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## Introduction

Accountancy tends to capture the public imagination only when something goes spectacularly wrong. The latest banking fiasco or corporate disgrace<sup>1</sup> appears as an isolated scandal, different in kind from the everyday process of doing business and accounting for it. In some cases, this appearance of isolation is correct: blatant fraud is exceptional. In others, however, accounting scandals can seem like intensifications of the everyday, the logical conclusions, perhaps, of how things are routinely done across the business and financial community. It does not make sense, in such cases, to try to understand them in isolation. This book therefore focuses on the day-to-day of financial work which is cumulatively more important than the scandals that hit the headlines. Through doing so, nonetheless, it also helps to show how things can go strikingly wrong.

People often think of financial scandals as presenting a problem of trust. Can those who run the financial world (accountants and auditors, bankers and analysts, underwriters and actuaries) be trusted? Yet when the issue at stake is not one of blatant fraud, answering this question requires us to explore what exactly it is that we trust these individuals to do. We trust accountants, in particular, to construct the knowledge on which financial decisions are based. This book will therefore show that underlying the manifest problem of trust in the financial world is a more fundamental problem of knowledge. It will demonstrate that the way in which accountants construct knowledge is multifaceted and ethically demanding, and that understanding it is crucial to evaluating their actions, either individually or as a profession.

My findings are based on interviews with chartered accountants working in the largest accountancy practices in London. The interviews reveal that although accounting knowledge can seem indisputably factual after it has been constructed, the process of constructing it is contested and opaque. Accountants nonetheless tend to describe their work as if it were straightforward and technical, creating a discrepancy between their discourse and their practice. The discrepancy matters, because accountants' technical discourse obscures the ways in which they must resolve accounting questions in practice, and so

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undermines their ethical reasoning. Insofar as increasingly technical accounting rules perpetuate this discrepancy, therefore, such rules can be counter-productive. Instead, I will conclude that our best approach to avoiding future scandals is to redefine and reinvigorate professional ethics in the financial world.

Of course, this is easier said than done. Actually achieving it requires that the tacit norms according to which accountants construct knowledge on a day-to-day basis, as distinct from their technical discourse, be brought into full view. The substantive aim of this book is to do just that, and, in the process, to develop a vocabulary in which the ethics of accounting practice can be articulated, evaluated, developed, and reinforced. Before embarking on this empirical project, however, it will help to clarify the stakes involved if we pause a little longer on the question of public trust, first with respect to the financial world in general, and then with respect to one illustrative example – that of Enron – in particular.

### Trust, crime, and conformity

When financial decisions are made badly, the direct consequences can be catastrophic, destroying jobs, wiping out pension funds, or weakening the wider economy. Yet financial scandals also have the indirect consequence of undermining trust both in the financial system and in those who work within it. This is significant because advanced global capitalism relies very heavily on that kind of trust. When small investors buy shares in a portfolio of companies, governments tax profits, traders buy and sell commodities and derivatives, or insurers underwrite financial risks, it is impossible for them to develop relationships of personal trust with all the individuals involved. Instead, they must place trust in numbers (Porter 1995). 'Trust in numbers, however, works only if those who produce the numbers can be trusted: it displaces, rather than solves, modernity's problem with trust' (MacKenzie 2003, 8). In practice, trust in numbers not only displaces, but also concentrates the need for trust. Trust must now be concentrated in those individuals who claim the expertise and authority to produce and to interpret numbers. With respect to financial matters, that claim is the preserve of professional accountants.

The need to place trust in accountants does not only arise from considerations of time and distance that limit direct personal contact in the global economy, but also from the increasing complexity of modern commercial life. Financial decisions can be complex and abstract beyond the cognitive capacities of individuals. We trust accountants not only to represent decisions in financial terms, therefore, but also to simplify them. Simplification, however, embodies some decisions in advance of making further decisions possible;

it facilitates the recognition of some options and perspectives at the expense of others. Simplification is not always oversimplification, and it can be a mistake to criticize it as such.<sup>1</sup> Yet although there is a pragmatic need for the simplification accounting offers, as that simplification becomes more extensive the decisions accountants make in achieving it become more consequential. In this respect, accounting offers an important case study of the more general challenge we face concerning the role of experts in an increasingly specialized society.

Trust in accountants, then, is unavoidable. However, since it is impractical to build up relationships of trust with them all as individuals, this means in practice that they must be trusted as a coherent group, who are assumed to approach specific situations with a common competence and ethos. The claim to worthiness of such trust is the claim traditionally made by the professions. Yet accountants are not only professionals, but are also businesspeople and, often, employees of large organizations. An assessment of their trustworthiness as professionals therefore needs to be informed by a more general understanding of crime and deviance in commercial and organizational life.<sup>2</sup>

Edwin Sutherland, who coined the term 'white collar crime' to describe 'crime committed by a person of respectability and high social status in the course of his occupation', found that such crime was less studied, less stigmatized, and less severely punished than more straightforward but less consequential crimes such as robbery and burglary. His reasons for this included the complexity and abstraction of these crimes, the dispersal of harm across many individuals and across time, and the social status of the perpetrators (Sutherland 1949, 9, 47–50). These remain significant reasons why fraud and embezzlement, the paradigmatic breaches of trust in the financial world, can tend to be approached leniently. Such crimes are straightforward, however, in that there is at least an individual criminal who can be held clearly responsible.

The picture is more complicated when we consider crimes perpetrated by individuals on behalf of their employers, or by organizations within which no individual criminal can be clearly identified. Classic examples include the heavy electrical equipment antitrust cases, where major companies were found to have colluded illegally in order to fix prices; and the case of Goodrich, where an aircraft brake that engineers knew would be unsafe was manufactured anyway, risking the life of a test pilot and potentially of many other people had the test flights not failed. These are contrasting examples, and

<sup>1</sup> By simplification I mean the representation of a matter in a way that makes decision-making with respect to it more straightforward, either through reduction of complexity or through alignment with familiar conventions. I will use the term standardization to refer to explicit attempts to develop such conventions.

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teach different lessons: in the antitrust cases, that external requirements such as obedience to the law can be outweighed in the minds of corporate managers by the financial interests of their companies (Geis 1987; see also Bakan 2005, 61–84),<sup>3</sup> and in the case of Goodrich, that the diffusion of responsibility within organizations can lead to outcomes no individual would have wanted (Vandivier 1972). Common to both of these examples, however, is the fact that they arose from people doing what they and at least some of their colleagues thought they were supposed to do, rather than deviating from those expectations.

Both of the above examples might be characterized as ultimately deviant outcomes, precipitated by incentives such as profit and job security that should never have been taken to such extremes. Yet socially deviant behaviour can become normalized within organizations in ways that make it seem less a question of crime than of organizational management. Diane Vaughan (1997), for instance, in her study of the mistaken decision to launch the *Challenger* space shuttle that then exploded, emphasizes the banality of the mistake itself. She argues that the existence of rules that demanded to be followed blindly contributed to causing the disaster, so that the failing was not one of deviance, but of conformity. We might respond to such disasters by designing better systems or writing better rules, and much can be gained by doing this, particularly when learning from large mistakes.<sup>4</sup> Yet the *Challenger* example suggests that such a response has limits. No system of rules can predict every eventuality in the real world, so any such system needs to build in both enough flexibility for individuals to respond sensibly to unforeseen situations, and the expectation that they will do so. Insofar as this is done, it both displaces the problem of trust back onto individuals and raises the bar: not only must individuals be trusted not to behave criminally, but they must be trusted to behave responsibly and far-sightedly.

Individuals' behaviour, then, can be significantly influenced by the structure and rules of the organizations in which they work, and yet if those organizations micromanage them to the point that they cease to think for themselves, mistakes and disasters become more likely. Crime itself may also become more likely, because over-regulation undermines individuals' commitment to the regulatory framework. This problem exists much more generally, but is particularly relevant to accounting, because of the centrality of rules to defining accounting knowledge and governing accounting work. Individuals who think of themselves simply as working within the rules may not accept the burden of trust that society places on them, or they may not even recognize or understand it. Breaches of that trust, therefore, cannot be readily dismissed as deviance, but instead seem like the consequences of normal and accepted behaviour. The case of Enron provides a graphic illustration of how easily this situation can get out of hand.

## Enron

Enron's bankruptcy in December 2001 offers an important example of these issues, not only because of its sheer magnitude,<sup>5</sup> but also because it proved so difficult to attribute blame. Enron was, after all, the quintessential late-twentieth-century corporate success story. It prided itself on its innovation and cleverness in the deregulated energy market, having transformed itself from a conventional operator of natural gas pipelines into an energy-trading company to rival the Wall Street banks. Even the company's finance department, which managed the now notorious debt structure underlying the business, was transformed into a profit centre (Fusaro and Miller 2002, 130–1; McLean and Elkind 2003*b*, 138; Swartz and Watkins 2003, 151–2). Enron executives saw themselves not as crooks, but as visionary leaders driving the liberating ethos of entrepreneurial, flexible capitalism on into a new century.

In accounting terms, certainly, Enron pushed that ethos to its limits and beyond. It did not provide sufficient information about its business units' performance or about its transactions with related parties to give a clear view of its activities. It set up special purpose entities which kept the full extent of its debt off its balance sheet. It recognized the gross value of trades, rather than the spread between their sale and purchase price, as revenue. It sold and revalued assets to create profit at strategic times (Benston et al. 2003, 24; Fusaro and Miller 2002, 13, 79, 113). Yet such a strategy was not merely the work of Andrew Fastow, Enron's chief financial officer. It made good sense to a group of self-consciously clever people in a hyper-competitive environment who were trying to persuade each other that they were winners. Even Enron's auditors, in a 1996 exchange with Enron employee and future whistle-blower Sherron Watkins, apparently saw asset valuation as a matter of strategy: if Enron chose to account for a rise in an asset's value in a strong market, it would simply have to account for a corresponding fall in a weak one (Swartz and Watkins 2003, 97). The bankers, lawyers, auditors, and management team implicated in the Enron scandal made no secret of how they thought. They were the cream of their institutions, which had spent years appraising them, selecting them, and grooming them as such. If the cream were not who they should have been, then a much broader explanation is needed than merely to criticize their personal standards of behaviour. In their institutional contexts, those standards were consistently recognized as being very high.

For the Enron scandal to be possible, a whole range of professionals (auditors, bankers, analysts, company directors, corporate lawyers) had to collectively fail to question the legitimacy of certain actions. We can begin to understand such a failure by exploring how the protagonists tried to limit their responsibility after the event. The following exchange took place between a director of Citigroup (David Bushnell) and a congressional investigator (Senator Carl

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Levin) after Enron's bankruptcy. Levin was interrogating Bushnell about Citigroup's dealings with the company:

LEVIN: Would you agree that you have a responsibility not to participate in a deception?

BUSHNELL: We have a responsibility to our clients, both investors and to the customers who need capital, to do things in accordance with the rules as they're established.

LEVIN: I'm really surprised that you can't answer that question with a yes, that you have an obligation not to participate in a deception; it seems to me that's an easy one.

BUSHNELL: It depends on what the definition of a deception is.

LEVIN: You can define it any way you want; don't you think that the bank has an obligation not to participate in a deception? You define deception.

BUSHNELL: Yes. (*The Banks that Robbed the World* 2003)

This exchange could be read in at least three ways, all of which tell us something important. Firstly, and most clearly, it could be read as Bushnell's attempts to equivocate eventually being thwarted by Levin. Bushnell begins by using his industry's jargon to restate an unfavourable formulation of his firm's responsibilities. When this fails, he appeals to the ambiguity of language. Only when pressed still further is he forced to answer the question as put.

In a second reading, Citigroup rightly operates at the very limits of the rules in order to optimally fulfil its primary 'responsibility to our clients'. Bushnell's equivocation is the logical conclusion of finance conceived as an amoral game in which stretching the rules constitutes excellence on the part of the player. Bushnell's firm is a bad player because it was caught. Bushnell, in this view, is a precocious youngster from the world of city boys and whiz-kids being ticked off by the older Levin for playing too hard.

Finally, in a third reading, Bushnell gradually realizes that he is now in an unfamiliar context where his language does not make sense. In his familiar environment, an appeal to the 'needs' of the 'client' carries enormous weight, as demonstrated by the fact that for Bushnell even the duty to obey the rules is owed not to state, society, or law but to the client. Here, the appeal is surprisingly ineffective. He is being asked instead to talk in terms of 'deception', a word he does not ordinarily use and of which he is therefore suspicious. It is too simplistic to say that a discussion about 'the rules as they're established' would have been non-evaluative and therefore straightforward, whereas a discussion of deception is normative and therefore more difficult. Bushnell is happy to talk about responsibility and need in relation to clients, but appears to lack the language to do so more generally.<sup>6</sup>

This third reading might, from Levin's perspective, seem too kind to Bushnell, but it is actually harsher, from that perspective, than Levin's own view. Because Levin assumes that deception in general means something to Bushnell, he finds Bushnell's responses in this specific exchange disappointing. However, if Levin had actually believed that Bushnell had no concept of social responsibility beyond his duty to his client, then he could have accepted

the banker's responses as both predictable and honest. It would be a mistake, therefore, to think that Levin triumphs in the above exchange. Bushnell's acceptance that he has a responsibility not to participate in a deception is a mere platitude, because Bushnell considers deception to be a vacuous term. He eventually utters the platitude precisely in order to avoid having to define deception in a meaningful way. Yet Levin seems not to have understood that, for Bushnell, his victory is hollow, because he has not taken Bushnell's initial rules-bound response seriously enough.

To interpret such exchanges is an urgent task: pension funds across the United States lost billions of dollars in value following Enron's collapse. The first reading above would blame an individual. The second reading would blame either competitive human nature or a competitive economic system. Whilst recognizing the validity of these readings (and I do not deny that Bushnell is being evasive), the third reading would highlight a specific form of apparently factual discourse that is poorly adapted to conceptualizing certain moral and ethical issues, and therefore poorly adapted to evaluating certain types of action. We will see in later chapters that, as the number and variety of protagonists involved in Enron's collapse suggest, the limitations of Bushnell's language are endemic in the financial world.

Prosecutors have found it difficult to convict banks such as Citigroup over the Enron affair because such convictions must take place in technical terms. 'How do you prosecute individual bankers when accountants and lawyers gave their consent?' (McLean and Elkind 2003a). Enron's chief executive officer, Jeff Skilling, used the same defence: "'Show me one fucking transaction that the accountants and the attorneys didn't sign off on . . . if they concoct some bull-shit, they're going to have a fight on their hands, because it – is – not – there!'" (McLean and Elkind 2003b, 414). Yet Andersen, Enron's auditors, 'would later admit to errors of a technical nature . . . but nothing more' (Fusaro and Miller 2002, 135). For them, restricting their responsibility to the 'technical' made their conduct an issue not of wrongdoing, but of human error. Even the Enron board claimed that it did what it should have done based on the information it was given (McLean and Elkind 2003b, 408–9). The demarcation of a sphere of work as technical, then, seems to cut both ways: for the technician, it legalistically limits their responsibility; and for the non-technician, it means that the technician can be assumed to have covered all of the moral angles. The broader issue is the reduction of the ethical to the technical or, as I shall explain below, of values to facts, with the rules-bound rationalism that this entails.

### Rules, discourse, and everyday practice

In order to understand how scandals such as Enron are possible in the financial world, we must recognize that protagonists like Bushnell do not behave as

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they do out of deviance, but in accordance with a collective ethos. The rules lack purchase over that ethos, because the ethos encompasses the way in which rules are to be approached. We might condemn such an ethos as dysfunctional, but it is nonetheless real and credible to those involved. It forms a basis for mutual trust between insiders, the demands of which can be felt more keenly than those of public trust when the two conflict. The collective ethos that forms the basis for accountants' mutual trust, therefore, needs to be developed in a way that makes it more worthy of public trust: we cannot simply demand worthiness of public trust in terms that lack credibility with practitioners. It is thus a mistake for reformers to think that problems can be solved simply by writing a solution into the rules. Rule changes can be effective, but only if they catalyse a change in accountants' attitudes towards their work. If they do not do so, then as the example of Bushnell illustrates, those accountants will simply work around the new rules in order to proceed as before. Too great an emphasis on rules, moreover, can make things worse. Accounting scandals in which people either manipulate rules or fail to think about the wider implications of their actions both exemplify tendencies that are exacerbated by a rules-based conception of legitimate behaviour. Consequently, although a normal practice founded on rules might seem like a solution when things go well, it can contribute to the problem when things go badly.

Our inquiry into how accountants construct knowledge therefore needs to begin from the underlying norms according to which accountants approach the rules, rather than from the rules themselves. Yet the rules-based self-understanding that prevails in accounting leaves even accountants unable to articulate the messy and pragmatic reality of accounting work. This means that just as we cannot look to the rules for a description of practice, neither can we look to accountants to describe their practice to us. Nonetheless, at a tacit level, accountants understand the ways in which they construct knowledge very well. Our first task, therefore, is to make their tacit knowledge explicit.

Since accountants construct knowledge in numbers and words, our exploration of how they do so will need to pay particular attention to their collective discourse.<sup>ii</sup> A focus on discourse makes it possible to analyse what is common to the interpretative practices of accountants working in different organizations, rather than what is deviant about those practices as applied by particular individuals in particular contexts. Discourses, such as that of client service appealed to by Bushnell, transcend organizational boundaries. They affect

<sup>ii</sup> A 'discourse' is often taken to mean the verbal equivalent of a text, but I am not using it in that sense here. I am instead following Michel Foucault, who uses 'discourse' to refer to sustained patterns of written or spoken language use. Foucault's usage makes it possible to emphasize the way a discourse (such as accounting discourse) changes over time or reinforces a regime of truth (e.g. see Foucault 1998, 17–35, 100–2). By accounting discourse, I refer broadly to accountants' use of language in a way that encompasses client service discourse and other sub-discourses.

what can credibly be said by peers in a particular line of work, and what can be understood by them. More broadly, the gradual global standardization of accountants' discourse, and its dominance as a means of representing commercial life, render it increasingly influential over the nature and limits of understanding and communication in the financial world.

In order to hear a discourse in which homogenization, not diversity, is the salient characteristic, I interviewed the most archetypal representatives of the British accounting profession: young, male chartered accountants working in the largest accountancy firms in London (PricewaterhouseCoopers, Ernst & Young, KPMG, and Deloitte). The discourse used by accountants working at the 'big four' firms is particularly significant because these firms constitute a gold standard against which the rest of the profession benchmarks itself. The firms are training grounds for future leaders of the financial world. When accountants leave these firms, they take the discourse with them, and so its influence not only becomes widespread, but widespread amongst those occupying senior positions.<sup>7</sup> I spoke to my interviewees about instances in which they made accounting judgements and interpretations, about the technical and practical constraints they confronted, about how they negotiated those constraints, and about their experience of living within them. I conducted twenty interviews in total between June 2003 and October 2004, and interpreted them in the light of my own experience of training and working as a chartered accountant with PricewaterhouseCoopers in London for four years. Full details of my methodology, including selection of interviewees, interview technique, and interpretative strategies, together with a discussion of the advantages and limitations of interview-based insider research, are given in the appendix at the end of this book.

### **The social world of the chartered accountant**

In order to understand how accountants construct knowledge, we first need some sense of the environment in which they work, and the nature of their involvement in it. This section therefore describes the training and everyday experience of accountants such as those I interviewed, together with their reasons for embarking on and continuing their careers with the big four firms. It draws on my own experience and on the existing ethnographies of chartered accountants' training in England,<sup>8</sup> as well as on my conversations with interviewees.

Trainee chartered accountants generally start directly from university, or perhaps after a gap year, and very few are older than their mid-twenties.<sup>9</sup> They enter large, prestigious firms in which they occupy the lowest level in an elaborate hierarchy. The vast majority join the audit departments of these firms, where they work on teams responsible for providing independent

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opinions on clients' financial statements. There is a competitive market for audits, and since their output (a clean audit opinion) is difficult to differentiate in the market, auditors seek to retain clients by building relationships with them based on high standards of service. Much of the work is carried out at clients' premises, and auditors adapt their working hours to those of the client. Clients are required by law to obtain audit opinions, however, and so tend to see at least the more junior auditors as a necessary evil. As one interviewee put it: 'The clients that I worked for... had a general attitude which was "we're tolerating you because you have to be here and do your work and get out of here".'

Audits are carried out in small teams, from two or three people for the smallest clients up to twenty plus for the largest. For trainees, the work is often of a routine nature, involving a lot of basic checking that is colloquially referred to as 'ticking and bashing' (Coffey 1993, 368ff.). Nonetheless, because of the extreme youth of the workforce, auditors may be supervising colleagues' work within a year or two of joining, and can be responsible for the day-to-day management of audit teams within three years. Audits are tightly budgeted in terms of the staff time allocated to each area of work. Teams may work together for anything from a week to several months, at which point they will be disbanded and put into new teams with different colleagues for the next audit. Several hundred trainees can be referred to colloquially as the 'audit pool', from which they are plucked as and when someone of their level in the hierarchy is needed. When not at clients' premises, they work in a quiet and studious atmosphere in their firms' large open-plan offices. There is considerable competitiveness between individuals, and a degree of bravado about working long hours to meet clients' tight reporting deadlines (see Coffey 1993, 231). The culture also exhibits a pervasive masculinity which can be unfavourable towards female accountants (see Anderson-Gough, Grey, and Robson 2005; 1998a, 75–6; Grey 1994, 493).

Clearly there are routine and impersonal aspects to this work, with corresponding impacts on accountants' subjective experience of it: few junior auditors love what they do.<sup>10</sup> Yet audit training in the United Kingdom is widely regarded, and certainly marketed, as an entry point into the business elite.<sup>11</sup> As the next section will show, a consequence of this is that many of the most ambitious accountants approach their time as auditors instrumentally, gaining a qualification and experience that they can then apply in a different setting. The elite to which young accountants seek entry is sometimes a social one, as accounting can be a route into the middle class. It is certainly financial, since the profession is known for being extremely well paid, particularly at more senior levels. However this is not simply avarice: although my interviewees may have been uncomfortable articulating it to me as an explicit motivation, there is an ethos to working with and accumulating money that was emboldened by the enterprise culture of the 1980s and sees

commercial success as a moral achievement.<sup>12</sup> As Chapter 6 will show, my interviewees commonly expressed a desire to 'add value' through their financial work. This ethos is reflected in Andrew Fastow's view that Enron's finance function ought to make money in its own right.

Chartered accountants' training is a demanding rite of passage that remains a bond between them throughout their careers. A training contract lasts for three years, which is the time necessary to accumulate the work experience and exam passes required to become a member of the Institute of Chartered Accountants in England and Wales (ICAEW).<sup>13</sup> Few people voluntarily leave their firms before qualifying, but failure in the professional exams can be grounds for automatic dismissal, and such failures are common. The firms' policies in this regard are therefore writ large in accountants' early experience, and can put them under considerable pressure. The figure current amongst my own colleagues was that around 90 of our peer group of 200 or so people were dismissed for failing exams within six months of joining (a figure that was, however, unusually high).<sup>14</sup> Many of those of us who passed found ourselves at clients' premises on the Monday after the exam results were published in Saturday's edition of *The Times* newspaper, to discover that our colleagues who had failed had been told not to join us there, and that we would not be seeing them again (see also Coffey 1993, 441–96).

Teaching in preparation for the exams is contracted out to independent companies, and trainees are taught classroom style, full time, at these companies' premises, for continuous periods of between six weeks and three months depending on the set of exams to be taken. Michael Power describes the approach to knowledge that is encouraged:

At the induction stage students are informed that training for professional examinations bears little relation to the experience of studying at university or college. This observation is often made with barely disguised disdain for the latter. Progress can now be made towards a more 'mature' stage of knowledge acquisition and learning beyond the undeveloped outlook of a university. This attitude is visible in parallel with an explicit claim that rote learning, akin to the studying methods of the middle school years, will be required at least until the intermediate stage. . . . Learning double-entry bookkeeping is described to students as similar to learning to ride a bike, i.e. not an intellectual process. (Power 1991, 339–40; see also Coffey 1993, 345–54)

There is a substantial and detailed body of accounting and auditing standards (Accounting Standards Board 2001, 1,671 pages; Auditing Standards Board 2001, 1,313 pages).<sup>15</sup> Trainees must learn and internalize much of this huge volume of material, and use it accurately and at speed in the exams. Teaching therefore focuses on exam technique, and the results of frequent mock exams are posted on the classroom wall in rank order to encourage competitiveness. Because time is short, it is allocated to the numerical rather than discursive aspects of the syllabus, where improvements are most measurable. Where

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written answers are required, trainees are encouraged to treat them as similarly to the rest of the material as possible, for instance by memorizing lists. Pressure on time means that broader questions raised in the classroom often go unanswered: 'you don't need to know that' is a familiar refrain to any chartered accountant. Power, again, states the consequences strongly:

Far from contributing to the ethical education of individuals, for whom professional service for the sake of some notion of public interest is a guiding theme, the reality of examination training involves the cultivation of strategic attitudes in which the very possibility of critically questioning the relation of the profession to a wider polity is entirely eroded. (Power 1991, 348–9)

Recent syllabus changes have tried to increase the proportion of critical thinking as compared to rote learning assessed in the exams, although in the overall context described here the effect of such changes must be limited. The 'strategic attitudes' to which Power refers are reinforced by the need to juggle work and study, as accountants become accustomed to the divided loyalties between firm, profession, client, and career that will characterize their working lives. These divided loyalties will be discussed further in Chapter 6.

Who completes this process of training and socialization, and then remains working at the big four firms? Aside from money, the two most common reasons my interviewees gave for joining their firms were gaining the qualification and drifting. There were some other motivators, such as the variety of tasks and clients, but for most it was just a very sensible thing to do in the absence of a strong desire to do anything else. Accountancy is an easy choice, perhaps, for bright graduates wanting to meet the expectations placed on them. One interviewee, whom I shall call Graham,<sup>iii</sup> had studied accounting and law at university, but did not seem to know why. Most of the people on his course went into accountancy, and the firms' marketing to university students was good. He commented vaguely that 'I don't know, it's a good sort of general field that you can just go into and once you've done your three years there are lots more opportunities, so, yeah'. Sebastian lacked any positive motivation: 'I could have done other things, but I can't actually to this day think of anything that I would have really wanted to do.' Terry explained that it was a principle of his career planning 'not to get into too much depth or detail', implying that the flexibility gained by lack of commitment to any particular line of work was itself an asset. Several interviewees cited variety as a motivator, and this enabled them to defer pinning down what was satisfying or otherwise about their work whilst treating it as a learning opportunity in the meantime.<sup>16</sup>

<sup>iii</sup> I have protected the identities of interviewees, employers, and any clients they referred to by changing their names and altering those features of the situations discussed which might easily identify them (including places). I have minimally adapted the interview transcriptions in order to improve their flow as text rather than speech.

Accounting tends to attract those already strongly motivated by money, and this motivation is reinforced by their socialization into accounting work. Some interviewees even talked of themselves as if they were companies or commodities. Simon, for instance, said of his current job that 'I'm going to stick with it for the short term until I've worked out what my career options are, but I'll probably eventually move out and diversify, just for the sake of my own marketability'. 'Short term', 'options', 'diversify', and 'marketability' are terms more readily associated with commercial strategy than life planning. Similarly, Daljit's curriculum vitae (CV) has come to be the most direct means he has of narrating his working life: 'You can see the last two years, my CV's just, it's a different story completely to being an auditor.'

For those interviewees who had left the audit practice for different parts of their firms, the most common reason was boredom or frustration with auditing, rather than an active desire to work in their new department. Joe assumes this narrative to be so well established that no explanation of his transition to his new role is necessary other than that 'I fell into it desperately trying to get out of audit'. Tom, one of those who stayed in audit after qualifying, said his main reason for not moving on was 'laziness'. As a result of this general attitude towards auditing, most of those who had moved within their firms found their new roles more interesting, more commercially relevant, or more highly valued by clients. In only a minority of cases, though, were these positive motivators clearly independent of a comparison with auditing.

The vast majority of interviewees, then, said that their motivation to do accounting work was instrumental, enabling them to gain a qualification, money, status, and so on. Perhaps as a result of this, Daljit expressed 'fear of not achieving... satisfaction in what you've done... because you are hell bent on the next promotion and making more money'. Simon also seemed to feel that he was losing his grip on his values as a result of his work. When we spoke after his interview, he said his long-term aspiration was to do something charitable, but he had no idea what form this might take or how to make sense of the impulse in relation to what he currently did day to day. Greg gave the following reasons why he found it difficult to discuss his values with colleagues:

A lot of people who go into accountancy are people who didn't know what they wanted to do, who felt a bit lost after they graduated, they didn't have that direction... and they joined an organization and did work for three years which is very objective and there's very set rules, and so first of all they didn't have much direction and then they're having what other creativity or direction or values in inverted commas, kind of beaten out of them by these big chunky textbooks and study books.

Greg despaired of the majority of his colleagues: 'In this organization people are pretty compliant, they're good graduates who didn't know what they wanted to do.' 'Good graduates' here is patronizing, as if the accountants

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were still children, able in the abstract but in need of reassurance, approval, and direction from someone else. Accountants thus characterized resemble the ‘insecure overachievers’ that Laura Empson reports one large firm, at least, deliberately seeking to recruit. According to that firm’s head of human resources, such recruits were desirable because they were more likely to believe the firm’s claim ‘that they had been chosen by the best firm in the business and that they were, therefore, the best of their generation of recruits’. They were then more likely to develop commitment to the firm as a result (Empson 2004, 766–7). Underlying all this, perhaps, is a sense that accountants lack confidence, drifting into a well-paid but stereotypically uninspiring profession without any particular sense of purpose, and yet clinging to it.<sup>17</sup> Nonetheless, most must move on from the firm that trains them: the large accounting firms are pyramid organizations, with very few partners compared to the number of trainees. This fuels the competitiveness of the working environment amongst those who aspire to move up rather than out.

### Facts, ethics, and truth in accounting

Having described the work done by accountants in the large firms, their reasons for doing it, and the social context in which they find themselves, we can now identify how they are most likely to breach public trust. Unlike the rogue executives who account for many of the headlines, they are not in a position to create complex financial structures in order to conceal a company’s losses, for instance. However they are in a position to overlook, facilitate, or approve doing so. Even if they do none of these things explicitly, they might not notice, understand, care about, or have time to investigate dubious actions by clients. Moreover, they may feel pressured to accept such actions in order to retain the perpetrators as clients of their firms. All these forms of complicity have ill-defined boundaries, which are difficult to regulate. Accountants must therefore be trusted to work at these boundaries. Several aspects of their general motivations and early career experience as described above seem likely, on the face of it, to foster an instrumental and disengaged approach to their work, rather than to foster a collective ethos in which public trust would be well placed. To see how far this is actually the case, however, we will need to look closely at what kind of knowledge accountants construct, and how.

I have refined the concepts in terms of which I will describe the construction of accounting knowledge in the light of my findings whilst studying accountants. To have fixed such concepts in advance would have foreclosed my exploration before it even began. That would have been particularly problematic with respect to the study of truth in accounting, given the notorious

philosophical difficulty of defining truth in any case. Bernard Williams, indeed, argues against doing so:

In particular, we should resist any demand for a definition of truth, principally because truth belongs to a ramifying set of connected notions, such as meaning, reference, belief, and so on, and we are better employed in exploring the relations between these notions than in trying to treat one or some of them as the basis of the others. It is also true that if any of these notions has a claim to be more basic and perspicuous than the others, it is likely to be truth itself. (2002, 63)

Our focus here is on how accountants negotiate the field of meaning described by these 'connected notions'. Only after studying how truth is negotiated by accountants in their own language is it possible to evaluate how they do so and how they might do so differently. Nonetheless, the vocabulary through which I have come to understand accountants' construction of knowledge at the end of my exploration will be essential to my description of it in these pages. In this section, therefore, I ask the reader to adopt a conceptual toolkit in advance, with the promise that future chapters will flesh out its empirical foundations. The central concept in this toolkit is the accounting fact.

We began from the premise that underlying the problem of trust in the financial world is a deeper problem of knowledge. Knowledge in accounting is increasingly reduced to facts constructed technically by experts. Yet to construct facts is an irreducibly ethical activity, as a close analysis of the discourse in which accountants do so will demonstrate. Although accounting facts are necessary to the functioning of the modern economy, we will see that when they are constructed unthinkingly or when too large a sphere of meaning is condensed into factual form, the effect is to obscure the judgement involved. This may be done as a rhetorical technique or by accident, but in either case the truthfulness of accounting knowledge is impaired.

Do we, then, place too much trust in facts? This question might be asked, for instance, about a company's profit figure. As a summation of the relevant debits and credits over a period, profit includes all of the assumptions made when preparing a company's profit and loss account. Such assumptions are inevitable. As Paul Montagna puts it:

No two auditors will agree exactly on the monetary value of most items listed on the financial statements of a client. The latitude given to them in their work is allowed because it has to be allowed. Even if a fixed and unvarying value would be placed on physical goods, it would be impossible to know the exact status of these goods at most stages of their processing in an organization. (1974, 129)

Moreover, many of the items represented in financial statements do not even have physical substance, and accountants may differ not only over the precise measurement of an item but over the accounting technique most appropriate to its valuation. The idea that figures such as profit can be trusted as facts,

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therefore, needs to be thought of not as self-evident, but as a historical phenomenon in itself.

It has not always been possible to think of accounting facts in abstraction from any normative perspective on the world they describe. The earliest known champion of double-entry bookkeeping, Luca Pacioli, positioned it within the field of rhetoric when he published his manual of the technique, *De Computis et Scripturis*, in 1494.<sup>18</sup> Double-entry bookkeeping gradually became a powerful way in which merchants tried to demonstrate the moral legitimacy of their activities in a Christian context suspicious of usury. For every debit, there was also a credit, and this double entry demonstrated that a merchant's dealings were balanced, rather than excessive or extortionate. Beyond this, 'the conventions of double-entry writing simply excluded allusions to what no rules of writing could control: shipwrecks, storms at sea, and the wild fluctuations in currency rates that characterized the early modern economy' (Poovey 1998, 36). In these ways, accounting served to enhance merchants' reputations, and therefore their creditworthiness (Aho 1985, 23; Carruthers and Espeland 1991; Poovey 1998; Thompson 1994).

Modern accounting, however, soon outgrew its dependence on formal rhetoric and religion. It spread due to the mobility, interconnectedness, and education of merchants (Carruthers and Espeland 1991, 52). Over subsequent centuries, together with descriptive statistics and quantitative knowledge more broadly, it became increasingly useful to government and to entrepreneurs, because it offered a systematic and apparently neutral way of configuring information that was seemingly immune from interpretative challenge (McKendrick 1970; Poovey 1998; Porter 1995). Accounting facts took hold, then, because of an intersection of religious, commercial, and political forces, which enabled them to proliferate in spheres where they would previously have seemed out of place.<sup>19</sup> Modern accounting did not originate as an uncontroversial advance in the quality of knowledge, but as a rhetorical means of claiming to be trustworthy, and subsequent chapters will demonstrate that it remains a product of that heritage.

What defines a fact for our purposes, therefore, is its social status as such, rather than its validity according to an objective standard.<sup>20</sup> A fact, in this sociological sense, can be thought of as a statement that commands the general agreement of a given community, and seems indisputable to them. In this case, the relevant community is the accounting profession as a whole, rather than humanity at large: facts can evolve within accountancy which might not be accepted as such outside of it. This definition of fact implies the contrasting concept of the value statement, being a statement that does not command general adherence, but instead seems value-laden to the community in question. Facts cannot be considered as entirely distinct from value statements, because in accounting at least their status as such is rarely absolute. The acceptance of particular statements as facts, by excluding argument from the

sphere of meaning encompassed by those facts, displaces any residual disagreement, and also structures other arguments to which the facts might be relevant. The construction of facts is therefore a value-laden practice, and is salient to questions of value in fields of meaning surrounding that of a given fact itself.<sup>21</sup> When its consensual origin is forgotten, however, a fact can seem irreducible and therefore immune to being broken down and reconfigured in a different way.

I do not assume anything substantive about what should be considered a fact. Instead, I will explore how the socially constructed category of fact is used by accountants, and in particular how the scope and authority of facts in accountancy enable value statements to be defined as such and consequently excluded from accountants' frame of reference. In accountancy, with its aspirations towards transparency and simplification, we will see that there is a particularly strong tendency for facts to develop in areas of meaning that would not be seen as factual in other discourses. Accounting facts therefore come to encompass what other discourses might classify as value statements. The normative presumptions that then seem to be embodied in accounting facts are not actively concealed, but rather they are taken for granted, and come to seem indisputable as a result of their apparently factual status.

Looking at accounting facts will offer an entry point to understanding both the kind of truth accountants produce and the conception of truthfulness that results in such truth. However the sphere of meaning Bernard Williams describes as being referred to by truth is more profound than that of fact. It includes not just connections between agreed facts, but the significance of specific facts and connections, and the level and type of commitment they command from their adherents. In other words, truth describes a connection between knowledge and ethics, the particular character of which needs to be explored empirically. Accountants with particular ethical perspectives more readily understand and construct particular types of knowledge, so the two issues of knowledge and of ethics are inseparable. Accountants' discourse, as we will see, both reflects and influences the ethical perspective they adopt towards accounting decisions. Exploring accountants' discourse will help to shed light on the issues of ethics and interpretation that infuse even accountancy's most sanitized statements of fact. It will be a constructively critical project, not because it will attempt to specify what accountants' ethics should be, but because it will demonstrate that they currently take a particular form which should be subject to more rigorous debate than a purely factual discourse admits.

By ethics, here, I do not mean what my interviewees would mean. As Chapter 7 will demonstrate 'ethics', ironically, has become a technical term in accountancy. It tends to refer to accepted behaviour in some fairly narrowly prescribed areas, for instance with respect to money laundering, conflicts of

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interest, and whistle-blowing. Instead, I use it to demarcate a broader field of empirical inquiry, which is well described by Michel Foucault's definition of ethics as 'the kind of relationship you ought to have with yourself... which determines how the individual is supposed to constitute himself as a moral subject of his own actions' (1983, 238). This relationship to self is not only a subjective orientation, but also a social construct.<sup>22</sup> Ethics in this sense concerns how a person should be changed by his or her actions, and by extension what actions he or she should pursue in order to flourish. Yet although Foucault emphasizes that ethics are a shared imperative of social life, he nonetheless distinguishes ethics from morals, by which he refers to the prevalent behavioural code that individuals in a society are expected to observe.

Undoubtedly some facts need to be constructed, at least provisionally, if thought and communication are to be made manageable. Accounting facts perform a valuable function in narrowing the debates that must be engaged in during everyday economic life. As Theodore Porter puts it regarding quantification more generally, the accounting fact 'has the virtues of its vices' (1995, 86). It facilitates simplification and standardization, but at the expense of complexity, specificity, and depth. My aim is to make the particular factual basis of contemporary financial decisions more readily debatable, which is a pressing task because the discourse of factuality itself tends to resist such debate. Yet doing so should catalyse efforts to achieve simplification more sensitively in the public interest, rather than undermining any basis on which simplification might be achieved at all. This distinction must be clearly drawn if we are to encourage the kind of empathy that can connect abstract financial knowledge to its specific human implications, at the same time as maintaining the capacity to make decisions based on such knowledge. We will see that accountants themselves find this proposition challenging, being both keen to construct and use facts, and concerned that doing so sometimes seems to draw them onto questionable ethical terrain. In order to appraise the form of knowledge that facilitates the administration of global capitalism, therefore, this book will also need to engage in an ethical sociology that illuminates the challenges individuals confront when working in the financial world. Those individuals, as we shall see, negotiate the ethics and politics of factuality every day.

Although the issues outlined here are particularly pressing with respect to accounting knowledge, they are also relevant to the construction of knowledge in other spheres. There are two implications of this. Firstly, insofar as accountancy's emphasis on facts created by experts is symptomatic of modern society's more general approach to the construction and evaluation of knowledge, this study should resonate well beyond the financial world. Secondly, however, the more general context of the problem suggests caution in simply criticizing the accounting profession. The profession is in a weak position

given the contested nature of financial matters, and appealing to a factual discourse could be seen as its reluctant last resort when other sources of authority fail. In a world where factuality is expected, it is difficult not to conform to that expectation. We will see in Chapter 6 that although professionalism does offer a basis for public trust that is less dependent on accounting facts, accountants doubt that it can lend sufficient authority to their work.

### Plan of the book

Taking my conversations with practising accountants as its starting point, this book will explore the day-to-day construction of accounting knowledge in a way that addresses important questions about trust, truthfulness, professionalism, and ethics. Chapter 2 will show how accounting work can be interpreted as performance, and will expose the inadequacy of imperatives such as honesty and transparency as a means of capturing the performative requirements of truthfulness. Once established, this performative perspective will be implicit throughout the rest of the book. Chapter 3 will take an empirical overview of the themes that will be covered in more depth in subsequent chapters, by reviewing interviewees' responses to a fictional scenario that I gave to them. Chapter 4 will analyse those practices that accountants call technical and that are used to shape multivarious commercial experience into a convenient factual form. Chapter 5 will look at how accountants exploit their technical frame, and how they cope with its fragility, by examining how considerations which cannot be rendered technical are dealt with, particularly through extended metaphors of strategy and sport. Chapter 6 will discuss accountants' professionalism, and will explore the influence it has over the construction of accounting knowledge in the context of the competing imperatives of commercialism and client service. Chapter 7 will look more broadly at how the practice of constructing accounting facts engages, shapes, and relies upon the ethical characters of the people who do so, and will explore the proposition that accounting's apparently factual basis, reinforced by its rules-based ethical and technical standards, limits its receptiveness to alternative forms of information and inhibits the ethical maturation of accountants. Chapter 8 will conclude by suggesting that increasingly technical accounting rules can be counterproductive, and that our focus, instead, should be on redefining and reinvigorating professional ethics in the financial world. It will draw together the findings of the previous chapters in order to discuss how this might best be achieved.

Clearly, this is an interdisciplinary study, to which a wide range of previous work is relevant. My primary aim, however, is not to contribute to a particular literature, but to describe a social problem in a way that makes it more

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tractable. I have therefore introduced the book by outlining that social problem and formulating a means of understanding it, and have deferred engagement with the relevant intellectual debates until they arise in the chapters that follow. The general reader will, I hope, find this approach intuitive. Specialists in accounting will also find the whole to be of greater interest than the sum of its parts, since the book relates accounting knowledge, ethics, and practice in new ways. Specialists in the sociology of work and the professions will be particularly interested in Chapters 2 and 6, economic sociologists in Chapters 4 and 5, and business ethicists in Chapter 7. The overall focus of the book, however, is necessarily more general. This is both because accounting practice itself does not respect intellectual boundaries, and because solutions to the problems I explore must ultimately be found through the development of accountants' own existing discourse, even if that process is catalysed from without. Only when practitioners can recognize, articulate and grapple with these problems in their own terms, will solutions that were previously unimaginable gradually become possible.

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