Accounting Professionalism: A Fundamental Problem and the Quest for ...
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The CPA Journal; Mar 2004; 74, 3; ProQuest Central
pg. 22

In Focus

Accounting Professionalism:

A Fundamental Problem and the Quest for Fundamental Solutions

By Arthur R. Wyatt and James C. Gaa

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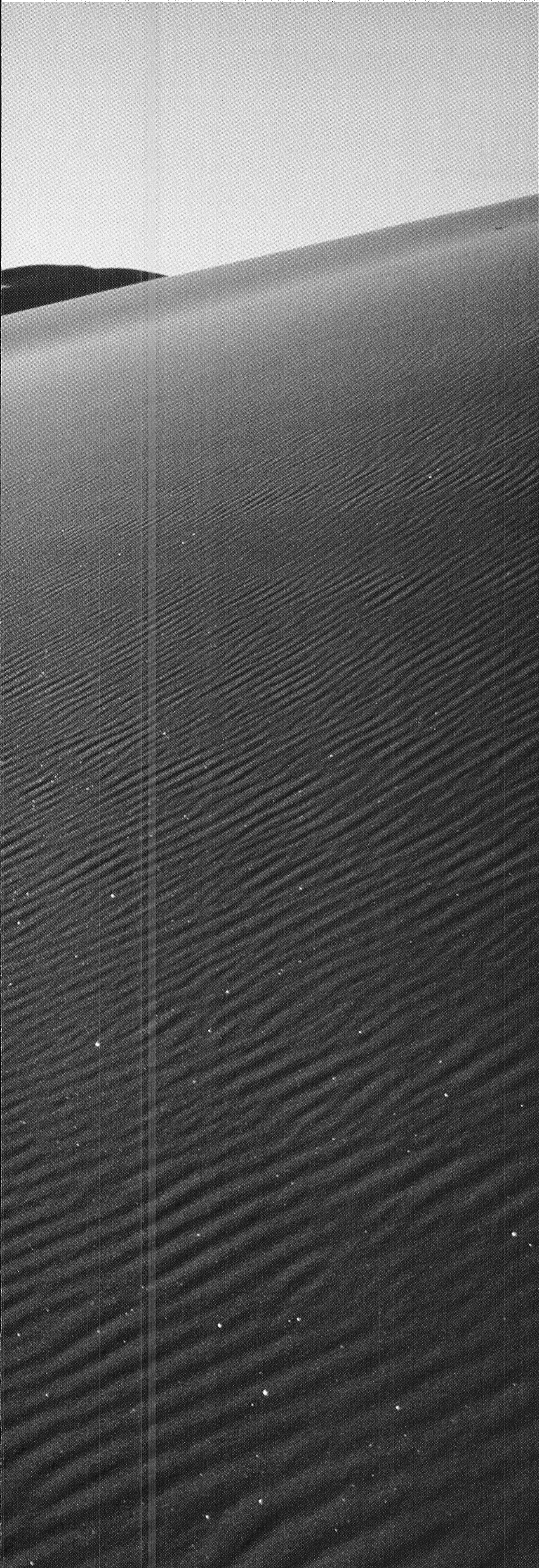

At a plenary session at the 2003 annual meeting of the American Accounting Association (AAA), Professor Arthur R. Wyatt spoke on "Accounting Professionalism—They Just Don't Get It!" His far-ranging observations and incisive analysis drew upon his long experience in the profession. At a later session during the AAA annual meeting, Professor James C. Gaa took Wyatt's observations a step further, using them to delineate a thoughtful analysis of moral syndromes in the accounting profession, and a prognosis for the future. *The CPA Journal* is grateful to both of them for sharing their remarks with its readers.

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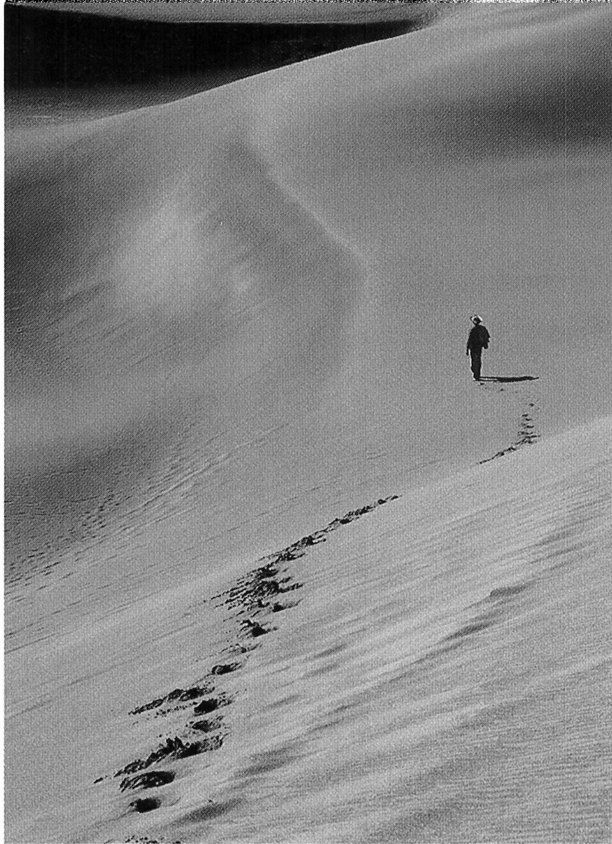
Accountants' Responsibilities and Morality

By Arthur R. Wyatt

This article is adapted from Professor Wyatt's remarks at the American Accounting Association's Annual Meeting in Honolulu, August 4, 2003.



Over the last few years the accounting profession has been beaten up badly in the media, somewhat justifiably. The forces at work were numerous and complex, and a variety of phenomena created the environment in which Andersen disappeared and the entire profession had its reputation tarnished. Some forces were not new: delivering services that acted to impair independence; becoming too cozy with clients; active participation in finding ways to circumvent accounting standards; simple greed. What was new is that the profession's historical defenses to combat these forces proved ineffective. The profession—indeed, society as a whole—has paid dearly for failing to meet the expectations of investors, creditors, and other users of financial statements.

My observations here today are based on observing the profession's evolution over the past 50 years and participating actively in it for nearly 40 years. I will frequently refer to Arthur Andersen because I had substantive experience there over many years.

The Path to Professionalism

When I graduated from college, Andersen was the 12th-largest firm in Chicago and had about 30 partners. By the mid-1960s it was a part of the Big Eight, probably seventh in size, with about 350 partners worldwide. Accounting education focused more significantly on professionalism and the accounting code of ethics than it has in the recent past. Most entrants to the large firms were recent college graduates whose courses in auditing focused on professional responsibilities and the importance of ethical behavior. The apprenticeship system inherited from the United Kingdom had faded, and hiring experienced individuals with diverse business backgrounds was rare.

The AICPA was primarily a professional organization whose senior committees developed the professional standards that guided accounting decisions and auditing approaches. The Institute's spokesman focused on increasing the awareness of the importance of ethical professional behavior. Later the AICPA became, in effect, a trade association, with only limited impact on matters of professionalism and ethical behavior. The large firms were headed by leading accounting professionals, often people who had risen to their positions based on technical skill and experience and knowledge about diverse accounting issues. These individuals were often active and well known in the larger business community, articulating in articles and speeches the nature of the profession and its importance to our business and commercial system. They spoke out forcefully on the issues of the day, often without regard to whether clients might find their remarks objectionable.

Within the firms, even newer professionals were guided on a path of professional behavior, through formal training and observance of the manner in which the objectives of firm leadership were implemented in everyday practice. At Andersen, and probably other firms as well, a specific approach existed for staff personnel to take to top management any behavior they observed that departed from what they understood to be firm policy. The relatively small size of the firms meant that interpersonal relationships with leaders within the firm were possible. As a result, staff had a high level of comfort in taking concerns to people a number of levels above them.

In addition, at least through the 1970s, accounting firms could not advertise. Reputations were gained, in part, from a firm's policy on taking a tough stance on interpreting accounting standards. In one instance Andersen resigned from a large railroad engagement because the firm disagreed with a particular accounting principle that was accepted in that industry. Later, it resigned its savings and loan (S&L) clients, again because the firm disagreed with an acceptable accounting principle involving deferred taxes applicable to S&Ls. While that position proved advantageous during the S&L debacle of the late 1980s, the point is that the firm stood firm on accounting standards, without regard to immediate revenues lost. Those stances were followed by relatively rapid increases in audit revenues. The underlying rationale at Andersen at the time was that most clients wanted their auditors to keep them out of trouble and, therefore, expected the auditors to object when the client wanted to follow an accounting policy that might lead to future problems. One's auditing firm was the epitome of trust, honesty, and decency. In effect, the policy of being tough on accounting standards was at the forefront of what today would be viewed as the firm's marketing strategy. In the recent environment that kind of thinking suggests a measure of naiveté.

The Evolution of Consulting

Beginning in the 1960s, and accelerating through the '80s and '90s, services that came to be described broadly as "consulting" were added to firms' revenue streams. As far back as a century, firms had regularly assisted clients with suggestions for improving internal controls, efficiency of operations, and even business strategies. These services were an outgrowth of the audit, and although they generated additional revenues, they were general-

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ly viewed as an integral part of the broad audit process and not as freestanding engagements of a fee-generating nature. Reports including client improvement suggestions were an expected deliverable at the conclusion of the audit. The quality of suggestions often provided a distinguishing characteristic for a given firm.

The catalyst for what came to be known as "consulting services" was the advent of the computer. In the early 1950s, Andersen assisted IBM in a major punch-card installation for General Electric. The lead personnel were audit-trained. Their success on the engagement, their skill sets, and their forceful brand of leadership soon led to a new service unit at Andersen, styled as "administrative services" and ultimately becoming Andersen Consulting. That early engagement gave Andersen a head start in this area, and the firm exploited this competitive advantage over the years. While early efforts were made to keep this evolving set of services within the then accepted bounds of professional accounting practice, the skill sets developed by the innovative people involved gradually led to a widely expanded range of services. As other firms strove to compete with Andersen, service offerings were expanded, until almost any service that could generate revenues was undertaken.

In the early 1960s, Andersen leaders saw the potential in providing clients with what evolved into integrated computer system services. This led to an even more expanded range of services and to a need to attract new personnel whose skill sets were different from those of their traditional accounting-major recruits. The firm decided to recruit good students, regardless of their majors, from a wide range of top universities. This program required that these so-called "oddball" hires go through an intense summer-long accounting education course. This crash course had a twofold objective: to give some financial accounting background to new hires who generally had little or no accounting or business education, and to help prepare the new hires for eventually taking the CPA exam. The State of Illinois (and later other states) agreed to give the new hires the equivalent of 10 or 11 semester hours of credit in accounting for purposes of qualifying to sit for the CPA examination. This was important, as Andersen (and most, if not all, of the other firms) required new managers, as well as new partners, regardless of their area of practice, to have passed the CPA exam.

Over the period of about 10 years this program produced a disproportionately high number of eventual partners in the consulting practice, as well as a few people who became audit and tax partners. During these years, however, the consulting practice grew more rapidly than it could attract the necessary numbers of new hires.

These pressures led to policy changes that eliminated the six-week accounting course and eliminated the requirement that new managers in the consulting practice must pass the CPA examination. The eventual result was that men and women could become partners in Andersen (at least in the sense of sharing profits) even though they were not CPAs. The same evolution occurred at other firms, albeit with different timing.

The firm hired increasing numbers of people who had no accounting background. People progressed within the firm with no accounting training, and probably a weak understanding of or appreciation for the rules and expectations concerning professional conduct. Although they had to abide by the internal rules on the restricted investments, consulting personnel found that necessity increasingly distasteful in the go-go markets of the 1990s. These people were highly paid personnel with strong skill sets in areas at best distantly related to accounting or auditing. As firms' consulting practices grew, so did the numbers of these non-accounting-trained personnel. Their success in generating high-margin fees gave them an increasing voice in firm management and also created enormous pressure on the auditing and tax practices to grow revenues and to increase margins. The successes in the consulting practice increasingly influenced behavior in these practice areas—first the leaders, and gradually other personnel as well. Improved profitability became the key focus.

Throughout the profession the push was on to extend the range of services provided. Consulting practices grew in different ways among the firms, mainly directed by the individual talents of the personnel. Andersen captured the majority of the big-ticket integrated systems jobs at the outset. Other firms developed their own specialties and then filled in other niches to be competitive across the expanding range of services offered. At many firms these practices grew much more rapidly than their auditing and tax practices. Profit margins were greater in the consulting area than in the audit area. The economy was generally strong through the 1980s and '90s, and the consultants became more demanding in their quest for high compensation and a greater voice in firm management. Top leadership gradually moved from those with outstanding technical accounting and auditing skills to those who were recognized as the preeminent rainmakers within the firm.

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This period saw the emergence of a new phenomenon: the hiring of experienced personnel. At Andersen, and probably at most other firms as well, hiring experienced people had been a rarity. At first, these hires were expected to fill holes in the engagement teams, providing an expanding range of consulting services. Later, some firms acquired entire consulting organizations to fill a gap in the range of services they offered. Not only

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did these experienced hires lack background that would enable them to appreciate the importance of professionalism and ethical behavior in the practice of accounting, they also brought experience in the competitive commercial pursuits that were the hallmark of successful consulting organizations. Many had entrepreneurial bents and resented the constraints of an outdated business model. Their success led them to challenge what they saw as arbitrary limitations imposed on them by stodgy accountants.

We must remember that these changes occurred relatively slowly over a period of about 30 years, with no dramatic events or turning points that one can point to and say, "This was the start of the downfall." Each new step seemed logical—an adaptation to changing times. Throughout this period, many people expressed concerns about the expanding types of services that public accounting firms offered. Most of those concerns centered on possible impairment of the independence that firms had been expected to demonstrate in their work, leading to reports on the fairness of presentation of the financial statements of their clients. Fairly consistently throughout this period, accounting firm leaders rebuffed efforts to constrain the types of services they rendered through their consulting units. In fact, the emphasis was on continued expansion in the range of services offered, with the consequent relative de-emphasis on audit objectives and procedures. Times were good, the environment was growth- and profit-oriented, and firm leaders did not acknowledge that any problems existed, generally overlooking how these new services could affect auditor independence. Values that had served the profession so well were supplanted by new values that were serving the firms even better.

Concerns, Challenges, and Constraints

As we entered the 1990s, the SEC expressed increasing concern about both the range of services rendered and the increasingly large billings related to consulting services. The SEC challenged several firms, alleging that offering certain services impaired auditor independence, but although the appearance of lack of independence was a problem, the Commission could not demonstrate a direct link between consulting arrangement fees and the granting of an inappropriate opinion on audited financial statements. Throughout this period the accounting firms and the AICPA stonewalled all efforts by the Commission to limit consulting activities to certain types of services. Firm leaders failed to recognize how the widening range of services impaired the appearance of their independence, and also failed to recognize how the emphasis on increasingly conflicting services was changing the internal culture of the firms. Consulting revenues had relegated the traditional accounting and tax revenues to a subsidiary role.

Within Andersen and other firms, the consulting arms exerted increasing pressure for additional profit shares and for ever-increasing growth. Client share prices were rising in the booming stock market, corporate executives were becoming wealthy (on paper at least), and accounting firm partners felt entitled to participate in the boom. Because the partnership form of organization did not permit the use of stock options, accounting firm partners had to grow firm revenues (and profits) in order to participate in the bonanza that their clients were enjoying. In hindsight one can easily see the greed factor at work. At the time, however, the changing focus on revenue and profit growth was viewed as merely adapting to the changing times. The focus of professionalism diminished, and the focus on revenue growth and increased profitability sharpened.

Just as greed appears to have been the driving force at many companies that have failed or had significant restructurings, greed became a force in the accounting firms. In essence, over the 40 years leading up to the end of the 20th century, the cultures of the firms had gradually changed from a central emphasis on delivering professional services in a professional manner to an emphasis on growing revenues and profitability. The historical focus was on quality service to clients in order to provide assurance to investors and creditors on the fairness of clients' financial statements. The credibility that a clean audit opinion added to a client's financial statements was the central reason for a CPA firm's existence. This shifted to a focus on an ever-expanding range of services offered to a client pool fighting to meet short-term earnings expectations.

Investment bankers regularly pressured firms to accept accounting practices that, in retrospect, were clearly outside the intent, if not the actual provisions, of the existing standards. Security analysts were pressuring clients to show growth, and often these clients leaned on their auditors to accelerate revenue recognition and delay expense recognition. Probably none of these groups thought at the time that it was being greedy. But the fundamental responsibility of the accounting firms should have been clear: Their role was to protect investors and creditors from being misled by financial statements that embraced unacceptable accounting and inadequate disclosures. Thus, while many participated in the shoddy financial reporting of the era, accounting firm leaders led their firms to the top of the list of entities that failed to meet investors' justifiable expectations. In essence, the culture of the leading firms had subtly changed even more. No one in an accounting firm rang a bell and announced, "Quality professionalism is out!" On the other hand, pleasing the client and doing what was necessary to retain the client achieved a prominence unseen prior to the rise of the successful consulting arms within the firms. The core values of the professional firm were undermined by primarily commercial interests.

The issue was not how the delivery of a particular consulting service might affect the auditors' judgment; nor was the issue how consulting fees that exceeded audit fees might affect auditors' judgment. The issue was how the increasing infusion of personnel neither conversant with nor appreciative of the vital importance of delivering quality accounting and audit service affected the internal firm culture, its top-level decisions, and impressionable staff personnel.

Auditors became more willing to assume additional risk in order to maintain their revenue levels. Many long-standing audit procedures that put audit personnel in touch with recurring transactions were scaled back. Clients were more easily able to persuade engagement partners that their way of viewing a transaction was not only acceptable but also desirable. Audit partners too often acquiesced to the client views in the current period, agreeing to fix the problem next quarter or next year. Concurrence replaced healthy skepticism. The audit framework was undermined, and the result has been massive bankruptcies, corporate restructurings, and ongoing litigation. The gradual

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changes in internal firm culture effectively altered the long-standing value systems of firm leaders, and the results have been costly and problematic to reverse.

These cultural changes evolved over time and have become pervasive. Firm leaders need to understand how this culture evolved and how to eliminate the damaging commercial initiatives, and restore a proper, and expected, degree of professionalism.

The growth in consulting services and its impact on consulting personnel, and their combined affect on the internal culture of accounting firms, was a profession-wide phenomenon. One result was the demise of Andersen. The survival of the other large firms is possibly somewhat happenstance, as well as somewhat related to the particular nature of the development of the Andersen consulting practice.

Andersen was no doubt the most vulnerable of the firms. Its consulting practice evolved earlier and prospered more rapidly. This evolution included internal battles over profit share and how best to grow the business. Compromise efforts were largely unsuccessful, partly because the consulting leadership was so aggressive, and partly because the auditing and tax leadership was not aggressive enough in demanding retention of long-standing core values.

Several remaining firms have divested themselves of their consulting practices, thereby removing some pressures that created internal cultural changes. Even so, these divestitures have not been without their problems and have been implemented under duress, not because firm leaders acknowledged that the divestitures were necessary to survival. Even today, these firms continue to expand the range of services offered within their auditing and tax divisions, compensating in part for services that have had to be discontinued under recent legislation.

Restoring Professionalism

The 30-year evolutionary change in the culture of the major firms culminated in the demise of Andersen, various levels of litigation involving the remaining firms, and the passage in 2002 of the Sarbanes-Oxley Act. While that legislation will help establish the boundaries on the scope of nonauditing services and appropriate qualifications for audit committee members, the underlying causes of the decline in accounting professionalism remain. Accounting firms' leaders must pay attention to their internal culture if reputations are to be restored. No piece of legislation will reverse the behavioral changes that have evolved within the firms over the past 30 years.

Firms must consider a number of initiatives. The tone at the top needs to change. As a starting point, leadership of the major firms might require that their managing partners meet the standards established by Sarbanes-Oxley for the individual on SEC-registrant audit committees that is designated as a qualified financial expert. Too often of late, managing partners have been chief cheerleaders promoting revenue growth, or individuals with more administrative expertise than accounting and auditing expertise. Policies established at the top of the firms must be approved by and articulated by individuals who have the professional respect of the managers and staff. Restoring the primacy of professional behavior in the conduct of services rendered will not be easy and may not happen at all if the chief messenger was heretofore known throughout the firm as one of its strongest advocates of revenue growth even when that growth may be at the expense of the firm's professional reputation.

Firms' leaders must also consider whether the four largest firms are really effectively unmanageable. In smaller accounting firms (or when the current four large firms were smaller), a key partner can monitor partner performance and assess the individual partners' strengths and weaknesses. As the large firms have grown to their current size, the challenge of having such effective monitoring has become massive. Maybe splitting up a big firm would enhance the firm's quality control and permit more effective delivery of quality service. Such a thought will seem draconian to some, but consider the end result if one of the current four large firms meets the same fate as Andersen. Firm breakups might then be at the mercy of legislative or regulatory intervention—an even more draconian thought. The bottom-line question is whether the large firms are able to manage their practices effectively to ensure top-quality service to their clients and the public.

■ **Professor Arthur R. Wyatt speaks at the American Accounting Association's Annual Meeting in Honolulu, August 4, 2003.**

The firms need to place greater internal emphasis on quality control in audit performance and devote more effort to ensuring that clients have met the intent of the applicable accounting standards, and devote less effort to helping clients structure transactions to avoid the intent (and sometimes the letter) of the standards. In working with FASB, the focus of the firms should be on applying pressure for the development of standards that are con-

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ceptually sound and that avoid compromises that keep one segment of society happy at the expense of sound financial reporting. Too often the accounting firms have acted at the direction of their clients in lobbying FASB on specific technical issues and have not met the standards of professionalism that the public can rightfully expect from the leading accounting firms. Too many FASB standards contain conceptual impurities that encourage "gaming the system," and too many firms actively participate in that game. Lobbying FASB on behalf of particular client interests is unprofessional on its face and casts as much of a cloud on a firm's independence as does providing a range of consulting services to audit clients.

Leaders of Big Four firms have suggested that the real cause of recent financial statement shortcomings is the failure of existing accounting standards to reflect the underlying economics of reporting companies. These statements seem to be self-serving attempts to deflect criticism away from accounting firm performance and toward the adequacy of current GAAP. I suspect that several firms have missed numerous opportunities to encourage FASB in adopting standards that better reflect economic reality, and that in fact those firms have often taken strongly contrary positions, at least in part at the urging of their clients.

Going forward, FASB needs to do better at educating federal legislators on their proposed standards and why the lobbying efforts of constituents are often far more self-serving than desirable where financial reporting is concerned. The board must attack its existing standards that are conceptually unsound and that embody arbitrary boundaries in attempts to prevent the standard from being misapplied. We should realize that standards that contain arbitrary rules in attempts to deter aberrant behavior actually encourage it. Firm leaders should recognize that their audit personnel are better off in dealing with aggressive client behavior when standards are soundly based and consistent with FASB's conceptual framework. The big firms need to decide that FASB is their ally, not their opponent, and become more statesmanlike in pursuing sound accounting standards. This will require leaders who understand the nuances of technical accounting requirements and who can grasp that acceptable levels of profitability will flow from delivering quality service.

Firms should reexamine their policies on hiring nonaccounting majors and experienced personnel. The restrictions imposed by Sarbanes-Oxley on the range of consulting services that auditing firms can provide will reduce the need for employment of such individuals. Even so, firms need to evaluate the costs of educating these people about the significance of accounting professionalism and the importance of ethical behavior. Firm-wide training on ethics should focus on the underlying concepts and the overall philosophy and expectations rather than on the commonly emphasized "thou shalt nots." Firms should have clear avenues for managers and staff to bring to the attention of top management shortcomings in professional behavior or inappropriate condescension to client demands. Personnel should appreciate the importance of professional behavior throughout the organization and understand their role in achieving the appropriate level of professional behavior.

Finally, firms should reconsider their compensation philosophies. While selling new work has always been an important objective, rewards for those efforts should not be out of balance with rewards to those whose technical and professional performance is particularly effective. Firm revenues will grow when potential clients recognize that the fundamental basis for evaluating their audit firm lies in the quality of service it provides and the care with which auditors guide the client's decisions in the direction of superior financial reporting. Auditors need to get clients to understand that auditors really earn their fees in situations in which the auditor acts strongly to prevent a client from providing less than high-quality financial statements and disclosures.

As for educators, how can we improve the quality of the product we make available to the accounting profession? We must continue to emphasize accounting's conceptual underpinnings. We need students to understand why FASB falls short of developing sound conceptual standards. We need to emphasize the role in our society that financial reporting plays and the role of corporate accounting officials and their auditors in that process. We need for students to realize the interpersonal challenges they may face in dealing with clients and even with conflicting internal firm policies. We need to ensure that our students' overall educational program gives them the tools they will need to become effective practicing professionals.

We need to give some serious attention to how to inculcate in our students an appreciation for continuously striving for accounting professionalism. We need to fit into our courses greater appreciation for ethical dilemmas. In my experience, undergraduate students are probably at their peak of idealism when we deal with them. They need to consider cases that deal with ethical issues, not being given "the answer" and not being preached to about proper conduct. Rather they need to debate the issues, and each student needs to be challenged to decide how he would deal with the issue. Occasionally these discussions can end with the professor providing an explanation of what the professional expectation would be in resolving the issue. We then need to challenge the student to consider whether his value system is really in sync with what will be expected of him as he embarks on his career. This focus on ethical behavior needs to be incorporated throughout the accounting curriculum and not left to be dealt with as an appendage to an auditing course.

"Accounting Professionalism: They Just Don't Get It!" focuses on a reconsideration of what is necessary to restore the accounting profession to the level of credibility that it once enjoyed. The leaders of the powerhouse large accounting firms must seriously assess the current state of affairs. The survival of the accounting profession as an important facet of our society cannot rely on the effectiveness of the Sarbanes-Oxley legislation. The leaders of the profession need to understand why they have failed to serve the public well in recent years. These leaders need to embrace policies now that will enable their professional staffs to once again meet the public's expectations. ❑

Arthur R. Wyatt, PhD, *served Arthur Andersen & Co. as managing director, accounting principles, and as chair of the firm's United States committee on professional standards. He was also a member of the FASB and served as chair of the AICPA's Accounting Standards Executive Committee (AcSEC) from 1977 to 1979, vice president of the AICPA, and vice president and president of the American Accounting Association (1991–1992). He is currently a retired professor of the University of Illinois.*

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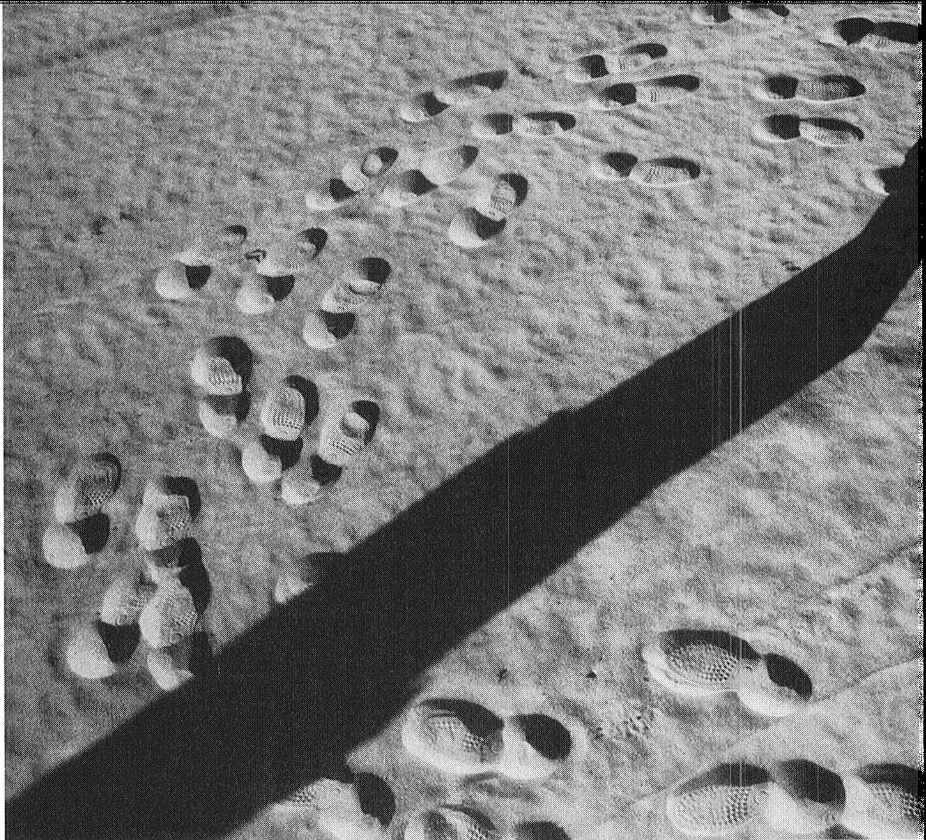
How Can Professional Values Be Saved?

By James C. Gaa

This article is adapted from Professor Gaa's remarks, also delivered at the American Accounting Association's Annual Meeting in Honolulu, August 4, 2003.



Professor Wyatt's long career in public accounting enables him to analyze important changes that have taken place in the profession and to offer some suggestions about how the current problems might be addressed. His rich account is valuable because his 40 years of firsthand experience allow him to trace the current problems to a slow, gradual shift in values, and this can be best appreciated through the experience of someone who was there.

Professor Wyatt traces the current problems of the profession back to the 1960s, when information system consulting became a highly lucrative activity at Arthur Andersen. More fundamentally, he says that the problem consisted of a fundamental shift in values that were brought into the firm when it began hiring employees who did not share the norms of professionalism that were part of the firm's traditional culture and that had permeated the firm previously, when everyone had been trained as accountants.

That is, the fundamental and traditional values of Andersen were corrupted by this change, a change that took place almost unnoticed, slowly, over many years.

In my comments, I want to briefly place the issue of conflicting values into its historical context and into a theoretical structure that might help us to understand the current situation and to assess the prospects for progressive change.

Normative Principles and Workplace Morality

Rather than look at the issue in terms of professional values and professional ethics per se, I am going to focus on the idea that an accounting firm is a workplace, and that workplaces operate according to sets of normative principles that guide people's behavior. Also, I want to examine what kind of norms ought to constitute the guiding principles for accounting firms.

In her book *Systems of Survival*, the urban theorist Jane Jacobs developed a theory of workplace morality that shows the fundamental nature of the problem Professor Wyatt identifies, and thus helps to illuminate the situation of public accounting at the beginning of the 21st century.

Jacobs identifies two separate and distinct systems of ethical norms that govern organizational activity. These two systems are called moral syndromes because they are clusters of principles, or moral precepts, which together characterize accepted standards of appropriate behavior. That is, these syndromes capture the norms that we expect people to follow in the performance of their duties in the workplace.

First is the "Guardian" syndrome. It relates to territorial concerns, and involves the notions of protecting, exploiting, administering, and controlling. According to Jacobs, occupations for which the Guardian syndrome is appropriate include government ministries and agencies, the military, and economic monopolies. Guardian norms include a prohibition on trading, the use of power rather than voluntary arrangements, and the dispensing of largesse instead of making productive investments. Auditing is an occupation for which Guardian morality is appropriate.

Second is the "Commercial" moral syndrome, which is concerned with the production of, and trade in, goods and services. According to Commercial norms, people engaged in business are expected to compete with each other, bargain honestly, and then honor the contracts they make. They should seek productive investment opportunities, be creative and willing to take risks, and conduct their activities efficiently. The management consulting activities of accounting firms are legitimately governed by Commercial norms, although it should be noted that the greed that came to pervade Andersen is outside the bounds of Commercial morality. (In general, opportunistic behavior is outside of the Commercial moral syndrome.)

Moral Syndromes in the Accounting Profession

In many parts of the Anglo-Saxon world, public accounting has adopted features of both the Commercial and the Guardian moral syndromes from its beginnings in the first half of the 19th century. Originally, public accounting was primarily Commercial in that practitioners offered a wide range of financial services

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for clients, of which auditing was only a small part.

At about the same time that associations of professional accountants were established in the United Kingdom, the passage of the Companies Acts of 1844 and 1845 required balance sheets of corporations to be audited by an external auditor. This was done to protect investors against potential management fraud occasioned by the separation of ownership and management. The legislated purpose of the SEC—that is, to ensure fair and efficient securities markets and to protect investors—is a clear expression of Guardian morality.

Both the Guardian and Commercial moral syndromes were present at the birth of the profession, and since that time have shared the allegiance of public accountants in varying degrees. For a time, including the early part of the period recalled by Professor Wyatt, the values inherent in the Guardian moral syndrome were dominant, in both the promotion of investor protection and in the profession's opposition to the Commercial syndrome, through such anticompetitive practices as bans on advertising, on competitive bidding, and on the hiring of employees from other firms.

However, as Professor Wyatt describes it, in the last 40 years or so we have seen a significant shift so that the Commercial moral syndrome has captured not only management consulting—where it started—but also the auditing function of public accounting.

It is important to emphasize that the two moral syndromes are each legitimate clusters of moral precepts. Neither is "right" or "wrong" per se. But they are incompatible, and for a given occupation or workplace one moral syndrome is more appropriate than the other. So, although they are not strictly in competition with each other, they cannot coexist easily within a single workplace. While occupations and workplaces may tolerably contain features of the other moral syndrome to a minor degree, neither syndrome is legitimate in the domain of the other.

Thus, Guardian occupations should be conducted in accordance with the Guardian moral syndrome, and should not follow Commercial moral precepts to any major degree. In short, Commercial morality is inappropriate as the precepts governing the auditing profession.

So, what about Professor Wyatt's characterization of the opinion of Andersen's consultants—that the accountants' business model was stodgy and unnecessarily confining? The debate appears to have been about which moral syndrome would dominate the workplace. Because an accounting firm is a single workplace, it might have seemed natural, especially as events unfolded slowly over a long period, to believe that the Commercial moral syndrome was appropriate for all firm activities, including auditing. In any case, the Commercial moral precepts won the battle.

Because the external audit is essentially a Guardian activity, importing incompatible Commercial values into the audit side of the firm was a major mistake. The management consultants at Arthur Andersen were correct that the accountants' values were stodgy and not appropriate for their part of the workplace. The accountants were also correct, however, in their belief that their traditional Guardian values were appropriate for the auditing domain within the workplace. Thus, accounting firms in general, not just Andersen, were seduced by the idea that one set of values should be followed by the whole firm—that is, in every part of the workplace.

It's not clear to me from Professor Wyatt's account, or in other sources I've read, whether or how long Andersen attempted to keep the two moral domains of auditing and consulting separate, each with its own set of moral precepts. (What does seem clear is that the problem of sharing profits between the two areas would have made such an arrangement difficult to sustain for a long period.)

In any case, throughout the accounting profession the Commercial moral syndrome became predominant. At the same time, the audit function was unable to escape the demands of Guardian morality, even though accounting firms tried to make auditing conform to Commercial norms. The SEC has seen to that. The result is the mixing of moral syndromes, resulting in what Jacobs calls "monstrous moral hybrids," which she defines as "organizations that, instead of sticking to their own syndrome, take whatever they choose from either." In the case of auditing, words were consistent with Guardian morality, while actions bespoke Commercial morality. (It would be interesting and important to determine the degree to which other accounting firms have become monstrous moral hybrids, too.)

The Commercial moral syndrome has captured not only management consulting but also the auditing function of public accounting.

This theory of the morality of the workplace implies that the current problems of the public accounting profes-

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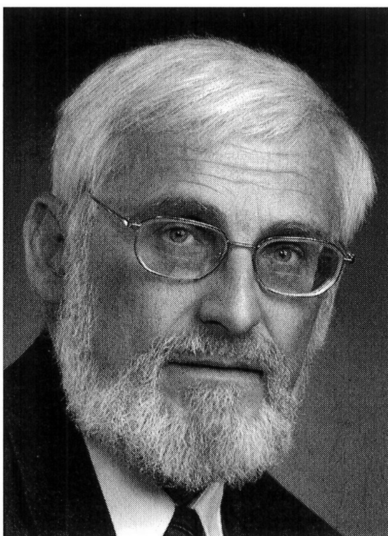
sion are an inevitable consequence of mixing the Guardian and Commercial moral syndromes, and in particular of allowing Commercial morality to dominate the workplace. Regardless of the attitudes and intentions of individual members of the profession, public accounting cannot successfully pursue the Commercial and Guardian orientations simultaneously. Public accountants' responsibility for causing the current mess is in part the result of thinking they can have it both ways, that is, of trying to import the Commercial moral syndrome into the domain of auditing.



■ Professor James C. Gaa

Diagnosis and Prognosis

As for how this situation might be fixed, I agree with Professor Wyatt's diagnosis of the profession's problems. That is, I also believe that the root problem is a major shift in values, from a focus on what he terms professionalism and ethical values to a focus on commercial values, and what I have characterized as a shift from the Guardian to the Commercial moral syndrome. We thus agree that the profession needs to shift back toward the values that characterized it in an earlier time, with auditing conducted in accordance with Guardian morality.

So, the question arises of what the accounting profession can do to reestablish its proper mission, and how much it needs to change so as to move back to the professional values that have been lost—back to auditing in accordance with Guardian morality, as society seems to demand.

The answer is, I believe, that it cannot do *much*. We might wish that the profession would move in that direction voluntarily. The trouble is that it has already adopted Commercial norms in the practice of auditing. When practiced Commercially, public accounting provides a much greater opportunity to earn high incomes than if it is practiced in accordance with Guardian moral precepts. Although individuals might be willing to move back to a Guardian orientation, I find it difficult to believe that the profession as a whole would—or could—do so voluntarily. The economic incentives driving Commercial behavior are just too strong to give up easily—or without a fight.

Rather than asking a large group of people voluntarily to give up great economic benefits, it makes more sense to move them away from treating auditing as a Commercial activity by removing or reducing the economic incentives that drove Guardian morality out of auditing in the first place.

This can be accomplished by a change in the institutional structure of the public accounting profession. This is exactly what the Sarbanes-Oxley Act is intended to do. Note that the act's real title read, in part, as follows: "An Act to protect investors by improving the accuracy and reliability of corporate disclosure."

There are two ways in which the act encourages a move back to the values and principles of Guardian morality. The first is fairly obvious: The restrictions in section 201 on the provision of any nonaudit services to audit clients that the Public company Accounting Oversight Board (PCAOB) determines to be impermissible, drastically reduce the potential rewards of following Commercial norms.

We can thus expect a move away from the dominance of Commercial norms, which will help provide the conditions for the reemergence of Guardian behavior on the part of auditors. Whether Sarbanes-Oxley goes far enough in this direction it is too early to tell.

The second way in which Sarbanes-Oxley encourages movement back toward the traditional professional values of Guardian morality is perhaps less obvious. The establishment of the PCAOB brings with it a separation of Guardian and Commercial considerations at the institutional level. The act gives the PCAOB the authority to set the following (for the audits of public companies):

- Auditing standards
- Quality control standards
- Ethics standards, and
- Independence standards.

Furthermore, the PCAOB shall conduct inspections of registered firms, conduct investigations, and discipline firms.

The effect of assigning these powers to the PCAOB is to separate further the Guardian and Commercial domains. That is, at the institutional level, Guardian activities are to be performed by the Board, and not by the professional body (i.e., the AICPA). Essentially, Sarbanes-Oxley assigns the traditional hallmark of a profession—the right to autonomy over its own work—to an agency that should not be concerned with Commercial considerations.

In so doing, Sarbanes-Oxley leaves the AICPA free to act as a trade association, advancing the commercial interests of its members unencumbered by the conflicting demands of the Guardian moral syndrome. Ironically, by deprofessionalizing public accounting Sarbanes-Oxley helps provide the conditions for a return to more traditional professional values. Thus the auditing profession might once again act with, to use Professor Wyatt's words, "trust, honesty, and decency." ❑

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