Guest Editorial

Research in ethics and economic behavior in accounting

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Issues related to ethics in business transactions have become increasingly important in recent years. To promote ethical behavior organizations have used techniques such as ethics hotlines, code of ethics, appointed ethics officers, and undertaken other ways of encouraging ethical behavior (Morf et al., 1999, especially pp. 265, 269).

Professional norms in tax practice also have significant ethical dimensions. The widely accepted view among accountants is that, while tax evasion is unethical, tax avoidance is expected and is considered a building block of sound tax planning. The problem lies in determining where one ends and the other begins. For example, we have heard comments that suggest that officials of large corporations view their tax return as a first offer, and spend years negotiating with the Internal Revenue Service to reach final settlements on their tax returns.

Despite the increasing interest in ethics among the business community, and the significant cost to shareholders of lapses in ethics, ethics-related academic research in accounting has been limited. In large part, we feel this stems from a research paradigm focusing on descriptive as opposed to prescriptive research, in addition to a belief that ethical issues are not conducive to economic modeling or empirical research. A notable exception is a paper by Eric Noreen (1988, pp. 363–364) in which he argues that ethical behavior can coincide with maximization of economic welfare. He (1988, pp. 363–364) focuses on ethical behavior as a utilitarian concept, and argues that efficient economic exchange is facilitated by voluntary compliance with a set of mutually agreed upon rules of behavior. Compliance is encouraged by cultural expectations that are expressed as a part of religion, behavior norms (conscience), and even biological survival (see Noreen, 1988, pp. 364–369). Codes of ethics also serve as a means of encouraging and describing ethical behavior (Loeb 1971, p. 4; 1984, p. 53).

Steve Loeb provided helpful comments on an earlier version of this editorial.
In 1989, Glen McLaughlin, a graduate of the University of Oklahoma accounting program, provided a grant to the University of Oklahoma to encourage additional research and teaching activities related to accounting ethics. The program grew into an ethics and economic behavior conference held at the University of Oklahoma on April 4 and 5, 1997. The conference was co-sponsored with the Journal of Accounting and Public Policy (see Ayres and Ghosh, 1996 for the call for papers). This issue of the Journal of Accounting and Public Policy contains three papers that were presented at the 1997 conference and a discussant’s comments.

In “Economic Analysis of Accountants’ Ethical Standards: The Case of Audit Opinion Shopping,” Cushing (1999) examines the economic merits of a laissez faire approach as opposed to formal ethical standards for auditors. Using a game-theoretic economic-modeling perspective, Cushing argues that stricter enforcement of standards is not necessarily the most efficient or effective means to achieve desired ethical behavior. Instead, a less strict system might achieve the goals at lower cost. In lieu of strict enforcement of standards, Cushing suggests cultivation of a strong moral climate and implementation of regulatory mechanisms such as auditor rotation, disclosure requirements, and formal procedures for obtaining rulings on accounting procedures. Coate (1999), among other issues, discusses the implications of Cushing’s paper for education and the socialization of accountants.

Williams and Swenson (1999) in “A Model of Corporate Rent-Seeking through Tax Legislation” examines corporate lobbying (rent-seeking) on tax legislation. They discuss the ethical implications of the use of campaign contributions and other political support to influence congressional behavior. They conclude that the potential for “vote-buying” is reduced by (1) having a cooperative setting where tax benefits must be shared among firms, (2) having unorganized industries, (3) avoiding firm- or industry-specific (rifle-shot) tax provisions, (4) considering tax legislation only when legislators are divided on the benefits, and (5) increasing the cost of lobbying (such as through a tax on political action committee contributions).

In “Auditor Independence, Self-Interested Behavior and Ethics: Some Experimental Evidence,” Falk et al. (1999) examine the behavior of individuals making judgements on the reporting decisions of a second party. The experimental setting imposes costs for maintaining prior judgements if the judgement disagreed with the reporting decision (for example, if an independent auditor determines that a client should expense a cost that the client has capitalized). The results indicate that subjects did not consistently behave as self-interested profit-maximizers. The authors found that self-interested behavior was inversely related to a subject’s score on a Defining Issues Test (higher scores imply higher moral development) and positively related to the cost of maintaining the subjects preferred position. Falk et al. (1999) conclude that their results provide support for the notion that increasing an auditor’s sensitivity to the ethical
dimensions of that auditor's choice could lead to decisions that are more ethical.

Taken together, these papers tell us that the structure of incentives can make a difference in encouraging (or discouraging) ethical behavior. To the extent that it is profitable to do so (or costly not to) at least some individuals are willing to behave in a way that is not generally considered ethical (e.g., compromising their beliefs or seeking to obtain unfair advantages or rents for themselves). At the same time, there is a counter-force that encourages individual ethical actions. It appears that inherent ethical behavior may be fostered in an organization (and in policy-making) through the careful structuring of incentives, rewards and penalties. The motivation of organizational members is not simply an exogenous variable around which an organization can be designed, but is endogenous to the system, being in part the result of the organizational design. This has important implications for control systems since organizational designs define the scope of the control system, yet individual behavior responses to organizational designs are antecedents to the behavior from the control system. There is still much to learn about how organization and control systems both affect and are affected by individual behavior and the impact of this on ethical conduct.

Future research is needed to examine the role of that business structure, compensation, rewards, and penalties play in encouraging or discouraging ethical behavior. In addition, in light of globalization of commerce, more insight is needed into the effect of cross-cultural differences in ethical behavior. For example, accepted behavior in one culture may be considered unethical or even criminal in another (Boatright, 1993, p.30). Taxation provides another area with rich research potential. Tax policy makers continue to struggle with selecting appropriate enforcement mechanisms to maximize voluntary compliance.

The papers appearing in this issue of the *Journal of Accounting and Public Policy* address some important issues in the economics of ethics. Yet much work remains. It is our hope that accounting researchers will continue to explore important issues in ethics.

**References**


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