Ethics and income: [pattern speech]

American Institute of Accountants
February 8, 1952

To: State Society Presidents
   Executive Secretaries
   AIA Public Relations Committee
   AIA Committee on Professional Ethics
   Chairmen of State Society PR Committees
   Chairmen of State Society Ethics Committees

Gentlemen:

We have often received requests for assistance in preparing speeches about the Institute's code of ethics.

In response to these, we have prepared the enclosed "pattern" speech, "Ethics and Income". This was designed primarily for delivery to college accounting students, but it might also be adapted for use before accounting groups familiar with the accountant's work.

The speech attempts to outline the Institute's rules of professional conduct and to show that these rules also benefit the members who are governed by them.

We will be glad to furnish additional copies on request.

Sincerely yours,

Charles Noyes

Director of Public Relations

Enclosure

For Information
AIA Officers
Note: This speech has been prepared for delivery primarily before student groups. It may be given as written, or adapted in whole or part for any particular occasion.

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Mr. Chairman, etc.

Everyone remembers Calvin Coolidge's reply to the question, "Mr. President, how do you feel about sin?"

He said "I'm against it."

There are several important differences between his answer and my talk here today. First, President Coolidge said only three words; I have about three thousand. Second, sin is probably a more interesting subject than ethics. And, third, people would rather have you talk about sin than practice it—but they would prefer that you practiced ethics, and didn't talk about it.

The dictionary defines a code as "any system of principles or rules."

And it says that ethics are "moral principles."

A code of ethics, then, is a "system of moral principles."

Now, it seems to me that a code of ethics is only as good as it is useful. An abstract treatise on doing good may be diverting reading, but it doesn't have much of a place in the literature of a profession. Rather, this code should be a dynamic thing, geared to an up-to-the-minute understanding of the profession and the people it serves. It should be a living force, not only appearing on the tablets of our professional scriptures, but guiding us in our daily work.
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I think it is important, too, that we do not subscribe to any set of rules simply because they have been written; that does not make them right. I believe that we should examine our code of ethics in the light of our personal knowledge and experience to see if it is sound. If it isn't, let's throw it out. Or change it. But if it is useful and useable, I think that we should accept it as an active partner in our firm.

I have done this with the sixteen rules of professional conduct accepted by the American Institute of Accountants. I ripped into them with the trident of public, professional and personal interest. I tried to amputate each of the rules from the body of our professional commandments. And it was like trying to behead the dragon who grows two heads where you cut off one. The rules grew in substance and in strength. So from my point of view the Institute's code of ethics is sound.

There is, however, a larger consideration involved in any code of ethics. A code is sometimes spoken of as a contract with society. So when we come to terms with the rest of the world, we enter into a contract, binding on both sides. If that is true, there must be what our lawyer friends call considerations for the party of the first part and the party of the second part. Both the CPA and society should gain from the contract.

What is society's consideration? What does it have to gain from our acceptance of a code of ethics.
Dr. Vannever Bush once said that the hallmark of a profession is that it ministers to the people. Surely accountancy, which has been termed the conscience of the business community, ministers to the people. As a patient trusts a physician with his physical well-being, so a businessman trusts a CPA to safeguard his economic health. The stability of our economic structure depends, to a great extent, upon our skills and judgment.

Moreover, the certified public accountant represents the public interest. In judging the fairness and adequacy of financial statements he is concerned with safeguarding the interests of all those who may have occasion to use and depend upon that data. He is concerned not only with the company whose books he audits, but with bankers, creditors and stockholders present and future. And he is concerned, too, with his countrymen whose welfare depends upon the economic strength of the nation.

It should be apparent, then, that the CPA must be free from all external pressures.

So we promise society that we are not advocates. We pledge our independent and impartial judgment. We promise our integrity. Now integrity is a curious quality. It is a thing that can be neither legislated nor enforced. It is a thing for which each of us is individually responsible.

The fine strong thread of integrity runs all through the sixteen rules of the Institute's code. We see it, for example, in the ruling which stipulates that the CPA will not render an opinion on financial statements under
circumstances in which the amount of his fee depends on the successful outcome of any venture in which those financial statements may play a part. If we were to represent a point of view, we would endanger the independence so necessary to fulfilling our obligations to society.

We also vow that we will not seek immunity under corporate law. We assure society that we accept individual responsibility for whatever we do. Our responsibility is personal, for integrity must be personal. Put another way, we pledge to society that accountants are accountable.

We promise, too, that we will not make false or misleading statements, that we will disclose all material facts which we discover that have a bearing on a client's financial position. And we pledge to report any misstatement or departure from generally accepted accounting procedures.

Society also has our word that we will not have any substantial interest in the affairs of a company on whose financial statements we are reporting without fully disclosing that interest.

Finally, we promise society that we will not engage in any other occupation simultaneously with the practice of public accounting which might impair our objectivity or impartiality in reporting on financial statements.

These pledges we make to society as a whole.

In addition, we accept specific responsibilities to help safeguard the legitimate interests of our clients.
We pledge to them that we will not violate our confidential relationship; that we will not exploit this relationship by accepting commissions, brokerages or other compensation from outside sources; that we will not in any way be a party to misrepresentation or misuse of our name and title.

Society in general and our clients in particular, then, have much to gain from our acceptance of a code of ethics.

Now, what does the accountant realize from this contract with society? What, to put it bluntly, is in it for us? First, let's consider the dollars-and-cents value of adopting a code of ethics.

There is probably no time when money means more to the accountant than when he is starting his own practice. Clients do not at first visit his office with anything approaching the regularity of bill collectors, so the young CPA may consider advertising. As in most professional codes, however, this is prohibited. Often the CPA resents the ban; he sometimes feels that it is designed to discourage competition from young practitioners.

I have suggested that we should not serve any rule that does not serve us. Let's look at the prohibition of advertising from the point of view of the new CPA and see if it meets this test.

I submit that advertising would defeat his own purposes. First, he would be dragging down a profession that has worked for well over half a century to prove to the public that it is a vital and responsible part of our economy. He would be diluting the value—the cash value—of the CPA title.
There is another reason why the young CPA should welcome the ban on advertising. If it were permitted—if accountancy became a commercial enterprise—the older more established firms, with their greater resources, could out-advertise and out-promote the newer firms into oblivion. Thus, the young practitioner who advertised would not only help destroy the standing of his profession; he would also invite a competitive climate in which he might freeze to death.

The young practitioner is protected, too, by the rule prohibiting CPAs from offering employment to employees of another public accountant without first informing that accountant. And here again some young accountants have felt that this favored the employer; that it held back the young accountant, eager to improve himself. Just the opposite is true. A CPA who wishes to leave one firm for another is free to do so. The restriction is placed on the employer. The rule stipulates that employers are prohibited from trying to induce the employees of another organization into their firms. The purpose—and effect—is to strengthen the unity of the profession.

Another safeguard of the accountant's income is the rule which forbids a CPA from soliciting the clients or encroaching upon the practice of another professional public accountant. It is true that in the business world any potential customer is generally considered fair game. But if accountants were to adopt this philosophy of every man for himself, the effect would be every man against himself. In his book, "Professional Ethics of Public Accounting", AIA Executive Director John L. Carey makes the point that this
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restriction obscures its real purpose. He suggests that for an accountant to solicit work in any quarter is to place himself in an inferior position, which may reduce the effectiveness of his work. This practice would certainly breed distrust in both the client and the profession. And since accountancy can thrive only in an atmosphere of harmony, the practice of solicitation would constitute a threat to the profession itself.

Much the same sort of professional chaos would result if public accountants were to submit competitive bids for professional assignments. This is a practice that would be clearly harmful to all concerned. This is what would result: First the profession would suffer in the eyes of the client. Second, there would be a relationship less than friendly between the accountants. And, third, the CPA with the low bid would be obliged either to lower the quality of his work or reduce his normal compensation.

These, then, are some of the ways in which a code of ethics—our code of ethics—increases our financial income. We have all heard the old dodge, "Get rich; then get ethical." Maybe that should be changed to "Get ethical in order to get rich."

Before I leave the subject of income, I should like to consider another type of reward derived from a code of ethics. This income isn't measured in dollars and cents; I doubt, indeed, that it can be measured. Yet it is much more important than cash income. The best name I have heard for this is "psychic income".
Psychic income is the sum of satisfaction that a person gets from the business of living. It is a near-neighbor to happiness. All of us at one time or another ponder the profit and loss statements of our lives. The figure at the bottom--the net profit or loss--is what I'm talking about. There are a lot of entries in the statement--how we look to our friends, our employees, our clients, our profession, society in general, and above all all ourselves. But we alone are competent to judge the adequacy of these statements.

What we call it isn't important--satisfaction or self-respect or personal reward or psychic income. What is important, is seems to me, is that we receive a goodly amount of this most important of all incomes. And that's the best argument for a code of ethics. It reminds us of the truly worth-while, the things that add depth to our picture of life. It makes the necessary task of living with ourselves infinitely more pleasant. A code of ethics helps us in our professional life to do the things that give us more satisfaction. It adds to our psychic income. And a man with a large psychic income is rich indeed.

Public accounting is a relatively new profession. We can't look back much over a hundred years. Accordingly, we often have to establish precedent as we go. But we can and should be guided by the progress of the older professions.

Because we are the fastest growing profession in the nation, we are falling heir to the difficulties experienced by some of these older profes-
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sions during their development. And perhaps the first lesson is that a period of growth is a good time to redouble our professional vigilance. Other professions suffered from a few unethical practitioners who took advantage of the laxity that generally accompanies expansion. Our growing pains are hardly felt, thanks to the steadying influence of our code of ethics.

Today, many businesses and some professions are coming to grips with the problems born of inadequate self-regulation. It is common knowledge that government regulation begins where self-regulation ends. While government regulation is sometimes necessary, I doubt that any of us would like our Federal officials to assume the complete regulation of our profession. No one knows our needs and limitations better than we. But if we can't do the job, the government will. We can best keep others from ruling us by ruling ourselves.

This brings us to the final similarity of our code and those of other professions: the effect it has on public opinion. A code of ethics over a period of time tends to become a stamp of integrity. Membership in a professional association which demands high standards of conduct is recognized as voluntary acceptance of the responsibility for right action. A code of ethics, particularly if well publicized, is a major factor in bringing about public acceptance. This is best exemplified by the tremendous effect the Hippocratic Oath has had in assuring the public of the doctor's standards of conduct.

As our profession expands in numbers and in usefulness, we are becoming increasingly aware of the fact that our well-defined code of ethics is an asset to us and society. It helps us earn our daily bread -- and our place in the sun.

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