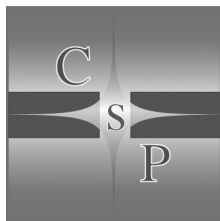


Globalisation and Social Responsibility

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Edited by

DAVID CROWTHER and KIYMET TUNCA
CALIYURT



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PREFACE

In September 2005 the 4th International Conference on Corporate Social Responsibility took place in London, UK. The conference was jointly organized by London Metropolitan University and the Social Responsibility Research Network and hosted by London Metropolitan University. This book is a direct outcome of this conference and it is a policy of the organisers to publish a book related to each conference. This book contains contributions from scholars from around the world who have written about their views concerning a variety of important aspects of Corporate Social Responsibility. The conference itself is part of an ongoing series of conferences on this topic which are taking place in many different parts of the world. Full details of past and future conferences can be found at the conference website: www.davideacrowther.com/csrhome.html.

The beginnings of this conference programme were in 2003 when on three days in September around 140 delegates from nearly 30 countries from around the world gathered in London at London Metropolitan University for the first of an annual series of international conferences on the topic of Corporate Social Responsibility. Over the three days the delegates engaged in discussion on a range of issues concerning this topic and around 100 papers were presented. Topics covered ranged from business ethics to social reporting to implications for biodiversity to sustainable construction, reflecting the interdisciplinary nature of the backgrounds and expertise of the participants. Conversation about many of the important issues raised during the conference continued into the evenings at the dinners organised for delegates at a variety of London hotels and the success of the conference will be continued into a variety of collaborative projects instigated among the international delegates during the conference. In November 2004 the 2nd International Conference on Corporate Social Responsibility took place in Penang, Malaysia. This conference was hosted by Ansted University and over 100 delegates met for three days of discussion of issues concerning CSR. The 3rd conference took place in February 2005 in Udaipur, India where it was hosted by Mohan Lal Sukhadia University while the 4th conference returned to London to be hosted again by London Metropolitan University. The 5th conference will be held at Edirne, Turkey and hosted by Trakya University.

Although there are a number of colleagues who have attended all of these conferences, each has seen many people attending for the first time. Consequently the network of colleagues engaged in CSR research continues to increase and this will continue into the future conferences which are also

planned. A direct outcome of this has been the formation of the Social Responsibility Research Network (www.socialresponsibility.biz) with the aim of fostering the collaborative, cross-cultural interdisciplinary and international research on any aspect of its social responsibility agenda. The Social Responsibility Research Network (SRRNet) is a body of scholars who are concerned with the Social Contract between all stakeholders in global society and consequently with the socially responsible behaviour of organisations.

The rationale for the conferences was based on the fact that over the last decade the question of the relationship between organisations and society has been subject to much debate, often of a critical nature. The decade has seen protests concerning the actions of organisations, exposures of corporate exploitation and unfolding accounting scandals. At the same time ethical behaviour and a concern for the environment have been shown to have a positive correlation with corporate performance. The nature of corporate social responsibility is therefore a topical one for business and academics. The conferences are designed to act as a forum for the debate and analysis of contemporary issues in this broad area. In doing so they attract people from a wide variety of disciplines and geographic regions for an exchange of views.

The conferences are intended to be interdisciplinary and welcome contributions from anyone who has a perspective on this important issue. This includes academics, researchers, business people, consultants and scholars – and all groups have been represented at previous conferences. Contributions are always welcome on any topic related to the broad issue of Corporate Social Responsibility and topics which have been addressed include such things as:

- Environmental auditing
- Ethics and corporate behaviour
- Globalisation and corporate activity
- Governmental influences on corporate behaviour
- The influence of taxation upon corporate behaviour
- Protests concerning corporate activity
- Socially responsible construction
- Regulation of corporate social behaviour
- Social responsibility and marketing
- Stakeholder activism
- The role of accounting in corporate accountability
- The role of corporate governance

The broad range of topics which are of concern in the area of Corporate Social Responsibility are reflected not just in the conferences which we hold

but also in this book. The worldwide interest in, and concern for, the subject matter is also reflected by the range of backgrounds from which participants at the conference hail from – not just in terms of areas of expertise but also in terms of geographical locations. This also is reflected in the contributions to this book which illustrate the range of topics within the area of Corporate Social Responsibility. We hope that readings them creates an interest which will encourage you to participate in a future conference.

INTRODUCTION

DAVID CROWTHER & KIYMET TUNCA CALIYURT

There has been much written about globalisation – some of it positive and much of it negative. It is a subject which arouses definite opinions. Despite the fact that the word globalisation is part of the title of this book it is not our intention to contribute to this debate. Instead we use the word globalisation in its original sense to represent the ubiquity of the concern for Corporate Social Responsibility (CSR) which is the subject matter of this book. Specifically we are concerned with the social contract between an organisation and its stakeholders.

Recognition of the rights of all stakeholders and the duty of a business to be accountable in this wider context therefore has been largely a relatively recent phenomenon.¹ The economic view of accountability only to owners has only recently however been subject to debate to any considerable extent. Some owners of businesses have however always recognised a responsibility to other stakeholders and this is evident from the early days of the Industrial Revolution. Thus, for example, in the nineteenth century Robert Owen (1816, 1991) demonstrated dissatisfaction with the assumption that only cost minimisation and the consequent profit maximisation was the only thing of concern to a business. Furthermore he put his beliefs into practice through the inclusion within his sphere of industrial operations the provision of model housing for his workers at New Lanark, Scotland. Further examples of socially responsible behaviour have continued to exist since these days. Thus there is evidence from throughout the history of modernity that the self-centred approach of accounting for organisational activity only to shareholders was not universally acceptable and was unable to satisfactorily provide a basis for human activity.

Implicit in this concern with the effects of the actions of an organisation on its external environment is the recognition that it is not just the owners of the organisation who have a concern with the activities of that organisation. Additionally there are a wide variety of other stakeholders who justifiably have a concern with those activities, and are affected by those activities. Those other stakeholders have not just an interest in the activities of the firm but also a degree of influence over the shaping of those activities. This

¹ Mathews (1997) traces its origins to the 1970s although arguments (see Crowther 2002) show that such concerns can be traced back to the Industrial Revolution.

influence is so significant that it can be argued that the power and influence of these stakeholders is such that it amounts to quasi-ownership of the organisation.

It was as long ago as 1967 that Marshall McLuhan first stated that we now live in a global village and that technology was connecting everyone together. Much has changed since then in terms of technology and now, with access to the Internet available to everyone, we truly do live in a global village in which anyone can interact with anyone else wherever they are living and whatever time zone they are residing in. The Internet has changed the world as never before and this is having profound consequences for people everywhere. Marshall McLuhan was prophetic in some of the things which he had to say. When he was talking about this global village he also said that war would continue to be a feature of the world but that there would be an increasing emphasis upon economic war rather than physical war. Well physical war has not gone away but it might be argued that the reasons for wars in the present are to do with economic reasons at least as much as they are to do with imperialistic or ideological reasons – at least as far as governments and countries are concerned. But governments, as the epitome of the nation state, are becoming less important. What is becoming more important than governments and nation states is the multi-national company, operating in a global environment. Some of these multinationals are very large indeed – larger than many nation states and a good deal more powerful. Arguably it is here that the economic war for the global village is taking place.

One of the consequences of the acquisition of governmental influence by these corporations is the myth of the free market as being beneficial to all. It is widely accepted – almost unquestioningly – that free markets will lead to greater economic growth and that we will all benefit from this economic growth. Around the world people are arguing – and winning the argument – that restrictions upon world economic activity caused by the regulation of markets is bad for our well-being. And in one country after another, for one market after another, governments are capitulating and relaxing their regulations to allow complete freedom of economic activity. So the world might not yet be a global village but it is rapidly becoming a global market place for these global corporations.

The contributions to this book provide a representation of the range of concern for this relationship and the range of topics which fall within the subject matter of CSR. Among the authors who have contributed to this book are representatives from every continent and from a wide range of disciplines. The topics which are considered in the various chapters are equally diverse. Thus in the first chapter Caliyurt is concerned with the ethical behaviour of accountants and how their education might affect

subsequent behaviour. She argues that developing countries are at a disadvantage because their education is less developed and is inevitably concerned more with facilitating the economic development of the country whereas ethical training is of greater concern in developed countries. Her argument is that ethics education should be given greater prominence in universities during the teaching of accounting.

In the second chapter Lopez Parra and Bandeira consider various discourses concerning social responsibility. For them social responsibility is based on three rationalities. The first one refers to the discourse of global competition and includes the concept of corporate rationality. The second reveals regulated responsibility, evident by the conflicting aspects between social dimensions and the regulated responsibility. The last responsibility refers to the substantive rationality of the discourse of social responsibility. They begin with the characterization of these three types of rationality, and process to discuss the dimensions beyond the discourse of social responsibility and reach conclusions concerning its regulation

In the third chapter Duarte et al consider the collapse of the Australian insurance company HIH. They use Hegelian dialectics to theorise that potential social benefits may emanate from the clash between hegemonic business discourses and counter-hegemonic discourses such as social responsibility, mobilised from civil society. They argue that the dialectic which they perceives and describe is continually present in developed economies and that periodically there is a jolt to the system which privileges the thesis or the antithesis. As a consequence synthesis results.

According to Arslan, in chapter four, agency costs arise from the separation between ownership and control inside a company. If there is not a monitoring mechanism on managers, the decisions taken by them may be less beneficial for shareholders or creditors. Especially the financing decisions taken by them are exposed to agency problems because of being at expense of creditors. This research into the effects of large shareholders on corporate governance concludes that there is a direct relation between the presence of a large shareholder and debt maturity. Therefore, it can be reported that large shareholder in a firm convinces creditors that they monitor and control managers and hence short term debt is no longer essential as a controlling mechanism. Consequently, the presence of a large shareholder has a positive impact on corporate governance as being a monitoring tool for the hazardous activities of managers.

According to Zain & Mohammad corporate social disclosure in Malaysia – their area of investigation – is still at its infancy stage and most research attempts to provide evidence of the relationship between certain corporation characteristics and social disclosure. These studies have identified that the disclosure patterns, themes, characteristics and reasons for disclosure are

somewhat parallel with those of their western counterparts. To date, there is not a single in-depth study conducted on the reasons why managers are reluctant to disclose social information. In their chapter they note that while some companies are trying to follow what their counterparts in the west are doing, others are reluctant due to their cultural and religious beliefs. When it comes to corporate social reporting, Malaysian companies are still lagging behind compared to their western counterparts. In order to become a developed nation certain Western values must be adopted, particularly openness, transparency, equality, quality consciousness and environmental friendly sensitivity.

In chapter six Aras also is concerned with ethics but her concern is with ethical behaviour as far as the financial markets are concerned. She argues that business ethics is characterized by conflicts of interests and that businesses attempt to maximise profits as a primary goal on one hand while they face issues of social responsibility and social service. Therefore, the introduction of ethical rules and principles into financial markets, aims at increasing compliance with legal provisions and creating an atmosphere of confidence by securing interests of parties.

According to Vettori, in chapter seven, The change in political climate in the 1980's and 1990's has led to a move towards ideological preference for private sector solutions to socio-economic ills. The result of this is that the individual contract of employment has become not only the foundation of the relationship, but often the major source of the respective parties' rights and obligations. Individual employees and dependent workers have consequently become vulnerable to employer exploitation. What has remained static in this changed world of work is the requirement of an individual contract to bring the employment relationship into being. According to her, development of the common law principles of equity and fairness is a logical solution to the problem of employee exploitation.

Crowther & Davila Gomez consider that the drive for shareholder value which has been a feature of business over the past two decades has had many effects on business organisation and many consequences not just for organisational behaviour but also for the people who work within those organisations. So while it is generally accepted that organisations have always been normalising machines in which the individual is subjugated to the requirements of organisation the uncertainties caused by the changes in business organisation have exacerbated this effect. Certainty has been to a large extent replaced by uncertainty and this has introduced an element of fear into the workplace. Fear of course is viewed as a motivational factor because of its effect in shaping and controlling behaviour towards the desired organisational goals; which means of course that more surplus value can be extracted. At the same time however the soul of the organisation is

jeopardised as people's behaviour changes in response to the organisational pressures.

In the next chapter Shaw makes an impassioned plea for ethical behaviour, aesthetics and autonomy. She bases her argument upon the need for moral agency and situates this in the debates concerning globalisation and corporate dominance of the economic and social spheres. For her this has led to diminished personal responsibility and a sense of disenchantment in an argument which is reminiscent of the early work of the Frankfurt School. In this sense therefore her starting point is similar to that of Lopez Parra and Bandeira in an earlier chapter.

Luck's concern is with the technique known as Customer Relationship Marketing (CRM), which many would view as a technique for exploiting knowledge of customers and thereby creating demand for goods and services; as such this would appear to have little relationship to corporate social responsibility. Luck's aim is to challenge this view of the technique by challenging the vagueness all often associated with the term CRM whilst extending the understanding of the concept by characterising its general nature. In doing so she attempts to identify the pivotal dimension, which technology increasingly represents, while also reflecting upon how the concept of Corporate Social Responsibility is fundamentally associated with the concept of Customer Relationship Marketing. According to her argument the prevailing dichotomy within the discourse resides in determining whether the fundamental underpinnings of Customer Relationship Marketing as a concept revolve more closely to the principles, albeit still debatable, of Corporate Social Responsibility than to mere technological progress.

In the penultimate chapter Mraović is concerned with understanding the nature of subjugation as a whole and its inner economic logics, which she argues is possible only through reflecting on capitalist dynamics in both economic and philosophical aspects. She examines the role of money within a mature money economy, by using the critique of political economy and poststructuralism. The leading question in this chapter is what lies beneath the surface of the concept of hegemonic stability? Mraović rethinks Kindleberger's liberal version of the theory of hegemonic stability but, in doing so, adopts Minsky's model of the irrationality of financial crisis in order to break outside and beyond the limits of this very hegemonic system. This is a poststructuralist approach to ideological construction which legitimises liberal political economy.

The final chapter is by Crowther and Ortiz Martinez who argue that the dominant ideology of the modern western world is that of the free market which, if unregulated, maximises economic wealth and optimises its distribution, according to its proponents. Consequently there is increasing pressure upon governments around the world to throw off the shackles of

regulation so that we may all benefit from the prosperity which ensues from the free market. Omitted (whether by ignorance or by design) from the discourse of ideological pressure is the fact that a completely unregulated free market only operates effectively in a situation of perfect competition – in other words never! This is implicitly recognised by governments and supranational bodies by the use of regulation to mitigate some of the undesirable consequences of a free market. So the starting point of this chapter is that regulation is designed to inculcate a sense of social responsibility into business activity. Because the globalising agenda determined by such organisations as WTO is based on the absence of state regulation and CSR has been devolved entirely to corporations on a voluntary basis the stage has been set for the superordinacy of profit over all other consequences of either corporate or state behaviour and a consequent abdication of responsibility by all. Although one culprit is the corporate, another is the state and this chapter argues that it is essential for civil society that the state reclaims its role in ensuring socially responsible behaviour.

The various contributions to this book might seem at first glance diverse and unrelated, however, as they do, such a wide range of topics. On further consideration however it is apparent that there is a shared concern for the principles of CSR – sustainability, accountability and transparency (see Crowther 2004) – and are all addressing an aspects of these principles. The fact that addressing these covers such a diverse range of topics merely demonstrates the range of issues covered within Corporate Social Responsibility. Equally the fact that the authors included in the volume come from all over the world and from a wide range of disciplinary backgrounds shows that CSR is not culturally or geographically bounded and shows also that for this subject the different disciplines coincide and engage in discourse rather than, as so often happens, ignoring each other. This gives grounds for optimism and shows the strength of the network of scholars concerned with CSR. The quality of the contributions speaks for itself – so read, consider and join the discourse.

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CHAPTER ONE

ACCOUNTING ETHICS EDUCATION: IS THERE A DIFFERENCE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES?

KIYMET TUNCA CALIYURT

What is Accounting? Why is it Important for a Firm, Country and International Trade?

Accounting is concerned primarily with how to gather, record, analyze, interpret and communicate information about an individual's or organisation's financial performance and risk. Whoever performs these activities is called as an accountant. Accountancy is a profession that is a moral community of shared norms, values, and definitions of appropriate behaviour. Most professions adhere to a code of conduct and, though each code varies, an accepted condition of professionalism is adherence to a more rigorous standard of conduct than required by law. In essence, a code provides assurance that the profession's members have principles and that the profession implements and sustains high standards (Ward & Ward 1996). Today, most countries require individuals and firms to hire an accountant for preparing their tax declarations and other accounting reports and documentations. A qualified accountant should have graduated from a business school and hold a certification. Today accountants should apply both the home country's and the other countries' accounting regulations and codes. As accounting regulations are frequently changed, it is not easy to learn continuously that is why international accounting institutions are trying to have standard accounting rules.

What are Ethics and Accounting Ethics? Is it Important in the Accounting Profession?

One of the most important job characteristics of accounting is to affect a

firm's and country's economic results by preparing tax declarations. If accountants do not behave ethically, the firm and/or country will be damaged financially; that is why accounting is a very important profession which needs ethical standards and codes. Ethics can be defined as 'the philosophical study of morality, and, accordingly, morality is clearly identified as the characteristic subject matter of ethics' (Mappes 1988: 35). Ethics is also defined as the study of standards of conduct and moral judgment (Webster's 1983).

The concept of professional ethics is more than an external measure by which the profession can maintain a virtuous image. For many practitioners, it is a concept that implies reasoning capability that permits the individual to render judgment unaltered by self-interest that could impair his or her professional responsibility. The reasoning process is part of the individual's overall moral consciousness from which he or she deals with difficult ethical conflict or dilemmas in everyday practice. Ethical choice is just one of many types of decisions that the accountant or auditor must render in order to be an effective member of the profession. Yiksel (2001) stated that two reasons cause public respect for accountants; first, their having enough occupational experience; second, having consciousness of their responsibility which includes ethical dimension of the occupation.

There are goals of teaching ethics. According to Callahan's List: stimulate the moral imagination, recognize ethical issues, elicit a sense of moral obligation, develop analytical skills, tolerate and reduce disagreement and ambiguity. Loeb's List of Possible Goals for Accounting Ethics Education is:

- Relate accounting education to moral issues
 - Recognize issues in accounting that have ethical implications
 - Develop a sense of moral obligation or responsibility
 - Develop the abilities to deal with ethical conflicts
 - Learn to deal with the uncertainties of the accounting profession
 - Set the stage for a change in ethical behaviour
 - Appreciate and understand the history and composition of all aspects of accounting ethics and their relationship to the general fields of ethics.
- (Hiltebeitel and Jones, 1992, 37)

Macquarie University published its objectives of Ethics in Accounting Education:

- Identify the definition and attributes of a profession,
- Understand the meaning of ethics and morals,
- Obtain an overview of the key provisions within the Code of Professional Conduct,
- Understand the different components of a normative framework for

ethical behaviour,

- Understand Kohlberg's Stages of Cognitive and Moral Development,
- Obtain an overview of creative accounting,
- Understand why creative accounting is undertaken,
- Understand why auditors do not pick up on problems,
- Look at market and regulator based suggestions for reducing creative accounting.¹

Academicians should teach accounting ethics because sometimes accountants are confused when they face situations which are not illegal but also not ethical. These include:

- Abuse of the trust,
- Performance without certification or authority,
- Conflict of interest,
- Neglecting in application,
- Insufficiency,
- Abuse of the assets of an organization,
- Forgery and injustice,
- Being prejudiced about sexuality, race or religion.

(Dittenhofer & Senetti, 1995: 35-36)

When an accountant meets with this kind of confusion, accounting ethics education will help understand and solve the problem. Bringing up students to understand ethical reasoning will be a base for bringing up ethical leadership. Ethical reasoning is a system traditionally containing approaches of self-result, deontology and virtue ethics. Self-result approaches require students to analyse a decision about utility and loss of shareholders and make a decision which is useful for the majority. Deontological approaches, are related with duties, rights and justice thoughts, teach students ethical standards, principles and regulations to decide best ethical result. Virtue ethics focus on ethical actor characteristics and aim at ethical groups like occupational groups which helps to definite ethical problems and to guide ethical actions² (AACSB, 2004). Ethical reasoning education on accountancy may be called accounting ethics education. Alam (1999) believes ethics education in accounting is based on the premise that moral development can be enhanced through the education process. McPhail (2001) believes ethics education should attempt to humanise accounting students; that is, that it

¹ Macquarie University ACCG323 – Ethics in Accounting Education (Macquarie University Curriculum)

² http://www.aacsb.edu/resource_centers/EthicsEdu/EETF-report-6-25-04.pdf

should engender a sense of moral commitment towards other individuals.

Must an Accountant Behave Ethically? Are There International Codes?

Michael Josephson, in Chapter 1 of *Ethical Issues in the Practice of Accounting*, 1992, described the ‘Ten Universal Values’. They are: honesty, integrity, promise-keeping, fidelity, fairness, caring, respect for others, responsible citizenship, pursuit of excellence, and accountability. Professions have several characteristics in common – a complex body of knowledge, standards of admission to the profession and a need for public confidence. To guide the conduct of their members and demonstrate a dedication to serve the public’s interest, all recognized professions have established codes of professional ethics (Vanasco, 1994). The public which respects regulations also respects moral codes. The most important qualifications of this kind of public as follows:

- All relationships depends on trust,
 - Government is for public and government aims to increase public’s welfare and life quality,
 - There is an agreement among the public on ‘what is right?’ and ‘what is wrong?’,
 - Paying taxes is a virtue.
- (Civelek and Durukan)

Usually different countries apply different ethical codes because of primarily different economic development, educational levels of auditors and accountants, and cultural values (Farmer and Richman, 1964). The US codes of ethics of professional associations echo the English Common Law ethical duties of obedience, loyalty and confidentiality. CIAs, CPAs, CMAs, CISAs, and other professionals owe these same duties to the profession, the community and their professional association (McNamee, 1992). According to Vanasco, it is impossible to product a united unique ethical codes because of cultural differences (Ergun and Gul, 2005). There are many accounting related NGOs which promulgate ethical codes and force business schools to add accounting ethics education classes in their curriculum.

International Federation of Accountants (IFAC)

In July 1990, the International Federation of Accountants issued its Guidelines on Ethics for Professional Accountants. Its stated purpose is to

support the objectives of the accounting profession 'to work to the highest standards of professionalism to attain the highest level of performance and generally meet the public interest'³ (IFAC, 1990). Students will perceive and evaluate the weighting attached by educators and examiners to ethics as a measure of the true importance placed by the profession and educators on ethics for the professional accountant. Because of its importance to the future professional accountant, ideally the presentation of the topic of professional ethics should be treated initially as a separate subject. As students progress, and gain a wider knowledge of other curriculum subjects, it will be appropriate to integrate treatments. This will encourage them to look for and consider the possible ethical implications of problems being discussed in their study of other subjects. While the approach of each program to the teaching of ethics will reflect its own context and objectives, it is suggested that initial coverage might include:

- The nature of ethics, differentiation between philosophical and professional approach,
- Concepts of integrity, obligation, independence, public expectations,
- Ethics and the professions,
- Social responsibility, ethics and law,
- Consequences of unethical behaviour to the individual, to the profession and to society at large,
- Ethics in business
- Ethics and the accountant, ethical dilemmas and their resolution.

Subsequent treatment might address the particular ethical issues likely to be faced by all professional accountants and those more likely to be encountered by accountants in public practice. In the presentation of the topic of ethics and the professional accountant, the student should be encouraged to study the role of, and critically appraise, relevant codes of ethics. Students should be invited to view the pronouncements of the profession in this area as a positive effort by it to create a framework of trust and integrity within which professional accountants should operate. Students should be encouraged to examine the ethical pronouncements of other professions and, in their light, to examine and discuss alternative approaches for the accounting profession. Rote learning of codes will not produce the desired effect. The presentation of professional ethics to accounting students can be enhanced greatly through the use of participative approaches. These may include: the use of facilities such as multi-dimensional case studies, role playing, discussion of selected readings and video tapes, analysis of real life

³ International Federation of Accountants, Guidelines on Ethics for Professional Accountants, International Federation of Accountants, New York, NY, 1990

business situations involving ethical dilemmas, discussion of disciplinary pronouncements and findings and seminars using external speakers with corporate or professional decision making. Such participate work will lead those involved to a greater awareness of the ethical implications and potential conflicts for individuals and corporations which may arise from involvement in complex management decisions⁴ (IFAC, 2002). The IFAC Guidelines are typical of professional codes of conduct of the American Institute of Certified Public Accountants (AICPA), The Institute of Internal Auditors (IIA), Institute of Management Accountants (IMA), EDP Auditors Association and others. They normally include:

- a statement mandating technical proficiency,
- a list of responsibilities to management or clients,
- a description of etiquette in dealing with auditees, clients and colleagues,
- a characterization of an individual's responsibilities to the profession and society.

(Merz and Groebner, 1981)

American Institute of Certified Public Accountants (AICPA)

In the wake of the stock market crash of 1929, Congress enacted the securities legislation of 1933 and 1934, which require corporations with publicly held stock to submit to annual audits of their financial statements by external auditors. For these audits to have continued economic and regulatory value, the auditors must be perceived by the public as acting with independence, integrity and objectivity. Public accountants have long considered self-regulation to be preferable to external oversight, and to that end, have adopted a series of codes of ethics. The current Code of Professional Conduct, adopted in 1988 and amended in 1992, must be accepted and adhered to by all members of the American Institute of Certified Public Accountants (AICPA). The code of Professional Conduct includes under lying principles, rules that apply those principles and provide the basis for action against members, interpretations of those rules, and ethics rulings resulting from specific cases. Although the Code may be described as rather prescriptive, accountants are expected to abide by the spirit of the Code and the professional ethic it describes. CPAs who violate the Code are subject to sanctions and the loss of license. Firms that audit publicly held corporations monitor compliance with the Code as part of their internal quality control programs as well as through peer review by other firms, as mandated by the AICPA (Kidwell, 2001, 45). AICPA 1988 includes ethics

⁴ Professional Ethics for Accountants: The Educational Challenge and Practical Application, IFAC November 2002

coverage in its illustrative 150 hour accounting program. The AICPA program includes ethics as part of its general education component, business ethics as part of its business administration component, and professional ethics and responsibilities as part of its accounting education component (Hiltebeitel and Jones, 1992).

Green and Weber studied the AICPA Code and its effects on accounting students. They stated that although the AICPA Code of Professional Conduct emphasized the importance of education in ethics, very little is known about how and when the Code and the topic of ethics can be presented to enhance the effectiveness of ethics-oriented education. The purpose of their research was to provide preliminary evidence about the ethical development of students prior to, and immediately following, such courses. They found that: (1) accounting students, after taking an auditing course which emphasized the AICPA Code, reasoned at higher levels than students who had not taken the course, (2) there were no differences in moral reasoning levels when accounting and non-accounting majors were compared prior to an auditing course; and (3) there was a significant relationship between the Senior's levels of ethical development and the choice of an ethical versus unethical action. It was concluded that an auditing course emphasizing the 'spirit' of the Code can have a positive impact on the ethical behaviour of some of the future members of the accounting profession (Green and Weber, 1997).

The Association to Advance Collegiate Schools of Business (AACSB International)

AACSB International – The Association to Advance Collegiate Schools of Business, is still supporting the teaching of ethics to all students in business schools. AACSB has insisted on including ethics in the curriculum for a long time. AACSB Blue Ribbon Committee on Accreditation Quality (BRC) started to work on this in July 2000. From now on, it is understood that ethics education is very important and should be paid attention to⁵. Aims of AACSB are as follows:

- Widespread ethics education in the business schools,
- Helping educators in their researches about business ethics,
- Making easy multi-cultural and cooperation interdisciplinary for learning business ethics and research in this area (AACSB⁶).

AACSB International accredits business schools. One of the accreditation criterion is ethical behaviour of academic units, academicians, administrators and students. AACSB also encourages the accounting academicians to

⁵ http://www.aacsb.edu/resource_centers/EthicsEdu/overview-expectations.asp

⁶ http://www.aacsb.edu/resource_centers/EthicsEdu/about.asp

behave ethically and believes that ethical behaviour is a basic criterion for quality accounting education. Academic units should prepare a procedure against to unethical behaviour of its academicians, administrators and students⁷ (AACSB, 2005).

Corporate reputations are under siege, especially in the United States where public outrage over the proliferation of Enron-like scandals has turned into a general distrust of business. Part of the cynicism is a growing awareness that business schools are at least partly to blame for the precipitous decline in corporate goodwill. The realization is that business schools are falling short of educating future managers in their legal and ethical responsibilities to society. In response to this dangerous myopia, more than 150 business professors and ethics officers petitioned the Association for the Advancement of Collegiate Schools of Business (AACSB), the agency that accredits business degree programs, to stipulate that at least one ethics course be required as a condition for accreditation. This flood of petitions was timely, to say the least. For while the earthquake of corporate scandals shook America, AACSB officials were quietly drafting new standards that would influence management education for decades to come. And so these officials had a unique opportunity to upgrade ethics education at a critical juncture in corporate history. Unfortunately, they failed to do so. To be fair, AACSB officials have included ethics in list of content areas for accreditation. They also added certain ethics material to AACSB's website, but only after the flood of petitions, mentioned previously, prompted media coverage and heated debate on scholarly discussion lists. Of course, the professors who wrote to AACSB wanted more than mere website window dressing. Certainly, many of them were less than thrilled with the standard response they received from AACSB, indicating that accrediting officials were closing ranks around the agency's doctrine of flexibility. Deciphered, this means that AACSB can give its stamp of approval to the most superficial coverage of ethics in MBA and undergraduate degree programs, such as the promise that ethics will be mentioned in a few courses and/or condensed into a two week seminar for new students.

The International Association for Accounting Education (IAAER)

IAAER gives assurances to excellent accounting education and research globally. It aims to improve general standards which are adopted by accountant academicians, accounting education, research and application. IAAER also aims to support contributions in reaching these standards.

⁷ <http://www.aacsb.edu/accreditation/accounting/ACCOUNTING-STANDARDS-APRIL-22-2005.pdf>

IAAER determines the required responsibilities of accounting academicians on their academic research, education. IAAER also requires business ethics to be widened in the classes⁸.

Federation of Schools of Accountancy (FSA)

FSA held a meeting in 1988 which was about 'Including Ethics in the Accounting Curriculum'.

American Accounting Association (AAA)

The 1986 AAA Commission - Accounting Education Future Construction – attracted attention to the necessity of including ethics in curriculum. AAA supported conferences on Ethics and Specialization (McNair and Milam, 1993). Concerned with the recommendation of the National Commission on Fraudulent Financial Reporting regarding accounting ethics and likely other factors that suggested the importance of ethics education in accounting, the AAA in 1988 established a 'Project on Professionalism and Ethics'. This project, which was expected to last five years has received a commitment of financial support from a number of public accounting firms and corporations, and was guided by an AAA committee. During its existence the committee worked to promote accounting ethics education. There are a number of important problems associated with teaching ethics in accounting that have been discussed elsewhere. One problem that is particularly crucial is that most accounting instructors usually do not have the training or preparation to teach ethics. This problem is not new. In July 1964, writing in *The Journal of Accountancy*, Grimstad raised questions about the preparation of accounting faculty to teach ethics. By 1988 the preparation of accounting faculty, in general, to teach ethical had essentially not changed and thus became a key focus of the committee's efforts. To prepare faculty to teach accounting ethics, the committee has sponsored or co-sponsored programs relating to the teaching of accounting ethics (Loeb and Rockness, 1992).

National Commission on Fraudulent Financial Reporting (Treadway Commission)

In October 1987 the National Commission on Fraudulent Financial Reporting (Treadway Commission) in its Report, noting that inclusion of ethics in accounting programs at colleges and universities was at a minimum, recommended increased coverage of accounting ethics in accounting

⁸ www.iaaer.org/doc/ethics

programs at colleges and universities. That report included an abstract of a study which suggested that, in general, ethics was not receiving extensive coverage in accounting education. Subsequent independent studies confirmed this finding. Concerned with this recommendation of the National Commission on Fraudulent Financial Reporting regarding accounting ethics and likely other factors that suggested the importance of ethics education in accounting, and the AAA in 1988 established a 'Project on Professionalism and Ethics'.

How Can We Improve Accountants' Ethical Behaviour?

Kohlberg says the most important critical factor about moral improvement is education. According to Kohlberg, the individuals are expected to behave more ethically who have reached the highest level of ethical improvement (William, 2004). This is Kohlberg's stages of moral reasoning and Kohlberg believes that the six stages of ethical development were universal (Bay, 2002, 162):

Pre-conventional level – Focus is on self

Stage 1: Obedience (You do what you are told primarily to avoid punishment.)

Stage 2: Instrumental egotism and simple exchange (You make deals or only consider the cost and/or benefits to yourself.)

Conventional Level – Focus is on relationships

Stage 3: Interpersonal concordance (You are considerate, nice and kind and you'll get along with people. You cooperate with those in your environment.)

Stage 4: Law and duty to the social order (Everyone in society is obligated and is protected by the law. You cooperate society in general.)

Post-Conventional level – Focus is on personally held principles

Stage 5: Societal consensus (You are obligated by whatever arrangements are agreed to and by due process and procedure. Focus is on fairness of the law or rule as determined by equity and equality in the process of developing the rule.)

Stage 6: Non-arbitrary social cooperation (Rational and impartial people would view cooperation as moral. Focus is on fairness of the law or rules derived from general principles of just and right as determined by rational people.)

The goals of ethics education are premised on moral issues, but as Shenkir (1990) emphasized, 'ethics education should recognize that different students will be operating at different stages of moral maturity. Six stages of

moral maturity were defined by Lawrence Kohlberg and will impact an individual's 'sense of moral obligation' and ability to 'deal with ethical conflict' (Loab, 1988) Individuals advance through the stages of moral reasoning at various rates of speed although the stages occur in an invariant sequence and are universal to all. Additionally, individuals, may reach moral maturity at any level. An individual does not reason at different stages for specific situations but reasons at one stage for all situations. Researchers have argued that educators have a responsibility to contribute to the moral development of their students (Bok 1976; Hitlebeitel and Jones, 1991). Since the moral development of university students is never complete (Langenderfer and Rockness 1989) the identification and espousal of basic values should enhance the moral development of accounting professionals (Huss and Patterson 1993).

Some Researchers Say 'Ethics Education Improves Ethical Behaviour Positively'

Milner et al. (1999) found that ethics education in the university affects students' ethical thoughts. According to Shenkir (1990) a person's character, and Kohlberg (1969) moral development, can be enhanced through the educational process. Research is needed which examines the effect of accounting education on students' moral reasoning and development through a portrayal of students' moral growth during their university experience. Weber's study in 1990 (Fleming, 1996) was able to show that the experiences of the undergraduate are an important function in the ethical development of the student and that those students who are exposed to the teaching of ethics demonstrate some improvement in their ethical awareness and ability to analyse ethical problems. According to Dellaportas (2002), moral reasoning abilities of accounting students increased every year of a four-year degree program with the exception of the third year. Armstrong (1993) believes that ethical theory should be introduced to students in some depth, then existing accounting courses should reaffirm the need for ethical reasoning and reinforce critical-thinking skills through case analyses. Finally, ethics and professionalism should be offered in an integrating accounting course.

Boyd (1981-1982) administrated the Defining Issues Test (DIT, Rest 1979) to 261 undergraduate business students. The D scores, indicating their level of moral reasoning maturity, significantly increased for those students completing a Business and Society course. Yet, the students in Boyd's control group (those not enrolled in an ethics-based course) did not demonstrate improvement.

Similar results were reported by Penn and Collier (1985), in their

assessment of graduate students enrolled in a Business Ethics course, and by Nelson and Obremski (1990), who used group interaction in an ethics-based course to induce increases in students' moral reasoning. There seems to be general agreement that such efforts can be beneficial (Briloff 1985; Penn and Collier 1985; Leob 1988; Langenderfer & Rockness 1989; Cohen and Pant 1989) There is also a substantial body of evidence that education, per se, can have a positive impact on students' ethical development (Rest, 1986; Nelson & Obremski 1990).

Ethics education in accounting is based on the premise that moral development can be enhanced through the educational process. Support for this premise is found in research in the development of moral judgment. For example, Rest (1979) stated that 'older, educationally advanced students have higher moral judgment scores', and recent accounting research suggests that 'ethics training might affect the process by which accounting students and accountants resolve ethical dilemmas' (Hiltebeitel & Jones 1991). However, traditional accounting education does not contribute to the moral development of students to the extent of other college programs (Armstrong, 1987; Ponemon & Glazer, 1990) which suggests the need for additional efforts by accounting teachers and researchers (Huss et al 1993).

Ward, Ward & Wilson (1996) researched students who had the Professional Behaviour Directive of AICPA on 4 scenarios about their ability in solving ethical problems. They found that even a little education changes behaviour perception of students (Susmus & Arzova, 2003).

The results indicate that accounting educators can influence the moral reasoning of the profession by recruiting and retaining bright students, particularly women, and by designing ethics education interventions that will help accounting students incorporate more than simply rules in making ethical decisions. According to a study in 1990, family education, friends' behaviour and university education improves accountants' behaviour in Australia (Hunt, 2000).

Some Researchers Say 'Ethics Education does not Improve Ethical Behaviour'

Although research undertaken by Martin (1981-1982) and Wynd and Mager (1989) found that ethics education had no impact upon students' ethical reasoning and decision making, most studies have reported significant improvements in students' moral judgments by assessing their reasoning prior to, and immediately following, their taking an ethics-based course. According to Nouri and Shiarappa's research on accounting students, it is proven that even a small amount of personal self-interest can motive students