutral in social conflict
loyalty to the country	integrity	narrowing of accountants’ wider responsibilities (Bannerman)
honour	competence and quality performance	more emphasis on technical ability
fidelity	professional behaviour	professional image

maybe because it has the connotation of practising amateurs rather than professionals intent on earning a living. Like honour, the principle of presenting a true and fair view is now considered an anachronism (McGregor, 1991). Moreover, Velayutham (2003) argues that the replacement of the true and fair view element in COEs has shifted the focus to quality. It is a shift from ideals of sentient beings to standards of service, where “technique has character as an important value” (p501). Indeed, Velayutham maintains that, “compliance with technical standards and professional behaviour could not be considered to be ethical principles since their compliance depends on law-like statements and quality standards” (p494).



That there is evidence of a global march to social Darwinism is reported by a recent article in *The Economist* (2009). It details a PricewaterhouseCoopers survey of economic crime for the past 10 years. The three most common crimes are theft, accounting fraud, and corruption. The survey, based on over 3000 responses from firms in 54 countries, shows that accounting fraud has risen from 2003 to 2009 by nearly 30% while bribery and corruption increased by over 10% (“The rot spreads,” 2009).

With regard to the Big 4 accounting firms, Sikka (2008) reports from the United Kingdom:

“The current financial crisis has eroded confidence in audit report issued by major accounting firms... In every case, rather than acting as independent watchdogs, auditors acted as consultants to management and raked in millions of pounds in fees. The fee dependency inevitably compromises auditor independence” (*The Guardian*, 14 December 2008).

Unfortunately since the 1927 publication of the first New Zealand Professional Ethics, the world has changed and other ideas now prevail.

Honour with its implication of moral duty is a most Kantian concept. The concept of honour is shared by many societies. It may be defined as high respect, trustworthiness, esteem, admiration and approval felt toward someone or received by them. In the words of Shakespeare: “Take honour from me and my life is done.”

The concept of honour can have an unpleasant effect. In some countries cultures of honour supersede the culture of law and, in regard to women, honour killings may be sanctioned. In Japan ritual suicide may be considered an honourable death. In spite of these possible negative implications, integrity and moral duty are essential to the concept of honour. Without honour and fairness in the modern COE, it must be admitted that the new elements in the code seem to be very much focused on quality (Preston, Cooper, Scarbrough, & Chilton, 1995).

**The 2003 Code of Ethics can be viewed as a shift from Kant to social Darwinism via utilitarianism, but also a shift from a focus on the character of an accountant to the character of accounting**

The Hanover Finance case in New Zealand illustrates that, perhaps unconsciously, social Darwinist thinking dominates business and accounting practices globally. Accounting firms argue that their duty is limited only to the shareholders and not to a wider public of uninformed investors. The idea of survival of the fittest (the most successful) leads to laissez-faire conceptions of society. That is evolution and progress benefits from uncontrolled

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competition, which rewards the strong and penalises the weak. For accountants such thinking, albeit often unconsciously absorbed, prompts practices which are directed to produce desired results for their paymasters (as Arthur Andersen so famously exemplified). Whatever happened to Mr Darcy and Mr Bingley? ■

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