

**ETHICS AND ACCOUNTING:  
WHICH REGIME BEST PROTECTS THE PUBLIC GOOD?**

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**Abstract**

**Purpose:** This paper explains the ethical dimensions in four socio-political domains in accounting practice, and how ethical dilemmas within the accounting function might be solved within each domain in order to best protect the public good.

**Design/methodology/approach:** This is a conceptual paper.

**Findings:** The accounting profession in a pluralist-liberal domain is composed of widely different accounting methods and the authors opine that all of these are best able to protect the public good. The monistic -conservative regime endorses high boundaries on all accounting techniques making it inherently conservative, and it is found to be the only one that satisfactorily protects the public good.

**Research limitations/implications:** Ethical considerations have value-laden components and therefore the perspective that is presented in this paper has limitations. More work on this subjective, fluid area from within pluralistic societies would broaden this field further.

**Practical implications:** This paper rationalizes the interaction between principle (or rule-based) accounting and how ethical issues may increase or decrease the protection of the public good.

**Social implications:** The accounting profession is categorized under the four domains of pluralism-liberalism, pluralism-conservatism, monism-liberalism and monism -conservatism. This research demonstrates how the accounting profession may best safeguard the public good.

**Originality/value:** This paper rests on the assumption that safeguarding the public good is an important professional and social responsibility of the accounting function in all organizations.

**Keywords** – Accounting, Pluralism, Ethics, Public Good/Interest, Conservatism, Liberalism, Monism.

## Introduction

The accounting profession in today's diverse and therefore complicated business milieu primarily operates within highly pluralistic environments. Different studies have investigated the accounting profession from the pluralistic perspective in areas such as education, practices and research (e.g. see Buckley and McDonough, 1972; Hoque *et al.*, 2013; Jacobs, 2012; and Jocelyne, 1988). *Pluralism* in a philosophical sense refers to a doctrine of multiplicity or diversity which is opposed to the concept of *monism* or the doctrine of unity or "A theory or system that recognizes more than one ultimate principle." (ODE, 2006, p. 1355). Jean-Louis, *et al.*, postulated that pluralism was based on three elements: knowledge, value and power, (2007). But the root of the debate about the accounting profession as a pluralistic profession may be traced back to the pioneering work of Buckley and McDonough (1972). They believed that complexity is the root cause of pluralism when they opined that, "Complexity is the principal doctrine of pluralism – it underlines all other considerations." (p. 926). Then, Jocelyne (1988) raised the importance of pluralistic problems in teaching accounting and auditing for developed as well as developing countries. Jacobs (2012) debated theoretical purity and theoretical pluralism by means of analyzing different approaches used over the last sixteen years in public-sector accounting research. Similarly, Houque *et al.* (2013) critically appraised multiple research theories to examine "different meanings of realities pertaining to management accounting information and process in organization and society." (p.1170). However, there is a dearth of analysis of the ethical characteristics in the accounting function in current pluralistic societies. This paper contributes to that by considering the important issue of ethics in relation to the public good. The public good, also called the "public interest," refers to "a commodity or service that is provided without profit to all members of a society, either by the government or a private individual or organization." (OED, 2006, p. 1422.)

Studying the accounting profession from a pluralistic viewpoint not only enhances our view of the new challenges faced by the profession, but it may also allow finding reforms and new methods to solve those complex or unsolved enigmatic issues in accounting, as well as the ways in which the profession should

take ethical considerations into account. Reform in the accounting profession after corporate scandals such as Enron and World.com also points to the complexity of the vital role of the profession to serve society by incorporating ethics in the diversity of the global business environment. Therefore, the professional accountant can be found working in very diverse environments. Diversity and complexity of business is one of the top 10 business challenges with which the accounting profession is inevitably involved. Also the authors of this article emphasize the importance of the professional accountants' mindsets because they are now more than ever beset with complexities. This implies that professional members are functioning in a pluralistic environment and they should be appropriately educated, developed and experienced in readiness for the new challenges and changes within multifarious business environments. (Buckley and McDonough, 1972; Hoque *et al.*, 2013; Jacobs, 2012).

This paper explores accounting as a social phenomenon and as a dynamic profession with multidimensional aspects and rules. It should be perceived from the pluralistic perspective when ethical issues such as the protection of the public good, or interest, are considered to be a priority for the profession. This not only affords appropriate safeguards but it also sustains the profession's reputation for integrity. This view is not only supported by previous studies (e.g. Buckley and McDonough, 1972; Hoque *et al.*, 2013; Jacobs, 2012) but also by referring to the modifications required by Sarbanes–Oxley (SOX) Act (2002). New sophisticated viewpoints and requirements (e.g. see Lowell, 2002) for the role of the profession by SOX after corporate collapses early in the 2000's have emphasized a higher degree of multi-functionality within the professional services in accounting by focusing on protecting the public interest. Chakarun, (2002), predicted that the SOX Act would dramatically reform accounting functions and would usher in greater complexity in services provided. Roth (2007) showed that the SOX Act brought many difficulties for companies around the world in complying with the law and developing risk assessment tools. The SOX has reformed many critical areas, for example, CEOs being responsible for establishing a strong and reliable internal control system; business settings to maintain ethical, moral, and accountable environments to safeguard the public interest; external auditors having greater responsibilities to stockholders by enhancing audit independence;

working with new definitions of audit reports; reforming types of audit and non-audit services that auditors are allowed to provide to their customers; and optimizing corporate governance structures and their specific attributes. According to expectations of what is going to be the accounting and auditing profession in the future, the profession is all the more complicated now within a pluralistic environment.

Within such contemporary societies, all professions need to examine their codes of conduct which govern their operations, perhaps applying themselves with more resolution than ever. “Ethics” refers to “moral principles that govern a person’s behavior or the conducting of an activity,” (ODE, p. 595). To this, Hoyk and Hersey (2009) added that “people generally use three principles when making ethical decisions: (1) “amount of harm/benefit; (2) Actor’s intentions; and (3) The application of agreed-upon rules or norms,” and they concluded that “Non-zero-sum interactions typically increase the amount of mutual benefit over harm, have intentions to serve the needs of the greatest number of people without violating the rights of minorities, and take into account rules and norms.” (Ibid. p. 28).

But after the collapse of financial markets following the Lehman Brothers’ debacle in 2008, it became clear that there had been far more skirting of ethics than skirting of the law. Such principles as integrity, fairness, transparency and mutual responsibility towards the client as well as the company, were replaced by a strong inclination towards expediency, greed and indiscriminate profiteering regardless of the consequences. Yet it was not as if it was the first time that financial markets had teetered for those reasons. Even Adam Smith had warned against destructive consequences when he authored *The Theory of Moral Sentiments* in 1759, opining that capitalism would succeed if it was founded on values such as fairness and if it were implemented with a universally recognized sets of rules to underpin economic society with a sense of justice. (Trevino and Nelson, 2011). Using those sentiments as a starting point, Trevino and Nelson moreover observed that, “Our business behavior also affects our personal and company reputations, politics, society at large, and even national reputation.” (Ibid. pp.3-4). For this reason, ethics and the public good are this work’s prime consideration within the accounting profession and they form the core of the models

that the authors will present.

Pluralism is also related to globalization. Globalization as the process of international integration converted the phenomena of business ideas and practice, innovation, technology, products, culture and activities from national and local substance into the international arena. This explains why ethics are subjective and fluid; each society has them embedded in its own traditions and culture, as well as its religious beliefs. Ethics are partly the product of a society's history. Globalization is one of the roots of pluralistic businesses environments and therefore increases the business risks to deal with business factors that may be difficult to control. The International Monetary Fund (IMF) defines different aspects for globalization in the form of trade and transaction, capital and investment, migration, and disseminating of knowledge. One relatively new form of business as globalization emerged is the Multinational Enterprise (MNE). Accounting services to MNEs involve complexities to deal with many ambiguous transactions and measure different financial statements and reports to different users with different expectations and diverse educational, as well as cultural backgrounds.

Looking more closely into the issue of pluralistic functions of the accounting profession, the MNE structure has emerged from the traditional top-down pyramidal structure towards highly complex structures that among other issues, must now comply with the new regulations and laws, risk management functions, and financial and economic crises. (Csaszar, 2013). Shifting from neoclassical economic theory of maximizing shareholders' value toward a broader view of the social and environmental corporate responsibilities is an additional contemporary accountability that requires a progressive re-format within organizational structure. (Edwards *et al.*, 2002; Lee and McKenzie, 1994). Accounting as one of every organization's functions, should also be informed with the developing global changes such as business ethics and evolving corporate governance approaches. (Ostapski and Issacs, 1992). They considered that the main responsibilities of the accounting profession are not just to help the internal users by providing useful information to plan, control, and evaluate organizational performance, but also the whole company as an

integral entity in fulfilling its corporate social responsibilities. That refers to a company's external social responsibilities with clients, stakeholders and the wider communities that it serves, (Trevino and Nelson, 2011, p. 322). It is thus obvious that accountants handle a complex challenge. Companies with integrity nowadays attempt to fulfill their duties to reach the highest level of professional, social and environmental challenges by adhering to ethical values. In this case, principled accounting information is the core target that should serve as the means to succeed in each of the areas of challenge mentioned above.

### **Pluralistic Organizations**

Pluralistic organizations are all those organizations with numerous distinct products, segmented markets, subsidiaries (often off-shore for out-sourcing functions), sections and miscellaneous stakeholders. Almost all current medium- to large-sized companies regardless of whether they are private or public can fall under this broad definition and this makes them pluralistic organizations. They perform all those organizational functions in multifaceted contexts, purposes, and societies in general. (Jean-Louis, *et al*, 2007). They structure and govern business relations with multi and sometime antithetical task functions. According to Jean-Louis *et al*. (2001), "In a pluralistic organization characterized by fragmented power and multiple objectives, where reconciliation by fiat is not an option, these opposing forces are in constant dynamic tension." (p. 826).

Companies' contexts characterize their accountability regimes as part of their corporate social responsibilities while they should also satisfy different types within their stakeholder ranks. By looking at the organizations from different perspectives, including the pluralistic view, the notion of different social theories may be supported and facilitated through the expanded role of accounting for those organizations. The pluralistic organization should handle changing and challenging issues such as corporate social responsibilities, environmental sustainability, social justice, supporting different stockholders needs and organizational ethical and behavioral issues. These types of organizations should have pluralistic aspects as the modern business environment requires almost all types of organizations to handle not a single

objective at a time but many diverse objectives simultaneously. The main issue is whether and to what extent the pluralistic organization can achieve its goals in the light of the pluralism of existing norms, values and business styles in the competitive global business environment. The accounting profession should be part of the solution to the complexities that arise in pluralistic organizations. According to Stefancic, (2009):

*Interdisciplinary approaches are essential to properly evaluate an economic and financial system that is increasingly complex and globally interrelated [...] A better integration of economic, social and behavioral sciences will favor the establishment of new frames of thinking and new analytical tools which are much needed in contemporary financial regulation. Financial markets, defined as competitive markets in financial instruments such as stocks, bonds, loans and derivatives, represent a research subject that may be analyzed from a plurality of angles and frames, including a sociological one. In practice, such a plurality of perspectives could favor sustainable wealth creation and contribute to maximizing the benefits from economic globalization. (P. 90).*

### **The Accounting Profession as a Pluralistic Endeavour**

Pluralism in accounting methods and practices can be observed from accounting theory, knowledge, practices, and methodology in a micro-level to serve a single unit (e.g. a private user or a business). And it can serve a socio-political role as a profession within society at large so that it functions at the macro-level. Due to contemporary organizational changes as a result of many factors such as globalization (macro-level), complexity of business transactions (micro-level), and multifunctional business activities (macro-level), the accounting system should be able to respond to two needs. They are to satisfy the organizational needs to produce reliable and relevant financial information at the micro-level, but also to generate aggregated benefits at societal and global level. Thus, pluralism in the accounting profession should be viewed from two perspectives: both from the micro- and macro- levels. These are equally important.

Pluralistic accounting at the micro-level should assist every organization as a single economic entity within a national economy as well as to each external user of the accounting information to achieve its multiple objectives through an effective and efficient internal control system aggregated in an comprehensive accounting information system (AIS), and it should be integrated with professional codes of conduct as well as undergoing the monitoring of accounting information risks. AIS performs this responsibility mainly through producing optimal financial reporting systems and the measuring of financial elements by choosing relevant and accurate methods and techniques. In a pluralistic organization, accounting reports and measurements should serve internal as well as external users for their various decision-making processes. AIS should be mapped and integrated to serve a pluralistic organization as an integrated part of the organizational structure to serve internal as well as external users for their informational needs. While pluralistic forms of organization are becoming more and more prevalent (Jean-Louis et al., 2007), the organizations are nonetheless expected to achieve the highest levels of professional competency.

From the macro-level perspective, the accounting profession should indeed facilitate the national economic growth through advancing an efficient capital market and act as a transcendental information provider to users internationally. Pluralistic accounting will support the different users and all types of organizations and professional groups in a society. For decades, the accounting profession has been shifting towards globally accepted accounting practices in the form of the International Financial Accounting Standards (IFRSs). Historically, the UK and USA accounting patterns, which comprised the most influential accounting standards, influenced many other countries' accounting systems during the last century, and they are now converging towards adopting IFRS. Approximately 115 nations have accepted the IFRS. Required by SEC, US GAAP will be converging into the IFRS by 2016. The UK converged during 2014. This is significant because a paradigmatic shift of this kind in the coming few years will drive consistency towards globally accepted accounting format. Carmona, and Trombetta (2008) highlight the benefit of using IFRS by giving an example. They compared the net incomes in two firms in Germany and United States which "had reported a net income of 615 million Deutschmarks (DM) for the 1992 year, which turned into

a net loss of DM 1, 839 million under US GAAP.” (p.455-456). This is a significant discrepancy.

However, developing a single universal GAAP requires adopting a pluralistic view in developing acceptable accounting methods so that they might be applicable to all countries even with different socio-economic and political structures in order to generate financial uniformity.

IFRS produces this uniformity by using the financial information of different companies, industries and countries through a single set of accounting methods and reporting standards to facilitate different users from different nations to make useful economic decisions at the global level. However, the accounting profession should drive and support collaborative arrangements, media and systems to enhance organizational structures to increase success rates in all industries. For this reason, accounting at macro-level seems to be more of a priority than emphasizing it at micro-level as any damage at the global level would be extended to not just a specific group or organization but many different groups globally. The next point to be addressed is: which accounting base should be used to develop global accounting standards? Should it be rule- or principle-based?

### **Rule-based versus Principle-based Accounting**

The practical base of accounting functions is supposed to optimize accounting standards in almost every society. There are currently two sets of acceptable approaches to develop the accounting standards discussed in accounting literature: rules-based and principles-based accounting. Basically, rule-based accounting operates by applying detailed instructions in measuring and reporting financial transactions. Carmona and Trombetta (2008) specified that IFRS is principle-based accounting (p.456). While IFRS is principle-based, U.S. GAAP in the form of the Financial Accounting Standards Board (FASB) is said to be rule-based. Mintz (2010) maintains:

*U.S. GAAP is now spread out over 17,000 pages in the new FASB Codification whereas IFRS is*

*covered in 2,500 pages. IASB Chairman Sir David Tweedie believes that principles-based reasoning makes it easier to defend professional judgment than principles-based standards if challenged in stockholder lawsuits. (P. 98).*

One of the advantages of rule-based accounting is to increase accuracy and diminish ambiguity in applying aggregate reporting of financial information to support management decisions. But it increases the court cases against accountants when any incorrect interpretation or judgment in the application of those accounting standards arise, as Sir David Tweedie postulated. In turn, the rule-based approach may direct accountants to provide more quality financial information by providing guidance through the details of these accounting methods to protect the public good as they really focus on the quality of the accounting information produced with highly ethical and independent audit report. However, this approach is costly, complex and difficult to apply in some circumstances.

In contrast, principles-based is a conceptually based approach which provides guidance and explains the objectives of financial standards in reporting and measurement but does not do this by providing detail. This accounting base implements general accounting guidelines for a variety of different transactions. The guidance, such as it is, lets managers and accountants exercise their own professional judgment. The main problem in this approach is that there can obviously be different professional judgments in connection with the same problem particularly in complex circumstances, leaving accountants with different interpretations in applying the same accounting principle.

Both rule-based and principle-based approaches are fundamental to accounting measurements. We define two broad accounting measurements from a conservative accounting perspective to a liberal accounting one. Conservatism in accounting has a propensity towards a pessimistic attitude with regard to valuing assets and casts the least favorable impact on a financial statement. On the other hand, liberal accounting measurements have a tendency towards showing financial elements to current values which in a number of situations appears more favorable. The rest of this paper first discusses accounting regimes

from a pluralistic viewpoint. Accordingly, we look at the accounting functions in two further ways: from monistic to pluralistic views by elaborating upon liberal and conservative perspectives. Then, we develop a theoretical model that combines all these perspectives. Conclusions and limitations of the study come at the end of this paper.

### **The Accounting Profession from the Pluralistic-Liberal Perspective**

This section discusses the attributes of an accounting regime in a pluralistic society by elucidating the regime through the liberal approach. Initially, liberalism and the accounting profession were commented upon by Lucia *et al.*, (2003). Liberalism as a political philosophy is based on the notions of liberty and equality, and it would therefore seem that pluralism would provide a sound framework from which to analyze a liberal view. According to Bellamy, (2004):

*Liberalism ... [is] devoted to promoting a certain pattern of individual development, and [...] this model is implausible in modern complex and plural societies [because the] very complexity of modern societies sustains the liberal account of human agency and flourishing [...] Liberalism and pluralism go hand in hand, therefore liberal political and economic forms foster not only the social diversity [that] pluralism entails, but also the type of person capable of exploiting the opportunities this environment offers. (p.2).*

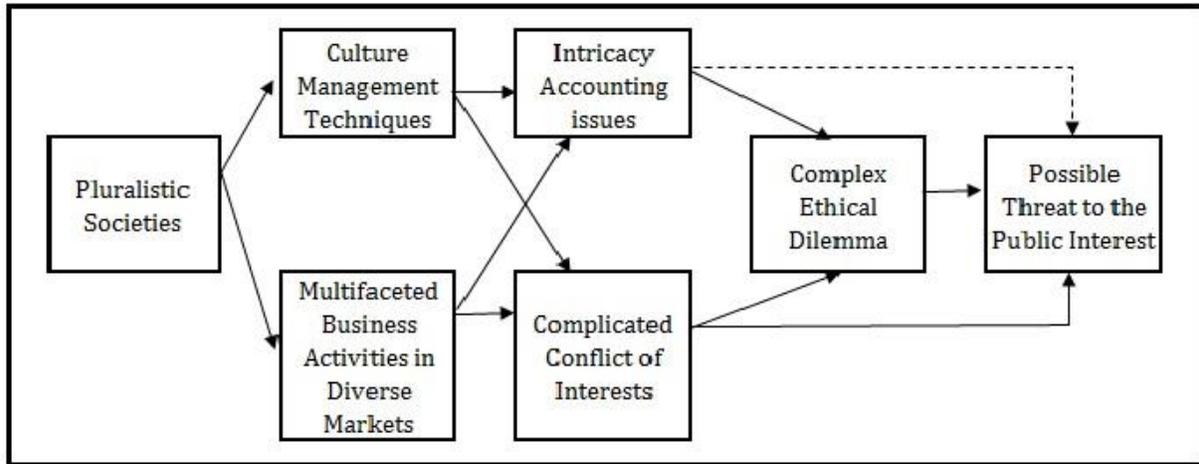
For the accounting approach in current pluralistic organizational frameworks to be in harmony with liberalism it should support the public good by adding value through accurate and reliable accounting information. According to Galston, (2004):

*Liberalism requires a robust though rebuttable presumption in favor of individuals and groups leading their lives as they see fit, within a broad range of legitimate variation, in accordance with their own understanding of what gives life meaning and value. I call this presumption the principle of expressive liberty. This principle implies a corresponding*

*presumption (also rebuttable) against external interference with individual and group endeavors. (p. 3).*

If we accept that accounting is a social phenomenon and an accounting regime in a social cultural framework is assumed to be connected with a political regime, then these regimes should support prototypical accounting methods for measuring transactions and financial reporting. These should not only allow the use of blended methods but also be fitted to different business entities. The profession in a pluralistic-liberal regime should support optimal accounting methods for measuring transactions and financial reporting that not only allow using diverse methods but they must also accommodate the various needs within different enterprises. Accounting information would be more reliable and relevant in responding to the types of business entities and their specific user needs. Accounting in a pluralism-liberalism regime harmonizes with those values that encourage a diversity of accounting methods and systems with the aim of reaching optimal measurements and reporting methods for society. As a multiplicity in accounting methods is obvious, the question is whether the accounting measurements and reporting forms can help society achieve liberty and equality by protecting the public interest consistently. Therefore, liberty and equality alongside diversity, together shape accounting in a pluralist-liberal context and this would be a challenge to the profession as state involvement would be less obvious than professional standards. From this view, the profession endeavours to propose optimal principle-based diverse reporting and measurements in its standards that at the same time allow corporate reporting entities choose specific approaches, yet protect the public good. However, the most serious challenge in this regime is the problem of diverse accounting methods because wittingly or unwittingly, it enables accountants and managers to damage the public good when there is conflict of such interest by using those methods that even in their most benign outcomes will not support it. With greater global diversity causes greater global complexity it inevitably makes it difficult for the profession to oversee members' adherence to ethical values. Figure 1 signifies the issue as follows:

**Figure 1. Pluralistic societies, business environments and the public good.**



The Enron case and accounting’s other major ethical scandals have been a subject for much research, as exemplified by AlHashim (2002), Arter and Russell (2003), Barefoot (2002), Conroy and Emerson (2006), Jeri and Kathey (2007), Katsoris (2002), Petrick and Scherer (2003), and Sims and Brinkmann (2003). AlHashim (2002) underlines the damage of ethical scandal to the accounting profession in the US, highlighted by Enron. The role of Arthur Andersen, one of the Big Five involved in the corporate collapse gives emphasis to the considerable damage to the public interest, and thus the public’s trust in the profession. He added that Enron’s “success” as shown in its performance was nothing more than using accounting deception, generated by those techniques perpetrated through the firm’s managerial directives. Enron also underscored the conflict of interest between the company and the accounting firms as distinct from the public good. This case also indicated that if the accounting approach is under pluralist-liberal regime, extensive use of accounting methods allows managers and accountants to apply what is called “market-to-market” accounting, (Haldeman, 2006). Accounting measurement would be inclined toward a fair value accounting compared to the ones which led to seriously misleading financial statements.

### **The Accounting Profession from the Pluralistic-Conservative View**

Conservative accounting and valuation is an influential and contemporary research subject, (see Hollister & Shoaf, 2010). Conservative accounting techniques require recognizing all possible losses and liabilities

while contingent revenues and gains are deferred until they can be authenticated with the highest degree of certainty. This makes a bias which Hollister & Shoaf, (2010), investigated in models promulgated by Ohlson (1995) and Feltham and Ohlson (1995). Accounting conservatism is often described as an equilibrium reaction used to moderate a decrease in value resulting from information asymmetry, uncertainty, or private information that occur between investors and managers, (LaFond and Watts, 2008).

An accounting regime from a pluralistic-conservative perspective aims to prevent the use of those methods that cause overvaluation of revenue and assets by proposing a variety of different conservative accounting measurement methods. This claim may be questioned on a number of issues. Firstly, there is the assumption that all accounting values can be seen as idiosyncratic predilections which undervalue the nature of diversities in the accounting methods. Secondly, the accounting methods will be on a conservative principle-based ground to have a moderate type of measurement of assets, revenues and gains but high recognition of liabilities, expenses and losses to adjust financial reporting information to the users.

Furthermore, ethical conflicts would be more moderate than under a pluralistic-liberal regime with the result that threats would be reduced for accountants and managers. This implies fewer complications and there would be less conflict between objective accounting reporting, values and types of analysis. From this viewpoint, the public good is better protected and thus the balance between professional authority and the public good is achieved. This regime also removes the critique of the conservative principle of accounting by eliminating constraints to the presentations and measurements of relevant and reliable accounting data by allowing accountants to choose desirable methods.

### **The Accounting Profession from the Monistic -Liberal Perspective**

Monism in philosophy has often argued that the variety of different realities would be more meaningful to if they were to be joined into one - if there were just one fact in reality. The OED defines this demanding

concept as “the doctrine that only one supreme being exists.” (2006, p. 1133). Monism represents stands in contrast to dualism and pluralism. The accounting profession in a pluralistic society could be better understood when viewed from the monistic angle. This issue is relevant to the current global trend of having only a single set of globally accepted accounting standards which is known as IFRS. Thus, the idea of developing IFRS is consistent with the monistic perspective. According to the definition of monism, it is focused on reducing the variety of different things, such as in this case, accounting methods, into a single substance and fact. Different accounting standards developed in many different countries are now to be unified into a single set of accounting standards which in reality encourages a coherent setting of standards. Agreement in this form is to have unified accounting policies and methods applicable by all nations as today’s business environment is moving toward globalization. The agreement results in having consistency, or at least producing fewer contradictory techniques, conveyed in accounting standards in which every country could use them for the purpose of efficiently calculating capital markets. Convergence towards a single national accounting standard towards developing the IFRS is a process which is consistent with the monistic philosophy in the accounting discipline.

A conceptual framework of accounting authority from a monistic-liberal perspective provides accountants with the liberty of choosing from restricted standards and techniques in the form of rule-based accounting. However, between choosing conventional or optimal accounting methods used to protect the public good, accounting measurement and reporting techniques incline toward modest approaches, those required to produce financial reports in quality format. But it has to be recognized that whilst developing a single set of globally accepted accounting policies and methods may be consistent with the monistic view, the process of developing them requires the development of an optimal rule-based accounting standard-setting that is universally acceptable. That is, those countries with many divergent approaches and differences in the realms of the social, the economic, with customs, and with unique values and norms will need to adjust, and be capable of deploying a single set of unified accounting policies. This will be required to develop their present accounting standards to overcome differences that they experience now. Accounting practice

in such a regime needs to set this out as a straightforward, solid, and vital objective in order to ensure merit reporting.

On the other hand, the idea of monism at the micro-level is to view the role of accounting for the national economy - not just for a single type of company, profit or not-profit oriented organization, or merely for specific industries. At that level, different organizations have to satisfy not just their own particular objectives but also to comply with national economic goals. Profit-oriented organizations can be viewed as monistic organizations that have a single goal which is to get to the highest level of profitability. That historically harkens back to the period in which business entities did not concern themselves about social and environmental issues. The idea of protecting public interests rooted in the subject of ethical issues related to accountants and managers in this monistic-liberal view envisages fewer and less complicated ethical dilemmas and so represents a not-unreasonable risk level. Selecting from those optimal accounting standards includes protecting the public interest because ethical issues remain at moderate levels.

### **The Accounting Profession from the Monistic –Conservative Perspective**

The accounting regime from a monistic-conservative viewpoint adheres to traditional conservative accounting and reporting methods that emphasize evolutionary continuation and steady accounting approaches. It recognizes financial statements' elements especially under circumstances of high uncertainty. Professional accounting bodies have very limited and restricted powers to enforce all rules and regulations. In this view, accounting techniques may apply diverse methods but they are restricted and they are conservative. Financial reporting presentations should unify their formats to serve all of society as nearly all users have largely similar financial reporting requirements. And so, accountants' recommendations in applying conservative accounting techniques will be gradually developed to achieve a systems model that will protect the public good.

If accounting techniques and methods were to be an economic good created in the form of a social benefit applicable for every user group in society, then the profession in this view would impact on social welfare. The profession develops those restricted conservative accounting techniques for the maximization of social well-being. In this sense, the social benefits of those accounting methods should be higher than the social costs with an emphasis on the 'social measurement' of those benefits. Accounting standards are rule-based but the only rules applicable are the ones which serve conservative accounting procedures. This view of accounting is close to social or environmental responsibility-accounting and is implemented to enhance corporate social responsibility. In summary, a monistic-conservative accounting regime has the following characteristics: Only one single set of conservative accounting measurements and reporting methods are developed to conform to the rules and regulations endorsed by global and/or state agencies.

Ethical accounting issues in this regime are less complicated than other regimes and managers cannot maneuver to shift the accounting methods to produce their desired results and thus to protect their own self-interest at the expense of the public good. Thus, incidents of low critical ethical propensity are predictable but the public good is potentially well protected in contrast to methods pertaining to the other domains. Still, the most difficult challenge in the profession using this system is making decisions about the accounting procedures to deploy, which on the one hand must be able to cover today's complicated business transactions as well as to minimize any potential ethical dilemmas in order to protect the public interest.

## Findings

Table 1 summarises the attributes of the four accounting regimes.

**Table 1. The characteristics of different accounting regimes in the profession.**

	<b>Pluralism-Liberalism</b>	<b>Pluralism-Conservatism</b>	<b>Monism - Liberalism</b>	<b>Monism - Conservatism</b>
<b>Authority Exercised by Professional Bodies</b>	High Power	Moderate Power	Moderate Power	Low Power
<b>Accounting Standards-setting</b>	Optimal Principle-based	Conservative Principle-based	Optimal Rule-based	Conservative Rule-based
<b>Accounting Measurements Diversity</b>	High	Moderate	Moderate	Restricted
<b>Financial Reporting Presentations</b>	Variety	Adjusted	Optimized	Unified
<b>Threats to Ethical Values</b>	Highly Complicated; High Risk	Moderately Complicated; Moderate Risk	Moderately Complicated; Moderate Risk	Low Complication; Low Risk
<b>Public Good Protection</b>	Low	Moderate	Moderate	High

This table highlights the different accounting characteristics under pluralism-liberalism, pluralism-conservatism, monism -liberalism, and monism-conservatism. As the table and the paper have discussed, there is a discernable relationship between the diversity of accounting methods, or accounting pluralism, and the threat to ethical values, and thus the public good. That is, since the globalization of business transactions will increase and the pull towards the IFRS is a must including the USA and the UK, then due to the complexity that will result, pluralism in accounting methods will face highly complicated ethical dilemmas and more likely initiate negative impact on the public interest. On the other hand, a monistic-conservative accounting regime will generate restricted accounting methods or techniques, and

consequently be less diverse and complex because it uses the accounting standards in the form of rule-based accounting. In turn, this accounting regime faces ethical problems at a lower risk and thus the public interest can be better protected. Accounting standards setting will continue in a principle-based type.

**Figure 1. Accounting Profession Attributes in the Social Propensities Matrix**

		<b>Liberalism</b>	
<b>Monism</b>	<b>First Quadrant</b>	<b>Fourth Quadrant</b>	
	<ul style="list-style-type: none"> <li>• Adjusted principle-based approach</li> <li>• Restricted accounting principles of financial measurements are allowed to the best of users’ benefits.</li> <li>• Integrated form of accounting reports for the users groups</li> </ul>	<ul style="list-style-type: none"> <li>• Principle-based approach</li> <li>• Diverse accounting principles of financial disclosures and measurements are allowed to the best of users’ benefits.</li> <li>• Highly flexible in financial reporting</li> </ul>	
	<b>Second Quadrant</b>	<b>Third Quadrant</b>	<b>Pluralism</b>
	<ul style="list-style-type: none"> <li>• Rule-based approach</li> <li>• Only one-single accounting measure methods conform to conservatism accounting principles are allowed.</li> <li>• Only one-type financial reporting reports in conform to conservative accounting methods are recommended with very low flexibility in form and content.</li> </ul>	<ul style="list-style-type: none"> <li>• Adjusted rule-based approach</li> <li>• Different accounting methods based on conservative value methods</li> <li>• Measuring assets and profits by using different conservative accounting measurements such as LCM and cost methods</li> <li>• Reporting assets, revenue, and profits to the lowest level of uncertainty characteristics</li> </ul>	
		<b>Conservatism</b>	

## Conclusion

This paper examines theoretically the characteristics of a conceptual accounting environment in four different socio-political regimes: pluralism-liberalism, pluralism-conservatism, monism-liberalism and monism-conservatism. This paper justifies protecting the public good and highlights accounting in relation to ethical risk associated with the four regimes to encourage IASC to produce proficient and effective forthcoming IFRSs.

- While the current trend towards business globalization prevails, and accounting-standards setting moves towards IFRS (more than 115 countries adopted the standards), the authors propose that the standards promote the best ways of protecting the public good in the form of protecting stakeholders' rights and benefits. Only optimal IFRS will help managers and auditors to measure and report financial statements in the best ways to satisfy users' needs.
- Reliable and relevant accounting information must satisfy main users' needs and protect the public good but it may not actually achieve that if the business environment is exposed to high ethical risks.
- IFRS uses principle-based accounting that allows applying the accounting standards and this may trigger different interpretations in those who are in charge of preparing financial reports. This issue repeats the traditional problem of financial reporting comprising different interpretations. In other words, preparers of the financial reports will use different methods for the same transactions of financial events to further their own interests, but not necessarily the public good. The case of the Enron corporate collapse reminds us of this endemic problem, although it was an extreme.
- Pluralistic business environments and globalization seem to be a consequence of each other and IFRS needs to respond to this trend. And so the IFRS should help to reduce risk-related issues in pluralistic organizations.
- Therefore, it appears that the best accounting regime to protect the public good by reducing the ethical problems is the monistic-conservative regime.

The monistic-conservative regime uses rule-based accounting and relies on conservative approaches and has restrictions in selecting and applying accounting techniques and procedures that may otherwise have the potential to manipulate financial information. The techniques in this regime minimize wrong interpretations of accounting techniques to produce more reliable and relevant accounting information for the decision makers. The information will certainly increase the public trust in the use of such information and in this way the protection of the public good is better safeguarded. Furthermore, this conclusion is supported by Barth *et al.* (2012) whose study examined the extent to which the application of IFRS by non-US firms are comparable to those US firms where they use US GAAP. The finding was that US's firms' rule-based accounting generally had higher value relevance than those of IFRS firm, which was principle-based. However, one of the limitations which the authors recognize is that this field of enquiry must invite more research. With more scholarly inputs, we can better understand the diversity of the business, and particularly, the accounting world and continue to explore the best ways in which to further the public good through the profession. Finally then, it is clear that rule-based accounting methods are preferable to safeguard the public good in a diverse and global world. The accounting profession and its regulatory bodies have a responsibility to protect that public good. And in that way, Adam Smith's vision in *The Theory of Moral Sentiments* might finally come a step closer to realization.

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