

## **Analysis of the language used within codes of ethical conduct**

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### **ABSTRACT**

Codes of ethics are promulgated by a variety of organizations. Their intent is to provide a set of conventions or moral principles as guidelines to behaviour and conduct of respondents to such codes. This paper investigates the language used within such codes and seeks to establish if the language used is a factor that is likely to enhance adherence to a code. The language of the Code, APES110 Code of Ethics for Professional Accountants (2006) is analysed and the language of that Code is compared with alternative hypothetical “Codes” using language as the variable factor with a sample of graduate and undergraduate students in the United Kingdom and Australia. The results confirm that the choice of language within a “Code” is a variable which is likely to impact upon adherence to a “Code”. As a consequence, businesses and organizations promulgating codes of ethics could achieve higher rates of code compliance if the language of a code contained medium or high obligation language, (members will/must) as opposed to low obligation language, (members may/can).

Keywords: accountancy, code of conduct, ethics, language

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## INTRODUCTION

This paper has its origins in the development and presentation of an Ethics program to graduate accounting students in Australia. The Ethics program includes the study of the ethical pronouncements of the Accounting Professional & Ethical Standards Board Limited (APESB), a statutory body established by the Australian government under Corporations Law to supervise ethical and related matters for the accountancy profession. The language of APES110 Code of Ethics for Professional Accountants (2006) promulgated by the APESB, is analysed and then compared with alternative hypothetical “codes” using variations of language within alternative “code” constructions.

This paper commences with a consideration of the significance and the likely impact of language upon human behaviour and is followed by a review of the literature which addresses codes of ethical conduct, the language used within such codes, and the impact of such codes upon respondents. The Code APES110 is analysed to identify the nature of language used within that Code and a study is conducted to establish if, and to what extent, any variation in the language used within a code is likely to impact upon compliance.

Language is used to convey messages to readers and is used in a wide variety of ways. Codes of ethics are written documents intended to bring a predictable response from adherents to the code. Shannon & Weaver (1949) established a model of communication which identified the elements of communication and the impediments to effective communication. The language used to send messages is part of communication theory and may explain in certain circumstances the failure of effective message transmission. Thus the language used within codes of ethics may or may not be effective in transmitting a set of conventions or moral principles as guidelines to the behaviour and conduct of respondents to a code.

## THE IMPACT OF LANGUAGE

As noted above, language is used to convey messages to readers and is used in a variety of ways. Sometimes, and certainly when considering codes of ethical conduct, it can be reasonably expected that the persons towards whom such codes are directed would be expected to behave in a way that is responsive to such codes. Language, together with ethnicity, age, gender and the level of education of code respondents, is likely to be one of the variables which may be significant when measuring the impact of a code, and when measuring compliance of respondents to a code. Consider the following differing examples of the use of language to achieve compliance.

We refer to Exhibits I, II, and III presented as APPENDIX 1 to this paper. Exhibit I has been extracted from a notice posted at the entrance of Hyde Park, London. This example demonstrates extensive use of conditional (low obligation) language within an “instruction” to Park users regarding the behaviour of dogs in the Park and the responsibilities of dog owners. The notice makes extensive use of low obligation language (dog owners “may”), placing the responsibility for dog behaviour upon dog owners. The language chosen requires dog owners to make choices between actions that may be taken to control dog behaviour. Nothing is prohibited by the notice and dog owners may respond to the notice in a variety of ways AND comply with the intent of the notice.

Exhibit II has been copied from a public park notice in New York. In contrast to Exhibit I, the language used within this statement is explicit and non-conditional using high obligation language (do not). Little choice is offered to park users and prohibition is the tone of this Exhibit. This statement does not provide park users with choice, nor does it appeal to park users to make any judgment by reference to other park users. Exhibit III highlights the

likely influence of cultural values upon compliance with the law and, for purposes of this paper, codes of ethical conduct.

These Exhibits provide examples of the alternative uses of language which in each case is designed to impact upon human behaviour by achieving compliance from respondents. This paper conducts a test to establish if variations in language within codes of conduct results in differing respondent behaviour. In particular the use of low obligation language and high obligation language is contrasted.

## LITERATURE REVIEW

Professional associations, businesses and other organizations promulgate codes of ethical conduct for members and employees. These codes of ethical conduct are often prepared and administered by the organizations promulgating such codes.

Codes of ethical conduct are promulgated by professional associations including medical practitioners (Australian Medical Association, 2006), pharmacists (Pharmaceutical Society of Australia, 2011) and accountants (APESB, 2006 & 2012). Most professions regard themselves as self-regulating as they are considered to be acting in the public interest and therefore enjoy the trust of the public. Because they are self-regulating and thus enjoy the trust of the public, they are able to establish and administer such codes within the framework of legislation.

Clearly such codes will be written and presented to ensure membership compliance and will use language designed to achieve compliance. Frankel (1998) suggests, "...a professions' code of ethics is perhaps its most visible and explicit enunciation of its professional norms and recognition of professional bodies collective approaches to an agreed measure for appropriate norms" (p110). Frankel notes the existence of a tension between a need to ensure autonomy and professional accountability. Professional associations and organizations address this tension by establishing codes of ethics that can be classified into those that are aspirational, educational or regulatory (p109). Self-regulating professions typically present codes of ethics that are aspirational and educational, but rarely regulatory (p114).

However Doig and Wilson (1998, p146ff) suggest that the existence of an ethical code is not necessarily a guarantee of moral attitudes and behaviour within organizations. They argue that ethical frameworks, whether self-regulatory or externally imposed, cannot be relied upon to fashion and maintain ethical values within organizations. Such codes can however be used within organizations to define an ethical environment or culture and be a part of a continuous learning process that requires inculcation, reinforcement and measurement within the membership of the organization. The use of sample audits to ascertain code compliance is recommended by the authors.

Rezaee et.al (2001, p178ff) considered the impact and effectiveness of ethical codes considered prescriptive with codes that provided for greater autonomy of respondents. In a study of university and college financial administrators, respondents favoured a code of conduct which provided specific guidelines in relation to issues of conflicts of interest and compliance with industry policies. Wotruba et. al., (2001, p 59ff) also investigated the impact of written codes of conduct on managerial attitudes and behaviour finding that familiarity with a code presented as a significant factor impacting upon manager compliance and behaviour. Thus education and training of managers to enhance code familiarity was identified as a priority rather than education and training directed towards enhancing code awareness (p 62). Code familiarity was found to be more strongly related to ethical climate than code usefulness (p66). A note of warning was sounded however, as code familiarity

may result in adherence to “the letter of the law (code)” rather than with the “spirit” of a code (p 67).

Sommers (2001, p 185ff) considered the relative importance of corporate and professional codes of conduct on employee attitudes and behaviour. They concluded that neither the presence of corporate codes of ethics nor familiarity with a professional code of conduct had any influence on a decision to report observed unethical behaviour in organizations (p192). A further observation was that professional ethical codes play a less important role in influencing employee behaviour than do corporate codes (p194).

Jakubowski et. al. (2002, p111ff), Asgary and Mitschow (2002, p239ff) and Arnold et. al., (2007, p327ff) consider the significance of cultural differences on the effectiveness of codes of ethical conduct. The importance of multinational corporations is widely recognized as is the promulgation of world-wide ethical codes such as that for accountants promulgated by the International Federation of Accountants (IFAC) in 2006 and 2013. Are world-wide ethical statements possible for corporations and professions when cultural and national differences are identified? Asgary and Mitschow (2002) propose a common code for all locations of multinational corporations recognizing that the choice between host and home country values may result in a diminished impact of a code. Arnold (2007) used the framework of Hofstede (2001) to conclude that the sensitivity to ethical dilemmas was influenced by the cultural differences identified by Hofstede (p335).

Jakubowski (2002) found significant similarities in the codes of ethical conduct for accountants in eight countries; (USA, Taiwan, South Korea, Malaysia, Canada, Australia, Hong Kong and India). This sample which included high and low cultural context countries, presented findings demonstrating some differences in language used but similar rules of conduct relating to independence, integrity and issues of conflict of interest. {This 2002 study was conducted before the promulgation of the codes of ethics by IFAC now widely adopted throughout the world}

Issues of the impact and effectiveness of codes of ethics were also considered by Farrell and Farrell (1998, p 587ff) and Farrell et. al. (2002 p 468ff). Farrell and Farrell (1998) analyzed codes of conduct of five Australian enterprises from the perspective of functional linguistics and classified the codes within a continuum based upon the notion of modality (p 590). Thus codes were classified as using low, median or high obligation language. To illustrate, low obligation language within a code uses the words, “members can/may”; median obligation language uses the words “members will”; high obligation language uses the words “members must”.

Farrell and Farrell (1998, p596) argue that the use of high obligation language within a code has the semantic force of command and therefore contributes to the disempowerment of respondents to such a code. In contrast, the use of low or median obligation language is therefore more likely to empower respondents who are expected by their professional associations to exercise personal and professional judgement identifying, assessing and responding to ethical risks. Farrell et. al. (2002) addresses the difficulties associated with the measurement of the behaviour of respondents to a code and, as for Doig (1998) note the importance of audits to assess the effectiveness of codes (p 468).

What other attributes might impact upon compliance with a code of ethical conduct? The literature also considers the following possible explanations: age and the gender of code respondents and the educational standards and ethics training of respondents.

Rest (1986)(1993) identifies age, levels of educational achievement and life experience as the main determinants of moral development and ethical behaviour. The field study following collects data for these variables together with gender data of participants. Newman (2008) in an extensive literature review concludes “...despite extensive theorising, actual empirical investigations have yet to converge on a coherent picture of gender

differences in language (p 211). White (1999) does however find that female respondents achieved higher ratings demonstrating greater (than male) ethical responsiveness. The literature reviewed demonstrates widespread consideration of the rationale for ethical codes of conduct, the factors which are considered to impact upon the effectiveness of such codes including the language that is used within codes of conduct. The following section analyses the language used within the code of ethical conduct to which accountants in Australia respond.

### **The LANGUAGE OF APES 110: CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS**

*APES 110, Code of Ethics for Professional Accountants (2010)* is mandatory for all members of the Institute of Chartered Accountants in Australia (ICAA), and for members of CPA Australia. Further, APES 110 has legal force through Australian Corporations law where a member is performing an assurance engagement. The Preface to APES110 (AUST) states the following:

“Members who conduct audits of companies, registered schemes and disclosing entities in accordance with Chapter 2M or financial services licensees in accordance with Chapter 7 of the Corporations Act 2001 are reminded that, in relation to such audits, this Code will have the force of law. This is because auditing standards issued by the Auditing and Assurance Standards Board (AUASB) are legislative instruments under the Legislative Instruments Act 2003, and as such have the force of law in respect of Corporations Act audits. These auditing standards make reference to compliance with “relevant ethical requirements” relating to audit engagements. This “Code of Ethics for Professional Accountants” is a relevant ethical requirement for these purposes” (APES110, Preface, p 3).

APES110 follows closely the format and content of International Federation of Accountants (IFAC) which published a “Code of Ethics for Professional Accountants” in 2006. This Code has been further revised since 2006 and the revised Code was operative in July 2011.

The literature reviewed in the previous section identifies research which investigates the significance and the impact of language use within codes of ethical conduct of professions including the accountancy profession. As noted in the introduction, it is expected that members will comply with a Code and further, that a Code will be presented to members using language that would be expected to ensure that members comply with the Code. This part examines the language used within APES 110 and, in particular, seeks to measure the use of conditional and unconditional language within that Code.

Following Farrell & Farrell (1998) and the construct of modality, the language used within the Code, APES110 varies in strength of meaning. Consider the meaning attributed to the following words, ALL of which appear in the Code: may, shall, should, must, are/is required, might have, prohibited.

The Oxford English Dictionary (2006) defines these words as follows:

- May (may not): used to express permission, a possibility, a wish, uncertainty;
- Should (should not): used to express obligation or duty, similar to ought to, something expected;
- Must (must not): used to express necessity of obligation;
- Is/are required: need, to make somebody do something;
- Prohibited: to forbid, ban something.



Shall (shall not): expressing an instruction or command; (The Oxford English Dictionary notes the existence of "... considerable confusion about when to use shall and will". (2006. p. 1622)

The auxiliary verbs presented in the above listing can be arranged in terms of strength of meaning, from weakest to strongest as follows: "may", "should", "will", "must" (prohibited or prohibition is interpreted as a legal expression of "must").

A review of APES 110 demonstrates an abundant use of "may" and "should" throughout the document, "must" occurs several times only within the document, and a "prohibition" is used in Sections 290.14 and 290.15 alone where the Code considers issues of independence in assurance engagements prohibiting certain relationships between auditors and clients.

The conditional auxiliary verb "may" is used 260 times in the Code, 32 times in Part A, the General Application of the Code, 190 times in Part B, Members in Public Practice, and 38 times in Part C, Members in Business. It is noted that the Code provides in Part A, a conceptual framework for the application of the fundamental principles of professional ethics for members. As a consequence, the Code is structured to provide examples of circumstances or situations where ethical issues may arise. The Code frequently states that the listing of examples is not exhaustive but indicative of circumstances that may be considered by members. It is therefore concluded that the use of "may" in parts of the Code is not necessarily providing choice of behaviour to members, but is a listing of circumstances that may be encountered by Members respondent to the Code. However the use of "may" in the Code APES110 is twofold. In the first usage it is used to give Members choice of action, in the second usage to indicate circumstances and provides examples of ethical concerns that may arise. This study examines the first usage in the following section. It is however noted that "may" is used extensively in both usages throughout APES110, the Code.

We also observe more frequent use of "may" within Part B of the Code, that part of the Code which has application to Members in Public Practice. Why is "may" used so extensively within Part B when compared with Parts A and C? Certainly Part B (59 pages) is longer than either Part A (10 pages) or Part C (14 pages). It is clear from the Code that substantial detail is provided regarding the ethical issues that may arise when members are undertaking Assurance Engagements (Code, Part B, pp 30-73). It is also observed that codes of conduct, including this Code, have been extensively revised subsequent to the onset of the Enron and other auditing/accounting/business failures. It is therefore not surprising to find that this Code considers in detail the ethical issues that may arise within assurance engagements in particular.

The use of "may" within this Code can be illustrated by the following examples. All indicate that choice of response by a member to the Code is possible (first usage noted above) or that the use of "may" occurs to indicate to members that a listing is provided for illustrative purposes (second usage noted above).

Code 100.3: "... Parts B and C ... provide examples of safeguards that may be appropriate..."

Code 140.7: "The following are circumstances where members are or may be required to disclose confidential information or when such disclosure may be appropriate..."

Code 150.1: "The principle of professional behaviour imposes an obligation on Members to comply with relevant laws and regulations and avoid such action or omission that may bring discredit to the profession."

Code 200.7: “Examples of circumstances that may create familiarity threats include, but are not limited to...”

Use of the word “should” is also frequent within the Code. “Should” is taken to mean an obligation or duty to perform. “Should” is a stronger word than “may” and might be expected to raise the level of awareness of Members regarding the appropriate course of action and behaviour. “Should” appears 182 times within the Code, 29 times in Part A, 131 times in Part B and 22 times in Part C. Some examples of the use of “should” within this Code are presented below.

Code 100.21: “If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a Member should, where possible, refuse to remain associated with the matter creating the conflict.”

Code 150.2 “In marketing and promoting themselves and their work, Members should not bring the profession into disrepute.”

Code 200.2: “A Member in Public Practice should not engage in any business, occupation or activity that impairs or might impair integrity, objectivity or the good reputation of the profession...”

Finally, the Code presents a very small number of “must” or similar strong statements. Only within Part B where issues of the independence of auditors do we find the strongest obligatory language used. To illustrate, consider the following example.

Code 290.14: “Financial Statement Audit Engagements and other Audit Engagements conducted for the purposes of the Corporations Act are relevant to a wide range of potential users; consequently, in addition to independence of mind, independence in appearance is of particular significance. Accordingly, for Financial Statement Audit Clients, the members of the Assurance Team, the Firm and Network Firms are required to be independent of the Financial Statement Audit Client. Such Independence requirements include prohibitions regarding certain relationships between members of the Assurance Team and Directors, Officers and employees of the Client in a position to exert direct and significant influence over the subject matter information (the financial statements.)”

A similar statement is presented in the following Section 290.15, regarding other Assertion-based Assurance Engagements.

In summary, this analysis of the Code demonstrates extensive and widespread use within the Code of the terms “may” (may not), “should” (should not) and very limited use of “must” (must not). This analysis confirms a very low level of use of obligatory language. Any user of this Code will be required to make many judgments regarding ethical behaviour as a respondent to this Code, a position that is usually found in ethical statements of other professional bodies. This Code is permissive but requires Members respondent to the Code to make many individual judgements regarding ethical issues that may arise in practice.

## **A STUDY OF STUDENT RESPONSES TO “CODES OF ETHICS”**

A laboratory experiment was designed and presented to students who consented to participate with an assurance of anonymity, to test if language, and variations in language would impact upon decisions that participants would make regarding compliance, and the

strength of compliance with varied versions of “Codes of Ethical Compliance” created for this experiment. An experimental instrument was developed based upon two particular aspects of *APES 110*. The experimental instrument is presented as Appendix 3 to this paper.

The experimental instrument presented to participants provided a scenario which included information regarding a long-standing relationship between the client and the accountant and further, the accountant was engaged to prepare a report for the client, this report to be part of a Prospectus for an Initial Public Offer (IPO) of the client’s firm. In the scenario an accountant is asked by a client to increase a revenue estimate in a pro-forma income statement. This presents two issues that are addressed by *APES 110*:

- (a) the issue of independence of accountants performing assurance engagements is addressed by Section 290 of *APES 110*; and
- (b) The issue of integrity is addressed by the Code at Section 110 including the following: “A member should not be associated with reports, returns, communications or other information where they believe that the information contains a materially false or misleading statement” (*APES 110*, p 8).

The test instrument was developed, including the development of a scenario and the drafting of four “Codes of Ethics”, which differed only to the extent that the language of compliance within each version of a “Code” was varied. “Code 1” uses the language of *APES110* (2006), the other codes being the creations of the researchers:

- “Code 1” was drafted as: ‘A member **should not** be associated with a report or statement where the member believes that the information contains a materially false or misleading statement.’
- “Code 2” was drafted as: ‘A member **will not** be associated with a report or statement where the member believes that the information contains a materially false or misleading statement.’
- “Code 3” was drafted as: ‘A member **is prohibited** from association with a report or statement where the member believes that the information contains a materially false or misleading statement.’
- “Code 4” was drafted as: ‘A member **may not** be associated with a report or statement where a member believes that the information contains a materially false or misleading statement.’

Participants were invited to complete the requested biographical information on the face sheet of the instrument and then asked to read Part 1, the Scenario noted above. Respondents were then asked to complete Part 2 indicating whether they considered an ethical issue was facing the accountant. Finally, respondents were requested to move to Part 3 and to respond to the situation presented in the Scenario with regard to each of the four “Code” variations in turn by indicating from the choices offered, which best indicated their response under each “Code”; that is, whether or not they would sign the modified statement in the Scenario, with regard to each version of the “Code”. Participants could choose from the following responses:

- Definitely not be associated
- Would not be associated
- May not be associated
- May be associated

The experiment was administered to the following groups of students in Australia and the United Kingdom (UK), the total sample size being 215 respondents.



Group 1: UK Postgraduate students studying various specializations including an enrolment in an Accounting postgraduate unit of study. (UKPGV) (72 respondents)

Group 2: UK Postgraduate students enrolled in an Auditing unit of an Accounting major. (UKPGA) (27 respondents)

Group 3: Australian postgraduate students enrolled within a Masters Degree in Professional Accounting. (AUSPGA) (58 respondents)

Group 4: UK Undergraduate students enrolled within various specializations including an enrolment in an Accounting undergraduate unit of study. (UKUGV) (58 respondents)

## Analysis

Initially, the distribution of responses across the four categories were summarised and tabulated for each version of the “code”.

The responses to each “code” were then collapsed from four categories into two categories: (1) those that were unequivocal about not signing (“Will Not Sign” or “Definitely Will Not Sign”), and (2) those who were ambivalent (“May Sign” or “May Not Sign”).

The dichotomous responses (unequivocal about not signing versus ambivalent) were then analysed using logistic regression. Because “code” is a repeated measure (each respondent answered with respect to all four codes), responses to the four codes cannot be assumed to be independent and so a simple Pearson chi-square test of independence or association between response and code may not be valid or appropriate. The logistic regression approach provided three advantages.

- 1) The repeated measures aspect (i.e. correlation between responses within subjects) can be explicitly modelled and tested, by the method of generalised estimating equations (GEE).
- 2) The effects of more than one factor can be assessed simultaneously (multiple logistic regression).
- 3) The particular pattern of any association found can be explicitly examined with post-hoc tests.

Six logistic regression analyses were conducted, to determine whether the proportions in each response category were influenced by the wording of the code, and also by five other factors - course, English language status, prior study of ethics, gender and age. Each of these factors was analysed in turn in conjunction with the “code” factor.

On the basis of responses to the proposition ‘An ethical issue arises for you to address [in the Scenario]’, two subgroups of respondents were identified: (1) those that agreed or strongly agreed that an ethical issue arises, and (2) those that disagreed, strongly disagreed or were indifferent regarding this proposition. The same sequence of six analyses described above was then also applied to these two subgroups of respondents.

## RESULTS

In all, 215 responses were provided by subjects, all students enrolled within graduate or undergraduate programs in business disciplines in the UK and Australia.

Of these, 172 respondents (80.0%) Agreed/agreed strongly that an ethical issue was evident from the Scenario presented in Part 1; however 25.0% did not consider an ethical issue to be apparent!

The response of participants to the alternative “Codes” is presented in APPENDIX 2, Table 1. An analysis provides the following information:

- Code 3, which stated that a member **is prohibited** from association with a report or statement where the member believes such a statement includes false or misleading information, provided the strongest adherence with 43.0% (92 respondents) stating that they **would definitely not** be associated with the misleading financial statement. Of the remainder, 24.8% (53) indicated that they may associate themselves with the false and misleading statement even though this version of the “Code” would prohibit any such association!
- Code 1, which stated that a member **should not** be associated with a false and misleading statement, attracted a response rate of 35.8%, (77) respondents stating that they would definitely not be associated with a false and misleading statement, however, 28.4% (61) responded that they may be associated with the statement.
- Code 2, which stated that a member **will not** be associated with a false and misleading statement, attracted a response of 33.5% (72) stating that they would definitely not be associated with the statement and a further 20.0% (43) indicating that they may be associated with the statement.
- Code 4, which stated that a member **may not** be associated with a statement containing a false or misleading statement, attracted the lowest support from respondents with 22.9% (48) indicating that they would definitely not associate with such a statement and 27.6% (59) indicating that they may be associated with such a statement.

The dichotomised responses are presented in APPENDIX 2: Table 2. Results of a repeated measures binary logistic regression analysis of the effect of code on the dichotomised responses indicated that the proportion that were unequivocal about not signing differed significantly between codes ( $p < 0.001$ ); specifically, the proportion was significantly lower for “Code 4” than for the other three codes ( $p = 0.015$ ,  $p < 0.001$ ,  $p = 0.002$  respectively). Responses for Codes 1-3 did not differ significantly from one another.

When course of study was incorporated as a second factor (APPENDIX 2: Table 3), a two-factor binary logistic regression analysis showed that the significant effect of code persisted ( $p = 0.001$ ), but there was no significant difference between courses, and no significant interaction between courses and codes i.e. the lower proportion of unequivocal responses for “Code 4” was consistent across all four courses.

When English language status was incorporated as a second factor, the significant effect of code persisted ( $p < 0.001$ ), but there was no significant difference between the two language categories, and no significant interaction between courses and language status, that is, the lower proportion of unequivocal responses for “Code 4” was consistent across both categories of English language status.

When enrolment in an ethics course (yes/no) was incorporated as a second factor the significant effect of code persisted ( $p < 0.001$ ), but there was no significant difference between the two ethics course categories, and no significant interaction between courses and ethics course categories i.e. the lower proportion of unequivocal responses for “Code 4” was consistent across both ethics course categories.

When gender was incorporated as a second factor, the significant effect of code persisted ( $p < 0.001$ ), but there was no significant difference between genders, and no significant interaction between courses and genders i.e. the lower proportion of unequivocal responses for “Code 4” was consistent across both genders.

The age of respondents was coded into four categories, with as close as possible to 25% of respondents in each (i.e. approximate quartiles). When age category was incorporated

as a second factor (APPENDIX 2: Table 4), the significant effect of code persisted ( $p < 0.001$ ), and there was also a significant difference between age categories ( $p = 0.001$ ), with the responses of the oldest age category (26-57 years) being more likely to be unequivocal about not signing than for the other three age categories ( $p = 0.001$ ,  $p = 0.001$ ,  $p = 0.011$  respectively), while responses for the three younger age categories did not differ significantly from one another. There was no significant interaction between age category and code, indicating that a lower proportion of unequivocal responses for “Code 4” occurred in all age categories.

When the six analyses were repeated for only those respondents who agreed that an ethical issue arises, ( $n = 172$ ; 80%), the results followed a similar pattern to that described above for the whole sample, that is, a significantly lower proportion of unequivocal responses for “Code 4” ( $p = 0.006$ ,  $p < 0.001$ ,  $p = 0.006$  respectively), no significant effects for course, English language status, gender, or enrolment in an ethics course, and a significant tendency for older respondents to be more unequivocal about not signing than younger respondents ( $p = 0.026$ ).

For those who disagreed that an ethical issue arises or who were indifferent ( $n = 43$ ; 20%), the age effect was present, with older respondents being significantly more likely to be unequivocal about not signing than younger respondents ( $p = 0.031$ ), but there was no significant effect of code or any other factor

## DISCUSSION OF THE STUDY

This discussion considers the analysis of the information provided by respondents comprising graduate and undergraduate students in the UK and graduate students in Australia. The majority of all respondents (80%) recognized that an ethical issue was presented in the scenario. Respondents were provided with four versions of a “Code”, each differing only to the extent of the language used within each “Code”. The language used in each “Code” presented to respondents varied from obligatory language (prohibition) to conditional language (may/may not), that is the modality continuum of Farrell and Farrell (1998).

The analysis of the data indicates that all respondents were more likely to sign the false and misleading statement when conditional or low obligation language is used within a “Code”. In this study, “Code 4” “May not sign” provides the only example of conditional language used within any of the “Codes” offered. No significant difference was discovered between responses to “Code 1”, “Code 2” and “Code 3” which provide for “Should not be associated”, “Will not be associated”, and “Is prohibited from association” with a false and misleading statement.

This result is surprising as it indicates that respondents do not differentiate between “prohibition”, “should not” and “will not”! Further, it might be concluded that no significant difference in behaviour will be achieved by any variation of “Code” language using these available descriptors. In contrast the use of conditional language (in “Code 4”) does present a significantly different response as respondents are more likely to sign and therefore “be associated with a false and misleading statement”. Correspondingly when responding to “Code 4” the results demonstrate that significantly fewer are unequivocal about signing!

Organizations and professional bodies responsible for the preparation and promulgation of ethical codes of conduct would be well advised to avoid conditional language within such codes based upon the findings here reported. Conversely, this study indicates that respondents to a “Code” may not necessarily distinguish between non-conditional verbs within a “Code”, one non-conditional verb being as effective (or ineffective) another!

The data available provided further information upon respondents as follows: age, course of study, language background, gender and any previous study of ethics.

The analysis indicates that the distinction noted above between “Code 4” and “Codes 1, 2 and 3” prevails regardless of the course of study, the gender of respondents, the language background of respondents and whether the respondent has undertaken any prior study of ethics. Rest (1986 and 1993) identifies age, level of education and life experience as the main determinants of moral development and ethical behaviour. This investigation identifies age as a significant variable but not the level or location of education or gender as factors.

The courses of study separately identified included postgraduate accounting students, postgraduate business students, and undergraduate students from the UK, and postgraduate accounting students from Australia. Course of study was not found to provide any further explanation of responses, all student groups again distinguishing between “Code 4” and “Codes 1, 2, and 3”. Accounting postgraduate students in both the UK and Australia responded similarly in the circumstances presented. It might have been expected that as the scenario presented was an accounting issue, that accounting students would have responded differently when compared with undergraduate and non-accounting graduate students. Such was not the case.

When respondents were grouped by gender we again find that both male and female respondents distinguish between “Code 4” and “Codes 1, 2, and 3” and do not distinguish between “Codes 1, 2, and 3” as for the total sample. We conclude that the language tested in this study does not result in any difference in the response to each “Code” based upon gender. This conclusion confirms the findings of Newman, Groom, Hendelman noted earlier which indicated no coherent picture of gender differences in the use of language (P211). As the gender studies of language remain inconclusive, we may not be surprised to have found no significant differences by gender in the responses to the “Codes” offered in this study. How women use language and how women might be affected by language variations used within “Codes of Conduct” must remain a question for further investigation. The related issue is the larger question regarding the difference (if any) in the behaviour of males and females when confronted by ethical issues.

Respondents were grouped by language background into those with an English Speaking Background (ESB) and those with a Non English Speaking Background (NESB). As each of the proposed “Codes” differed only to the extent of a variation in the use of conditional and non-conditional language, it might have been expected that respondents with assumed superior language skills (ESB), would be able to more effectively distinguish between the various forms of conditional and non-conditional language presented. Such was not the case. Evidence presented by Birrell (2006), strongly suggested that the English language skills of overseas students studying accounting, business and other degrees in Australia were deficient and inferior to the skills of Australian born students. This study however indicates that students in the UK and Australia use and understand (or not understand) language similarly. As we do not find any difference in responses between ESB and NESB students, it may be that both student groups lack sufficient language facility to distinguish finer points of language difference! We find it difficult to explain however, why respondents did not distinguish between “prohibition” and “should” within the “Codes” tested.

Respondents were grouped depending upon the prior completion of a study program in ethics. It might have been expected that those with prior study would have been more sensitive to ethical issues and therefore more likely to discriminate between the language used in the proposed “Codes”. Studies of ethics are frequently mandatory within business schools and considered to be an important component of business and accounting curriculum.



This research indicates that the prior study of ethics does not result in any difference in responses to the “Codes” when compared with all respondents. Again “Code 4” is distinguished from “Codes, 1, 2 and 3” and no distinction is identified between “Codes 1, 2, and 3”

Finally respondents were grouped into approximate quartiles by age. Here we find that the older group did present attributes that differed when compared with all respondents. Older students again distinguish “Code 4” from “Codes 1, 2, and 3”. However in distinguishing between the “Codes”, older students are more likely to be unequivocal when considering “Codes 1, 2, and 3” and less likely to be ambivalent in regard to any use of “Code 4”. Does this mean that older professionals would be more reliable and compliant when confronted by a Code of Ethics? Should “Codes of Conduct” be drafted by older professionals? Research identified earlier (Rest 1986 and 1993) confirms that age is a variable that impacts on ethical behaviour.

## CONCLUSIONS

This paper provides some insights into the construction, the language and the likely impact of “Codes of Ethical Conduct” including *APES 110, Code of Ethics for Professional Accountants*. We found that the language used within *APES 110* clearly indicates extensive use of conditional language and minimal use of non-conditional language, or, as noted by Farrell & Farrell (1998) low, median and high obligation language. It is noted that *APES 110* makes significant use of moderate or median language (should) particularly within the section that directly relates to members in public practice.

When adding evidence from this study, we found that participants differentiate between low obligation, conditional language, and median/high obligation language within the “codes of ethical conduct” constructed for the experiment. We therefore conclude that the extensive use of low and median obligation language within *APES 110* may diminish its impact and influence on member adherence and behaviour. As respondents were students and not accounting practitioners we are unable to conclude that practitioners would respond similarly. However a further study of accounting practitioners is in progress to establish the validity and the generalisability of the findings of this study.

Respondents represented 20 nationalities and included students from the developed and the less developed world. We further observe the internationalization of accounting, auditing and ethical standards for accountants, noting the evidence provided by Arnold et al., (2007) which clearly indicates that developing international ethical standards may be a difficult and questionable strategy. Certainly the Code of Ethical Conduct issued by IFAC is a worldwide “standard. It is constructed in English and translated as necessary throughout the world. The meaning and intent of this Code may not necessarily be understood in non-English speaking locations nor may the cultural constructs implicit within the Code

“Codes of Ethical Conduct” remain a significant part of professional regulation, usually self-regulation. Such “Codes” are designed, structured and written to ensure compliance of those responding to each “Code” The language used within a “Code” appears to be an important variable likely to impact upon the efficacy and the impact of each “Code”. Therefore the accounting profession and regulators of the accounting profession would be advised by this study to avoid the use of conditional or low obligation language within ethical codes. Respondents in this study were more likely to be exposed to ethical risk when conditional (low obligation) language was used. Alternatively the use of median and high obligation language appears to provide respondents with less exposure to ethical risk.

This study did not indicate that any prior study of ethics would result in any greater sensitivity to language variations offered within the alternative codes offered to respondents.



Courses in ethics are frequently found as part of the programs of business schools. The impact and efficacy of such programs is beyond the confines of this research however it would be expected that courses in ethics would be effective for students of accounting, particularly those anticipating a career in public practice and auditing.

Research is continuing following the revision of APES110 in 2010 which became operative in July 2011. The revised Code substitutes “shall” for “should” throughout. Our findings reported above suggest that this substitution is unlikely to be a significant change however further investigating is proceeding.

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## APPENDIX 1

### EXHIBIT 1: Principles vs Rules: Notice in the Royal Parks, London

#### *The Royal Parks*

##### **Exercising dogs in the Royal Parks**

We welcome people who walk their dogs in the Royal Parks... More dogs can mean more mess and I would like to remind dog owners to clean up after their dogs out of consideration for the health and enjoyment of other park users...

Although we will not set an arbitrary limit on the number of dogs... a person in charge of *four or more dogs, of which more than two are not on a lead* could be considered not to be in control of the dogs (although this will depend on the circumstances, including the age, size and breed and the behaviour of the dogs in each case).

*William Weston*

Chief Executive

**EXHIBIT II: Principles vs Rules: Notice in Florida Park, USA**

**DO NOT  
LIE OR OTHERWISE  
BE IN A  
HORIZONTAL  
POSITION ON  
A PARK BENCH  
DO NOT SLEEP OR REMAIN  
IN ANY BUSHES,  
SHRUBS OR FOLIAGE  
PER CITY CODE SEC 18A 09 A AND O**

**PARK CLOSED  
12:01AM TO 6:00AM  
CITY CODE  
SECTIONS  
18A03.1 & 18A03.2**

**EXHIBIT III: Principles vs Rules: An international perspective**

‘International understanding on rules is very difficult because the rules have different meanings: in **Germany** everything is forbidden unless it is explicitly allowed by the law, whereas in **England** everything is allowed except what is explicitly forbidden in the law. In **China**, on the other hand, everything is forbidden, even though it is allowed by the law, whereas in **Italy** everything is allowed, especially if it is forbidden’ (Haller and Walton, 2003, p. 4).

**APPENDIX 2**

**Table 1: DISTRIBUTION OF RESPONSES: BY “CODE”**

“Code”	Response				n
	Definitely will not sign %	Will not sign %	May not sign %	May sign %	
“Code 3” Prohibition	43.0	22.4	9.8	24.8	214
“Code 1” Should not	35.8	27.9	7.9	28.4	215
“Code 2” Will not	33.5	35.8	10.7	20.0	215
“Code 4” May not	22.9	28.0	21.5	27.6	214

**Table 2: DISTRIBUTION OF DICHOTOMISED RESPONSES: BY “CODE”**

“Code”	Response		n
	Unequivocal %	Ambivalent %	
“Code 3” Prohibition	65.4	34.6	214
“Code 1” Should not	63.7	36.3	215
“Code 2” Will not	69.3	30.7	215
“Code 4” May not	50.9	49.1	214

**Table 3: DISTRIBUTION OF DICHOTOMISED RESPONSES: BY “CODE” AND COURSE**

“Code”	Course							
	UKUGV (n=58)		UKPGV (n=72)		UKPGA (n=27)		AUSPGA (n=58)	
	Uneq %	Amb %	Uneq %	Amb %	Uneq %	Amb %	Uneq %	Amb %
“Code 3” Prohibition	62.1	37.9	66.7	33.3	59.3	40.7	70.2	29.8
“Code 1” Should not	50.0	50.0	70.8	29.2	55.6	44.4	72.4	27.6
“Code 2” Will not	65.5	34.5	77.8	22.2	59.3	40.7	67.2	32.8
“Code 4” May not	39.7	60.3	59.7	40.3	59.3	40.7	47.4	52.6

Uneq = Unequivocal; Amb = Ambivalent

**Table 4: DISTRIBUTION OF DICHOTOMISED RESPONSES: BY “CODE” AND AGE**

“Code”	Age							
	19-21 yr (n=59)		22-23 yr (n=68)		24-25 yr (n=30)		26-57 yr (n=57)	
	Uneq %	Amb %	Uneq %	Amb %	Uneq %	Amb %	Uneq %	Amb %
“Code 3” Prohibition	59.3	40.7	54.4	45.6	63.3	36.7	86.0	14.0
“Code 1” Should not	55.9	44.1	62.3	37.7	53.3	46.7	78.9	21.1
“Code 2” Will not	66.1	33.9	65.2	34.8	63.3	36.7	80.7	19.3
“Code 4” May not	44.1	55.9	45.6	54.4	46.7	53.3	66.7	33.3

Uneq = Unequivocal; Amb = Ambivalent

### APPENDIX 3: The Questionnaire

#### Laboratory Experiment Investigating the Language used in Codes of Ethical Conduct

*Please provide some profile information to assist this research:*

1. Age.....
2. Gender.....
3. Country of origin.....
4. Months in Australia .....
5. Have you ever studied /enrolled in an Ethics unit/subject?  
Yes   
No

#### Part 1

*Please read the case below carefully:*

You are a member of the Australian accountancy profession (CPA Australia) and play golf regularly with an important client, who you introduced to your employer's firm of accountants ten years ago. You have expectations that you will be a partner in this accountancy firm soon.

In the club house after your most recent game, the client asks if you will 'modify' the revenue estimate in the pro-forma income statement recently prepared by you (and others). Your client believes that the revenue estimate in the statement you have prepared is too low. This pro-forma income statement is being prepared as part of the upcoming initial public offer (IPO) of your client's business.

#### Part 2

*Now indicate the extent of your agreement with the following statement by ticking the answer nearest to your view:*

**'An ethical issue arises for you to address in the situation detailed above.'**



Strongly agree

Agree

Indifferent

Disagree

Strongly disagree

### Part 3

The Code of Ethical Conduct of your professional association has varied over time.

**Code 1 states: ‘A member should not be associated with a report or statement where the member believes that the information contains a materially false or misleading statement.’**

*Indicate your most likely response to Code 1 by ticking the answer nearest to your view.*

I would definitely not associate myself with this statement

I would not associate myself with this statement

I may associate myself with this statement

I may not associate myself with this statement

**Code 2 states: ‘A member will not be associated with a report or statement where the member believes that the information contains a materially false or misleading statement.’**

*Indicate your most likely response to Code 2 by ticking the answer nearest to your view.*

I would definitely not associate myself with this statement

I would not associate myself with this statement

I may associate myself with this statement

I may not associate myself with this statement

**Code 3 states: ‘A member is prohibited from association with a report or statement where the member believes that the information contains a materially false or misleading statement.’**

*Indicate your most likely response to Code 3 by ticking the answer nearest to your view.*

I would definitely not associate myself with this statement

I would not associate myself with this statement

I may associate myself with this statement

I may not associate myself with this statement

**Code 4 states: ‘A member may not be associated with a report or statement where a member believes that the information contains a materially false or misleading statement.’**

*Indicate your most likely response to Code 3 by ticking the answer nearest to your view.*

I would definitely not associate myself with this statement

I would not associate myself with this statement

I may associate myself with this statement

I may not associate myself with this statement

*Thank you for participating in this research exercise.  
Your responses will be kept secure and anonymous and the aggregated results will be used in a forthcoming research paper.*

