
THE ETHICAL DILEMMA IN THE MANAGERIAL ACCOUNTING PROFESSION

L. Murphy Smith

Department of Accounting
Texas A&M University
College Station, Texas

James H. Thompson

Department of Accounting and Finance
Auburn University
Auburn, Alabama

An ethical conflict may arise in the managerial accounting area because a management accountant is an employee, on the one hand, and a member of the profession, on the other hand. This issue can be viewed in light of two applicable theories of ethics:

1. Utilitarianism

This theory states that a certain behavior is acceptable if it results in the greatest good for the greatest number of people (3, pp. 4-5). While much of the social legislation adheres to this principle, this simple axiom contains some disadvantages. Whether the greatest good is always served through social legislation remains debatable. In addition, inequity will result when the majority is not morally right. These disadvantages lead to a wider acceptance of a second major theory, deontology.

2. Deontology

This alternative theory states that the relationships among people have an importance which is separate from the results of these relationships. A person's position derives certain duties and responsibilities regardless of their effect on society. Central to the theory of deontology is Kant's "categorical imperative" which states that one should never act in a manner that he would not be willing to have his action serve as a universal law (3, pp. 5-6). In other words each time a given circumstance was encountered, one would respond in the same manner.

The above theories suggest that business and in particular the managerial accountant have social and professional responsibilities as well as obligations to the employer. That is, there is more than just Adam Smith's "invisi-

ble hand” or Milton Friedman’s “the business of business is business” at work in our economic system.

History of Ethical Standards for Management Accountants

In addition to the responsibility to his employer, the management accountant also has a responsibility toward his profession. While the managerial accountant has a responsibility to the development of his profession, the profession did not reciprocate in providing a written code of ethics to guide in the development of the management accountant until recently.

The conditions established by the Board of Regents of the National Association of Accountants for awarding the Certificate in Management Accounting (CMA) require candidates to:

1. Present evidence of good moral character and educational attainment,
2. Pass, within a three-year period, a rigorous five-part examination, and
3. Present evidence of at least two years of professional experience in managerial accounting.

Obviously, the management accountant must adhere to certain standards to become a CMA. Nevertheless, once the corporate accountant has attained this status, he looks to the profession which must offer some further written standards of conduct by which he is to abide.

Recognizing the obligation of management accountants to the organizations they serve, their profession, the public, and themselves to maintain the highest standards of ethical conduct, the National Association of Accountants (NAA) issued Statement on Management Accounting No. 1C (SMA No. 1C), *Standards of Ethical Conduct for Management Accountants*, in June 1982. SMA No. 1C describes the ethical standards to which a management accountant is to subscribe in order to achieve the objectives of management accounting. These standards are composed of four articles: competence, confidentiality, integrity, and objectivity. Management accountants are instructed not to commit acts contrary to these standards nor to condone the commission of such acts by others within their organizations.

The Ethical Dilemma

This dilemma applies to any situation where the management accountant is required by corporate management to perform certain acts which are counter to the ethical and moral standards of the accountant. As Nash and Hermanson stated:

The managerial accountant is an employee of the company and owes a direct loyalty to those who pay his or her salary. In contrast to the independent auditor, who is expected to remain detached — even aloof — the managerial accountant is not an impartial observer of the company’s fortunes, but must be com-

mitted to attainment of organizational goals. The managerial accountant cannot afford to remain aloof but must be directly involved in the company's survival and development. (5, p. 13)

Because of the force that corporate management can exert upon the accountants, the management accountant might have found himself performing many acts that he would otherwise not do.

Understanding that the management accountant may encounter problems in identifying unethical behavior or in resolving an ethical conflict by applying the standards of ethical conflict, SMA No. 1C provides a resolution to ethical conflict that management accountants are to follow. First, the management accountant should follow the established policy of the organization bearing on the resolution of such conflict. If these policies do not resolve the ethical conflict, management accountants should consider the following courses of action:

- Discuss such problems with the immediate superior except when it appears that the superior is involved, in which case the problem should be presented initially to the next higher managerial level. If satisfactory resolution cannot be achieved when the problem is initially presented, submit the issues to the next higher managerial level.

If the immediate superior is the chief executive officer, or equivalent, the acceptable reviewing authority may be a group such as the audit committee, executive committee, board of directors, board of trustees, or owners. Contact with levels above the immediate superior should be initiated only with the superior's knowledge, assuming the superior is not involved.

- Clarify relevant concepts by confidential discussion with an objective advisor to obtain an understanding of possible courses of action.
- If the ethical conflict still exists after exhausting all levels of internal review, the management accountant may have no other recourse on significant matters than to resign from the organization and to submit an informative memorandum to an appropriate representative.

Except where legally prescribed, communication of such problems to authorities or individuals not employed or engaged by the organization is not considered appropriate (6, p. 3).

Relationship of Ethical Dilemma to Utilitarianism and Deontology

In light of the two theories of ethics previously discussed, what should be the theoretical ethical base within which the management accountant resolves the ethical dilemma? Utilitarianism is unacceptable on the grounds that accounting "decision-making" information cannot be prepared on the basis of providing the "greatest good for the greatest number of people." Management accounting information, by its very nature, must provide relevant facts for a particular business decision to be made by the decision maker. For the management accountant, there can be no utilitarian trade-off

to derive the greatest good; that is, the information is either relevant or not relevant to a decision and should if relevant be considered by the decision maker.

The focus of deontology is on the role that the position, in this case one in management accounting, performs for society. The theory of deontology asserts that the actions of the management accountant must be based upon the "ideals" of the position. Ideals (or standards) would include integrity, objectivity, technical competence, and confidentiality. These ideals will be examined in more detail in a subsequent section of this paper.

Deontology is the appropriate theoretical basis for the management accounting profession's "code of ethics." Actions of management accountants should logically be governed by a code of ethics based on the management accountant's function in society.

Relationship of Ethical Standards to the Ethical Dilemma

Now that the written standards have been issued, a question then arises: Will the standards help to resolve the ethical dilemma? To solve the ethical dilemma, three events must occur: First, there must be an improvement in the values of the individual. Second, there needs to be a change in the moral tone of the corporate structure. And third, there needs to be a standard or code of ethics set for the managerial accounting profession (2, p. 6).

From an individual's point of view, ethical judgments involve beliefs and values as well as morality. Values grow out of our beliefs and are affected by our earlier experiences as well as our contact with society. Any breakdown in the moral fiber resulting from the stress placed upon the accountant by management should cause a reassessment of his environment and society in general (4, p. 31). In considering the change in any ethical position of any individual, whether an accountant or not, the emphasis should come from within the individual. While an existentialist would indicate that a person should be solely responsible for his own behavior, one should not discount the fact that there are less than ideal individuals, and there are forces external to the individual that have an impact upon him.

From the point of view of the corporate structure, corporate action flows from objectives and policies set at the top levels of management. To set proper realistic goals for all employees is one of the first steps that management can take to ensure an ethical organization. As a result, it is a primary responsibility of business management to instruct, motivate, and inspire their employees to conduct themselves with honesty, propriety, and fairness (2, p. 9).

One of the primary actions management should take in setting the moral tone in a corporation is a corporate code. A recent survey developed by the Opinion Research Corporation revealed that 73% of the companies had written codes of ethics (7, p. 47). This result shows that companies are more

and more conscious of the significance of corporate structure in solving the dilemma.

From the point of view of the profession, it should be noted that a profession is formed on the basis of (1) a generally accepted body of knowledge (2) a widely-recognized standard of attainment, and (3) an enforceable code of ethics (8, p. 14). Therefore, a code of ethics is an indispensable element in forming a profession. Admittedly, the newly adopted code of ethics has, to some extent, cleared up the uncertainty involving the duties and responsibilities of the management accountant. While a code of ethics may not insure ethical behavior on the part of management accountants, it "will further buttress their inclination and their tendency to 'tell like it is'" (8, p. 15). As Theodore Purcell stated, "ethical codes are no panacea . . . but they can help to clarify ethical thinking and to encourage ethical behavior" (2, p. 9).

Comparison to the Ethical Aspects of the Public Profession

A review of the Code of Professional Ethics of the American Institute of Certified Public Accountants (AICPA) reveals a striking similarity to the NAA Code. The AICPA Code of Professional Ethics identifies five broad concepts: independence, integrity and objectivity; general and technical standards; responsibilities to client; responsibilities to colleagues; and other responsibilities and practices (1, pp. 4281-2). The following discussion briefly describes and evaluates the AICPA Code in relation to the NAA Code.

Article I of the AICPA Code primarily deals with the integrity and objectivity of an accountant, and his independence from those he serves. The public accountant is encouraged to be professionally prudent, maintain client confidentiality, and base his fees upon factors other than those contingent upon his findings. This article closely parallels the integrity and objectivity articles of the management accountant's ethical standards. In fact, integrity and unbiased objectivity are a self-regulating aspect of any profession, and the ethics of the individuals is its cornerstone. The key to the success of a system is based upon the individual's integrity, and consequently the key to the success of a profession is based upon its members' willingness to regulate themselves so as to assure the profession's longevity and to satisfy the public demand.

The independence aspect of the AICPA Code is notably different from any article in the NAA Code. The management accountant is entirely responsible to management rather than being independent from it. This different orientation is due to the inherent difference in the professions.

Article II of the AICPA Code deals with general and technical standards. A certified public accountant (CPA) should not render professional services without being aware of, and complying with, the applicable general and technical standards. Article I of the NAA Code parallels this article of the AICPA Code. Management accountants have a responsibility to maintain an

appropriate level of professional competence by ongoing development of their knowledge and skills; performing their professional duties in accordance with relevant laws, regulations, and technical standards; and preparing complete and clear reports and recommendations after appropriate analyses of relevant and reliable information.

Article III of the AICPA Code deals with responsibilities to clients. This article requires the public accountant to hold in strict confidence all information concerning a clients' affairs which he acquires in the course of his engagement. This article closely corresponds to Article III of the NAA Code charging management accountants with the responsibility of confidentiality. For public accountants, this responsibility does not mean they should acquiesce if a client is unwilling to make disclosures in financial reports which are necessary for fair presentation. Confidential information should not be disclosed by management accountants unless authorized or legally obligated to do so.

Article IV of the AICPA Code deals with responsibility to colleagues. The public confidence and respect a CPA enjoys is largely the result of the cumulative accomplishments of all CPAs, past and present. Thus, support of colleagues is in the CPA's own interest as well as in the interest of the general public so as to not detract from their reputation and well-being. Article II of the NAA Code somewhat parallels this article of the AICPA Code by the way in which a management accountant is expected to deal with subordinates. The management accountant is charged to inform subordinates as appropriate regarding the confidentiality of information and to monitor their activities to assure the maintenance of that confidentiality.

Article V of the AICPA Code deals with other responsibilities and practices. This article requires a CPA to conduct himself in a manner which will enhance the stature of the profession and its ability to serve the public. This article of the AICPA Code is embodied somewhat within all four articles of the NAA Code. However, the management accountant is primarily concerned with loyalty to his company. As the resolution of ethical conduct of the NAA states, communication of ethical conflicts to authorities or individuals not employed or engaged by the organization is not considered appropriate.

The similarity of the AICPA Code to that of the NAA Code is substantial. While the AICPA Code lists five articles and the NAA Code lists four articles, they in substance, deal with mainly the same issues. There are some important differences, but those differences are produced by differences in the professions themselves.

Conclusions

As long as men are motivated by the desire to make a profit, there will always be some who will turn to unethical and dishonest methods. All that is required is a moral atmosphere that will promote ethical behavior. By

composing strong corporate and professional codes of conduct, a positive influence is imposed upon managerial accountants, as well as upon all of business. Now that the NAA has adopted a code of ethics, the managerial accounting profession, like the public accounting profession, will have a stronger influence on its members, as well as on the rest of the corporate structure.

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