1-1-1992

Auditor's role: The philosophy and psychology of independence and objectivity

James C. Gaa

Recommended Citation

Auditing Symposium XI: Proceedings of the 1992 Deloitte & Touche/University of Kansas Symposium on Auditing Problems, pp. 007-043;

2

The Auditor's Role: The Philosophy and Psychology of Independence and Objectivity

James C. Gaa*
McMaster University

> The auditor, like any professional man, has a responsibility to the society that recognizes and encourages his professional status as well as to the clients he serves directly. It behooves us, therefore, to give some attention to this responsibility. What is the social function of the auditor? What responsibilities flow from it?
>
> Mautz and Sharaf, 1961, p. 50

> The independent auditor's role in society is described by both his function—what he does—and his relationships to parties interested in that function.
>
> Cohen Commission, 1978, p.1

> The essence of all professions—including public accounting—lies in the expertise of its members. ... A characteristic of the auditing profession is then a unique knowledge-set or expertise.
>
> Bedard, 1989, p. 113

Introduction

The role of the "independent" auditor has been controversial off and on for many years. For over 100 years, auditors have been defendants in civil lawsuits, charged with failing to perform their job in accordance with their obligations to others. Over roughly the last sixty years (i.e., since the debates giving rise to the Securities and Exchange Commission in the U.S.), there have also been periodic political controversies regarding the public's expectations about what auditors are supposed to be doing, and whether they are delivering the goods.

Since Mautz and Sharaf wrote their words, the formerly all-male world of auditing has changed significantly. However, their observations on the social role of auditors are still as current—and as little resolved—as they were thirty years ago. Indeed, the issues they raise are just as important as they were then, if not more so.

Mautz and Sharaf pointed out that the overall problem of the auditor's role breaks down into two parts: what service auditors are supposed to perform, and for whom they are supposed to be doing it. Controversies seem to focus more on the former (e.g., concerning the scope of public accountants' services to

*The author wishes to thank Efrim Boritz, John Gaa, Cindy Moeckel, Khalid Nainar, Lawrence Ponemon, Robert Ruland, Ira Solomon, Michael Stein, and Wil Waluchow for helpful comments and suggestions made at various stages in the preparation of this paper. They are not responsible for its content. The research reported in this paper is supported by a grant from the CGA-Canada Research Foundation, which is gratefully acknowledged.

clients, and whether auditors should examine and report on the client's internal control system) than on the latter. With respect to the auditor's relationship to other parties, while it is generally recognized that objectivity and independence are the heart of the role of the external auditor, we have no theory developing the foundations of that role. Even with the decreasing importance of auditing as a source of profits for public accounting firms, it is not hard to argue that the external audit function is the heart of public accounting. So, it is unfortunate that these concepts have defied the efforts of a number of writers to define it and place it into a conceptual structure.

Virtually no research has been done on the ethics of the auditing profession. This is evidenced by the recent publication *Research Opportunities in Auditing* [Abdel-khalik and Solomon,1988]. This careful and comprehensive survey of the field does not appear to mention ethics at all. Likewise, Gibbins's [1984] long and thoughtful examination of the problems of judgment in accounting explicitly excludes moral issues. Closer to the subject of this paper, recent reviews of research on the expertise of auditors in making professional judgments (e.g., Davis and Solomon [1989], and Bonner and Pennington [1991]) do not mention moral judgment. There is a good reason for this lack of attention. At this point, academic research in the ethics of the public accounting profession hardly exists. Hence, it would be difficult for either researchers or practitioners to see how it might proceed at all, and be a fruitful line of research.

The purpose of this paper is two-fold. The first is to present the outlines of a normative theory of the auditor's role, based on philosophical literature dealing with moral judgment and action. According to this analysis, a social contract between the auditing profession and the rest of society establishes the reasons why it is important for auditors to act in accordance with a set of ethical standards. Essentially, in accepting the role of auditor, auditors have agreed to the terms of a contract, and are therefore morally obligated to honor these terms. Among other things, they are expected to act in accordance with "the moral point of view." Auditor independence and objectivity are explained as interpretations of this more general principle.

This provides a partial characterization of the auditor's role and attendant responsibilities, and leads to the second question of how auditors might act ethically, i.e., how they are to make the moral judgments required by their role. Building on the philosophical foundation, the second objective is to propose a psychological theory of moral judgment and expertise as the foundations of moral judgment by auditors. It is hoped that such a theory and empirical research leading from it may yield a better understanding of the ways in which moral judgments are made by auditors, and may even lead to changes in the education and training of auditors, and thus to changes in the practice of auditing.

The next section of this paper presents the ethical foundations underlying the ethics of auditing. As mentioned above, the basic idea is that auditors have a social contract, i.e., an agreement with the rest of society, that obliges them to act from "the moral point of view." The "terms" of this contract are analyzed, via the pronouncements made by the public accounting profession. Definitions of auditor objectivity and independence are presented. This analysis leads to the conclusion that, even with a multitude of rules and principles governing the behavior of auditors, they still must make professional judgments which meet the requirements of the moral point of view. So, the psychological question of how auditors are supposed to make ethical judgments arises, which is the subject of the next section. The concept of moral expertise is advanced, and analyzed and compared to the more technical (and traditionally recognized) forms of auditor expertise. Measures of moral expertise are proposed. The penultimate section presents some of the possible implications of moral expertise, for both research and practice. This is followed by a short conclusion.

This paper is exploratory in nature, bringing together several diverse literatures in both philosophy and psychology. Because of limited space, the paper presents the outlines of a theory, rather than a finished theory, and is meant to stimulate further discussion, with the hope that a more rigorous and complete theory of moral expertise, and empirical research leading from it, will emerge.

Contractual Foundations of the Auditor's Role

Recently, the attention of both researchers and practitioners has focused on the economic-contractual aspects of the auditor's relationships with other parties such as clients, investors and creditors, and regulators. (Recent examples include the papers and critiques in a forum in the January 1992 issue of *The Accounting Review.*) Such investigations are important, since the institution of external auditing does exist in an economic setting in which auditors provide their services for a fee, and the service consists primarily of informing others about the reliability of information about the economic activities of the client firm.[1] However, the concepts of objectivity and independence are not themselves economic concepts (although they do have implications of an economic nature). Rather, they are ethical, or normative, since they concern the issue of how an auditor ought to act in the course of performing an audit, and in ultimately deciding on the content of the auditor's report to third parties.

Both ethics and economics concern rational choice. The differences and similarities between them may be characterized in a variety of ways.[2] One way is that economics focuses on choice when each individual is regarded as an atomistic, self-interested, utility maximizer, who makes rational decisions without regard to the impact of her actions on the welfare of others. Ethics, on the other hand, focuses on the problems of choice when it is explicitly recognized that one's actions do have effects on others, and that those effects should be taken into account in deciding how to act. *Ipso facto*, taking the ethical point of view denies the validity of "ethical egoism" as a normative theory of rational choice.[3]

Roles and Norms

Strictly economic analyses of behavior have difficulty dealing with the fact

---

[1] Internal auditors have enormous problems defining their role as independent employees of the entity which they are auditing. Despite apparent similarities in the work performed by external and internal auditors, I believe that the theoretical foundation of the internal auditor's role will turn out to be different from that of the external auditor. For this reason, this paper concerns only the independence of the latter.

[2] The relationship between ethics and economics is complex. So, any simple characterization of it is automatically an over-simplification. In particular, the statements made in the text of this paper should not be interpreted to mean that they are separate disciplines, with totally different goals and methods. Rather, they are (or should be) intertwined. Insofar as they are concerned with the rationality of human choice and behavior, it would be a mistake to think that either one can proceed satisfactorily in isolation from the other. For a detailed examination of this, see Sen [1987].

that people choose and perform their actions within the context of a role. The concept of a role is a legal/moral concept[4] and is defined here as a cluster of rights and duties with some sort of social function [Downie, 1971, p. 128. See also, e.g., Williams, 1985, p. 7]. Everybody occupies a number of roles simultaneously, such as parent, child, spouse, citizen, and so on. Some of the roles people occupy are not voluntarily chosen (such as that of child), while others are assumed as a matter of voluntary choice. Specific occupational roles, such as that of auditor, are typically chosen. This means that the rights and duties which define these latter roles are agreed to by persons adopting them, and that they have the rights that accompany it and agree to abide by the obligations as well. Thus, voluntary acceptance of a role is a matter with ethical import. This has an important consequence for a theory of the role of the auditor, and for auditor objectivity and independence in particular. The consequence is that, contrary to the positive, principal-agent, conception of auditor decision making, an auditor is not free simply to decide (as a matter of maximizing self-interest) whether to report a breach of generally accepted accounting principles [DeAngelo, 1981]. Instead, she has an obligation to make such a report, and, by implication, this is the case even if such a report is not in her self-interest.

Rights and duties are generally recognized as fundamental to the ethics of the accounting profession, in view of the fact that virtually every professional organization of accountants has a code of professional conduct, specifying (primarily) the duties of members of the organization to other interested parties, including the general public, their colleagues, and to the organization itself. Furthermore, the relationships of the auditor to other interested parties may be analyzed in terms of the rights and responsibilities which define the role of the auditor.

People in general, and auditors in particular, often find themselves in situations where their actions have an impact on themselves and others, and where there is no feasible course of action which will be in the interest of all of them. In such cases, a principle or criterion is needed for deciding which of the competing or conflicting interests is to be given priority over the others.[5] In these situations, norms provide guidance (and possibly, incentives provided through their enforceability), by indicating actions which are required, allowable, or forbidden in a given situation.

Norms are standards of behaviour. They have the following logical structure:

Person P in situation S may (or should or should not) do A in manner M.[6]

For role-related norms, this definition encompasses both aspects of the auditor's role distinguished by Mautz and Sharaf [1961]. First, it states that a norm speci-

---

[3] Ethical egoism is the theory that all rational individuals ought to act exclusively in their own self-interest and without regard to the impact of their actions on others (except to the extent that such effects "rebound" on the individual). Ethical egoism is theoretically untenable. For one thing, it is not universalizable, since it is self-defeating when advocated as a general statement about how people ought to act). See Bowie [1991]; Sen [1987]; Etzioni [1988]; Frank [1988].

[4] This definition is a normative one. Roles are also understood in a positive, sociological sense, as a set of empirically determined behavior patterns, which have empirically determined outcomes for society. Thus, the auditor's role would be defined positively as consisting of those actions which are done by people who have been labelled as auditors, and which have a pattern of outcomes. (The purpose of the second clause is to omit "accidental" characteristics which have no pattern of effect from being included in the role). Roles in this positive sense are not the concern of this paper.

[5] It is also possible that one interest might be traded off against another, in the sense that it is given a heavier weight rather than absolute priority.

fies which actions person P is supposed to perform (or not perform). The relationships which an auditor is supposed to have concern the other part of the definition. First, the situations which P is allowed to be (or supposed to be) in, may preclude certain relationships. For example, it is a universally accepted norm that an auditor may not perform an audit if she is actively involved in the operation of the client's business. Second, the manner in which P performs action A relates to the way in which the auditor takes into account the contending interests of various parties.

Norms have two main functions. First, they provide criteria to evaluate situations and actions. Second, they provide guides for action, helping people to decide which action is appropriate or correct to perform. Following from both of these functions, norms may also provide standards for the enforcement of certain types of behaviour.[7] When this is the case, ethical norms may become formalized as statutes or government regulations, or as precedents in the common law. Thus, norms have normative content. Rules, principles, regulations, customs, and mores are additional types of norms which guide us in choosing our courses of action. The role of norms in influencing people's moral behavior is described by Baier [1965, p. v-vi.]:

> ...Moralities are best understood as special forms of social control and as special forms of practical reasoning. Any form of social direction and control must attempt to accomplish two major tasks: to provide for the members of the group an easy way of answering the question of what is required of them by this particular form of direction and control, and to ensure compliance with these requirements. The first task is accomplished by the formulation of appropriate principles, precepts, rules, and regulations in a way which makes them easy to remember, to pass on to others, and to apply in a variety of different circumstances, and by the instruction of the members in these principles, etc. The second task is accomplished by group practices designed to exert pressure on individuals to satisfy these requirements, such as the practice of 'investigating' individuals to see whether they have adhered to the appropriate principles, precepts, rules, and regulations, and of 'meting out' to them whatever is thought appropriate in the light of these investigations.

One of the pervasive facts about public accounting is the multitude of rules which its practitioners are supposed to follow. Rules governing their behavior are contained in generally accepted accounting principles, generally accepted auditing standards, codes of professional conduct, as well as statutes and regulations of government regulatory bodies. It may be that accounting has more rules than other professions. But the existence of rules is no accident, for rules are a primary means of defining the nature of a profession. That is, they codify a set of expectations about what members of a profession will do, and how they will do it, and in this way define (as well as guide) the practice of public accounting.

There are two types of norms [Bayles, 1989]. One consists of universal norms, that is, norms which apply to people in a society merely by virtue of

---

[6] This definition is based on Bayles [1989, p. 20].

[7] In order to have value in this regard, they must be explicitly formulated, and sufficiently precise to allow people to determine readily whether their actions are or would be in accordance with the norm.

their membership in that society. Examples might include norms against lying and deception, and inflicting harm gratuitously. Such norms are universal because they are regarded as applying to everybody, not that they hold without exception. For example, it is generally agreed that the norm against lying may be violated in a variety of circumstances, but only if there is sufficiently good reason. (For an application to auditing, see Gaa and Smith [1985].)

Even though universal norms as such enjoy no special status over role-related norms in the practice of auditing and accounting, some of them are apparently so central to the practice of accounting and auditing that they are explicitly included in codes of professional conduct. For example, the Code of Professional Conduct of the American Institute of Certified Public Accountants [AICPA, 1988] states that members of the Institute:

- should perform with the highest sense of integrity [Article III],
- should strive continually to improve competence [Article V],
- should be honest [Sec. 54.01] and not knowingly misrepresent facts [Rule 102],
- are obligated to comply with a validly issued and enforceable subpoena or summons [Rule 301], and
- shall not solicit clients in a false, misleading, or deceptive manner [Rule 502].

Although these norms (consisting of both principles and rules) are contained in the Code and specifically apply only to accountants who are members of the AICPA, they are really universal norms, because they merely formalize (in the Code) standards of behaviour which are expected of all people.[8] That is, these universal norms do not, or at least need not, specifically refer to people acting in their role of accountants or auditors.

Auditors are also subject to a second type of norm, i.e., role-related norms. [Bayles, 1989, pp. 22-25] These norms apply to auditors solely in virtue of their occupying a particular role in society. Other than those mentioned above, most of the norms in codes of professional conduct are role-related norms.[9] Held [1984, p.30] makes the connection between roles and norms clear:

> A role is also a set of norms or rules concerning behavior. In accepting a role, we accept these norms. In being a lawyer, we put ourselves in a condition of 'being a lawyer,' but this should not be understood merely in terms of making the empirical description 'that person is a lawyer' true.... we are accepting the norms constituting the role of the lawyer in that society as valid norms.

---

[8] Some would argue that universal norms apply to all members of the human race, no matter which culture they are part of. For a brief discussion of ethical relativism [Bowie and Duska, 1990, pp. 21-22].

[9] Not all norms are ethical. For example, auditors are subject to a variety of role-related norms, including a number of sources of generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS). Many of these are not directly ethical; rather, they simply specify efficient ways of performing one's duties (GAAS, for the most part) or specify standard methods of accounting and reporting (GAAP, for the most part). Parts of the Conceptual Frameworks of financial accounting and reporting do have ethical content, in that they specify the priority of interests among those parties who have a stake in the content of financial reports. See Gaa [1986].

For the reasons presented at the beginning of this paper, auditor objectivity and independence are the most important role-related norms of the public accounting profession. Indeed, since independence is the only norm which refers specifically to the role of auditor, it defines and distinguishes the role of auditor within the more general role of public accountant. Although the norm of auditor independence is formulated in a variety of ways in the various codes of professional conduct, they are all basically similar. For example, the AICPA Code [1988, Article IV] states as a general principle that:

> A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.

That is, the public accountant *qua* auditor, i.e., a public accountant acting in the role of auditor, should be independent. The Code also contains a more specific rule [Rule 101]:

> A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by Council.

Social Contracts

There are two ways to look at high-sounding statements such as these. One is the "positive" way, based on an economic model of contracts between principals and agents, according to which economic agents will act "rationally," with the implication that they will act in accordance with the terms of a contract only when it is in their own perceived self-interest to do so.[10] This approach to the behavior of auditors may be able to explain some (or even much) of what is observed in the practice of public accounting. While it may thus have much to recommend it, this approach cannot address, much less solve, important problems in the professional ethics of the auditing (i.e., public accounting) profession. The problems which it cannot handle (at least not without great difficulty) are fundamental issues involving the role of the auditing profession in society, and the ethical obligations which attend that role. These include the often-expressed view that auditors occupy a fiduciary role, and the existence of conflicts of interest in performing the auditor's role.

Another literature which has a surface resemblance to the principal-agent framework addresses these foundational issues directly, in contractual terms. This contractarian approach assumes that people are rational decision makers.[11] However, instead of attempting to reach an agreement about the terms of a specific contract, such as an employment or profit- or risk-sharing contract, they are attempting to achieve a collective agreement, i.e., a social contract, about the structure of basic social institutions. Within this structure, specific principal-agent contracts are agreed upon and performed.

The idea that there is an "arrangement" of some sort between the auditing profession and society has been recognized for many years. For example, Mautz and Sharaf [1961, p. 50] state as one of eight tentative postulates of auditing

---

[10] In addition to having a number of problems when applied to ethical issues. Even with respect to economic relationships and transactions, it is increasingly controversial. For a critique, see e.g., Sen [1987]; Etzioni [1988]; Frank [1988].

[11] Though not necessarily expected utility maximizers [Gaa, 1988].

that "professional status imposes commensurate obligations." In conjunction with a postulate stating that an auditor should work exclusively as an auditor, this postulate is said to provide "the basis on which we determine the auditor's responsibility to society, to his client, and to fellow auditors" [Mautz and Sharaf,1961, p. 50]. They stated the principle as a postulate, because they lacked a theoretical foundation for it. This section provides a brief account of such a foundation, from which additional implications are also derived.

The contractual approach to institutional issues has been used as an analytic foundation in business ethics [e.g., Donaldson, 1982; Keeley, 1988; Dunfee, 1991] and in financial accounting standard setting [Gaa, 1988; Noreen, 1988]. The subject of the social contract in this case is the structure of the relationship between auditors and various interested parties, i.e., their constituents. Specifically, the terms of the "contract" characterizes the role of auditors, by specifying the rights and duties of auditors vis à vis third parties.

As such, the analysis is clearly normative in its focus on the actions which auditors must perform, may perform or may not perform, and the relationships which they must, may or may not have with others. Within the bounds of this social contract, auditors and their clients may make principal-agent contracts which are in their mutual self-interest. But contracts which violate the conditions of the social contract are not allowed, since they violate the norms defining the auditor's role. An analysis of this social contract is briefly sketched out here [for more details, see Gaa 1990].[12] The relationship of auditors with other members of society is governed by general principles and rules. As indicated above, this means that an agreement on the role of auditors is a general societal agreement.

The structure within which this contract is constructed is analyzed as a game with two players, each of whom is trying to obtain the "best deal" possible. One player in the game is the auditing profession as a collective whole, represented either by prominent individuals or by an organization of public accountants. The other party is society, taken as a whole. The purpose of the game is to settle on the role of auditors in society, which consists in an equilibrium agreement specifying both the rights of auditors to practice their occupation, and the social responsibilities which they agree to honor in exchange for these rights. Thus, there is a quid pro quo: public accountants collectively gain the benefits of organizing as a profession, such as the right to regulate their admission to the profession and to impose standards. In exchange for this autonomy, it agrees to act in a socially responsible manner. This is accomplished in part by establishing norms of competence [Moore, 1970], specifying, e.g., the training required to become an auditor, and principles and rules defining the standard of behavior expected of practicing auditors. Included among these norms are standards of ethical conduct, such as are contained codes of professional conduct. Because the profession will need to provide continuing assurance to the rest of society that it is holding up its end of the bargain, these rules and principles must specify clear and enforceable standards of behavior, and will require an effective

[12] The analysis presented here is about the overall structure of the relationship between the auditing profession and the rest of society. The recent "expectations gap" controversy in the U.S. was a disagreement between the public accounting profession and "the public" (in the person of members of the U.S. Congress and the Securities and Exchange Commission), within the overall social structure, about the role of auditors. For an analysis of this particular controversy, see Gaa [1991].

enforcement mechanism.

Contractarian analyses of ethical theories and principles are sometimes criticized on the grounds that they concern only hypothetical agreements between hypothetical people, and as such have no normative force on actual people in actual situations. This is a controversial matter [Davis, 1992] Whatever the force of these criticisms in general, they do not apply in this instance. The reason for this is that there is in fact an agreement between auditors and society, as evidenced for example by legislation recognizing the special status of professional organizations of public accountants, "local" licensing laws, and recognition in corporation and securities laws. For example, the Securities Acts in the U.S. require that the financial statements of publicly held corporations be examined by independent auditors. In exchange for this benefit, it is agreed that there will be public oversight of the auditing profession. In short, auditors have agreed to act in a socially responsible way in exchange for certain benefits granted to them by society.

The contractarian approach shows that auditors are rational to make an agreement with society, which specifies their role. By accepting the benefits bestowed by the social contract, auditors voluntarily accept a set of rights and responsibilities governing their behavior. That is, contract theory provides a theory about the ethical foundations of the profession (implicit in the specification and acceptance of their social role). This has major implications. For example, unlike the economic view mentioned above (according to which an auditor is rational to renege on a contract whenever it is in her self-interest to do so), the social contract approach says that auditors are obligated to act in accordance with the dictates of that role.

The Moral Point of View

The moral point of view has several important components. First, moral agents are supposed to act in the interest of all members of society, and not just in their self-interest. In addition, the interests of every member is to count equally. Second, on the plausible assumption that a person's actions cannot be expected always to maximize the interest of every member of the community, a further implication is that moral agents should expect that at least sometimes they ought to perform an action which is against their own self-interest. In addition, the moral point of view requires that the rules and principles governing people's behavior must be generalizable. This means that no individuals have special status exempting them from the principles; rather, they apply to all people who fit within their scope.

This may be applied to the institution of auditing. First, the obligations constituting the role of the auditor apply to all auditors alike.[13] So, the moral point of view is satisfied by auditors if they act in accordance with their role, i.e., in accordance with the obligations specified in the social contract, and with the rules which interpret the general terms of that agreement. By agreeing to this arrangement, auditors essentially promise (in exchange for a fee) to act for the benefit of others, in accordance with principles and rules governing their

[13] It is a little more complicated. For example, the specific rules and principles which constitute the auditor's role may have exceptions, which are either explicitly stated or implicitly understood. In addition, duties (and rules) may conflict, forcing the individual to decide which one has priority. These observations do not reduce the force of the universalibility criterion itself.

actions. In order to satisfy the requirements of the role, auditors are no longer free to act exclusively in their own self-interest in the performance of audit engagements. That is, having voluntarily agreed to act in accordance with the role of auditor, they should expect that sometimes they will be morally obligated to perform an action which is not in their own interest.[14]

In conclusion, auditors are obligated to act in accordance with a set of moral obligations (which specify their social role) because they have agreed to them. They are not free to violate the role of the auditor, even if it is in their self-interest (and thus economically rational, according to the conventional economic point of view) to do so. Rather, it is rational for auditors to make a social contract specifying their role and, in making that agreement, to agree to act in accordance with its terms. Making a contract implies an expectation that the other party will abide by it.[15]

Objectivity, Independence and Conflict of Interest

As noted above, a contract between the organized auditing profession and society is in fact readily identifiable (even if its exact terms are both vague and variable over time [Gaa, 1991]). Statements of the moral point of view may be found in the profession's own pronouncements. For example, the preamble to the Principles section of the AICPA Code of Professional Conduct [AICPA, 1988] states the following:

> "The Principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage."

This code also proclaims that [AICPA, 1988, Sec. 54.01]:

> "Service and the public trust should not be subordinated to personal gain and advantage."

The normative approach takes such statements of the professional organizations literally and seriously, i.e., as statements of norms which partially characterize the role of the public accountant. Statements of principles and rules are important from the moral point of view, precisely because they obligate members of the profession to adopt the moral point of view. In essence, they are promises to the rest of society, and are morally binding on auditors in the same way any promise is.

An alternative interpretation of such statements is that they are intended as political gimmicks, i.e. ritual statements empty of content, intended to fool outsiders into believing that auditors are actually concerned with "the public interest." Thus, the ethical analysis of the role of auditors might strike some as naive or far-fetched. For example, some might claim that auditors will act in accordance with their own perceived self-interest, no matter what a code of conduct might say. Whether auditors really do act as claimed, and whether a belief to the

---

[14] At the same time, if acting as an auditor required auditors regularly to act against their self-interest, either they would seek to re-negotiate the social contract or (since they are not obligated to continue to act as auditors) they would cease to act in that role [Gaa, 1990] However, as long as they act in that role, they are obligated to act in accordance with its requirements.

[15] It would be inconsistent for a person to have such an expectation, and also to hold that she is free to violate it at will. Giving oneself a privileged position, such that one is free to violate contracts while others are obligated to carry them out, cannot be consistently generalized as a universal rule [Bowie and Duska 1990, Ch. 3].

contrary is naive, are empirical questions, about which systematic evidence is sketchy at best.[16]

In spite of the fact that we don't know much about how auditors act, two conclusions seem safe. One is that it surely is naive to believe that all auditors always act in accordance with the obligations of their role. Second, regardless of that, it is not naive for society to attempt to determine whether auditors are in fact acting in accordance with their contractual obligations, and to hold them accountable whenever their actions are judged to violate the norms of the auditor's role.

It is important to note that even though the general principles in a code of conduct are not intended to be enforceable, they still have normative force. This is because they state ethical obligations of professional accountants. In fact, enforceability has little to do with it. In order for a norm to be enforceable there must exist a) an explicit rule, b) an investigation system to discover and investigate alleged transgressions, and c) a judicial system to ascertain whether an action is a violation of the rules, and if so, what penalty ought to be inflicted. Many social norms are not enforceable, in this sense. They are no less important for that, because in general, and in the case of professional codes in particular, such norms are the foundations for the enforceable parts of the codes (i.e., the rules). In fact, the rules exist in order to implement the Principles (insofar as enforcement is both desirable and possible within the context of the member's basic legal rights). Basically, the statements from the AICPA code quoted above make the general point that auditors do recognize the existence and normative force of their social contract. It remains to consider the role of auditors, vis à vis other parties, in more detail.

Objectivity and Independence

Objectivity and independence are closely linked concepts which occupy center stage in the codes of professional conduct of the various professional organizations of public accountants. The reason for this is clear from the foregoing analysis. Since the role of the auditor is determined as the result of social contracts between society and the organizations representing members of the public accounting profession,[17] such codes are the "official text" of such agreements. So, what are the meanings of auditor objectivity and auditor independence? At least as a first approximation, they mean what the code says they mean. Unfortunately, they are not well-defined in any of them, because they are vague, ambiguous, and various interested parties may disagree about just what the

[16] As noted above, there are plenty of examples of situations in which people commonly act in ways which are not easily explainable on self-interest grounds. Nevertheless, the possibility exists that such behavior never occurs in auditing. Empirical studies which show that behavior is consistent with self-interest maximization are not enough to settle the issue. Such studies would also have to be strong enough to show that auditors never act against their self-interest even in situations in which (according to, say, the tenets of their code of conduct) they should. Notice that to perform such a test would require a criterion of what is in a person's self-interest independent of revealed preference.

[17] Each professional organization whose members conduct external audits may be interpreted as having a slightly different version of the basic social contract, in the sense that the precise wording differs slightly from code to code. (Detailed comparison of various codes is beyond the scope of this paper.) This is not so easily recognized in the U.S., since one organization represents virtually all auditors. However, other countries have their own organizations, whose codes of conduct and standards of professionalization (e.g., educational requirements) differ.

social contract calls for.[18]

Nevertheless, the statements in the codes of conduct of the professional organizations are the primary source, and in spite of their shortcomings, provide important information about the content of the social contract.

The analysis in this section examines the meaning of these concepts, using the *Guidelines on Ethics for Professional Accountants of the International Federation of Accountants* [IFAC, 1990].[19] The Guidelines has two sections, one concerning public accounting in general (Part A), and the other confined to the auditing (attest) function (Part B).

According to the IFAC Guidelines, the principle of objectivity is the following:

> A professional accountant should be fair and should not allow prejudice or bias or influence of others to override objectivity [Introduction, para. 15].

According to Part A:

> The principle of objectivity imposes the obligation on all professional accountants to be fair, intellectually honest and free of conflicts of interest [Para. 1.1].

Part B of the IFAC Guidelines, which concerns accountants in public practice, expands only slightly on the special obligations of auditors over and above their obligations as public accountants. It says only that:

> Professional accountants in public practice when undertaking a reporting assignment should be independent in fact and appearance [Para. 8.1].

As is normal with codes of the professional organizations, this statement is followed by a list of situations in which a public accountant's independence would be questioned [Paras. 8.3-8.11].[20]

The ethical content of these statements is clear and simple: They essentially say that public accountants should adopt the moral point of view in deciding on

---

[18] For example, the Continental Vending case hinged on the meaning of "fairly presents" in the standard auditor's report. The profession claimed that it meant only that the financial statements were prepared in accordance with generally accepted accounting principles. The court disagreed, saying that it meant more than that. Thus, in this case, the parties to the social contract (i.e., auditors as represented by their firms and the AICPA, and the general public as represented by the judge and jury in this case) disagreed about the terms of the social contract. See AICPA [1970].

[19] IFAC is an international organization whose members are the professional organizations in the various countries. Professional accountants are members of the member bodies of the IFAC, and not members of IFAC directly. Based on the belief that the worldwide accounting profession has a number of important common objectives and principles, IFAC's purpose is to develop standards which will be used by its member bodies to harmonize practice around the world. It is useful to base the analysis in this section on the IFAC Guidelines, because it reinforces the view that codes of conduct are more than a codification of legalistic rules which pertain to a specific legal jurisdiction (and professional organization). In any case, the codes of professional conduct for North American organizations (i.e., the American Institute of Certified Public Accountants, the Canadian Institute of Chartered Accountants, and the Certified General Accountants Association of Canada, and their constituent organizations) are quite similar.

[20] These situations include the more-or-less standard categories of financial involvement with, or in the affairs of, clients; appointments in companies; provision of other services to audit clients; personal and family relationships; amount and nature of fees; acceptance of goods and services from client; and ownership of the public accounting practice.

their actions. Lack of prejudice and bias, and fairness and honesty suggest a sense of neutrality or equality, in serving the interests of the various parties who have a stake in the product of the auditor's work (i.e., the auditor's report). Freedom from conflict of interest recognizes that the interests of these parties (including the auditor's own interest) may conflict in some cases, and that a priority among these interests must be established. More detailed analysis of the concept of conflict of interest, via explicit pronouncements provides further insight.

Conflict of Interest

As Beauchamp and Bowie [1988, p. 472] point out, conflict of interest requires the existence of a role in which a person has a conflict either between a role obligation and her self-interest, or between two different role obligations. Furthermore, the agent must exercise judgment in the performance of that role. The conflict lies in the fact that influences on the agent, or the agent's loyalties or temptations might lead her to act in a way which is contrary to what the second person has a right to expect.

Based on an analysis of the *Code of Professional Responsibility* of the American Bar Association, Davis [1982, p. 24][21] formalizes these ideas in the following definition:

A person P_1 has a conflict of interest in role R if, and only if:

a. P_1 occupies R;
b. R requires exercise of (competent) judgment with regard to certain questions Q;
c. A person's occupying R justifies another person relying on the occupant's judgment being exercised in the other's service with regard to Q;
d. Person P_2 is justified in relying on P_1's judgment in R with regard to Q (in part at least) because P_1 occupies R; and
e. P_1 is ... subject to influences, loyalties, temptation, or other interests tending to make P_1's (competent) judgment in R with regard to Q less likely to benefit P_2 than P_1's occupying R justifies P_2 in expecting.

Application of this definition to auditing is relatively straightforward. Auditors occupy a role which specifies the services which they are expected to perform, i.e., the performance of an audit (or other attestation services), including the publication of an auditor's report. Audits require significant amounts of professional judgment. The role of auditor also specifies who are the primary beneficiaries of the auditor's judgments: society at large, including especially potential and actual investors and creditors, financial analysts, and other constituents who are regularly listed as the users of audited financial reports. Furthermore, the social contract between the profession and society justifies the latter in expecting that the judgments required will be exercised in their interest. The last clause of the definition is critical: An auditor has a conflict of interest if there is any other interest (including obligations to other parties, such as clients) which would decrease the likelihood that the auditor's report is less reliable than one

[21] This definition is also used by Gunz and McCutcheon [1991].

has a right to expect.[22]

Whether an individual has a conflict of interest in a particular situation, depends on whether there is an influence, loyalty, temptation, or other interest which would tend to cause society (or its "designees," the users of the reports) to be less likely to benefit from the audit than it has a right to expect. Because of the auditor's central position in the situation, she would not be the best judge of the likelihood of influence. Instead, the beneficiaries themselves should be the judges.[23] Although the likelihood that an agent's judgments will be influenced to the detriment of the beneficiaries is a matter of degree, Davis finds it useful to distinguish three levels of conflict of interest. Actual conflicts of interest refer to situations in which it is certain that a beneficiary will be adversely affected by the auditor's actions. The second category consists of latent conflicts of interest, in which the individual is in a position where there is a "reasonable probability" that the beneficiary will be adversely affected. In cases of latent conflict, there is no actual conflict, but it is reasonable to foresee that a change of circumstances would yield an actual conflict. Third are potential conflicts of interest, in which it is foreseeable that the agent might be in a situation producing an actual conflict of interest.

An example of an actual conflict involving an auditor is the Fund of Funds case, in which the accounting firm owed a duty to two clients, and it was impossible to satisfy both [Gunz and McCutcheon, 1992]. Other examples include an auditor who has a material ownership interest in the client firm; an auditor who takes a bribe from a client in exchange for a clean opinion; and an auditor who accepts an engagement, the fee for which is contingent on the client obtaining financing. Examples of latent conflicts of interest include a public accounting firm which performs management advisory services for an audit, or forms joint ventures with an audit client. These situations do not imply that the interest of either the public or the client have been sacrificed, but there is a reasonable probability of that, at least in many people's eyes. Examples of potential conflicts of interest include the possibility that a personal relationship between individual auditors and clients may influence the auditor's judgment, and the fact that an auditor's fee is paid directly by the client (rather than through some other arrangement, such as from a pool of funds).

It is evident that under the present institutional arrangements, the auditor-client relationship has built-in conflicts of interest to some degree. The independence rules[24] address this problem by claiming to forbid any conflicts of interest. According to the definition presented above, however, such a restriction is infeasible, since auditors always have at least a latent conflict of interest, vis à vis their clients. However, the independence rules do have a function, which is

[22] Two important questions are the following: What does a reader of an auditor's report have a right to expect? What conditions would render the auditor's report less reliable? These questions are essentially the issues which arise whenever an "expectations gap" arises, and when the problem of the scope of services provided by public accounting firms arises. They will not be discussed here.

[23] This is analogous to the "perspective of the deceived" as the benchmark for evaluating the justifiability of deception. See Gaa and Smith [1985]. Presumably, the judge of the likelihood of adverse impact would be unbiased and reasonably well informed about financial accounting and reporting, the technical aspects of auditing, and the operation of financial markets.

[24] The Code of Professional Conduct of the Institute of Chartered Accountants of Ontario [ICAO, 1988] defines objectivity in essentially the same way that other codes define independence. The ICAO has no principle corresponding to the objectivity in the other codes. Hence, the discussion of independence in the text applies to the ICAO code provisions on objectivity.

to forbid auditors from performing audits when there is either an actual conflict of interest or a "high" degree of likelihood (rather than just a "reasonable" likelihood) that a potential conflict of interest would become actual. They boil down to saying that a range of auditor-client relationships must be avoided, because of the likelihood that the interest of the client will cause the auditor's report to be less reliable than the beneficiaries have a right to expect. The rules do allow potential and some latent conflicts of interest.

Although this terminology is unfamiliar in the context of auditing, these concepts are not entirely novel. First, it resembles fairly closely the statement of Mautz and Sharaf that there is no necessary conflict of interest between auditors and their clients [1961, p. 44-46]. Second, it is more useful than the rule-oriented distinction between independence in fact and independence in appearance[25], which draws a false dichotomy, masking the judgmental nature of the concept of conflict of interest. In this way, it also conflicts with characterizations of independence as an all-or-nothing matter [Lavin, 1976]. On the other hand, it resembles the definition of Simunic [1984, p. 679]:

> ...any situation which alters incentives such that a self-interested auditor is more likely to ignore, conceal, or misrepresent his findings is described as decreasing the auditor's independence. A setting where an auditor must evaluate (trade off) the benefits and costs of truthful reporting can also be described as a conflict of interest situation.

Third, according to this definition, auditors are never free of conflict of interest, although they may be free of actual conflicts. As long as an auditor's relationship with her client is not forbidden by an explicit rule as either an actual conflict of interest or an expressly forbidden potential conflict, she is free to perform an audit. This means that she must exercise professional judgment in a situation where she might be acting in her own self-interest or in the interest of another party, at the expense of those who have a right to expect that their interests will be served. However, the principle (and rules) of independence provide no guidance to auditors on how they ought to proceed in the face of latent (or potential) conflict of interest. The principle of objectivity, i.e., act according to the moral point of view, provides general guidelines, but does not provide any specific decision rule, procedure, or algorithm. No set of rules will be a complete guide to behavior, for a number of reasons. First, rules are incomplete, in that they do not specify actions for every situation. Second, they are vague, meaning that in many cases they require judgment in deciding whether a given situation falls within the scope of the rule or not. Sets of rules may also conflict, in the sense that one valid rule may specify one action, while a second valid rule may specify another action or forbid the action called for by the first rule.[26]

Since conflicts of interest are a regular feature of the performance of the auditor's role, it is important that the auditor understand whose interests are to be given priority. It is not necessary for the auditor to actually attempt to assess all of the possible consequences of all of her possible courses of action for all members of society, when making a decision. Instead, the rules and principles in auditors' codes of professional conduct function as guides to the auditor in

[25] The ICAO Code [ICAO 1988] does not use the terminology of independence in fact and appearance, focusing more explicitly on conflict of interest.

[26] For example, the rule requiring disclosure of material information about a client may conflict with the rule requiring confidentiality of client information [Beach, 1985; Gunz and McCutcheon, 1992].

attempting to carry out the demands of her role. As such, they should provide a relatively clear and simple way for her to act in accordance with the moral point of view: The interests of members of society, including both actual and potential creditors and investors, but not including the client's management or the auditor herself, are paramount. Among other things, this means that the possibility of actual conflicts of interest are so great in some situations that the rules of the codes of conduct forbid auditors from performing audits at all.

Acting in the interest of other parties, in the face of uncertainty and possible conflict of interest is a daunting task, requires careful and sophisticated judgment. How well equipped is an auditor to perform the tasks to which she has agreed?

Moral Expertise

The job of the auditor requires technical expertise. The previous section presented an analysis of the concepts of objectivity and independence, according to which the auditor is supposed to make moral judgments (from the moral point of view), and in the case of independence not to put oneself in a position where there is a significant chance of benefitting personally at the expense of other (external) interested parties. Thus, auditors are expected by the social contract to exhibit socially responsible behavior.

Nevertheless, they might fail to do this by acting in their own self-interest (so to speak, in willful violation of their obligations) at the expense of others. This has already been dealt with. But they may also fail to act in the interest of those to whom they owe a duty for "innocent" reasons. Suppose that an auditor is ethical, in the sense that she has committed herself to act in accordance with her obligations to others, because she has voluntarily agreed to do so via her acceptance of the role of auditor. There is still a difficulty, for there is no way of guaranteeing that an auditor will successfully satisfy the ethical requirements of her role, even with the best of motives. Instead, she might fail to act in accordance with her obligations due to a lack of ability to judge appropriately what action accords with the moral point of view. Auditors have a multitude of rules governing their behavior, and it is important that they follow them. Nevertheless, no set of rules is a complete guide to ethical behavior: for example, the rules themselves may be incomplete, and sometimes they ought to be broken.

This section advances some tentative ideas about how progress might be made in understanding how auditors make ethical judgments within the context of their ethical obligations. The idea is that both technical expertise and moral expertise are necessary in order to fulfil the technical and moral aspects of the auditor's role. Thus, the ability to make ethical judgments in accordance with the moral point of view may be regarded as a form of expertise in auditing.[27]

[27] Distinguishing between technical and moral expertise might suggest to some that they are two radically different kinds of expertise. For example, if one believed in a radical distinction between normative and descriptive theories or issues, or between empirical and normative domains, or believed that science is value-free or value-neutral, one might be tempted to come to make this distinction between types of expertise. This is not implied by the distinction in the text. For an analysis of the underlying problem, see Gaa [1977]. The distinction between technical and moral expertise should be interpreted as focusing on the issues being addressed by an auditor in a particular situation. So, for example, an auditor who is planning an audit engagement has a number of technical judgments to make, requiring technical expertise. As part of the overall planning process, there may be some ethical judgments required, calling for ethical expertise. Or, an auditor may be trying to

The purpose of the rest of this section is to make an argument for the plausibility of this view, and to suggest ways in which the process of making ethical judgments may be studied through the lens of expert moral judgment.

Philosophical Aspects of Moral Expertise

The first issue to address is whether the concept of a moral expert makes sense at all. A common view about ethics holds that ethical judgment is "subjective," i.e., that it is not subject to standards of rationality or that it is not objective in some other sense. For example, it might be claimed that ethical judgment is merely intuitive or based on emotion.[28] Alternatively, ethical judgment might simply be the product of learned patterns of behavior. If either of these positions were correct, the concept of a moral expert would be highly suspect. For, if it is impossible to say that one moral agent is better at making moral judgments, then the concept of moral expertise in particular is open to question. This issue is extremely important, since it relates directly to the foundations of auditors' obligations to society: if the concept cannot be adequately defined, then it is not clear how to determine whether an auditor is honoring the social contract in a given situation.

The concept of a moral expert has received some attention from philosophers [e.g., Singer, 1972; Szabados, 1978; Nielsen, 1978] As Szabados [1978, p. 123] points out, expertise is usually thought of as involving the efficient achievement of an agreed-upon objective or value, whereas ethical issues arise where values conflict. Perhaps not surprisingly, these discussions concern whether moral philosophers are moral experts, in view of their analytic skills and understanding of moral concepts and principles. A common conclusion is that these skills and understanding are helpful, but that additional factors (which moral philosophers have no special access to) are required in order for one to be a moral expert.[29] For example, one must be able to gather, select, and combine information about the specific issues or situations calling for judgment [Singer, 1972, p. 116]. Szabados's [1978, p. 122] conclusion is that with a number of provisos, the concept of moral expertise does make sense:

> Clearly there are skills, tasks and abilities involved in being moral at which some people are better than others. It is also plain that these skills can be taught and the relevant abilities can be more or less developed. It is these features that lend credibility to the idea of moral expertise.

This general statement raises immediately the question of whether auditors in particular can be moral experts, and (if so) to what degree. This is crucially important, since there is no mechanical or rule-bound method to guarantee that auditors (or anybody else) will make the "right decision" in an ethical situation.

---

decide what form of audit report to issue, in a situation where there are a number of ambiguous and vague points regarding the audit evidence collected, or the extent of disclosure of major items. Such a judgment may be primarily ethical, in the sense that the impact of her decision on the various interested parties may be the primary focus. In such a situation, moral expertise would be critical.

[28] This sort of opinion might in fact account for the fact that ethical judgment has not been a subject of research in auditing until recently, and is still minor in comparison with the number of studies done on other aspects of auditing expertise.

[29] Singer [1972] concludes that moral philosophers may be superior moral judges, a view rejected by Szabados and Nielsen.

Indeed, without some concept of expertise, the whole question of auditors' obligations to act from the moral point of view would be suspect.

Psychological Aspects of Moral Expertise

The cognitive approach to expertise emphasizes the knowledge of the expert and the cognitive process through which judgments are made. Accordingly, whether a "correct" decision has been made is less important than to understand how experts make their decisions. The cognitive approach to expertise is appropriate for the purposes of this paper, for two reasons. First, it has been frequently pointed out that auditing is filled with situations in which there is no external criterion for determining the correctness of an expert judgment. According to Gibbins [1984, p. 116; see also, e.g., Bedard and Chi, 1992, p. 15; and Davis and Solomon, 1989],

> As problems such as lawsuits have increased and accounting firms (and the profession) have grown large, pressure has increased to ensure that quality [of professional judgment in public accounting] is sufficient. Measurement of quality according to outcomes is difficult because many important outcomes ... can follow actions by a long period of time and responsibility for particular outcomes can be diffused among a number of actions. In such circumstances, procedures to maintain quality turn on the apparent wisdom or consistency of the action at the time it is implemented, without reference to any specific outcome.

Thus, expert auditors typically act in situations in which there is no useful externally given criterion to be used either to guide the judgment or as feedback to help an auditor learn over time how to make professional judgments "better."

This observation is reinforced by the second reason for adopting the cognitive approach to expertise. By their nature, ethical issues are not subject to any type of independent criterion of correctness, or algorithm which will guarantee that the "right" action is taken. Rather, as indicated above, they involve conflicts among the interests of individuals, in which the interests of some will be given priority over the interests of others. Ethical principles may play a role in the process of deciding on a course of action, but there is no guarantee of "success." This observation is closely analogous to the philosophical concepts of procedural justice, in their focus on process versus outcome. Perfect procedural justice requires that there exist both a criterion of what counts as a just outcome, and a procedure guaranteed to reach that outcome. Imperfect procedural justice requires a criterion of a just outcome, but lacks a procedure which guarantees success in applying it. The ethical situation of auditors is analogous. There are external criteria in the required sense. One approach, based on the expected consequences of one's actions, holds that the auditor's actions are supposed to maximize the welfare of members of society.[30] Another approach is based directly on the existence of fundamental duties of accountants [Ruland 1984, 1989; Ruland and Lindblom, 1992] But there is no decision procedure for guaranteeing that the criterion is satisfied. We are left with the legitimacy of the process itself as a criterion of appropriate behavior.[31]

---

[30] The various ethical theories differ among themselves in their interpretations of what the welfare of society means, and some would deny that welfare in any sense is the appropriate criterion for determining what counts as "ethical" behavior.

[31] This is the general approach adopted by Gaa [1988; see esp. pp. 136-7] for the development of a

Expertise has been defined in a number of ways [see, e.g., Bedard, 1989; Davis and Solomon, 1989] Following Bedard and Chi [1992], the definition used in the remainder of this paper is that of Frensch and Sternberg [1989, p. 158]: "the ability, acquired by practice, to perform qualitatively well in a particular task domain." According to them, expertise has three main components. First, it is acquired by practice, which means that performance of the skill is a matter of degree, and that people thus exhibit degrees of the skills that make up a particular form of expertise. Second, the quality of performance is the criterion of expertise, rather than, e.g., speed of execution of a task or years of experience at performing it. Third, according to Frensch and Sternberg, the performance of experts is superior in quality to that of non-experts. In short, experts are those people who perform well at something important.

While all three of these aspects of expertise are important to the development of a concept of moral expertise, the third deserves additional mention at this point. For, the notion that people with greater expertise do a task better than those with less expertise is an inescapably normative idea. Making qualitative superiority a criterion of expertise presupposes some value judgments about what kinds of skills are important, and what kinds of performance should be rated as superior to others. It is thus clear that the concept of expertise is itself value-laden: an expert is someone who is *good* at doing something *important*. Thus, speed of performing a task is an important and valuable feature of expertise *(ceteris paribus)*, since it reduces the cost of performing an audit, but it is not part of the definition of auditor expertise, nor is it a primary component of the social contract.[32] In the case of the auditor, the auditor is supposed to be good at something society regards as important, as contained in its social contract with the profession. Furthermore, expertise in one task or in one domain does not imply the possession of expertise in some other domain.

Expertise involves the use of judgment in the performance of a task, where judgment is defined [Gibbins and Mason, 1988, p. 4] as "the process of making a choice, a decision, leading to action." The possibility that auditors may exhibit moral expertise (or the lack thereof) does not seem to have been recognized explicitly in the literature. At the same time, the possibility has not been excluded. For example, Gibbins and Mason [1988, p. 5] define professional judgment as:

> [J]udgment exercised with due care, objectivity and integrity within the framework provided by applicable professional standards, by experienced and knowledgeable people.

An expert professional, then, combining the above definition with Frensch and Sternberg's definition, is one who makes professional judgments in a manner which is qualitatively superior. Two points should be noted about this definition. The first is that the definition of professional judgment contained in it imports ethical concepts directly into the definition of an expert professional. Thus, no professional auditor can make professional judgments independently of ethical norms or standards. Second, this definition is sufficiently general to encompass moral expertise, which may be defined as the ability to make ethical

---

theory of standard setting for corporate financial accounting and reporting.

[32] Frensch and Sternberg point out, for example, that speed tends to decline with age, but there is no particular reason to believe that the quality of performance declines with age.

judgments in a qualitatively superior way. In the case of auditing, the ethical judgments in question are those implied by the obligations imposed on auditors by the universal norms and the role-related norms specified by their social contract to perform qualitatively well in a particular task domain.

Moral Judgment and Moral Expertise

The abstract concept of moral expertise requires a more concrete interpretation. A promising candidate is the theory of moral development. According to Rest [1986, p. 7f], moral behavior has four components. One is that a person must be able to recognize a situation as having an ethical component, and therefore requiring an ethical judgment. This involves recognizing that an ethical conflict exists, determining what courses of action are feasible, who is affected by these actions, and how they would be affected. Second, the individual must make a judgment about which course of action is morally right[33], and *ipso facto* ought to be performed. Third, an individual must be committed to morally appropriate action, in the sense that she gives priority to ethical values and principles over personal values. Fourth, the individual must have enough perseverance, ego strength, implementation skills, and perhaps courage, to actually carry out her intentions to act according to her ethical judgment of what action ought to be performed.

It appears that three of these components of moral development (i.e., the first, second, and fourth) may involve some form of skill or expertise. For example, personal experience shows clearly that the ability to recognize the ethical dimensions of situations is a skill that individuals possess in varying degrees, and that it can be developed. This component of the moral development of auditors is examined by Shaub, Finn, and Munter [1992]. Both in general, and in the case of accounting in particular, the second component has received most of the attention of researchers. If this is a promising line of research, this component probably would be its focus. For this reason, it will be helpful to provide a brief review of the Kohlberg-Rest theory of moral development.

According to the psychological theory of moral judgment, as developed by Kohlberg [1984], Rest [1986], and others, people's moral reasoning progresses through a hierarchy of developmental stages, in which they learn how to deal with ethical issues in increasingly sophisticated ways. According to the theory, there are three levels of moral development, termed pre-conventional, conventional, and post-conventional. Each level is in turn divided into two stages. Beginning in early childhood and extending into adulthood, people move through these levels and stages, from lower to higher. At some point, depending on such things as their cognitive abilities, level of education, and the nature of their experiences, development ceases.

At the pre-conventional level, people make judgments about how they

[33] The concept of rightness is used here, following Rest [1986]. He also uses the terms just and fair. Other concepts such as honesty, or the maximization of social welfare could be added as ethical criteria. These are all different ethical concepts and principles which would serve to justify one's actions as being morally appropriate, i.e., as best or acceptable or not forbidden (and therefore allowable). No particular importance should be placed on any one of these concepts within the context of this paper, although the merits of competing ethical theories are obviously critically important in the larger scheme of a general theory of ethics for the public accounting profession.

should act purely in terms of their impact on their own self-interest. The impact of one's actions on others is relevant, if at all, only to the extent that such consequences have an impact on the individual. In the case of contracts, stage 1 moral reasoning implies that an agent would act in accordance with a contract only if violating it would cause her to be punished. A stage 2 agent would violate or abide with the terms depending on which course of action were in her self-interest. The interests of the principal would be taken into account only to the extent that it has an impact on the agent's own self-interest.

At the conventional level (consisting of stages 3 and 4), the interests of others are relevant to making moral judgments in a less direct way. In addition, it is possible (especially with stage 4 reasoning) that an individual would decide to carry out an action which is not in her self-interest to perform. At stage 3, it is important to the individual to obtain the approval of other people (e.g., parents, friends, colleagues, superiors and other associates). Thus, a stage 3 agent would act in accordance with the contract if doing so would enhance the agent's image in the eyes of the principal or other party whose approval the agent seeks.

The fourth stage is more "institutional." By this point in a person's moral development, an individual recognizes that her actions take place in the context of a fabric of social institutions, and that they may either violate or be in accordance with the norms of those institutions. Furthermore, these institutions have social value and need to be reinforced through one's actions. Thus, actions which violate the norms weaken an institution, while actions in accordance with them serve to strengthen them. So, according to stage 4 judgments, those actions should be taken which reinforce the institutions. Thus, a stage 4 individual might decide to act in accordance with a contract on the grounds that contracting is an important form of social arrangement, the success of which depends on people actually carrying out the terms of agreements which they have agreed to honor.

Stage 4 is sometimes called the "law-and-order" stage, because (according to stage 4 reasoning) one should obey the law whatever it is, and it is right to obey the law since laws help to establish, maintain, and preserve social order. For example, an agent might decide to make truthful reports of her efforts because doing so is consistent with the institutional practice of truth-telling, and truth-telling is an important practice to society.

Individuals at the post-conventional level have developed a set of basic principles which may sometimes override the dictates of the established social institutions. They recognize that social institutions are important, and that acting in accordance with them is important. Nevertheless, the post-conventional individual recognizes that there are occasions in which obeying the rules may not be the most appropriate thing to do. Two kinds of reasons for this are possible. The first is that obeying the rule or practice would conflict with more basic principles, such as a principle of justice or fairness. Second, it may be concluded in a particular situation that acting in accordance with the norms of the institution (as one normally would do) would have negative consequences which are sufficiently undesirable that the practice should be violated. For example, in an audit engagement, it would be expected that an auditor will become aware of confidential information about the client's activities. Conventional norms of practice imply that the agent should maintain their confidentiality. Stage 5 reasoning presents at least the possibility of violating the norm of confidentiality under sufficiently extreme circumstances.

In conclusion, moral judgment as characterized by the theory of moral development is a plausible interpretation of the concept of moral expertise. In terms of Frensch and Sternberg's definition, people have an ability (in varying degrees) to make moral judgments qualitatively well, i.e., in a sophisticated manner. Furthermore, according to the theory, this ability is learned and varies in degree among individuals and develops within individuals over time. In order to treat the ability to make moral judgments as a form of expertise, a couple of qualifications must be made. As noted above, the concept of expertise involves a value judgment that certain forms of behavior are qualitatively superior to other forms of behavior. For this reason, consideration of the theory of moral development as a theory of moral expertise requires making the normative judgment that higher levels of moral development are qualitatively better ways of making moral judgments.

It should be pointed out that the Kohlberg theory of moral development is an "impartialist" theory of moral judgment, which focuses on the resolution of ethical issues via such ethical considerations as principles of justice, fairness, or aggregate social welfare. As such, it has been criticized on the grounds that it does not place sufficient importance to alternative systems of thought [Gilligan, 1982; Blum, 1988; Adler, 1989; White, 1992]. Such critics would presumably deny that the stage theory of moral development has much to do with the ability to make moral judgments in a qualitatively superior manner, i.e., that it adequately captures the concept of moral expertise.[34] Nevertheless, the theory is consistent with a number of ethical theories, and has a good deal of empirical support [Rest, 1986; see also Derry, 1989; Weber, 1991].[35] Gilligan's theory presents some very fundamental questions regarding the structure of professional ethics, which are beyond the scope of this paper.

Second, it is essential to note that possession of a higher level of moral development is not the same as being a more "ethical" person. Since the theory of moral development focuses on the cognitive processes involved in moral behavior, it is not concerned primarily with either the specific actions performed, specific judgments made, or in ascribing the character of individuals. Rather, it is concerned with the cognitive process of making moral judgments. So, being a more expert (i.e., qualitatively superior) moral judge does not make one a morally superior person.

The Measurement of Moral Expertise

Moral expertise has escaped the attention of empirical researchers in audit-

---

[34] They might also reject the idea of moral expertise in the first place. For example, some might claim that it separates out a favored class of moral judges. It doesn't do that, except to the extent that individuals who are at higher stages (according to the theory) are classified as making them in an ethically more sophisticated way. The Kohlberg-Rest theory does not exclude the possibility that there may be other legitimate forms of ethical reasoning, and thus other forms of moral expertise.

[35] This topic requires more attention than can be given to it in this paper. For present purposes, it will have to suffice to say that the Kohlberg theory has received a great deal of empirical support. At the same time, it is not being claimed that it is a complete theory of moral judgment, and that other approaches may be "equally" valid. With particular regard to Gilligan's [1982] claims that the ethical reasoning of women is significantly different from the justice orientation of Kohlberg, studies in accounting have found that female accountants have higher scores than comparable males on the MJI [Ponemon 1990] and on the DIT (both described below) than males [Shaub, 1992]. In a corporate setting, Derry [1982] found no difference between males and females; virtually all subjects who reported encountering ethical conflicts at work used "justice language" to describe them.

ing. As has been frequently observed [Bonner and Pennington, 1991; Davis and Solomon, 1989], a major obstacle in any study of expertise is a valid measure of expertise for the task in question. It might appear that the difficulties would be even greater in a "subjective" area such as moral judgment. In fact, however, two different measures of moral development are available. One is the Moral Judgment Interview (MJI) [Colby and Kohlberg, 1987] The MJI is a structured interview in which subjects are presented with an ethical dilemma, and asked a series of questions, the answers to which are intended to reveal the nature of the subject's ethical reasoning. The scoring system for the MJI is a form of protocol analysis, the result of which is a stage-score. The other measure is the Defining Issues Test (DIT) [Rest, 1979, 1986]. The DIT is a paper-and-pencil questionnaire, which presents subjects with a set of moral dilemmas and asks them to rank the four most important reasons influencing their choice of the most appropriate action in the circumstance. These responses are used to construct a number of scores, the most familiar of which is the P-score. The P-score expresses the importance (i.e., frequency) of principled (i.e., post-conventional) reasoning in her evaluation of the dilemmas.[36] None of the scores obtained from the test, including the P-score are intended to place subjects at a particular stage of moral reasoning. Instead, higher P-scores are indicative of more sophistication with which the subject deals with ethical dilemmas. Thus, a higher P-score may be associated with a higher level of moral expertise.

Both the MJI and the DIT have been used recently in accounting research. Examples for the MJI include Ponemon [1990], and for the DIT, Armstrong [1987], Lampe and Finn [1993], Ponemon [1991, 1992a, 1992b], Ponemon and Gabhart [1990], Ponemon and Glazer [1990], and Shaub [1992] The existence of the MJI and DIT, and the baseline measures and exploratory worked contained in the studies just mentioned, may lead to interesting research on moral expertise. This is discussed further in the next section.

Implications

Technical expertise in auditing has been the subject of much research in the last few years. In addition to its interest at an intellectual level, it has major ramifications for the profession. For, if expertise can be better understood—e.g., what skills auditors are good at, what distinguishes an expert from a non-expert, how do they become experts—then the practice of auditing ought to be capable of improvement. Progress is always important, but never more so than in the current situation of increasing competition and increasing societal expectations about the nature and quality of auditors' performance. The concept of moral expertise in auditing may be a nice idea, but it is sterile unless it has implications for research and practice. This section suggests some possible implications for academic research and for the practice of public accounting.

Before turning to some of the specific issues, it is helpful to summarize very briefly the small amount that is known about the moral expertise of accountants. All of the results reported should be considered preliminary, in view of the relatively early stage of this area of research. Only one study on the first component, i.e. the ability to recognize, analyze, and evaluate ethical situations has

[36] The DIT has been extensively validated in a number of ways in a large number (over 500 as of 1986) of studies. The DIT has been described in a review as a paradigm of measurement instruments [McCrae, 1985].

been done [Shaub, Finn, and Munter, 1992]. Their study examined the effects of personal ethical orientations, organizational commitment, and professional commitment on their ethical sensitivity, i.e., their ability to recognize an ethical issue in a professional situation. If it is assumed that an auditor with a higher ethical sensitivity is more expert (i.e., more skilled at recognizing and evaluating ethical issues), then the results are relative to moral expertise of auditors. They found that ethical sensitivity was not influenced by either the professional commitment or organizational commitment of the subject. However, an audi-

Figure 1

DIT P-Scores of Selected Groups

65.2	Moral Philosophy and Political Science Doctoral Students	Rest, 1986
59.8	Liberal Protestant Seminarians	Rest, 1986
52.2	Advanced Law Students	Rest, 1986
50.2	Medical Students	Rest, 1986
49.6	Accountants (Female, Senior)	Shaub, 1992
49.5	Practicing Physicians	Rest, 1986
48.1	Accountants (Liberal Arts)	Ponemon & Glazer, 1990
47.7	Accountants (Supervisors)	Ponemon, 1992a
46.8	Staff Nurses	Rest, 1986
46.7	Accountants (Female, Management)	Shaub, 1992
45.1	Accountants (Female)	Shaub, 1992
44.9	College Graduates	Rest, 1986
44.7	Accountants (Staff)	Ponemon, 1992a
43.6	Accountants (Third-Year Staff)	Shaub, 1992
43.5	Accountants (Female, Staff)	Shaub, 1992
43.0	Accountants (Second-Year Staff)	Shaub, 1992
42.4	Accountants (Senior)	Ponemon, 1992a
41.9	Accountants (Managers)	Lampe & Finn, 1993
41.6	Navy Enlisted Men	Rest, 1986
41.4	Accountants (Senior)	Shaub, 1992
41.4	Accountants (Male, Staff)	Shaub, 1992
41.0	Accountants (First-Year Staff)	Shaub, 1992
40.0	Adults (General Population)	Rest, 1982
39.8	Accountants (Staff)	Lampe & Finn, 1993
39.8	Accountants (Manager)	Shaub, 1992
38.6	Accountants (Male)	Shaub, 1992
38.5	Accountants	Armstrong, 1987
38.1	Accountants (Public)	Ponemon & Glazer, 1990
38.1	Accountants (Senior Manager)	Shaub, 1992
37.5	Accountants (Partner)	Shaub, 1992
37.1	Accountants	Armstrong, 1987
36.8	Accountants (Male, Management)	Shaub, 1992
35.7	Accountants (Managers)	Ponemon, 1992a
35.6	Accountants (Male, Senior)	Shaub, 1992
32.2	Accountants (Partners)	Ponemon, 1992a

Figure 2

DIT P-Scores of Student Groups

47.4	Accounting, Seniors, Liberal Arts	Ponemon & Glazer, 1990
45.9	College, Female	Rest, 1986
45.8	Accounting, Female	Shaub, 1992
44.1	College, Male	Rest, 1986
43.2	College	Rest, 1979
42.8	Business, Graduate	Rest, 1982
38.6	Accounting, Masters	Ponemon, 1992b
38.4	Accounting, Undergraduate	Ponemon, 1992b
37.4	Accounting, Senior, Public	Ponemon & Glazer, 1990
36.3	Accounting, Male	Shaub, 1992
34.5	Accounting, Undergraduate	Lampe & Finn, 1993
31.8	High School Seniors	Rest, 1982
26.7	Accounting, Freshman, Liberal Arts	Ponemon & Glazer, 1990
25.3	Accounting, Freshman, Public	Ponemon & Glazer, 1990
20.0	High School Juniors	Rest, 1979

tor's ethical orientation (i.e., idealism vs. pragmatism, and absolutism vs. relativism) were correlated with the ability to recognize ethical situations.

Most of the research to date has concerned the second component of Rest's model of moral development, i.e., the level of moral development as measured by the Moral Judgment Interview and the Defining Issues Test. The main results of the studies of moral judgment (i.e., the second component of Rest's model) studies are shown in Figures 1 and 2.[37] Figure 1 includes mean scores for a number of occupational groups, including professionals and professional students. It reveals a distinctive pattern of scores in which the P-scores of public accountants are about the same as university students (Figure 2), but lower than university graduates—and much lower than a number of other professional groups. Figure 1 also reveals a large amount of unexplained dispersion in P-scores among the study samples and sub-samples, centering roughly around the mean for the overall adult population. In addition, they show that the scores of female accountants are higher than those of males, controlled for rank in firm. The fourth interesting finding is that three cross-sectional studies have revealed a link between moral expertise (as measured by DIT P-scores in Ponemon [1992] and Shaub [1992], and by MJI scores in Ponemon [1990]) and rank in public accounting firms. Specifically, the relationship appears to be an inverted U, i.e., P-scores increase from staff to senior and supervisor, and then decline from there to manager and partner. This raises the interesting possibility that partners may not be the most expert members of the firm (with regard to moral expertise). It also raises the issue of whether (at least in the case of moral expertise) experience in a task is a good surrogate for degree of expertise [see, e.g., Davis and Solomon, 1989; Bedard, 1991; Bonner and Pennington, 1991].

[37] There is some repetition in the scores reported in both figures. For example, the scores for female senior accountants, female staff accountants, and female accountants as a group are all reported.

Since 20-25% of the population is estimated to be post-conventional moral reasoners, the data from a number of DIT studies suggest that accountants are predominantly conventional moral reasoners. Whether they are stage 3 (seekers of approval) or 4 ("law-and-order" types) is unclear at this point. On the one hand, the nearly ubiquitous presence of rules in public accounting suggest that it might be "natural" for public accountants to stabilize at stage 4. On the other hand, to the extent that public accounting firms are highly organized entities with clear procedures and goals, and with a large amount of interpersonal contact, it might be suggested that they would stabilize at stage 3. The little evidence which exists is equivocal. Ponemon [1992] found a high frequency of stage 3 responses, leading him to suggest that partners and managers (who, as noted, had lower P-scores than their subordinates) are predominantly stage 3 (conventional) moral reasoners. Lampe and Finn [1991] found a relatively high proportion of stage 4 responses on the DIT. The scores for students (Figure 2) show a similar pattern, i.e., that females may score higher than males, and that accounting students have lower P-scores than other groups of university students (with the exception of females [Shaub, 1992] and seniors at a liberal arts college [Ponemon and Glazer, 1990]).

Implications for Research

The account of moral expertise in auditing presented above is really more a proposal for a theory, requiring further development. In spite of its sketchiness, a number of empirical research questions readily arise, a few of which are outlined below. They are grouped into three categories: those concerning the concept of moral expertise per se, those concerning the realization of moral expertise in actual behavior, and those concerning its relationships to other forms of expertise.

Studies of Moral Expertise

First, the level of moral expertise of auditors deserves closer attention. With respect to moral judgment, the spread of P-scores of the various samples of both students and practicing auditors shows clearly that the factors influencing the stage of moral development need to be clarified. Second, expertise in the other components of moral development, i.e., the recognition and evaluation of ethical issues, and the factors leading from moral judgment to action, has received very little attention. Third, the existence of an independent measure of moral expertise may provide a way of investigating some of the basic relationships which underlie other expertise studies. For example, the relationship between consensus judgments and the level of moral expertise (moral judgment) could be investigated directly, rather than via the surrogate variable, experience. This would be all the more interesting since (as discussed above) the relationship between moral expertise and experience appears to be more complicated than might have been thought.

Another reason for interest in the basic relationships is based on the observations of Frensch and Sternberg [1989] and Bonner and Pennington [1991, pp. 16-17] that experts tend to be very good at making decisions in common situations because they have been able to "routinize" the decision process, whereas they are less able to handle rarely found situations. It may turn out on investigation that conventional (i.e., stage 3 and 4) moral judges exhibit a higher degree of consensus, because they are more rule-oriented than post-conventional moral judges. Thus, it is possible that some measures of decision quality, such as consensus and consistency with professional and firm standards [Ashton, 1983; Bedard, 1991] are an artifact of auditors' predilection for following rules, rather than being indicative of a higher level of expertise per se.

Determinants of Moral Expertise

We do not know much about the factors which affect the moral judgment and moral behavior of people (such as accountants) who make moral judgments and act within the context of a) special occupational roles (such as that of professional accountant) and b) rule-governed institutional structures (such as a professional association, and employment in a public accounting firm). To the extent that it is a "pure" cognitive developmental theory, the Kohlberg-Rest theory does not help much in addressing these issues. The reason for this is that it focuses on developmental dynamics and its correlates, without a focus on the organizational forces and constraints faced by people working in organizations or professions.[38] That is, the complications which people find in their own lives, especially when they occupy roles which produce conflicts, were given less attention at first. For this reason, a broader theory, i.e., a theory of moral judgment in the context of institutional (i.e., professional and employment) settings, is needed.

Three recent attempts to provide a richer theory of moral judgment and behavior in an organizational setting show some of the possibilities [Trevino, 1986; Trevino and Youngblood, 1990; and Jones, 1991]. They build on the Kohlberg-Rest theory, which they regard as a basic theory of moral judgment and behavior, by introducing additional factors which might affect individuals' moral judgments and actions. According to Trevino, moral behavior is the result of moral judgments, but the effect of moral judgment is moderated by two sets of factors. One set consists of situational moderators. Within this group there are three types of moderators: the immediate job context, organizational culture, and characteristics of the work. According to the theory, situational moderators affect behavior both directly and indirectly by affecting moral judgment.[39] Jones [1991] identifies a number of factors which he claims influence all of the components leading up to moral behavior by affecting the intensity with which the situation is perceived. These factors of moral intensity are: magnitude of consequences, social consensus, probability of effect, temporal immediacy, proximity, and concentration of effect.[40]

Although their theories are not exactly unprecedented,[41] these theories appear

---

[38] This is a simplified view, since the theory has been tested in, e.g., school settings and prisons; and the effectiveness of educational interventions has been an important stream of the total research program. Furthermore, Rest has stated [1986] that the study of moral judgment in professionals is likely to be a fruitful avenue, because professionals have explicit standards of behavior to attain, and they often are expected to explicitly justify the moral judgments and actions they take. In this sense, the proposals presented here work out some of the possibilities.

[39] The other set, called individual moderators, act directly to influence action. Individual moderators consist of: ego strength, field dependence, and locus of control. Because they do not affect the moral judgment itself, they are irrelevant to the issue at hand.

[40] In addition, Jones identifies factors which affect only the third and fourth components of the Rest model.

[41] For example, without developing a more general theory, Rest [1986] describes studies relating to ego strength (pp. 15f) and obedience to authority (pp. 12f), and other personal and situational factors (chs. 4 and 5).

to have potential for explaining moral judgment and behavior of professionals, and could be given an interpretation specifically focused on public accounting.[42] For example, Lampe and Finn [1992] and Ponemon [1992] both suggest that one of the factors influencing DIT P-scores is socialization. If so, one would also expect a high degree of consensus of decisions among subjects. The existence of some form of socialization and selection of employees is quite plausible, especially in light of the structure of public accounting firms, and of the situational moderators identified by Trevino [1986]. If this is the case, then one might find a firm effect in a sample of subjects drawn from multiple accounting firms.

One of the striking results of DIT studies of accountants is the significantly higher P-scores of female auditors and students described above. This is interesting in light of Gilligan's [1982] claim that females will score lower (even though Kohlberg's theory that does not predict any difference between males and females.) This result, which may be explained by the types of variables discussed above, clearly deserves more attention. This empirical finding raises the possibility that females might exhibit different characteristics (e.g., degree of consensus) on tasks involving technical expertise.

The Relation of Moral to Other Forms of Expertise

The definition of expertise implies that expertise is domain-specific. Indeed, Frensch and Sternberg [1989] reject the notion that there might be a unitary characteristic which underlies the various manifestations of expertise.[43] This means that there is no *a priori* reason to believe that expertise in one domain would be highly correlated with expertise in another, except insofar as the skills or domains "resemble" each other. Since technical expertise might be thought of as very different from moral expertise, one could speculate that technical expertise and moral expertise might even be negatively correlated.

On the other hand, since there appears to be a connection between expertise, consensus, and the existence of explicit standards, there may be a connection between technical expertise and moral expertise. For moral expertise, the general theory predicts no connection between level of expertise and consensus. However, one might expect that a group of subjects (i.e., auditors) who are strongly attuned to the idea of following rules would exhibit high consensus—since one might expect them to be "better" at following rules. Since the existence of a multitude of rules governing auditors indicates that they are extremely important, an ability to follow them "well" should be regarded itself as a form of expertise. Presumably, a low level of expertise in "following the rules well" involves being able to determine when a "black-and-white" situation clearly falls within the range of a rule, and then acting in accordance with it. Higher levels of expertise, then, would involve such things as an ability to balance the requirements of conflicting rules, interpreting vague rules, or interpret-

[42] For example, the Lampe-Finn study could be interpreted as a test of a hypothesis related to one proposed by Trevino [1986] Trevino's hypothesis is that people will make moral judgments at a lower level in their real work situations than for the hypothetical dilemmas. If the response items specified for the vignettes were coded according to levels of moral judgment (thereby making the vignette questionnaire into something analogous to a DIT, only more realistic for accountants), then one could compare the two scores. Likewise, Jones's theory that moral intensity could be tested by administering the vignette questionnaire to non-accountants.

[43] They make a comparison with the g construct in the psychology of intelligence.

ing the rules in novel situations. Finally, one might expect that experts at following rules (whether "ethical" or "technical") would exhibit a fair degree of consensus, as noted above. Although the theory of moral development does not presume that subjects at a given stage will make the same choices, auditors (whether expert or novice) are a relatively homogeneous group in terms of training and occupation, and are all trained in a single set of rules. So, it would not be surprising to find that they would in fact exhibit consensus.

This line of argument could even be extended to suggest that expertise (at least moral expertise) might be two-dimensional, in the following sense: Auditors have both a level of moral expertise as measured by the DIT or MJI, and also a level of expertise in terms of their possession of a knowledge structure which allows them to make moral judgments "efficiently", by helping to search for, organize, and use information efficiently in a routine fashion. The result of this efficiency or routinization may be high consensus and high consistency with external standards of behavior [Bedard, 1991]. Thus, moral expertise may be two-dimensional, in the sense that it is possible both for conventional moral judges to have high consensus and high consistency with both technical and ethical standards, and for post-conventional moral judges to have lower consensus and lower consistency with standards. Since the empirical data strongly suggest that most auditors are conventional moral judges, it might turn out on examination that auditors who are more expert than their (less experienced) subordinates at technical tasks are less expert in the moral domain—because they are "efficiency experts."

Post-conventional moral reasoning, on the other hand, implies the ability to move beyond the rules to decide when rules ought to be broken, e.g., for the welfare of society or because justice or duty demands it. Inflexibility is a price of expertise in the sense of efficiency [Frensch and Sternberg, 1989; Bonner and Pennington, 1991], and sometimes situations arise where one must recognize that the normal everyday habits and rules will not do the job, with respect to satisfying the demands of the auditor's obligations to society. It may be the rare situations which the conventional auditor is less able to handle appropriately — and which land them in court on the wrong end of a lawsuit, because "efficiency experts" would be less able to respond appropriately to such situations. From the moral development point of view, their conventional approach to moral judgments traps them—even if conventional reasoning works well most of the time.

Implications for Practice

The evidence from studies on DIT P-scores reviewed above and summarized in Figure 1 indicate that the general level of moral expertise of auditors is not high, when compared to other groups. This might signal to some people that something is radically wrong somewhere in the institution of auditing, including perhaps both the education system and the structure of public accounting firms. For, if auditors are members of a socially important profession, with explicitly agreed-upon obligations to act in the "public interest" (and *ipso facto* to make professional judgments from the moral point of view), then it might be disconcerting that a number of studies show that auditors are not particularly sophisticated moral reasoners—and that partners have the lowest scores within their firms. The low scores of accounting students serve to show that the problem—if there is one—does not originate within accounting firms. So, it is worthwhile to examine briefly some of the issues that arise for the profession, once it is recognized that moral judgment and behavior are subject to serious study and examination as a form of expertise.

How Expert Must Auditors Be?

If further studies of the moral judgment and behavior of auditors support the studies conducted so far, some of the assumptions about the role of the auditor might merit re-examination. The social contract between auditors and society requires auditors to act from the moral point of view, which involves taking the interests of all members of society into account when making ethical judgments. One might conclude that the moral point of view requires post-conventional moral judgment. But this is not the case. "Low" DIT P-scores do not necessarily indicate the existence of a social problem, with respect to the social contract. For one thing, a post-conventional stage of moral development means that an individual recognizes the importance of rules and social institutions, and the importance of acting in accordance with them. At the same time, situations arise in which "higher" principles indicate that the conventional behavior, i.e., actions in accordance with the rules, is not appropriate. Thus, a post-conventional moral judge is capable of "post-conventional" moral reasoning, but will reason in accordance with convention much, if not most, of the time.[44] So, it appears that conventional moral judgment is compatible with the moral point of view, particularly insofar as auditors do not face "post-conventional problems," i.e., problems for which conventional reasoning is inadequate.

Rather, the question is this: What degree of moral expertise is required by auditors, in order to carry out their professional obligations? The answer is complex, but it starts with the social contract. That is, the appropriate degree of moral expertise depends on the amount of sophistication required in order to resolve the ethical issues actually confronted by auditors, in a way that satisfies the interests of all those interested parties to whom they owe a duty. One reason why most people do not reach post-conventional stages of moral reasoning is that they do not (often enough) face situations in which conventional reasoning is insufficient.[45] So, it is (in a broad sense) an empirical question as to what level of moral development is required of auditors.

The degree of moral expertise required of auditors is also a function of the set of rules which they have to follow. Acting in accordance with the moral point of view can be accomplished (at least in many cases) if one is acting in accordance with a set of rules which satisfy the moral point of view [Ruland and Lindblom, 1992]. This is an essential feature of any rule-based theory of morality. Such theories hold that there are two tiers of rational, or ethical, choice. One level concerns the choice of rules, while the second concerns the choice of actions within the constraint of the previously specified rules. Thus, the rules promulgated must satisfy the requirements of the moral point of view. Individual actions, then, should be chosen which are in accordance with the rules. Indeed, if the rules are ethically appropriate (e.g., they satisfy the moral

[44] At least this is true for Rest's version of Kohlbergian theory, in which higher stages incorporate the lower stages. [Rest, 1986] Even if one believed that the stages are discrete, then an individual's judgments (and actions) will usually be the same as the actions performed by a person at a lower stage of development.

[45] In addition, the correlation between stage of moral development (or DIT P-score) and intelligence and education suggest an intellectual component in addition to relevant experiences and challenges.

point of view), then the judgments and actions of individuals are morally justified by appeal to those rules.[46] Thus, stage 4 moral judges rely implicitly on the assumption that the rules and policies which already exist are a reliable guide to determining which actions benefit the community as a whole, and its members.

This suggests that as long as an auditor is an "expert" at following the rules (i.e., is an expert in the "efficiency" sense discussed above), she satisfies the social contract.[47] That is, perhaps society expects auditors to be good at following the rules, but does not require them to be extremely sophisticated (i.e., post-conventional) in moral reasoning skills. It should be noted that this argument presumes that conventional auditors are in fact stage 4 moral reasoners, rather than stage 3. Moral expertise, i.e., skill at making ethical judgments, is still important, since no set of rules can be expected to eliminate the necessity of judgment in applying it to real ethical problems, and the ability to follow rules may itself be a form of expertise. As long as the rules governing auditors (including generally accepted accounting principles, generally accepted auditing standards, and especially the principles, rules and interpretations in the codes of professional conduct) are ethically "appropriate"[48], then the auditor's ethical obligations are honored by acting in accordance with them.

This may explain the otherwise puzzling observation of Lampe and Finn [1993] that auditors have low P-scores, and yet auditors enjoy highly favorable public perceptions of their moral standards. Low P-scores are not an indication that public accountants are unethical, nor that public trust in the behavior of public accountants is misplaced. Consistent with this, it may be that favorable public attitudes are not based on perceptions of the sophistication with which public accountants address moral issues. Rather, it is quite possible that they are a function of perceptions of the personal characteristics of public accountants. For example, they may be held in high regard because of perceptions that accountants have integrity, are honest, act in accordance with their public duties, recognize their fiduciary responsibilities to other parties rather than act in their own self-interest, and so on. In short, demonstrated commitment to their professional duties, as contained in their codes of conduct, may be the crucial variable [Frank, 1988]. Indeed, it is not entirely obvious that society wants or needs hordes of post-conventional auditors—although there are surely ethical situations (presumably rarely occurring) where the ability and flexibility to respond in a more sophisticated manner would be highly valued by both auditors and society.

---

[46] Rule utilitarianism is an example of such a theory. The various versions of utilitarianism all share the principle that those actions should be chosen which are expected to maximize the amount of social welfare. According to act utilitarianism, moral agents are supposed to choose each of their actions by this criterion. According to rule utilitarianism, the rules are supposed to satisfy the utilitarian criterion, while individual actions should be chosen which are in accordance with the rules. See, e.g., Harsanyi [1977] for an argument in favor of rule utilitarianism. See also Gaa [1988]. Note that rule utilitarianism is only one form of "indirect" consequentialism; in addition, there are many rule-based ethical theories which are not based on the consequences of actions [Sen and Williams, 1982, Introduction].

[47] The point here is analogous to the suggestion of Ashton [1983], and adopted by Bedard and Chi [1992], that complying with professional and firm standards be used as a criterion of expertise.

[48] How one would distinguish the "good" rules from the "bad" rules, and how firms and professional organizations should proceed in order to promulgate "good" rules is an enormous topic which can only be mentioned here. This problem is addressed with regard to standard setting for corporate financial reporting in Gaa [1988, Chs. 8 and 10].

Figure 3

Framework For Ethical Decision (Adapted from AAA, 1990)

<u>A Decision Model For Resolving Ethical Issues</u>

I. **Determine The Facts**
(What, Who, Where, When, How)
Including Legal, Professional, Organization Rules And Regulations

II. **Define The Ethical Issues**
   A. Specify The Problem (e.g., Conflicting Rights, Rights vs. Welfare, Safety vs. Rights)
   B. Whose Problem Is It?
   C. Identify Stakeholders
   D. Identify Major Principles, Rules, Values (e.g., Quality of Life, Self-Determination, Self-Respect, Financial Responsibility, Fiduciary Duties, Honesty, Integrity)

III. **Specify The Alternative Actions (This May Require Some Creativity)**

IV. **Examine And Compare Alternatives With Respect To Ethical Considerations**
   A. *Vis á vis* Principles, Rules, Values
   Rights And Duties
   Fairness And Justice
   Virtues
   B. *Vis á vis* The Consequences
   Positive vs. Negative
   Short Run vs. Long Run
   C. *Vis á vis* Laws, Rules, Regulations

V. **Make Your Decision**

Can Moral Judgment be Learned?

If moral judgment is indeed a form of expertise, then the question arises as to whether it can be taught, either to students or to practicing auditors (as part of their training programs). If the answer is "yes," and if one were to conclude that auditors are not sufficiently skilled at it, then it would be very important to implement ethics education into both university curricula and firm training programs. According to Bonner and Pennington [1991, p.27], there is "a strong relation between the learning environment and performance, which suggests that performance is probably poor in some tasks because auditors have not had good opportunities to acquire knowledge." They conclude that such learning would involve both formal instruction and practice. Presumably, education and training would be aimed at all relevant components of Rest's four-component model of moral behavior, including both the stage of moral development, and the skills of judgment in applying ethical principles and rules to specific situations. It is also possible that the development of suitable decision aids would increase the ability of auditors to make judgments, and to act, in accordance with their obligations. The decision model in Figure 3 is a crude example, that may nevertheless be helpful.[49]

Empirical evidence does not exist for the first and fourth components of Rest's model of moral behavior. With respect to the second component, i.e., moral judgment, the evidence is somewhat mixed. In general, a large number of studies show that educational interventions do have an effect on moral judgment. Similar to Bonner and Pennington's [1991] conclusions regarding expertise, Rest makes the following conclusions regarding ethics education: Programs which involve either the discussions of ethical dilemmas or involving personality development produce "modest but definite" gains. Discussions of dilemmas do slightly better than personality development, while "academic" courses do not appear to have an effect. Furthermore, there is weak evidence that programs involving adults have a greater effect than programs for younger subjects. In addition, programs lasting between 3 and 12 weeks seem to work best. In sum, these general results suggest that properly designed education and training programs of relatively short duration may have a significant positive impact on the ability of auditors to make moral judgments [Rest, 1986, pp. 85f].

Conclusion

The purpose of this paper is to present the outlines of an ethical theory for auditing, based on the fundamental notion of a social contract between auditors (and their professional organizations) and the rest of society. That contract enforces on auditors certain obligations, which taken together constitute their role. Both technical and moral expertise are required. Auditors agree as part of their contract with society to be objective and independent. Definitions of objectivity and independence recognize that, when providing professional services, more than one party has an interest in the way those services are performed. These parties include employees, clients, such third parties as investors and creditors, as well as accountants themselves. The interests of these parties conflict in a way such that the public accountant is unable to maximize the welfare of all of them simultaneously. That is, there will be at least sometimes "winners" and "losers" resulting from the accountant's actions. An especially important aspect of this situation is that the accountant may find herself in a conflict of interest, such that it is possible to act in her own self-interest at the expense of the interest of others.

In view of this fact, the principle of objectivity says that the public accountant ought to act in a way that is fair to all parties. By implication, fairness does not imply that everyone will benefit to the maximum by the accountant's actions. Since this is especially important and sensitive when a public accountant is performing an attest engagement, special rules are necessary in order to assure that the existence of a conflict of interest does not actually harm others. These principles reduce essentially to the following: auditors are expected to

[49] This decision model is similar to the model in the materials developed by the American Accounting Association's Committee on Professionalism and Ethics [1990], and in Arthur Andersen's materials for teaching business ethics. The premise behind it is that such a model helps people to organize their analysis and decision making. Any decision aids developed for practicing auditors would have to recognize that there is by definition no mechanical way of making ethical decisions, as there might be for some technical issues, e.g., statistical sampling. Rather, they would probably resemble the more open-ended checklists used in other areas.

make ethical judgments in accordance with the moral point of view, and in particular to avoid certain conflicts of interest. This means that an essential part of the auditor's role is to possess a "sufficiently high" degree of moral expertise. The concept of moral expertise is presented and defined. Its relationship to technical expertise is explored, and the problem of measuring it is addressed.

A number of implications of this analysis, for both research and professional practice, are presented. Among other things, it is suggested that there may be a socially desirable degree of moral reasoning which auditors are expected to have. This expertise presumably would involve both a desirable level of moral reasoning ability, and sufficient skill in following professional and firm standards of behavior. The analysis raises important questions about the education of accounting students, firm selection and retention policies, staff training programs, and so on. How is a firm to organize itself in order to gain the efficiencies of expertise (including possibly the efficiency of conventional, i.e., stage 4, moral reasoning) and still be able to respond adequately to the relatively rare ethical challenges that "don't fit the rule book?" The importance of this issue is obvious. On the one hand, there are tremendous economic forces working on public accounting firms to maximize efficiency, and pressuring them to perform audits at "full speed ahead." At the same time, there are ethical icebergs out there in the fog waiting to sink the firm if the crew does not recognize and deal with them.

The final conclusion is an ethical dilemma, for society: In many cases, no harm is done to society by auditors acting in a conventional manner, i.e., by following the rules. In fact, society is presumably better off to the extent that auditors who follow standards very well are more efficient. Indeed, if there were a correlation between high technical expertise and conventional (i.e., stage 4) moral development, society might (to this extent) want auditors who are also conventional moral judges. The problem is that sometimes situations arise where conventional reasoning is less likely to yield the decision that society would have wanted. The losses in the savings and loan industry are spectacular examples of this, to the degree that auditors are part of the "causal chain" [Gaa and Smith, 1985]. This indicates that the social contract between society and the profession requires further clarification. If it is too much to ask that auditors will be highly expert in both technical and moral matters (since, perhaps, such people do not in fact exist in "sufficient" numbers), which type of expertise is more important? If technical expertise is more important, then society should expect what might be regarded in hindsight as moral lapses, and re-consider the penalties (e.g., through negligence suits) it places on them. On the other hand, if moral expertise is more important, then it should expect, *ceteris paribus*, that the audit industry will be less competitive, or at least less efficient and therefore more costly. In short, the expectations gap looks a little different, from the moral point of view.

References

Abdel-khalik, A. R. and I. Solomon, *Research Opportunities in Auditing: The Second Decade.* American Accounting Association, Auditing Section (1988).

Adler, J., "Particularity, Gilligan, and the Two-Levels View: A Reply," *Ethics* (1989), pp. 149-156.

American Institute of Certified Public Accountants, "AICPA Brief in Continental Vending," *The Journal of Accountancy* (1970), pp. 69-73.

American Institute of Certified Public Accountants (AICPA), *The Code of Professional Conduct of the American Institute of Certified Public Accountants,* (AICPA, 1988).

Armstrong, M. B., "Moral Development and Accounting Education," *Journal of Accounting Education* (1987), pp. 27-34.

Ashton, R. H., *Research in Audit Decision Making: Rationale, Evidence, and Implications.* Research Monograph No. 6, The Canadian Certified General Accountants Research Foundation (1983).

Baier, K., *From A Moral Point of View*, 2nd ed. Random House (1965).

Bayles, M. D., *Professional Ethics*, 2nd ed. Wadsworth (1989).

Beach, J., "Codes of Ethics: Court Enforcement through Public Policy," *Business & Professional Ethics Journal* (1985), pp. 53-72.

Beauchamp, T. L. and N. E. Bowie, *Ethical Theory and Business,* 3rd ed., Prentice-Hall (1988).

Bedard J. and M. T. H. Chi, "Expertise in Auditing," *Auditing: A Journal of Practice & Theory* (forthcoming 1992).

Bedard, J., "Expertise in Auditing: Myth or Reality?" *Accounting, Organizations and Society* (1989), pp. 113-131.

Bedard, J., "Expertise and Its Relation to Audit Decision Quality," *Contemporary Accounting Research* (1991), pp. 198-222.

Blum L. A., "Gilligan and Kohlberg: Implications for Moral Theory," *Ethics,* Volume 98 (1988), pp. 472-491.

Bonner, S. E. and N. Pennington, "Cognitive Processes and Knowledge as Determinants of Auditor Expertise," *Journal of Accounting Literature* (1991), pp. 1-50.

Bowie, N. E. and R. F. Duska, *Business Ethics,* 2nd ed., Prentice-Hall (1990).

Bowie, N. E., "Challenging the Egoistic Paradigm," *Business Ethics Quarterly* (1991), pp. 1-22.

Colby, A. and L. Kohlberg, *The Measurement of Moral Judgment,* 2 vols., Cambridge University Press (1987).

Cohen Commission: Commission on Auditors' Responsibilities, *Report, Conclusions, and Recommendations* (1978).

Davis, J. S. and I. Solomon, "Experience, Expertise, and Expert-Performance Research in Public Accounting," *Journal of Accounting Literature* (1989), pp. 150-164.

Davis, M., "Conflict of Interest," *Business and Professional Ethics Journal* (1982), pp. 17-27.

Davis, M., "The Moral Legislature: Contractualism without an Archimedean Point," *Ethics* (1992), pp. 303-318.

De Angelo, L. E., "Auditor Independence, 'Low Balling,' and Disclosure Regulation," *Journal of Accounting and Economics* (1981), pp. 113-127.

Derry, R., "An Empirical Study of Moral Reasoning Among Managers," *Journal of Business Ethics (1989), pp. 855-862.*

Donaldson, T. *Corporations and Morality*, Prentice-Hall (1982).

Downie, R. S., *Roles and Values: An Introduction to Social Ethics*, Methuen (1971).

Dunfee, T. W., "Business Ethics and Extant Social Contracts," *Business Ethics Quarterly* (1991), pp. 23-52.

Etzioni, A., *The Moral Dimension: Toward a New Economics,* The Free Press (1988).

Frank, R. H., *Passions Within Reason,* W. W. Norton and Company (1988).

Frensch, P. A. and R. J. Sternberg, "Expertise and Intelligent Thinking: When Is It Worse to Know Better?" In R. J. Sternberg, ed. *Advances in the Psychology of Human Intelligence*, vol. 5, Lawrence Erlbaum Associates (1989), pp. 157-188.

Gaa, J. C., "Moral Autonomy and the Rationality of Science," *Philosophy of Science* (1977), pp. 513-541.

Gaa, J. C., "User Primacy in Corporate Financial Reporting: A Social Contract Approach," *The Accounting Review* (July 1986), pp. 435-454.

Gaa, J. C., *Methodological Foundations of Standard Setting for Corporate Financial Reporting,* Studies in Accounting Research No. 28, American Accounting Association (1988).

Gaa, J. C., "A Game-Theoretic Analysis of Professional Rights and Responsibilities," *Journal of Business Ethics* (1990), pp. 37-47.

Gaa, J. C., "The Expectations Game: Regulation of Auditors by Government and the Profession," *Critical Perspectives on Accounting* (1991), pp. 83-107.
Gaa, J. C. and C. H. Smith, "Auditors and Deceptive Financial Statements: Assigning Responsibility and Blame," *Contemporary Accounting Research* (Spring 1985), pp. 219 - 241.
Gibbins, M. and A. K. Mason, *Professional Judgment in Financial Reporting,* Canadian Institute of Chartered Accountants (1988).
Gibbins, M., "Propositions about the Psychology of Professional Judgment in Public Accounting," *Journal of Accounting Research* (Spring 1984), pp. 103-125.
Gilligan, C., *In a Different Voice: Psychological Theory and Women's Development,* Harvard University Press (1982).
Gunz, S. and J. McCutcheon, "Some Unresolved Ethical Issues in Auditing," *Journal of Business Ethics* (1991), pp. 777-786.
Harsanyi, J. C., *Rational Behavior and Bargaining Equilibrium in Games and Social Situations,* Cambridge University Press (1977).
Held, V., *Rights and Goods: Justifying Social Action,* University of Chicago Press (1984).
Institute of Chartered Accountants of Ontario (ICAO), *Rules of Professional Conduct,* ICAO (1988)
International Federation of Accountants (IFAC), "Guideline on Ethics for Professional Accountants," IFAC (1990).
Jones, T. M., "Ethical Decision Making by Individuals in Organizations: An Issue-Contingent Model," *Academy of Management Review* (1991), pp. 366-395.
Keeley, M., *A Social-Contract Theory of Organizations,* Notre Dame Press (1988).
Kohlberg, L., *Essays in Moral Development, Volume II: The Psychology of Moral Development,* Harper & Row (1984).
Lampe, J. C. and D. W. Finn, "A Model of Auditors' Ethical Decision Processes," *Auditing: A Journal of Practice and Theory* (Supplement 1993, forthcoming).
Lavin, D., "Perceptions of the Independence of the Auditor," *The Accounting Review* (January 1976), pp. 41-50.
Mautz, R. K. and H. A. Sharaf, *The Philosophy of Auditing,* American Accounting Association (1961).
McCrae, R. R., "The Defining Issues Test," in J. V. Mitchell, Jr., ed. *The Ninth Mental Measurements Yearbook,* The University of Nebraska Press, vol. 1 (1985) pp. 439-442.
Moore, W. E., *The Professions: Roles and Rules,* Russell Sage Foundation (1970).
Nielsen, K., "Moral Expertise," *Midwestern Journal of Philosophy* (1978), pp. 35-45.
Noreen, E., "The Economics of Ethics: A New Perspective on Agency Theory," *Accounting, Organizations and Society* (1988) pp. 359-369.
Ponemon, L. and D. R. L. Gabhart, "Auditor Independence Judgments: A Cognitive-Developmental Model and Experimental Evidence," *Contemporary Accounting Research* (Fall 1989), pp. 227-251.
Ponemon, L. A. and A. Glazer, "Accounting Education and Ethical Development: The Influence of Liberal Learning on Students and Alumni in Accounting Practice," *Issues in Accounting Education* (Fall 1990), pp. 195-208.
Ponemon, L. "Ethical Judgments in Accounting: A Cognitive-Developmental Perspective," *Critical Perspectives on Accounting* (1990), pp. 191-215.
Ponemon, L. A., "Ethical Reasoning and Selection-Socialization in Accounting," *Accounting, Organizations and Society* (forthcoming, 1992).
Ponemon, L. A., "Can Ethics be Taught in Accounting?" Unpublished, Babson College (1992).
Rest, J. R., *Development in Judging Moral Issues,* University of Minnesota Press, (1979).
Rest, J. R., "A Psychologist Looks at the Teaching of Ethics," *Hastings Center Report* (1982), pp. 29-36.
Rest, J. R., *Moral Development: Advances in Research and Theory,* Praeger (1986).
Rest, J. R., "Can Ethics Be Taught in Professional Schools? The Psychological Research," *Ethics Easier Said Than Done,* The Josephson Institute (1988), pp. 22-26.
Ruland, R. G.,"Duty, Obligation, and Responsibility in Accounting Policy Making," *Journal of Accounting and Public Policy* (1984), pp. 223-237.
Ruland, R. G., "The Pragmatic and Ethical Distinctions Between Two Approaches to Accounting Policy Making," *Journal of Accounting and Public Policy* (Spring 1989), pp. 69-80.
Ruland, R. G. and C. K. Lindblom, "Ethics and Disclosure: An Analysis of Conflicting Duties," *Critical Perspectives in Accounting* (September, 1992), pp. 259-272.
Sen, A. K. and B. Williams, *Utilitarianism and Beyond,* Cambridge University Press (1982).
Sen, A. K., *On Ethics and Economics,* Basil Blackwell (1987).
Shaub, M. K.,"An Analysis of Factors Affecting the Moral Reasoning of Auditors and Auditing

Students," Unpublished, The University of Nebraska (1992).
Shaub, M. K., D. W. Finn and P. Munter "The Effects of Auditors' Ethical Orientation on Commitment and Ethical Sensitivity," Unpublished, The University of Nebraska (1992).
Simunic, D. A., "Auditing, Consulting, and Auditor Independence," *Journal of Accounting Research* (Fall 1984), pp. 679-702.
Singer, P., "Moral Experts," *Analysis* (1972), pp. 115-117.
Szabados, B., "On 'Moral Expertise'," *Canadian Journal of Philosophy* (1978), pp. 117-129.
Trevino, L. K. and S. A. Youngblood, "Bad Apples in Bad Barrels: A Causal Analysis of Ethical Decision-Making Behavior," *Journal of Applied Psychology* (1990), pp. 378-385.
Trevino, L. K., "Ethical Decision Making in Organizations: A Person-Situation Interactionist Model," *Academy of Management Review* (1986), pp. 601-617.
Weber, J., "Adapting Kohlberg to Enhance the Assessment of Manager's Moral Reasoning," *Business Ethics Quarterly* (1991), pp. 293-318.
White, T. I., "Business, Ethics", and Carol Gilligan's "Two Voices," *Business Ethics Quarterly* (1992), pp. 51-61.
Williams, B., *Ethics and the Limits of Philosophy*, Harvard University Press (1985).