

# The Past as Prologue: Connecting History to Accounting Ethics

BY LAWRENCE METZGER, PH.D., CMA, CFM, CPA

**CODES OF ETHICS CAN SOMETIMES HELP ACCOUNTING PROFESSIONALS DECIDE WHAT SHOULD BE DONE IN SPECIFIC ETHICAL SITUATIONS, BUT A MORE PERPLEXING QUESTION FACING THE DECISION MAKER MAY BE "WHAT WILL I DO?" THE STUDY OF HISTORY IN GENERAL AND HEROIC ACTION IN PARTICULAR MAY HELP ACCOUNTING PROFESSIONALS MAKE THE RIGHT CHOICES.**

**C**onsider the following ethical dilemmas. You are the CFO of a large corporation. You discover that the director of purchasing, a long-time personal friend and colleague, has been receiving kickbacks from various suppliers in return for the company's business. When you confront your friend, she admits to receiving the kickbacks but says in her defense that the amounts she received were relatively small and in no way affected which vendors were used for material purchases. She claims she never purchased inferior material and that she needed the extra money to pay for the medical care of one of her children, which was not covered by the company's medical insurance. She promises never to do it again. Company policy very specifically states that this type of behavior will result in immediate termination. In your position as CFO, you have the choice of either reporting the incident or doing your friend a favor and letting it go.

Next, it comes to your attention that the manager of one of the firm's divisions has undertaken several risky

financial investments that violated company investment policy and were not approved by senior management. Because of a severe financial crisis, the investments lost a significant amount of money. When confronted, the manager explains that he did it because the division was not meeting its profit targets and was in danger of being closed down, which would cost hundreds of people their jobs. He asks for a little more time in hopes that the market will improve and the investments will pay off. As before, you have the authority to take whatever actions you feel are appropriate in the situation.

Both situations center on whether you should disclose the incidents, which in all probability will result in the employees being fired. Your first question would no doubt be "What should I do?" The *IMA Statement of Ethical Professional Practice* lends some help with this question. According to its standards of competence, integrity, and credibility, you would be responsible to report the situation regardless of the consequences for the two employees. But would it really be that simple? In the first case, you are aware of extenuating circum-

stances that apply to a close friend and colleague. In the second case, you can't find fault in the premise of a manager trying to save the jobs of employees in his division—along with his own, of course. Consequently, a second question arises that is not addressed so easily by the *IMA Statement of Ethical Professional Practice*. Beyond asking what should you do, the next and probably harder question becomes: What *will* you do? This article investigates how accounting professionals might use the study of history, in particular the actions of heroic figures, to decide what to do in ethically challenging situations.

### ACCOUNTING AND HISTORY

A famous statement often attributed to George Santayana holds that those who do not study the past are doomed to repeat it. The inverse of this line suggests that by studying history we can avoid repeating past mistakes. Connecting with the past allows us to study bad history, when things go terribly wrong, and good history, such as the deeds of heroes, as models for our own behavior. We also can study our personal history to assess when we have chosen well and when we have chosen poorly. Studying history at both the global and personal level is like following a path. The path is intellectual. We can follow the thoughts and actions of those who have come before us, and awareness of these may allow us to move beyond what we already know.

The word "history" comes from the Greek word *historia*, which means inquiry. Studying history allows us to open a gateway to knowledge of a deep and rich past. Knowledge of history can bring us from thought to action—from ideas and theories to bricks and mortar, so to speak. In their book *The Lessons of History*, Will and Ariel Durant connect history to other areas of human endeavor.<sup>1</sup> According to them, history is an industry in that it allows us to mine for ideas; it is art in that it can help us establish meaningful order in the chaos of experience; and it is also philosophy in that it is a means of seeking wider perspectives and enlightenment. For the Durants, history could be thought of as a spacious country of the mind where a thousand inventors, poets, artists, musicians, saints, and just plain ordinary people still live, teach, speak, and create. Studying history allows us to have a conversation across the ages. Stories

are told and passed down, layers are added to the stories, and the characters and heroes can take on mythical proportions.

### HISTORY AND CHOICES

The study of history tells us that we are free to make choices but that every choice entails responsibilities and consequences. History is rich with examples of individuals whose thoughts and actions paved the way for responsible decision making. We can begin by drawing on philosophers to help us recognize the ramifications of our decisions.

Socrates urged men to seek knowledge by asking questions. The well-known Socratic method can be personalized. We can ask probing questions of ourselves that can lead us to the right decision. Socrates's student, Plato, believed in the pursuit of truth for its own sake. If we believe that ethical decision making is based in truth, then studying Plato can help us make good choices. Furthermore, Aristotle believed that a person's potential allowed for and even demanded growth through action, the concept at the heart of his work on virtue ethics. Aristotle believed that virtues are attitudes, dispositions, or character traits that enable us to act in ways that develop our potential. In his view, virtues are developed through learning and practice. It is our duty to keep a certain virtue in mind throughout our activities. The word "ethics" comes from the Greek word *ethos*, meaning habit. Aristotle suggested that a person can improve his or her *ethos* by practicing self-discipline. The moral life is therefore a matter of trying to determine what kind of people we should be and then attending to the development of virtuous character within our communities and selves. The relevance of his work on virtue ethics can be seen in the various accounting codes of ethics, where personal virtues such as integrity, honesty, diligence, and morality are integrated into standards of practice. All three of these philosophers believed that there is latent wisdom in everyone that can be revealed by the powers of the courageous mind and ultimately can help answer the question, "What *will* you do?"

In his book *The Seekers*, author Daniel Boorstin summarizes the views of many other prominent historical figures.<sup>2</sup> Philosopher and mathematician René

Descartes believed it was his divine duty to benefit the human race. His writing showed the power of a seeking spirit, as he asked: “Where shall destiny lead me? Where shall I come to rest?” He thought it best to try to conquer our own selves rather than seek fortune—to alter our desires rather than change the order of the world. His famous phrase “Cogito ergo sum,” I think therefore I am, shifts the responsibility for discovering what is true and right to the first person. In other words, we are first responsible for determining what is right, and then we are responsible for carrying out the right action. We must recognize the fact that we often do not see things as they are; rather, we see them *as we are*. We must therefore view things with reference to a wider perspective so that we can explain to all comers why we made the choice we did. Descartes has us ask, “Would I want everyone else, if placed in my position, to do the same thing I did?”

Of course there are many other great thinkers from philosophy on which we can draw. By studying them, accountants can engage in discussions across time and use these mental conversations to help think through what the proper action may be and find the courage to act appropriately.

### **HISTORY AND ECONOMICS**

Accounting and economics are closely related fields of study. Neither operates according to impersonal and inevitable laws, like physics (for the most part); rather, they often operate in the more subjective areas of ethics and morality. In his book *The Worldly Philosophers: The Lives and Ideas of the Great Economic Thinkers*, Robert Heilbroner states that economics is “the science that sent men to the barricades.”<sup>3</sup> Famous economists such as Adam Smith, Karl Marx, David Ricardo, and John Maynard Keynes, to name a few, made extraordinary contributions to knowledge in general and society in particular. Their ideas shattered empires, conquered continents, and ultimately shaped modern history. They had a common curiosity. They took the whole world as their subjects. All were fascinated by the world around them—by its complexity, disorder, and cruelty. They saw how unrelated threads could be woven into a single tapestry.

In tracing economic history, especially as it relates to

market economics, Heilbroner points out an interesting paradox: Society’s existence often “hangs by a hair,” and it is only because humans are socially cooperative creatures that we have survived.<sup>4</sup> This view is based on what is probably the most famous book on economics in history, Adam Smith’s *The Wealth of Nations*. Smith said, “It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their self interests. We address ourselves not to their humanity, but to their self love. Never talk to them of our necessities, but of their advantages. The system works not because man desires it, but because self-interest and competition line up in a proper way.”

History shows us that competition is the life of trade (and business) and also the trade of life. As Karl Marx said, “History is economics in action.” We often are judged by our ability to produce. Unfortunately, history also shows us that actions often are driven by greed. From the robber barons of the late 19th and early 20th Centuries to the current global financial crisis, a drive for overt accumulation has been embedded in our culture and even our psychological makeup. At one time this vice may have been a virtue, at least with respect to survival. Now it may be considered a remnant of what we once were. The French philosopher Jean Rousseau said that humanity is naturally good, but society finds profit in the misfortunes of others. Accountants will at times face the conflict of needing to find a balance between doing what is appropriate for their company and what is appropriate for society. These choices may be difficult. By seeking knowledge and advice from those who came before us, the choices may become easier to make.

### **HISTORY AND CONNECTIONS**

Now consider the book *What If? 2: Eminent Historians Imagine What Might Have Been*, edited by Robert Cowley.<sup>5</sup> In it, various historians and other scholars examine famous events and try to predict what might have happened if they had gone differently. This is an exercise that helps us recognize the impact that choices or random events made hundreds or thousands of years ago still have on us today. For instance, reflect on the following examples and think of the consequences that apparently slight changes in history would have had.

Consider the impact on the world if Pontius Pilate had not condemned Jesus to death. What if he set him free despite the cries of the crowd? He was the Roman Governor and could have easily done so and even guaranteed Jesus's protection. Jesus may have gone on preaching and lived to a ripe old age. But the crucifixion of Jesus is a pillar of the Christian religion, and how would the Western world have evolved without that singular act?

Next, what if the emperor of the Second French Empire, Louis Napoleon III, had not taken a letter from the King of Prussia as a personal insult? The Franco-Prussian War of 1870, which France lost badly, would not have occurred. This war caused France to lose valuable territory, which it sought to reclaim in World War I. The so-called "Great War" might well have been averted completely. That would have meant no Treaty of Versailles, which placed harsh penalties on Germany. These conditions in part led to the rise of fascism. Without them, there may have been no Nazism and no rise of Adolf Hitler. Potentially, then, there would have been no World War II and its estimated 50 million dead. Imagine the possibilities for society if these three conflicts had never taken place.

In more current times, consider what would have happened had President Kennedy followed the advice of his military commanders to bomb or invade Cuba rather than blockading it during the Cuban missile crisis? What if President Johnson had not fought so hard for the passage of civil rights legislation or had decided against an escalation of the Vietnam War? What if President Nixon had never had his Watergate scandal? All of these decisions had a profound effect on America in the later part of the 20th Century. Imagine the world today if different choices had been made.

What does all this talk of history and its interconnections have to do with ethical thinking? It is very important to remember that whatever decision we make can have a great effect on situations and other people. We must connect what we are doing to everyone around us. This applies not just to the present but to the future as well. Accounting professionals must think creatively enough to visualize both present and future consequences of virtually any decision. These consequences are not easily determined from a code of ethics alone.

## HISTORY AND HEROES

History is also the context for heroic action. In valuing heroes, we value what is best in ourselves. Heroes are agents of change. They love a good adventure and follow an authentic path. Ralph Waldo Emerson wrote that "self-trust" is the essence of heroism, and when the "spirit is not the master of the world, then it is its dupe." Heroes, Emerson thought, "seem to throw contempt on our entire polity and social state" since "theirs is the tone of a youthful giant, who is sent to work revolutions."<sup>6</sup> But even if Emerson didn't agree, the heroic can also be common. For example, simply doing what you are afraid to do is a form of heroism. Most importantly, heroism can be learned: It resides in us all.

Heroes come in all shapes and sizes, and we can learn from all of them. The following list, derived from *The Mammoth Book of Heroes*, compiled by Jon Lewis, is just a tiny sample.<sup>7</sup>

In 480 BCE, one of the most famous battles of all time was fought at Thermopylae, where 300 Spartans held out against the entire Persian army for days before finally being annihilated. This defeat gave the rest of Greece time to continue preparations. Soon after, they defeated the invading army. One of the Spartans, named Dienikes, when told that the enemy arrows would be so numerous that they would turn daylight into night, reportedly said: "So much the better, we shall fight in the shade."

Shift forward 2,500 years or so to December 1, 1955, in Montgomery, Ala. Rosa Parks was told by the driver of the bus she had just boarded after a long day at work that she must give up her seat to a white man. She refused and was arrested. Her arrest led to a boycott of the entire bus system and was a prelude to the civil rights movement. All because Rosa Parks refused to give up her seat.

In her book *African American Women: 150 Crusaders, Creators and Uplifters*, Tonya Bolden describes the heroic life of Harriet Ross Tubman.<sup>8</sup> Tubman is considered one of the most courageous women to ever call the United States home. She was born in 1820 on a plantation in Maryland and escaped slavery in 1849. Her husband refused to join her and even threatened to tell of her plan to run away. Between 1850 and 1860, as one of the most reliable conductors of the Underground Rail-

road, she made a score of rescue journeys south, often in the disguise of a ramshackle lunatic. She led some 300 men, women, children, and babies to freedom—including her parents and several other relatives. She never lost a “passenger” and sometimes resorted to the point of a gun to inspire foot-weary and frightened slaves to keep moving. At one time the price on her head was \$40,000. When the Civil War broke out, she served as a Union spy, scout, and nurse. She led a raid in 1863 that helped free 750 slaves. Called both “Moses” and “General Tubman,” she lived more than 90 years. When she died, she was given a military burial at Fort Hill Cemetery in Auburn, N.Y.

More recently, in July 1996, 20-year-old Lisa Potts, a nursery assistant at St. Luke’s School in England, protected children from a madman who was attacking the children with a machete. Potts received six cuts and a blow to the head but was still able to keep several children from being harmed. Even an average person, put in an extraordinary situation, can do extraordinary and heroic things.

## TWO SPECIAL AMERICANS

Two men who deserve special attention are the American icons, Benjamin Franklin and Abraham Lincoln. In his book *Benjamin Franklin*, Edmund Morgan describes Franklin as a man who made the whole world his laboratory.<sup>9</sup> He was forever asking questions and worked hard to find answers. He thought a lot and was capable of changing his mind, although his beliefs gave direction to everything. All his life he did what he thought he ought to do. Franklin developed his own set of resolutions or virtues, which included temperance, industry, tranquility, silence, sincerity, chastity, order, justice, humility, resolution, moderation, frugality, and cleanliness. He believed that virtues led to contentment and that a life led usefully should benefit others. Over the course of his life, his service to other people in no small measure made them what they became. His mind was active in many different ways, and he devoted time and energy to what was worth doing.

In *Lincoln’s Virtues: An Ethical Biography*, William Lee Miller says that Abraham Lincoln counseled charity and the avoidance of malice.<sup>10</sup> A great thread of humor ran through his life and being. He described himself in his

early years, age 25, as “a strange, penniless friendless uneducated boy working on a flatboat for ten dollars a month.” But he knew that through his own effort he could be more than what was defined by the condition of his birth. He accomplished a remarkable work of independent self-definition.

Of course, a major aspect of Lincoln was his intelligence. He was a bookworm. He eventually developed a broad wealth of knowledge, almost universal in nature. His work of self-education was stunning. It was said he could comprehend the whole situation of any subject or issue and take hold of its first principles. Over his life he retooled himself intellectually. His life was punctuated with intense projects in self-education and research. He studied the books of Euclid, among other great philosophers, and is the only U.S. President to hold a patent. Miller states, “This man was quite an extraordinary thinker, with depth and power, whose clarity of mind and firmness of will and developed powers of expression reinforced each other.” Lincoln’s mind cut deeply and slowly—with effort and concentrated attention. It was purposive. He was intent, self-controlled, strong in intellect, and tenacious in purpose. He developed rare powers of concentration. By reading and thinking, Lincoln joined in a conversation with minds of distinction across the ocean and across the years. He acquired confidence in his own powers of understanding, judgment, and critical thinking.

It has been said that of all the forms of genius, goodness has the longest awkward age. Miller states that Lincoln’s moral sense was, as for all of us, a work in progress. Lincoln believed that a person can make choices for better or for worse. His life was full of choices that made a difference. He shaped himself by his own conscious choices. He shaped his own moral composition. He developed his strength of will—his resolution—into the gem of his character. His defining intention was to make his life in accordance with a moral idea. His strong will held him to the tasks of developing his intellectual abilities. He explicitly developed exacting moral standards for himself. Like Franklin, he wanted to do right in all cases. He had a sense of honor and a strong will. He was as true as steel. He had a kind of poetry in his nature. He disavowed planting thorns, malicious dealings, and holding

grudges. He was a moral learner, and it was a serious lifetime undertaking for him. He felt that the choice of a line of work is not only about preferences and abilities, but also what it is worthwhile to spend one's life doing.

#### **HISTORY AND ACCOUNTING ETHICS**

Having considered a number of historical examples of ethical, even heroic, decision making, let us return to the two ethical situations described at the beginning of the article and see how studying history and heroes might lead to proper choices.

As CFO, you are free to choose what you will do next. The IMA Statement would lead to the decision to report the incidents and let each employee accept the consequences. But in both of these situations, determining what you *should* do is easier than deciding what you *will* do. Your basic choices are to report or not to report each situation. You can choose to do nothing, maintain the status quo, and hope for the best, i.e., that your friend will stop accepting the kickbacks, that the manager's investments and the division's profits will rebound, and, of course, that no one else finds out. The issue is subtle. It is possible that all of this will happen and everything will work out. On the other hand, doing nothing may cause shareholder litigation, lost jobs—including your own—and a loss of credibility for the company as a whole.

Of course, part of your concern is self-protection—as CFO, you should have known about these situations sooner. Lack of awareness about these situations is to some extent a reflection on you. Self-protection is not in itself a bad thing, but when it serves only to protect your own reputation or job, then it can hardly be held up as an ethical action.

In order to decide on your course of action given all of this, you first need to do some research, i.e., begin to study the past to see how it may predict or influence the future. In particular, determine whether the purchasing manager ever bought inferior materials, which might have put the company's products and credibility at risk. In the other case, investigate whether the investments have any chance of rebounding and turning a profit. This will allow you to move beyond what you already know.

As you proceed through your analysis, the choices between what you should do and what you will do may become harder to reconcile. The decision can cause personal conflict. It would be natural to be afraid of the consequences for these two individuals if you report the incidents. To continue, you can paraphrase the words of Descartes and ask, "Where shall this decision lead me and the firm? Where shall I come to rest?" If you follow Socrates, Plato, and Aristotle, you will search within yourself for your latent wisdom and strength in making the choice. As mentioned earlier, this wisdom can only be revealed by the powers of a courageous mind.

You can also conduct a "what if" thought experiment to help you decide. You could have a mental dialogue, asking, "What if I do nothing and the problems escalate? What if my friend takes more bribes and the manager's investment goes bad?" These developments would entail more than a cost or internal control issue—much more in fact. They would involve serious human issues, with the firm suffering a loss of integrity and employees losing their jobs. If you do nothing, you may be creating "negative future history" by setting up the company for serious consequences. The ripple effects of a poor decision could affect many people and go on for years.

On the other hand, by acting within the current window of opportunity, you can at least offer some protection for customers, other employees, and shareholders. You can act as an agent of change for the company. If these actions have occurred, then other similar actions might also be taking place. You can investigate controls and processes to find out how these problems happened and recommend changes to improve operations. You could say to yourself: "Should I take a stand now and defend what I believe is the right thing to do? The future is unknown. Nothing bad may ever happen. I do not know the future and really have no control over it. Life is chaotic that way. But I can control my actions now. I may never meet customers or employees who have been affected by these two managers' decisions, but, by raising this issue now, I can do something that may change the future of the firm for the better. My decision is in reality an encounter with unseen humanity. But it is no accident. I can make a stand and make the choice for them."

These questions diverge along different tracks, but, in the end, they come back to the origin of the problem, which you now perceive with new insight.

You also can refer to the character and actions of your personal heroes. You may view yourself as someone protecting total strangers—employees, shareholders, and future customers—from potentially unethical and unsound decisions. This would require a great deal of self-trust, and you would need a confident spirit. This is not as personally dangerous as being an active member of the underground slave railroad, but it requires courage. Everyday courage, but courage all the same. To derive this bravery, you could draw on Benjamin Franklin's virtue of resolution. The decision should be a reflection of your own character and take you down your authentic path. As with Lincoln, it may require you to come to grips with your own self-definition. And it should be a definition you would be proud to have other people read and know about.

#### MAKING THE BEST DECISION

The accounting professional must have a multifaceted personality and be able to integrate the past and present to affect the future. History and heroes are part of all of us. They can help us determine the proper course of action and, perhaps more importantly, help us follow through on the best decision. We need to look around at others and also inside ourselves to find what is necessary to make our choices. Using accounting terms, we are free to debit or credit the history that humans have made over the last 10,000 years or the history we have personally made in our own lives. ■

*Lawrence M. Metzger, Ph.D., CMA, CFM, CPA, is professor of accounting at Loyola University Chicago and is a member of IMA's Chicago Chapter. You can contact him at (312) 915-7107 or [lmetzge@luc.edu](mailto:lmetzge@luc.edu).*

#### ENDNOTES

- 1 Will Durant and Ariel Durant, *The Lessons of History*, Simon and Schuster, New York, N.Y., 1968.
- 2 Daniel Boorstin, *The Seekers: The Story of Man's Continuing Quest to Understand His World*, Random House, New York, N.Y., 1998.
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- 5 Robert Cowley, *What If? 2: Eminent Historians Imagine What Might Have Been*, Penguin, New York, N.Y., 2005.
- 6 Ralph Waldo Emerson, "Heroism," *Essays*, Houghton Mifflin, New York, N.Y., 1865.
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- 9 Edmund Sears Morgan, *Benjamin Franklin*, Yale University Press, New Haven, Conn., 2003.
- 10 William Lee Miller, *Lincoln's Virtues: An Ethical Biography*, Knopf, New York, N.Y., 2002.

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