Ethics in a global environment

Ethics: The global environment makes it hard for accountants to live up to the profession's ethical standards, argues Jeffrey Dummett, winner of the CPA Australia student ethics essay prize.

The global business environment challenges the successful practice of accounting ethics, both through cultural differences that exist within each country and the altered nature of the accounting firm within that environment. However, there are strategies that can be put in place to manage those challenges.

A central tenet of the accounting doctrine is that of the search for unifying and 'generally accepted' principles to guide accounting behaviour. On the other hand, it is an obvious proposition that every society possesses its own values and culture. As Aristotle recognised: 'perhaps it is not the same to be a good man and a good citizen of any state taken at random'.

If there is a duty to act ethically, an accountant may need to apply accounting practices in one country that are markedly different from those that apply in another. This poses a practical difficulty to an accountant operating in a globalised environment.

For example, in Business and Accounting Ethics in Islam, T Gambling and RAA Karim argue that Western accounting theory sees the business as a structural unit distinct from the rest of society, often with some separation between a business's owners and operators. However, an Islamic view of accounting theory sees the business as involving in its operation a more holistic integration of all stakeholders.

There is a strong ethical doctrine of 'personal supervision', designating that there be significant consultation between business operators and owners. This goes to the very nature of accounting practices. In Western societies there is a focus on accounting as financial reporting. 'Islamic accounting is always managerial accounting,' say Gambling and Karim. Inconsistency is thus generated, as well as a heavy burden on the accounting profession to apply the appropriate ethical standards.

While accounting attempts to apply principled practices, it also seeks to guide and give principle to accounting ethics. Due to cultural disparities in a globalised environment this can also fail.

The concept of corporate social responsibility (CSR) is often used in the context of accounting practices, but internationalism threatens its validity, because cultural differences exist between separate societies.

With the altered nature of the business environment in a globalised world, so too have there been alterations to the nature of the firm itself. This has implications for accounting ethics.

In a globalised environment the firm has a much broader role than it does domestically: the firm begins to become its own 'state' and accountants within a firm could begin to subsume a role akin to that of unelected ministers. The content of 'accounting ethics' in a domestic
environment is somewhat limited to the traditional functions of accountancy. If the firm in a
globalised environment is a 'state', then the choices of accounting policy in a firm could have
wider repercussions in society.

The importance of accounting ethics is increased; it becomes even more essential for
accountants to overcome rational self-interest, and to conform to some kind of set moral
code. Furthermore, some existing ethical doctrines and codes for accounting behaviour are of
course made at least partially obsolete by this altered role of the firm.

Even if this argument is not accepted, the breadth and scope of a firm's operations have, with
globalisation, obviously expanded. With this the opportunity for potentially unethical
accounting behaviour has increased. An increasingly globalised environment creates greater
opportunities for corporate fraud, and so the presence of ethical principles becomes, again,
even more essential.

Already there is a difficult balancing exercise between the cost of accounting ethics and the
more general interests of the firm (generating a profit).

**How do accountants deal with these challenges?**
A number of mechanisms exist to deal with these challenges, including a global code of
ethical behaviour; international treaties and multilateral agreements; the natural development
of a set of globalised accounting ethical norms; and, finally, simply self-regulation / self-
restraint.

The International Federation of Accountants has a Code of Ethics for Professional
Accountants that is binding on all the 120 of its member bodies. But as J Maurice notes in his
book Accounting Ethics, that while he is optimistic about the effect of the code, noting that,
as a result, accounting integrity, objectivity and independence are internationally understood,
the code is based on 'Anglo-Saxon' accounting principles. Whether it can really deal with
cultural disparities in a globalised environment is thus questionable. Indeed, an examination
of the code reveals that its terminology is somewhat vague.

With words such as 'honest', and phrases such as 'conduct that discredits the profession', it is
not unreasonable to think they could have different shades of meaning to different cultures.
For example, in regard to 'honesty', in Western societies it is seen as dishonest to give bribes,
but in Latin American countries 'gift-giving' is not seen as corrupt.

The code seems inherently based on 'traditional' accounting concerns. It is of course possible
that the IFAC code could undergo modification to increase its effectiveness. But, finally,
experience shows that global codes of business ethics are often susceptible to avoidance by
creative management or simply face outright non-compliance due to difficulties in their
monitoring and enforcement.

International treaties and multilateral agreements are another means by which ethical
accounting behaviour in a global environment may potentially be achieved. But these are
somewhat limited in their ambit because they inherently depend on ratification in order to
have effect. Terms of agreements may be applicable to one nation, but not to the next.

It follows naturally from this that treaties / agreements may have the ability to undermine the
'general principle approach' to accounting; because, while agreements may solve ethical
problems between a few nations, solidifying approaches that are not ratified by all states mean no unity. Also treaties and agreements are dependent on (potentially costly) 'monitoring and enforcement' mechanisms if they are to be effective and they are often very difficult and time-consuming to formulate.

It has been a common argument that as globalisation grows, there will be a convergence of domestic cultures to a new international culture. The same argument can possibly apply to accounting ethics; that, as there is a move to a new world economy, a generally-applicable and appropriate world code of accounting ethics will develop naturally as a result. The main criticism of such a solution is that there is no 'global sovereignty' to push along such a process. While it may eventually be one of the more effective solutions, it will be slower.

Self-regulation is another possible solution to the challenges presented by globalisation. It is perhaps cynical to view the members of firms as being inherently self-serving and striving to only enhance their individual greater good. It is possible that members of the accounting profession will themselves rise up and attempt to resolve these challenges. But this argument is somewhat limited. Firstly, because there is good reason for cynicism: we of course do see unethical behaviour on the part of the accounting profession, and the philosophy of self-regulation is likely to produce only spotty results.

Secondly, there is an obvious limitation to what individual members of the profession can accomplish.

For instance, it is hard to see how individual accountants can address the problem of cultural disparities in ethics. Since the actions of individual members of the profession will be inherently self-concerned, a more expansive and encompassing solution is needed in order to create a more unified conception of ethics across all nations.

The most desirable solution to the challenges would of course be one which manages to create a unifying ethical doctrine applicable across all nations, and at the same time, manages to resolve many of the extra considerations and costs of accounting ethics in a globalised environment.

However, it seems that none of the prospective solutions outlined could manage to achieve this entirely effectively. It is submitted then that a unified strategy on the part of accounting regulatory bodies, using a combination approach of the potential solutions as stated, is the best approach towards achieving the desired result.

**Conclusion**

The purpose of this article was to outline the challenges presented to the practice of effective accounting ethics by a globalised business environment, and then to outline and assess potential mechanisms for the resolution of those challenges.

The challenges include those resulting from cultural disparities. This is because of the practical difficulties associated with ascertaining and applying required ethical conduct in differing cultures and also an inherent incongruity between 'cultural relativism' and accounting's generalist doctrine.

Challenges are also presented due to the 'state-like' role of the firm in a globalised world and also the expansion of the firm's operations.
Multiple solutions to these challenges were assessed, including codes, treaties, the natural development of ethical norms and also self-regulation. It was submitted that individually none of these are completely effective and a cohesive approach is required.

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For further information read the *International Business Ethics Review*.

Reference: June 2008, volume 78:05, p. 52 - 55