

TEACHING ETHICS IN ACCOUNTING IN POSTMODERN AMERICA

A reflection on teaching ethics to MBA accounting students

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Recent financial scandals have cast doubt on the integrity of the accounting profession's practitioners. A number of speakers at the 2002 annual convention of the American Accounting Association opined that this indicated a need for a greater emphasis on ethics in the curriculum of accounting programs in colleges and universities. It is the author's opinion that teaching ethics might have little impact on the behavior of future accountants, first, because imparting academic knowledge is not the same as inspiring character, and second, because in the postmodern culture of contemporary America, ethics are considered to be mere subjective opinions—perhaps true for you but not necessarily true for me.

My approach to teaching ethics in an introductory MBA accounting class is to attack the assumptions of the postmodern worldview head on, showing how these assumptions contradict the basic assumptions of generally accepted accounting principles (GAAP).

The assumptions of the postmodern worldview are primarily referenced from two sources. The first is Gene Edward Veith's book *Postmodern Times: A Christian Guide to Contemporary Thought and Culture* (Turning Point Christian Worldview) published by Crossway in 1994. The second is *A Primer on Postmodernism* by Stanley J. Grenz (Eerdmans, 1996). I have not used literature from postmodern philosophers (such as Foucault) themselves because my interest is not in their philosophical system itself but in postmodernism's influences in popular American culture. The postmodern assumptions on which I focus on in my teaching are those that seem to be popularly held—not those of the scholars and philosophers who promulgate postmodernism—because my interest is in the impact that the worldview of popular culture has on the accounting profession in the United States.

Some of the widespread assumptions of the postmodern worldview, mostly derived from the writings of Veith and Grenz, are listed below. After listing them, I will briefly discuss them.

1. It is absolutely true that there is no such thing as absolute truth.
2. Ethics and morals are subjective opinions that are true for one individual or one culture but not for another. There are no real virtues.
3. Tolerance is a virtue.
4. Intolerance means saying that one has "the" truth.
5. It is oppressive to impose any viewpoint or morality on another person. One must believe this—or else.
6. There is no metanarrative that can be used to interpret reality.
7. Documents do not communicate objective truth. A written text "has as many meanings as it has readers" (Grenz, p. 6).
8. Language and words have no meaning themselves.
9. The world is chaotic and unpredictable and meaningless.
10. Reason and logic are not important.
11. History is told by the winners and is biased.
12. People interpret reality using artificial constructs that may be useful but which

cannot be true.

1. *It is absolutely true that there is no such thing as absolute truth.* While I deliberately stated this in a humorous form, I think it accurately captures the truth. Many Americans today—probably unknowingly—echo Pontius Pilate’s words to Christ, “What is truth?” The assumption is that everything is opinion, with any one opinion as good as any other. This may account for the blank incomprehension that some liberals have for—even fear of—committed believers of any religion. (See David Limbaugh’s book *Persecution* for a good discussion of this issue).

2. *Ethics and morals are subjective opinions that are true for one individual or one culture but not for another. There are no real virtues.* A commonly stated postmodern view is that ethics and morals are determined by one’s culture or society. Since cultures and societies change over time, the morals they promulgate have no objective basis or eternal significance.

3. *Tolerance is a virtue.* The postmodern meaning of the word tolerance is quite different from what it used to mean. Tolerance used to mean being polite (or at least indifferent) to those with whom one disagreed. To the postmodern, tolerance means refusing to say that another’s view is wrong. There is, however, a strange disconnect between this view and the politically correct speech codes that some postmoderns impose on those with whom they disagree.

4. *Intolerance means saying that one has “the” truth.* If there is no objective truth, then someone who insists that his view is correct is being at best narrow-minded, and at worst, oppressively and dangerously intolerant. Christians who proclaim that the Gospel is true and that Jesus is the only way for salvation are seen as dangerous bigots and are frequently falsely accused of wanting to make America into a theocracy.

5. *It is oppressive to impose any viewpoint or morality on another person. One must believe this—or else.* This thought follows naturally from the first four principles. It has been taken to an extreme, however. Hate speech, which postmoderns are trying to abolish, is really statements that might offend someone (other than Christians). It’s a common axiom to say, “You can’t legislate morality.” True, no law will redeem a sinner or make him repent. But all laws are based on assumptions that something is right or wrong—for example, that it is wrong to murder or steal.

6. *There is no metanarrative that can be used to interpret reality.* A metanarrative is a theory or view that explains the history. One example would be the Marxist concept of history as a class struggle. A second example is St. Augustine’s interpretation of history as the struggle between the City of God and the City of Man. A third would be the Darwinist theory that life evolves purposelessly from random mutations. The postmodern does not believe that history has any direction or meaning; everything is the result of random accidents.

7. *Documents do not communicate objective truth. A written text “has as many meanings as it has readers”* (Grenz, p. 6). The postmodern believes that it is impossible to know the intent of the writer of a document. So each document creates only a subjective impression on its readers, each of whom interprets it in accordance with his own prejudices and experiences. In fact, since one’s experiences continually cause one’s views to change, a text may be interpreted differently each time a single individual reads it.

8. *Language and words have no meaning themselves.* Language is the result of meaningless cultural accidents. The word *sin* in English means a act of wrongdoing, but in Spanish it means “*without*.” Postmoderns see language as a kind of cryptological game with rules that continually change. Words themselves have no fixed meaning, but only a temporary meaning agreed to by those playing the game. A postmodern tends to make a word mean what he wants it to mean, regardless of how it has been understood in the past. This can be illustrated by the verbal word games played by our first postmodern president, Bill Clinton, epitomized by his comment, “It depends on what the meaning of the word ‘is’ is.”

9. *The world is chaotic and unpredictable and meaningless.* If one accepts the premise that humans are the result of chance accidents of evolution, then there does not seem to be any purposeful meaning or significance to our lives. Carried to its logical extreme, many postmoderns believe that humans are just another animal species. No less—and no more—than others. Furthermore, since chance accidents are our reason for existence, there is no reason to expect anything in the future other than more chance accidents. The chaos theory promoted in the novel and movie *Jurassic Park* is an example of this.

10. *Reason and logic are not important.* There are several examples to illustrate this view. One is a frequent refrain to trust one’s heart, not one’s mind. In the *Star Wars* trilogy, for example, Luke Skywalker is urged by Yoda, apparently some kind of shaman priest, to trust his heart. The desire to trust one’s own heart is also seen in Christians who claim that they did something contrary to Biblical standards because they had peace about it. There also seems to be an element of reaction against Western European philosophy, art, history and culture as the fruit of dead white men who were analytical and cold. A local talk radio show in Jackson, Mississippi, features a couple of conservative, right-wing, reactionary—and African-American—Christians. Once, when they were critiquing a statement made by a black city council-member (or more accurately, making fun of it) who is notorious for his anti-white bigotry, one radio host jokingly accused the other of using reason and logic like he was a white man.

11. *History is told by the winners and is biased.* I mentioned already the assumption that no one can really understand the original intent of a document. I also mentioned the assumption that history—in fact our very existence as a species—is the result of random, meaningless accidents. There is also a kind of Darwinist assumption made by postmoderns that only the winners in a struggle survive to tell their side of the story. Thus, history is one-sided. Add to this the assumption that there is no objective truth, and the result is revisionist movies like those of Oliver Stone that concoct fictions purporting to be history, as well as propaganda movies like those of Michael Moore that deliberately distort the facts to conform to the producer’s prejudices.

12. *People interpret reality using artificial constructs that may be useful but which cannot be true.* A popular example of a construct is found in the postmodern movie *The Matrix*, in which people lived in a world that was consistent and seemed real but was actually just a dream. Their imaginary worlds were called constructs. In postmodernism, each person is assumed to have a construct which is his personal perspective or take on life. How I see the world, and attempt to explain, understand, and interpret it based on my genetics, experiences, and prejudices, would be my construct. One’s construct is assumed to be a subjective interpretation which cannot be understood by another

person and has no more external validity than one person's dreams would have for someone else. It's much like the verse from the old song, "Row, row, row your boat; life is but a dream."

These assumptions are rather contradictory, but that is not an issue for many postmoderns because of the belief that the world is chaotic and unpredictable and that reason and logic are not important. I heard a guest on a Christian radio talk show describing a conversation he'd had with a postmodern whom he described as having views that were passionately held—and which made no sense.

When I begin teaching on this subject, I focus primarily on the assumptions of postmodernism but I also compare these assumptions with those of a rationalistic-modernist worldview; a Christian-Biblical worldview; and a new age-pantheistic worldview. After the worldviews are discussed thoroughly, I begin comparing postmodernism to GAAP.

The assumptions underlying GAAP are found in the *Statements of Financial Accounting Concepts* (or SFACs) published by the Financial Accounting Standards Board (FASB). FASB is the private regulatory body that develops accounting standards for businesses and private sector not-for-profit organizations in the United States. FASB issues two kinds of accounting pronouncements. The better known are the SFASs—*Statements of Financial Accounting Standards*—which are the rules about what to disclose in financial statements and which accounting methods to use.

Less well-known are the SFACs—FASB's official statements of accounting theory—the general objectives, goals, purposes, and characteristics of financial reporting. FASB's standards are supposed to be based on the theory found in the SFACs. More particularly, two of FASB's theoretical pronouncements—Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises* (1978) and Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information* (1980)—give the fundamental theoretical and conceptual foundations for accounting practice.

The purpose of the principles FASB gives in these two statements is based on the assumptions given in SFAC No. 1 that investors are rational and have a right to unbiased, relevant information. Based on those assumptions, FASB developed, in SFAC No. 2, a hierarchy of principles that would be the criteria for determining whether financial disclosures would be useful. The principles enumerated in SFAC No. 2 include the following:

- Understandability
- Decision Usefulness
- Relevance—and its components of
 - Predictive Value,
 - Feedback Value, and
 - Timeliness
- Reliability—and its components of
 - Verifiability
 - Neutrality, and
 - Representational Faithfulness)
- Comparability
- Consistency

The principles can be explained as follows, based on FASB's definitions (The definitions can be found at <http://www.fasb.org/pdf/con2.pdf>):

Understandability means that

information provided by financial reporting should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence (SFAC #2 ¶40).

FASB has a strong focus on decision usefulness. Although the term is not itself found in SFAC #2, in its introductory summary FASB said:

All financial reporting is concerned in varying degrees with decision making (though decision makers also use information obtained from other sources). The need for information on which to base investment, credit, and similar decisions underlies the objectives of financial reporting. The usefulness of information must be evaluated in relation to the purposes to be served, and the objectives of financial reporting are focused on the use of accounting information in decision making. The central role assigned to decision making leads straight to the overriding criterion by which all accounting choices must be judged. The better choice is the one that ... is most useful for decision making. Even objectives that are oriented more towards stewardship are concerned with decisions. Stewardship deals with the efficiency, effectiveness, and integrity of the steward. To say that stewardship reporting is an aspect of accounting's decision making role is simply to say that its purpose is to guide actions that may need to be taken in relation to the steward or in relation to the activity that is being monitored. (SFAC #2, page 3).

Relevance is defined by FASB as:

information's capacity to "make a difference" that identifies it as relevant to a decision. To be relevant to investors, creditors, and others for investment, credit, and similar decisions, accounting information must be capable of making a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct expectations. (SFAC #2, ¶46-7).

Relevance thus has three components, which are predictive value, feedback value, and timeliness. Predictive value and feedback value are intimately linked: "Information can make a difference to decisions by improving decision makers' capacities to predict or by confirming or correcting their earlier expectations" (SFAC #2, ¶51). So predictive value means that the information is useful to make predictions about a company's future, and feedback value means that the prior predictions can later be assessed or corrected, allowing the investor to improve his forecasting model. This cannot be done unless the data is provided on a timely basis:

Timeliness is an ancillary aspect of relevance. If information is not available when it is needed or becomes available only so long after the reported events that it has no value for future action, it lacks relevance and is of little or no use. Timeliness in the present context means having information available to decision makers before it loses its capacity to influence decisions. (SFAC #2, ¶56).

Let's compare these principles with postmodernism now. If every document is seen subjectively with a different meaning for each person each time it is read, the whole idea of correcting forecast models is an illusory one. Whatever patterns an investor sees

in the information is a subjective construct with no external viability; in fact, since the universe is chaotic, it is only an illusion or a mirage.

Reliability is seen by FASB as dependability—“Accounting information is reliable to the extent that users can depend on it to represent the economic conditions or events that it purports to represent” (SFAC #2, 62). FASB said that this is not the same as effectiveness. Effective information is relevant, or useful, information. Reliability refers not to how useful the information is, but to its truthfulness. Reliability has three components: verifiability, neutrality, and representational faithfulness.

The root meaning of verifiability comes from the Latin words *verus* (“true”) and *ficare* (“to make”) (<http://dictionary.reference.com/search?q=verify>); to those roots the English suffix “ability” is added. Thus the word means “to be able to make or prove something is true.” FASB’s definition is:

The ability through consensus among measurers to ensure that information represents what it purports to represent or that the chosen method of measurement has been used without error or bias. (SFAC #2, page 10).

Verifiability is an important concept in accounting. The information presented in the financial statements is supposed to be supported by documents—supposedly carefully sampled by the firm’s auditors—that provide proof (such as invoices, sales slips, cancelled checks, receipts, etc.) that the financial statements are not management’s fantasies or wishful thinking.

Neutrality means that the financial statements should not be biased either for or against the company. GAAP is not always neutral, though—the principle of conservatism is often used in developing accounting procedures. There is a moral dilemma here:

If management is kept from making the company looking good, investors might lose out on a good opportunity. If management is allowed to make the company look good, there is a risk that investors could be duped into making poor investments and losing money. There is an unspoken assumption in accounting that the greater of these two evils would be to allow investors to be induced into making bad investments rather than missing out on an opportunity—especially since normally the temptation for management is to make the company look good; sometimes better than it really is. Thus GAAP sometimes requires the use of methods that downplay revenues and assets but not expenses or liabilities.

Representational faithfulness means that management’s representation, or testimony, about the company’s financial information must correspond to actual reality. In a nutshell, it means that management must tell the truth—the whole truth and nothing but the truth—about the company in the financial statements.

These assumptions about reliability are a direct contradiction to postmodernism. How can the truth about a company be proven if there is no truth? How can the financial statements be neutrality if everyone is biased? How can management faithfully represent the reality about a company’s financial position if all documents are works of biased spin?

Comparability means, basically, that investors should be able to compare similar companies with each other. They therefore should use similar accounting methods, particularly if they are in the same industry. A concession is made that companies in different industries may need to use different methods of disclosure. For example, a car manu-

facturing firm might be expected to disclose information about the cost of manufacturing its goods that would be completely irrelevant for a company providing financial services such as insurance policies.

Consistency refers to accounting methods within one company over time. It is assumed that it is desirable for a company to apply accounting methods consistently from one year to the next. There would be two undesirable results if this were not required. The first that a company could select each year from a cafeteria of accounting options whichever method would make it look the best. The second would be that it would be difficult for investors to forecast a company's future if the methods used to disclose the data were continually changing, and this would completely invalidate the desirable quality of feedback value.

These principles are based on a worldview based on several salient assumptions. The first assumption is that investors (and potential investors) are rational and capable of making intelligent, informed, and correct investment decisions. A second assumption is that the preparers of financial statements—who are the management of a company and not its auditors—have moral and ethical obligations to communicate objective and unbiased information to investors. A third assumption is that management is capable of preparing the financial statements as documents that communicate objective, unbiased, and verifiable truth to investors.

The students already had learned these principles of GAAP in a previous lecture. When these principles are compared with the underlying assumptions of postmodernism, a profound conflict becomes evident. GAAP assumes that the management of a corporation will tell a true, unbiased story disclosing the real truth about the corporation to investors who will use reason and logic to make investment decisions and predictions. Financial statements are assumed to be understood and used in the same way by all users, and are also assumed to be consistent and reliable.

A table comparing the assumptions of FASB with those of postmodernism illustrates the conflict. It can be found on the next page.

I also lectured on this topic to MBA students at the Harbin Institute of Technology in Heilongjiang Province, China, a couple of years ago. The students in that university had only a technical education without any component of liberal arts. It did not seem to have occurred to them to compare accounting with cultural trends, and most had never heard of postmodernism philosophy. Yet I think they saw quite clearly that postmodernism is a threat to the foundation of accounting.

After my MBA students at Belhaven have thoroughly discussed the conflict between postmodernism and GAAP, I suggest that Christian ethical principles are the most viable alternative of the four worldviews that were examined. The new age-pantheistic worldview can be as subjective as postmodernism. The rationalistic-modern worldview assumes that truth is objective, but it has no foundation for ethics. Christianity, however, offers a worldview that assumes the world is understandable and rational along with objective morals and ethics derived from the nature of God and revealed in Holy Scripture.

What are the reasons why Christianity is the most viable alternative worldview? They are (1) God's nature as the source of reason logic, and wisdom; 2) the revealed Word of God as an authoritative source for truth and objective ethics; and 3) a high view of the dignity and capabilities of humans that is simultaneously realistic about our depravity. These are discussed further on page 10.

Table 1. A comparison of the assumptions of postmodernism and of accounting.

<u>POSTMODERNISM</u>	<u>FASB'S PRINCIPLES & ASSUMPTIONS</u>
<i>There is no absolute truth.</i>	<i>Financial statements are based on verifiable information about which management must tell the truth.</i>
<i>Ethics and morals are subjective.</i>	<i>It is virtuous to provide useful information to investors.</i>
<i>Tolerance is a virtue; intolerance is insisting that one is correct. It is oppressive to impose any morality on another person.</i>	<i>Companies should be required to tell the truth about their financial position, and deviant, misleading accounting methods are not tolerated.</i>
<i>There is no metanarrative that can be used to interpret reality. The world is chaotic, unpredictable, and meaningless. Fluctuations in the prices of stocks.</i>	<i>Investors use financial statements to predict a company's future; the aggregate results of many individual predictions are the cause of</i>
<i>Documents do not communicate objective truth. People interpret reality using artificial constructs that may be useful but which cannot be true.</i>	<i>Investors are responsible for preparing their own individual forecasts, but they are based on objective information provided by a company's management. These forecasts can be accurate, and their accuracy can be later verified.</i>
<i>Language and words have no meaning themselves.</i>	<i>Financial statements can—and should be—understandable and objective.</i>
<i>Reason and logic are not important. Informed decisions.</i>	<i>Investors are rational and make intelligent,</i>
<i>History is told by the winners and is biased.</i>	<i>An annual report is a company's financial history, and it must and can be objective and neutral.</i>

1. God has revealed Himself in Scripture. The Bible contains propositional statements about God's nature. Although the infinite God is not wholly comprehensible by the finite human mind, these propositions can be understood. God is a God of reason (Is. 1:18) and wisdom (Jer. 10:12).

2. God has also revealed in Scripture the way of truth and His laws for human living. Jesus claimed to be "the way and the truth and the life" (John 14:6). His word is eternal (Ps. 119:89), never changing. His law is perfect and trustworthy (Ps. 19:7) and his commandments are a blessing (Ps. 112:1). The Bible is filled with wisdom pertinent to business ethics.

3. A fundamental Christian doctrine is that of the *imago dei*. We are created in the image of God, with dignity, reason, emotions, will, and intellect. God cherishes us, giving us great value. Nevertheless, depravity is another fundamental Christian doctrine. We are all heirs to the rebellion of Adam and Eve—depraved sinners who are incapable of wholeheartedly following God's law. We are, however, extremely capable of—and experienced in—breaking his commandments in creative ways. A worldview that recognizes this is necessary in the accounting profession because the preparation of financial statements requires moral integrity—or at least an audit.

Although I teach at a Christian college, not all of the students are Christian. Yet all of them see the problems inherent in postmodernism as it affects accounting. I hope that they also find Christianity as the most attractive alternative.

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