

**Accountability and ethics in Dutch accountancy
organizations**

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Written by: Renze Brummelman, s4321677
Supervised by: Prof. Dr. E.G.J. Vosselman
Radboud Universiteit Nijmegen

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Abstract

This thesis discusses how and why accountability and ethics relate and how they influence behaviour in accountancy firms in the Netherlands. An interpretive field study is carried out in two separate but similar accountancy organizations to in this way come to an answer to the main question. The main findings of this study are that both organizations are significantly influenced through regulations which clearly have a major impact on the enactment of accountability and ethics within either organization. As a consequence of these regulations the main focus of accountability within both organizations are calculable instrumental measures. Narrative accountability is used on the background to start conversations with employees based on information contained within documents that are used as calculable measures. Through the regulations that affect accountability, the enactment of ethics in the two organizations is also largely based on contracts. Company X in particular however does try to introduce some form of relational response-ability and virtue ethics through creating an internal culture of trust. This leads to questions regarding accountability and ethics, as it is questionable whether accountancy organizations would enact accountability and ethics in this way were it not for the huge influence that the increasing regulations have on these organizations.

Accountability and ethics in Dutch accountancy firms

Introduction

The importance of both accountability and ethics in contemporary society is increasingly evident. This was shown most famously by instances of corporate governance failures in cases such as the Enron scandal in 2001 (Healy and Palepu, 2003; Benston and Hartgraves, 2002) where, amongst other parties, Enron's internal audit committee and the external auditor firm who were held accountable for Enron's financial statements acted inherently unethically and in this way contributed to the demise of one of the world's biggest corporations. One of the main things which became evident in Enron's ethical scandal was that merely following the letter of the law is not enough concerning auditing and accounting; the accountant should continuously remain 'professionally sceptical', critically assessing all evidence that he or she examines (Duska, 2005). Accountability and ethics should therefore be looked at from a much broader perspective than only relying on regulations. In this study the relation between accountability and ethics will be explored firstly by using a literature study to discover the link between accountability and ethics. Secondly a qualitative case study has been carried out to discover how these two variables are linked in accountancy organizations and how they potentially influence behaviour in these organizations.

Scientific relevance

This paper will focus both on accountability and ethics in Dutch accountancy organizations through a case study approach to try to provide a narrative on how accountability and ethics at this time of writing shape practices in these organizations. Scientifically the paper is relevant as relatively little research is carried out about accountability and ethics using a case study in an accountancy organization. A few examples that considered accountability in practice follow. The first of these is a paper written by Keevers et al. (2012) who considers practices of results-based accountability in locally-based community organizations. In this paper it becomes clear how a mismatch between a specific accountability system in an organization and the practices in the organization may have large negative effects. This may be similar to how a type II error concerning control systems in an organization shows a mismatch with the goals and strategy used in an organization (Hofstede, 1981); the organization does not meet the conditions required to use an instrumental approach to accountability, but does try to implement this with adverse effects following. This shows how important it is for an organization to choose an accountability system that fits with the organization's objectives.

Rinske Wolters et al. (working paper) furthermore have researched accountability as a performative act, using the activities of veterinary professionals as a research setting. Here accountability was seen as relational, instead of instrumental, as it directly influences the way in which veterinary professionals carry out the activities linked to their profession. Veterinary professionals tried to balance the interests of the clients, regulators and their own interests to in this way come to the best perceived outcome. These papers show the complexities of accountability, how it can be enacted in a variety of ways, and how it has performative effects on the way people act in an organization.

Secondly ethics has been researched extensively by for example Kaptein (2010) who considers how the importance of ethics in a variety of organizations has increased from 1999 to 2008. According to Kaptein (2010) the increase in the interest in ethics in organizations in the past few years is due to several factors, such as the increase in “legal and stakeholders pressure and the advantages of implementing an effective ethics program” (Kaptein, 2010, p.613). Knechel and Salterio (2017) furthermore discuss the historical role of the external auditor, and the importance of ethics in this profession and how auditors increasingly face cost and time pressures when hired by clients. Adding to this historical perspective Knechel (2007) elaborates on how the audit profession has struggled to make the value of auditing clear to clients, noting a discrepancy between audit cost and the value that companies allocate to these audits. For that reason the audit profession has tried to broaden its activities by for example introducing business risk audits (Knechel, 2007). As the main goal of auditors should be to provide assurance on the financial state of a company, it is questionable to which extend this is ethically justified however. A field study on ethics in a large technology firm of Barker (1993) additionally shows the difficulties of implementing an ethics program in a large technology firm, where an ethics program was implemented as a consequence of litigation issues the company had experienced in the past. Because of this situation the company used the wrong incentives to improve the company using the ethics program. Only bringing about very specific goals for which the ethics program was intended, instead of broader, company-wide goals which an ethics program could also help to achieve such as constructing trustworthy relationships between the company and its stakeholders. These papers show the scientific relevance of researching accountability and ethics.

Practical relevance

Practically the study of accountability and ethics in an accountancy organization is also relevant, as this paper may help accountancy organizations in determining what is important

to ensure high standards of accountability and ethics in their firms using a literature review and a case study approach. In this way the study in this organization may help the organization to think about how and why certain choices were made in the building of the accountability and ethics programs.

Research question

To research accountability and ethics in accountancy organizations the following research question is used: *How are accountability and ethics related and how do they have an influence on behaviour in Company X and Y?* This may be motivated for instance by using the paper of Vosselman (2016), who states that accountability as a mediating actor may have different effects in organizations depending on the way it is enacted. In this way, accountability may be regarded as a performative mechanism shaping the organization.

To give an answer to the main research question firstly a framework of accountability and ethics literature has been constructed and will be explained in the next sections. Secondly the method and methodology of the paper is detailed. This research paper then uses two qualitative case studies which have been carried out in two accountancy organisations in the Netherlands to answer the main research question. In these two companies a variety of data has been studied using interviews to in this way come to a conclusion of the main research question using an interpretive approach. Using an interpretive approach it is possible to research processes that occur inside the ‘‘black box’’ of an organisation, by embracing the complexities and context of these processes (Parker, 2014). In this way this study tries to combine the literature study and the field study to come to new insights regarding accountability and ethics in an accountancy organisation. Thirdly the results of the case studies will be discussed, giving an answer to the main research question. Lastly, a conclusion to the paper and a discussion of the implications of the paper and future research possibilities will be outlined.

Literature Review

The following chapter outlines some of the main research in the field of accountability and ethics. To be able to research and relate these two concepts with each other in the specific context of an accountancy organization in the field study it is useful to see some of the main insights in contemporary research on both topics. Firstly accountability literature will be used to outline the main streams of accountability literature and the limits of accountability.

Secondly, ethics literature will be discussed in a similar way, outlining the main streams that exist in ethics literature. Thirdly, the two concepts will be linked using the literature study to show how they relate to each other. Lastly a model will be constructed which will be used in the field study, using the literature study as a background.

Instrumental accountability and relational response-ability

A definition of accountability is given by Keasey and Wright (1993) who see accountability as involving “the monitoring, evaluation and control of organizational agents to ensure that they behave in the interests of shareholders and other stakeholders” (Keasey and Wright, 1993, p.291). As previous research such as the paper of Ahrens on “Styles of accountability”, researching differences in accountability between British and German firms (Ahrens, 1996), shows there are many ways to use accountability within an organization.

Within accountability it is possible to create a broad dichotomy between different styles, such as instrumental or representationalist accountability and relational response-ability. These different streams are used to build a framework which is used in the field study.

Instrumental accountability

The first way to use accountability is to use it in an instrumental (Vosselman, 2016) or representationalist (Wolters et al., working paper) fashion. When enacted in this way accountability focuses on individualizing processes (Roberts, 2001), relying often on quantitative performance indicators that measure results instead of processes. An example of the use of instrumental accountability in practice, and an example of problems which may occur using accountability in this way, can be found in the New Public Management (NPM) programs of recent years. These are programs with the intention to improve efficiency in the public sector through using a business oriented view (Bevan & Hood, 2006; Hood, 1995; Sabel & Simon, 2011). In these NPM programs the focus lies largely on output related measures and rewards, creating a discrepancy between the characteristics of public service

companies in practice and the way employees of public services need to account for their actions, as instrumental accountability systems for instance do not consider intrinsic motivations of employees (Frey et al. 2013). According to Frey et al. (2013) prosocial behaviour is less inherent in private companies than in public companies however, for which reason it is expected that using accountability in an instrumental way poses less problems in an accountancy organization than in the public service sector. Instrumental accountability may be subdivided into three different streams; calculable, narrative, and intelligent accountability which will be discussed separately below.

(1) Calculable accountability

Calculable accountability is based on rules, procedures, and accounting methods, quantifying and aggregating both financial and non-financial information (Vriens et al. 2016; McKernan, 2012). One of the key methods used in calculable accountability is ‘responsibility accounting’, which relies on highly cybernetic, instrumental, and quantitative systems (Vosselman, 2016).

Using instrumental, and specifically calculable, accountability is motivated through the use of agency theory (Gibbins and Newton, 1994; Roberts, 2001), which assumes that controls are needed to mitigate opportunistic behaviour by untrustworthy employees (Roberts, 2001). Through the use of these controls accountability is enacted in an individualizing and hierarchical way where agents are ‘‘concerned to avoid the shame and humiliation associated with perceptions of inadequate performance’’ (Roberts, 2001, p. 1553). A problem with instrumental accountability however is that it is based on an image of accounting as being neutral, passive and objective in which accounting numbers are seen as ‘‘the truth’’ (Roberts, 1991). Evidence from accounting papers such as Healy and Wahlen (1999) suggest otherwise however, as numbers may be managed by agents such as managers. These agents are empowered to take decisions concerning accounting numbers and often need to use judgment in preparing these accounting numbers. Furthermore quantitative indicators often used to base judgments of accountability on are incomplete which may pose problems if they are used in a coercive way (Jordan and Messner, 2012). For these reasons it cannot be said that accounting numbers are neutral and objective, as these numbers are often subjectively altered through factors such as judgment and context (Healy and Wahlen, 1999). In other words, accounting numbers cannot be seen as an ‘‘answering machine’’ (Mouritsen and Kreiner, 2016). As a consequence of the subjectivity of accounting numbers the process of calculation to produce these numbers can be seen as much more important than the numbers themselves (Quattrone,

2016). In discussing accountability in a calculable, technical view (Vosselman, 2016) it is evident that while calculable accountability on the one hand has its merits in providing clarity using easy to understand indicators, calculable accountability on the other hand is imperfect as the numbers on which it is based are subjective, influenced through contextual factors (Healy and Wahlen, 1999). For this reason it may be useful to look at an alternative view on instrumental accountability; narrative accountability.

(2) Narrative accountability

Here the focal point of accountability lies on providing a discourse on the accountable self, instead of relying solely on quantitative data and outcomes (Vriens et al. 2016). Actors have the opportunity to talk to each other and in this manner think about what they contribute to the organization (Roberts, 2001). In other words, instrumental measures are used to construct a story instead of simply using these measures as standards to reward or punish employees. Using narrative accountability the organization may build a learning climate with an atmosphere of trust, respect, open communication, and honesty (Argyris and Schön, 1978). An example of the use of narrative accountability is the paper written by Wolters et al. (working paper) where accountability rules and procedures are used to provide a narrative for what is happening in practice. A problem here however lies with reporting this accountability to the public, as this type of accountability is much harder to explain to external parties since this requires more extensive knowledge of the profession (Vriens et al. 2016) when compared to calculable accountability which is much more standardized.

(3) Intelligent accountability

As an answer to problems found in both calculable accountability and narrative accountability a new form of accountability was introduced by Roberts (2009) which combines both to in this way come to an improved accountability system; intelligent accountability. This system appreciates the impossibility of being unable to provide a full account of oneself, by not only relying on quantitative outcomes but also providing a discourse in the specific context of the accountable self (Roberts, 2009). In this way this approach relies on conditions which may make accountability a possibility without being restricted by the dilemmas as discussed above that both narrative and calculable accountability have (Vriens et al. 2016). Here both organizational goals and infrastructural arrangements are central to accountability providing a reasonable assurance on trustworthiness (Vriens et al. 2016). Professional goals should firstly come first in an intelligent accountability system, while market and bureaucratic goals should

be backgrounded. Secondly, infrastructural arrangements should be based on three factors according to Vriens et al. (2016, p.9); They should “(1) enable the application and further development of professional knowledge, skills, and experience, (2) secure professional work as intensive technology, thus enabling context-specific diagnosis and treatment based on discretion and feedback, and (3) make sure that professionals are/keep on being dedicated to the societal value the profession they belong to is supposed to realize”. These factors will be used as a framework to research in what degree intelligent accountability is used in accountancy organizations in the case study further on in this paper. Using intelligent accountability means that accountability should be enacted in such a way that it does not undermine performance and trust by blindly relying on the numbers used in instrumental accountability systems. Human judgment in its specific context remains important (O’Neill, 2013) and organizations should avoid hindering professional work through their accountability systems (Vriens et al. 2016).

Relational response-ability

Apart from instrumental accountability, with a focus on quantitative measures, a second approach to accountability exists; relational response-ability. Here organizations fully rely on discourses to provide for accountability; employees in organizations have the opportunity to talk to each other and discuss what they contribute to the organization (Roberts, 2001). They are not punished or rewarded based on performance measures. However, even in “a moral community” (Vosselman, 2016, p.620), where individuals join the organization for “reasons other than self-interest” (Vosselman, 2016, p. 620), opportunistic behaviour needs to be mitigated. Evidence for this are the findings of Segal and Lehrer (2012) who find that even in a stewardship organization where social behaviour and intrinsic motivation are central there is a need for corruption controls to prevent the stewardship organization from collapsing. Neither instrumental nor relational response-ability thus provides a “perfect” way of giving an account of oneself which gives incentives to, instead of using one or the other view, combine both. In this way a balance between both instrumental and relational types of accountability may be found, using relational response-ability in the foreground and instrumental accountability in the background (Vosselman, 2016). The scope of this paper however prevents a deep field study in relational response-ability, as this would require an intensive study concerning the processes that companies have put into place in their organizations through the use of observations. For this reason the emphasis in the field study will be on instrumental accountability instead.

The limits of accountability

Having established that both instrumental and relational response-ability are imperfect, it is now useful to discuss a strand of research concerning the limitations of accountability.

According to Messner (2009) several limitations exist. The first of these is the opacity of the accountable self, where the accountable self is unable to provide a full account of all of their actions. For this reason full transparency is an unrealistic ideal, and should therefore not be expected of a person (Roberts, 2009). Secondly, the accountable self is always accountable to someone else, which means that accountability may limit their freedom and privacy (Messner, 2009). This may make accountants held accountable for their actions overly conservative in their actions, as they know they need to justify these later on to for example their superiors (Hoffman and Patton, 1997). This may be related to notions of forgiving and forgetting, which are necessary for someone to make good decisions (Mouritsen and Kreiner, 2016), as holding someone fully accountable to their actions may diminish their ability to make decisions as they become overly concerned with their ability to defend their choices (Hoffman and Patton, 1997). Thirdly, a person held accountable for their actions is always influenced by various factors internal and external to the firm (Messner, 2009). For these three reasons accountability is always ambiguous, incomplete, and subjective. Even by combining both instrumental accountability and relational response-ability there is no ‘‘perfect’’ way to organize accountability in an organization. These papers may help with finding out how and why accountability is limited in the field study, and how the specific organizations in the field study manage these problems.

Ethics

One of the main factors which influence accountability is ethics. Corporations might want to establish corporate policy to assure adequate ethical behaviour for multiple reasons including defending their reputation, assuring a high financial performance in the future, and assuring continuity for their company (Kaptein, 2008). Below three streams which can be seen as central to the field of ethics will be outlined; Virtue ethics, deontological ethics, and utilitarianism (Kaptein, 2010).

Virtue ethics, utilitarianism, and deontological ethics

Firstly, virtue ethics is a ‘‘study of good character traits’’ (Löfquist, 2017, p.41) focusing on *intentions* that a person has regardless of outcomes (Vosselman, 2016). This ethical stream

focuses on interdependencies between persons (Vosselman, 2016), with a focus on moral behaviour (Orin, 2008). An organization using virtue ethics as a basis for ethical behaviour may promote autonomy, alignment of interests between participants in the organization, and training skills needed to act ethically and achieve the goals of the organization (Vosselman, 2016). Secondly, deontological ethics directs its attention towards *actions* that people undertake (Kaptein, 2010). Thirdly, utilitarianism or consequential ethics concentrates on the *outcomes* or ends of actions instead of the actions or means themselves (Kaptein, 2010). As both deontological ethics and utilitarianism rely on contracts as the means to provide for ethical behaviour in organizations, these two categories will be grouped together as ‘contractual ethics’.

A simple example of the complexities of ethics using a moral dilemma is the choice of killing one to save many. In real life however dilemmas are rarely as simple as this, as reality is complex and uncertain (Kortenkamp and Moore, 2014). For this reason it is often very hard for a company to establish a good ethics program, as evidenced by, for example, the flawed implementation of an ethics program in General Dynamics (Barker, 1993). On the other hand in companies which do use ethics programs in their organizations research has found that unethical behaviour structurally occurs less (Kaptein, 2015), which gives incentives to actively try to diminish unethical behaviour as much as possible. To assure ethical behaviour in practice the internal structure in a company may promote both informal ethical behaviour (the ethical culture of a company) and formal ethical behaviour (ethics programs relying on rules and regulations) to achieve their ethical goals (Kaptein, 2010). A useful framework for achieving these ethical goals that an organization may have is provided by Kaptein (2010).

Linking contractual ethics to instrumental accountability

To construct a framework to be used in the field study it is useful to see how and why ethics and accountability can be linked. Van Oosterhout et al. (2006), discuss ‘Contractualist Business Ethics’ from a preference centred Hobbesian view and a reasons based Kantian view. Using these views they perceive contracting as a constraint, for instance because it is not morally neutral as it requires a commitment to certain factors inherent in these contracts. On the other hand it is argued that contracts are needed in this world, as we cannot live without them (Van Oosterhout et al., 2006). When contracts are used people that use these contracts have certain expectations however; that there are mutual advantages and that the contract makes high effectiveness possible, effectiveness that would not be possible without the help of the contract (Van Oosterhout et al, 2006). Both of these expectations are not met

by every contract however, as several contracting problems exist related to ethics; desolation, deception, defeasance, and defection (Van Oosterhout et al, 2006). Firstly, desolation arises because of bounded rationality of the parties in the contract as it is impossible to account for all risks in the contract (Dekker, 2004). This may prohibit the construction of contracts, as the different parties are unable to adequately assess the gains which they may get out of the contract (Van Oosterhout et al, 2006). Secondly, deception may occur because of opportunistic behaviour of either party as a consequence of ex ante information asymmetry leading to adverse selection problems (Eisenhardt, 1989). Thirdly, defeasance may occur because of contract incompleteness. In this way contracts may be constructed that are impossible for parties to adhere to because of unforeseen future contingencies (Oosterhout et al. 2006). This may be similar to problems with incomplete performance indicators, where problems may arise when these are used in a coercive way (Jordan and Messner, 2012). Lastly, defection is an important problem which may take place (Van Oosterhout et al. 2006). Defection occurs when parties act opportunistically after the contract has been established, alike to moral hazard problems (Scott, 2015), through for example shirking or free-riding. The above problems and expectations concerning contracts make clear that contracts are not morally neutral; instead they create boundary conditions for actors to work with. Contracts should therefore be both transparent and based on forgiveness (Van Oosterhout et al. 2006).

The ethics of contracts may be linked to instrumental accountability, as instrumental accountability tries to make accountability tangible through quantitative measures, similar to how contractual ethics tries to make deontological ethics and utilitarianistic ethics tangible through the use of contracts. Both contractual ethics and instrumental accountability also have their limits however; in the case of instrumental accountability because of the inability of someone to provide a full account of oneself (Roberts, 2009) and contractual ethics because of how contracts affect ethics as they are not morally neutral (Van Oosterhout, 2006).

Linking virtue ethics to relational response-ability

Virtue ethics is ethics which is based on the intentions of a person, rather than the contracts that this person enters into (McKernan, 2012). Where contractual ethics tries to codify what is ‘right’ and what is ‘wrong’, virtue ethics establishes how to make moral decisions. That there is a difference between morality and accountability is made clear by McKernan (2012) who states that it is not always possible to justify, or account for, all moral decisions that are made. Accountability furthermore always is subjective, as someone giving an account always does this in relation to others and to the specific circumstances within which this person acts

(Shearer, 2002), which further demonstrates the complexities of accountability and why it is not possible to always give a full account of oneself. For this reason McKernan (2012) explores the potentials of accountability to act as relational testimonies or as gifts. Firstly, accountability as a testimony can be described as giving an account by telling the truth, not because the other has evidence to prove whether you are faithful or not, but because this is asked of you. By viewing accountability as a testimony McKernan (2012) looks away from the instrumental perspective on accountability as a calculating device. A person giving a testimony tries to give a fair and true representation as much as possible, but is not able to fully control the future, and so give ‘the truth’. Secondly, accountability as a gift avoids viewing accountability as simple checks and balances, exchanging the account of oneself for reasons such as, for example, avoiding penalties or gaining rewards. Accountability as a gift therefore means giving an account without expecting anything in return for this. You do not give an account for individualistic, extrinsic reasons of wanting to get something in return. In this way accountability can be shown from a relational perspective. This can be linked to virtue ethics as in enacting relational response-ability a person gives an account with the purpose of explaining the moral reasoning behind his or her actions in the past. In this way the person in the organization tries to be a good person morally, as a person is responsible for his or her moral or immoral actions (Rosanas and Vellilla, 2005). Relational response-ability relies on dialogues between actors within the organization, to build trust needed to create a moral community, and in this way promotes virtuous behaviour (Vosselman, 2016). The importance of creating trust is elaborated on by Brien (1998) who states that a culture of trust within an organization of professionals who contribute to society through the use of their specialized knowledge, such as an accountancy organization, greatly contributes to diminishing the chances of ethical failure within a company. Only when trust is achieved within the organization professionals are enabled to use their knowledge in the best way, as society then is reasonably assured that these professionals on the one hand do not abuse their power, and on the other hand are not excessively controlled through the use of instrumental monitoring and extrinsic rewards and sanctions, preventing these professionals from adequately doing their work. Relational response-ability should help in establishing this culture of trust, creating a culture where virtuous behaviour is the norm, by avoiding the codification of behaviour and a checklist mentality (Brien, 1998). In short, relational response-ability is linked to virtue ethics as relational response-ability can be used to create the organizational culture in which persons in the organization base their actions on virtuous

intentions. The following section will outline the research methodology and the framework used in the study, linking the literature study with practices.

Constructing a framework to use in the field study

To adequately perform a field study using the insights of the previously outlined literature study, it is useful to link this literature to accounting practices. In accountancy, accountability and ethics have become increasingly important throughout the years as a consequence of the many scandals such as Enron (Healy and Palepu, 2003; Benston and Hartgraves, 2002). What the case of Enron shows is that the actions of only a few persons can have severe consequences for the whole of a large organization, as the actions of a few partners and staff of the Arthur Andersen accountancy firm, at the time one of the Big Five accountancy firms, ‘‘destroyed the whole firm’s credibility and its worldwide networks’’ (Molyneaux, 2004, p.386). What this case furthermore shows is that simply following regulations, such as GAAP rules and IFRS principles, is not enough to assure reasonable ethical behaviour by auditors and accountants of accountancy firms (Duska, 2005). Cases such as the Enron case show the increasing importance of accountancy firms to pursue a high standard of accountability and ethics both within their own firms, and to their stakeholders.

Below, a table is shown which summarizes the model which is used in the field study. Afterwards each component of the model will be further explained using the previous literature study.

<i>Stream of Accountability or ethics</i>	Which measures are in place in the accountancy firm?	How are the measures in place in the accountancy firms used in practice?
<i>Instrumental Accountability</i>	Qualitative/quantitative measures used to measure and assess the accountability of the accountant and other employees to the firm Qualitative/quantitative measures used to measure and assess the accountability of the accountant to the	Calculable accountability → used as a means to punish and reward Narrative accountability → used as a means to start a conversation with the accountable employee, to

	<p>client</p> <p>Qualitative/quantitative measures used to measure and assess the accountability of the accountant to regulations such as GAAP and IFRS</p>	<p>discuss the story behind the numbers and allow the employee to learn from and improve their work</p>
<i>Limits of accountability</i>	<p>Is accountability perceived to be limited in some way in the organization?</p>	<p>How and why do the limits of accountability affect the enactment of accountability within the organization?</p>
<i>Contractual Ethics</i>	<p>Existence of a Code of Ethics or something alike to a Code of Ethics</p> <p>Does the organization use or not use training programs to teach ethics to employees within the organization?</p> <p>Are there specific policies in place with regard to unethical behaviour? If so, which measures are in place?</p> <p>Does the organization monitor whether employees behave ethically?</p>	<p>What is the effect of the use of a Code of Ethics in the organization if it exists? What are the reasons for not using a Code of Ethics when it is not used in the organization?</p> <p>What is the effect of using or not using training programs on ethics within the organization?</p> <p>What is the effect of the use of these policies?</p> <p>What is the effect of the monitoring of ethical behaviour on the employees within the organization?</p>

	<p>Does the organization have an ethics officer?</p> <p>How does the organization handle new employees with regard to their ethical background?</p>	<p>What is the effect of having an ethics officer on ethics within the organization?</p> <p>What is the effect of the possible background checks that the organization conducts when hiring new employees on the organization?</p>
<i>Relational Response-ability and Virtue Ethics</i>	<p>How does the organization try to establish a culture built on trust within the organization?</p> <p>How do employees in the organizations determine which actions are appropriate behaviour? Are their actions mainly based on a ‘logic of appropriateness’ or a ‘logic of consequences’?</p>	<p>What is the effect of the existence or non-existence of a culture built on trust on behaviour of employees within the organization?</p> <p>What is the effect of the type of ethical culture constructed in the organization on the organization?</p>

To use the literature review in the field study, instrumental accountability, relational response-ability and contractual and virtue ethics need to be translated to allow for adequate diagnosis of the situation in the accountancy firms, and to be able to provide for ideas that may possibly improve accountability and ethics in this firm. It is therefore important to first establish adequately how the accountancy firm has institutionalized instrumental accountability in the accountancy firm. Several factors are important here judging from the literature review. Firstly it is important to discover the focus of the accountability system in place on quantitative and qualitative measures, and how these are used in the specific firms. Are these mainly used only to measure outcomes to reward or sanction the accountant based on whether the outcomes match a certain target, with no regard for processes within the firm, in this way

individualizing employees (Roberts, 2001)? Or are these mainly used as a basis for starting a discourse with the accountant, using the quantitative measures in a flexible way to tell a story (Vriens et al. 2016), without strictly regarding the numbers used as ‘true’? Here it is also interesting to see whether the accountancy organization uses these numbers to construct a learning climate (Argyris and Schön, 1978). This can be considered the inward accountability that the accountant has to the organization in which he or she works.

Secondly, it is useful to know how and why the accountancy firm has established accountability of the firm to the client. Here it is also important to see whether this is mostly based on quantitative or on qualitative measures, as qualitative measures are usually seen as more valuable for the professional accountant themselves, but quantitative measures are more understandable and valuable for the client and the external society (Roberts, 2009). Quantitative measures may be in the form of materiality, using certain percentual guidelines to check whether a financial statement is within acceptable boundaries of the ‘true’ numbers (Knechel and Salterio, 2017). Qualitative measures may be in the form of checking for fraud, assessing client business risk because of external circumstances, diminishing the audit risk of stating an incorrect opinion on a financial statement, and more (Knechel and Salterio, 2017). Furthermore it is interesting to see how an accountancy firm manages issues raised by Knechel (2007), as Knechel states in his paper that many audit firms struggle with justifying the price they ask from their clients, using, for example, business risk audits as a way to add more value.

Thirdly, it is important to see how the accountancy firm tries to adhere to the increasingly strict mandatory regulations such as GAAP and IFRS rules and principles, and how it affects accounting practices within the accountancy firms (Knechel and Salterio, 2017).

Regarding accountability it is lastly useful to investigate whether accountants in the organization themselves have the feeling that the accountability system in place somehow limits what they can do to both achieve their own goals and the goals of the accountancy organization itself. Do they for example excessively think about how to justify a certain decision instead of taking the decision if they feel like this is the right thing to do? Are they able to both achieve their own goals and those of the firm? In other words how is accountability limited in the two organizations (Messner, 2009)?

Apart from the analysis of the accountability of the accountant to the different stakeholder groups the field study will also focus on ethics. A strong ethical culture in the accountancy

firm may greatly help with mitigating some of the key problems in the accountancy profession, as this improves the integrity of accountants and the independence of the accountant from his or her clients. According to Scott (2015) this is useful to win back public trust in the accountant.

Here the framework as elaborated on by Kaptein (2010) will be used to determine the most important tangible, contractual factors firms use to establish high ethical standards within their organizations. Firstly, it is important to establish whether a tangible Code of Ethics is used in the organization, why and how it is used, and what the effect of the use of this Code of Ethics, if it is used, is on the organization. Even though the Netherlands does have a Corporate Governance Code (Code Frijns), this code is only applicable on listed corporations that have a statutory seat in the Netherlands, and even in that case it is not mandatory for a company to follow this code (De Nederlandse Corporate Governance Code, 2016). Secondly, the field study will try to establish whether the organization actively uses training programs to teach employees to mitigate unethical behaviour in the organization. Barker (1993) elaborates on the importance of this subject, as training may ensure that employees know the rules and are aware of “common ethical dilemmas and how to deal with them” (Barker, p.170). Thirdly, the field study will try to ascertain as to whether the company has any specific policies in place with regard to unethical behaviour, for example in the form of extrinsic or intrinsic incentives and rewards or sanctions to discourage unethical behaviour (Kaptein, 2008). Fourthly, the study will elaborate on how the company monitors ethical and unethical behaviour (Kaptein, 2008). Fifthly, it is important to establish how the company handles unethical behaviour. This may be in the form of an ethics officer where employees may go to when they experience unethical behaviour by another employee, or a telephone line or specific e-mail address where they may send their concerns (Kaptein, 2008). Lastly, how the company handles new employees is also important to understand the efforts that the company exerts contractually to mitigate unethical behaviour (Kaptein, 2008). New employees can be checked based on, for example, their resume to see whether they have behaved ethically in the past.

As mentioned before, apart from contractual ethics and representational accountability, the study will also inspect virtue ethics and relational response-ability in the organization. According to Brien (1998) the ethical failure of organizations can often be traced back to the flawed ethical culture that is constructed within the company. Both government regulation and self-regulation (such as a Code of Ethics) are not enough according to Brien (1998) to

adequately mitigate unethical behaviour in a company. This ethical culture may then lead to a culture of trust in the organization, important in establishing relational response-ability. In this way a “logic of appropriateness” may be established where appropriate behaviour given a certain situation is the norm through the institutionalization of an ethical culture, for example by treating accountability as a testimony and a gift such as in the paper of McKernan (2012). Instrumental accountability and ethics based on contracts may undermine this however, as these types of accountability and ethics demand “rational explanations and justifications” (McKernan, 2012, p.262), which are often not possible in virtue ethics or morally ethical situations. This logic is contrary to the “logic of consequences” as in utilitarianism, where the outcomes of actions stand central (Beu and Buckley, 2001; Orin, 2008). Actions in that case are neither inherently good nor bad, as they are judged based on their consequences (Beu and Buckley, 2001). Furthermore, as a consequence of the many accounting scandals of past years, (Bayou et al. 2011) accountancy firms may be increasingly pursuing ways to ensure a high reputation, which, according to Power (2004), may lead these organizations to become pre-occupied with risks to their own organization, instead of the issues of their clients. It is therefore important to also research how these accounting scandals have had an impact on practices within the two accountancy organizations within the field study.

Methods and methodology

Using the above literature study as a background this study will provide a narrative on the use of accountability and ethics within an accountancy organization. To do this an interpretive case study has been carried out, where the focus lied on creating a thick description in the specific context of accountancy organizations (Schwartz-Shea and Yanow, 2012). Interviews have been carried out in two different accountancy organizations in the Netherlands. These two accountancy organizations will be referred to in the rest of the paper as Company X and Company Y. Both accountancy organizations are comparable in size and mainly sell their services to small and medium sized local organizations. Furthermore both accountancy organizations sell both accounting services (including both assurance and consultancy accounting services) but also consultancy services on tax laws, Human Relation Management and more. In this way both organizations deliver services to a wide array of customers. Lastly, both organizations mainly sell their services in roughly the same area in the Netherlands. These factors make these two organizations easily comparable and therefore it is possible to conduct qualitative research in both organizations to see why and how these organizations are

similar and different from each other, with a focus on accountability and ethics. In total six employees with various functions in the two accountancy firms were interviewed.

Furthermore one employee has filled in a question list. In the following table the functions of these employees are detailed:

Interview number or question list	Accountancy firm	Function
Interview 1	X	Independent accountant
Interview 2	X	Office director and compliance officer (former auditor at company X)
Interview 3	X	Head of the administration department
Interview 4	X	Independent accountant
Interview 5	X	Financial administrator
Interview 6	Y	Auditor
Question list 1	Y	Manager accountant

As positivistic standards used to judge the quality of positivistic research, such as validity, reliability and replicability, are relatively irrelevant in interpretive research instead it should be better to look at other standards more relevant for interpretive research such as reflexivity and transparency (Schwartz-Shea and Yanow, 2012) as it is not possible to be fully objective and unbiased in interpretive research. In using an interpretive methodology reality is seen as dependent on the perception of humans in it, (Chua, 1986) where actors affect and are affected by reality (Schwartz-Shea and Yanow, 2012). This means that there is no such thing as an objective reality independent of the researcher. It is therefore expected that for example the presence of the researcher in the company and the specific context of the company will have an effect on research results (Schwartz-Shea and Yanow, 2012). The research furthermore will use ‘an iterative process of researcher sense-making’ (Schwartz-Shea and Yanow, 2012, p.53). This means that in trying to create a deep understanding of accountability and ethics in an accountancy organization the research may be adjusted through findings during the research process. There is therefore no way to fully plan the research from start to finish beforehand.

The interviews are carried out with the goal of finding an answer to the main research question; *how are accountability and ethics related and how do they have an influence on behaviour in Company X and Y?* Using the table of the literature review section of the paper firstly the way in which accountability and ethics are enacted within both organizations is established. Secondly the interviews try to discover how accountability and ethics are related to ascertain whether accountability influences ethics and/or whether ethics influences accountability. Lastly, using the interviews, the influence that accountability and ethics have on behaviour in both organizations is researched.

Findings will be presented as interpretations of participants of the field study, using interviewing as the main data collection method. Interviews are flexible and can be adjusted according to the needs of the researcher (Lee and Lings, 2008) which make them an effective way to gather the data needed to answer the main research question. The interviews will be semi-structured to make better comparisons between interviewees possible by assuring that different interviewees are asked more or less similar questions (Lee and Lings, 2008). Furthermore the localist perspective on interviewing will be used where interviews are understood in their specific social context, focusing on detailed accounts at the cost of generalizability and researcher bias, with the use of the researcher skills, ethics, and interview techniques as described by Qu and Dumay (2011). After each interview some time will be dedicated to reflect on the interview process, allowing for an iterative learning process in which for instance the interview structure may be adjusted according to what has happened in practice. The interpretations of the data in the interviews will also be reflected on, as these interpretations are often greatly affected by the researcher's own bias (Qu and Dumay, 2011). The interviews will afterwards be fully transcribed and coded to allow for data analysis using the qualitative data analysis program ATLAS and by using a variety of codes to scheme the data and prepare the data in such a way that analysis becomes a possibility (Lee and Lings, 2008). An analysis of this data will provide an answer to the main question in this paper, as will be detailed in the results section of this paper. Any quotes that are used in the data analysis section of the paper have been translated from Dutch into English, as all interviews have been conducted in Dutch. At the end of the field study a reflection on how the data gathered from the case study fits in with the discussed literature will be carried out.

Data analysis

Based on the interviews conducted during the qualitative field study in two different accountancy organizations in the Netherlands and the literature review it is possible to give an overview of the accountability and ethics within these two organizations and how and why they have an influence on behaviour. To do this the different categories of accountability and ethics as described in the previous chapters will be used. Afterwards a summary of the field study will be provided, giving an overview of the main findings.

The following section will first shortly discuss accountability and ethics separately within the two organizations, afterwards linking the two through the use of data taken from the interviews conducted in both companies. There are clear differences between how the internal accountability structures influence behaviour and the relation that employees have with the company and the way in which accountability influences the behaviour of the employees of the companies to external parties such as customers and the external supervisors. For this reason the different parties to which employees in the two organizations are held accountable will be discussed separately, starting with the external regulatory parties.

Accountability, ethics and regulatory institutions

It is clear from the field study that accountancy laws have an increasingly large influence on both organizations. There is a large difference however between the two main types of accountants, auditors (RA) and AA¹ accountants as the large increase in regulations have had a much greater impact on the work of auditors than on the work of consultant accountants (interview 1 and 3, company X and interview 6, company Y). As an example an interviewee from company X when asked about the workload of auditors said that

“in the past when conducting a walk-through test twenty invoices were enough, but now we have to use eighty” (interview 1, company X)

This development is much more applicable to the auditor than to other accountants. Auditors furthermore are also much more impacted by new regulations concerning independency than other accountants (interview 4, company X and interview 6, company Y). The relationship of the AA accountant between the customer and the accountant is however increasingly based on

¹ Accountant Administratieconsulent - Dutch accountancy title for accountants who focus more on consultancy work and helping smaller firms compose their financial statements

processes instead of snapshots such as the yearly financial statements (interview 1 and 4, company X). This shows that while the relationship of the auditor is increasingly more distanced because of regulations such as strict independency rules, the relationship of accountants who compile financial statements and provide consultations to customers based on financial information has become more trusting and elaborate.

Having established the differences in regulations between AA and RA accountants it is now interesting to see which regulatory institutions influence accountability and ethics in these two organizations. Both companies are supervised by a variety of external organizations to see whether they comply with all applicable rules and regulations. Firstly, the accountancy companies have to comply with regulations posed by the AFM, the Dutch supervisor of the financial markets, in order to for instance retain their license required for selling assurance services to customers. Secondly, the accountancy firms are SRA firms and therefore are occasionally reviewed by external parties. Thirdly, both accountancy firms are supervised by the WTA, the Dutch supervisory body of accountancy organizations. These parties are the main parties for which the two accountancy organizations have to account for their actions. These regulatory institutions have been established for the purpose of restoring and maintaining public trust in accountancy organizations. It is however questionable whether this is enough;

‘trust in the accountant has not been good the last few years due to the scandals of the Big Four accountancy companies and if this continues in the next few years, for example if situations such as the Vestia issues continue to happen, then perhaps society simply does not trust the accountant anymore at a certain point and it may become impossible for us to sell ourselves’ (interview 6, Company Y)

To mend the trust issues in the accountant by the public, a solution could be for accountancy firms to eventually become public organizations instead of private ones in order to make the customer and society the focus instead of always having to balance the commercial goals of the accountancy organization and the goals of the external customer and society (interview 6, company Y).

As is evident from the field study, regardless of whether accountancy organizations should become public firms instead of private firms, the regulations that are currently in place have both positive and negative effects as on the one hand

‘you have to think a lot deeper than in the past (about how to do your work) and it continuously remains a challenge of how to apply certain laws and regulations. Do you apply them very rigidly or can you still find a solution in some other way?’ (Interview 2, company X)

In this way employees of accountancy firms are incentivized to think more about their actions and behaviour, instead of simply doing what they think is right, for instance through the amount of forms that need to be filled in by both accountants and customers;

‘You become aware that (your work) is not just something that you do. It is not like, ‘I want you do to do something for me’, ‘okay, I will do it for you’. I think that (the amount of forms that need to be filled in) are the right way to go about your work’ (interview 5, company X)

On the other hand whether it is possible to change real behaviour and attitudes of accountants through rules and regulations alone was debatable, as laws and regulations are not perfect as can be seen in the following quotation:

‘the WTA license has been introduced in 2006 and between then and now there have been all sorts of scandals and every time something like that happens more rules are introduced. But in that case the question which should be raised is are you really going to change behaviour with these rules? (...) You have to be able to check (for behaviour) and these rules are used to do that. But sometimes you ask yourself, are these rules not going too far?’ (Interview 2, company X)

Furthermore, in some occasions, a new rule is unclear to what it really means in practice as in company X there have been situations in which accountants misunderstood a rule and received a notification that something that they thought they had done in the correct way was not done according to a certain rule (interview 2, company X). Rules and regulations should therefore be more transparent and prevent a checklist mentality of the accountant, but whether current rules and regulations really succeed in this is debatable.

A certain kind of tension moreover exists between regulators and the accountancy profession in practice. An example of this tension is that the WTA (Dutch supervisory body of accountancy organizations) sometimes unexpectedly comes to the accountancy organization to review certain files. As these reviews may occur unexpectedly the accountancy organization has to take care that all of their files are of a continuously high

quality and comply to all the rules that the WTA poses, as the WTA wants to know a lot of things and reviews increasingly become more and more strict. These reviews and the quality that the files need to have cost a lot of time that the organization could have used for other work (interview 3, company X). Furthermore

‘‘accountants are under pressure, as a lot of things need to be finished. And to then also assure the quality that the WTA demands, which the accountants maybe sometimes do not see for themselves; things which they themselves would not have done, that are required by the WTA. But when they (the WTA) come and check, these things do need to be in your file, so this is a bit of a difficult point’’
(interview 3, company X)

The large impact of laws and regulations on accountability in the accountancy organizations explain many of the choices that are made in the two accountancy organizations regarding accountability and they are one of the main causes of the relatively high amount of instrumental accountability in both organizations. As can be expected from accountancy firms the accountability that they have to regulatory institutions has a major influence on behaviour within both organizations, explaining why it is largely unavoidable that accountancy firms need to rely, at least to some degree, on instrumental accountability and contractual ethics.

Accountability, ethics and customers

The accountability to customers that the accountants in the two researched organizations have is focused largely on instrumental measures. Almost everything that is done for a customer is recorded somewhere on a form, even when either the customer or the accountant would not feel this is necessary in some cases (interview 1, 2, 4, 5 company X and interview 6 company Y). This means that even when there is a relatively strong and long term relationship between the customer and the accountancy firm and the customer and accountancy firm have developed trust between them through this relation, most of the actions and behaviour of either party are still recorded just to be ‘‘safe’’;

‘‘If something would go wrong, at least there will still be something to fall back on’’ (interview 2, company X)

As a consequence of the many forms that need to be filled out accountants may sometimes however feel that they are unable to fully achieve the goals of clients as the clients

“consider (the accountability system of the accountancy firm) as administrative drivel which causes the accounting services to become much more expensive than they should be” (interview 1, company X)

The accountancy firms use these instrumental accountability measures for multiple purposes of which one is to safeguard from external regulatory organizations and to assure high quality work and work that stays within a certain budget (interview 6, company Y). The other major purpose of the relatively instrumental accountability system in place in both accountancy firms is to research the integrity of the customers themselves through letting the customers sign forms that state that they have given all the necessary information as required by the accountancy firm to carry out the work for which the customer has hired the accountant (interview 1, company X). Apart from signing a form, in particular in the case of audit clients, it is necessary for the accountant to find ways of assuring that the information that they receive from the client comes from their accounting system. The accountant needs to have some assurance that this information has not been changed in any way by, for example, the internal accountant that manages the financial administration of the client. This internal accountant may have incentives to purposefully alter the financial information of the company to paint a more positive picture of the company than it is in reality, which should be prevented (interview 4, company X). Furthermore both company X and company Y put customers, before accepting them, through a compliance check to see whether they have acted ethically in the past (interview 3 company X and interview 6 company Y).

Apart from assuring the integrity of the customer another major ethical issue is that the accountant should remain independent from the client. Different measures have been taken in the accountancy firms to assure this, although

“of course we are never really independent, as the customer still pays for our services” (interview 2, company X)

The first of these measures is that accountants are legally required to yearly sign a document to declare that they are independent from the clients that they provide their services to (interview 1, 4, 5 company X, interview 6 company Y, question list 1 company Y). Each time a new customer is accepted these checklists are used to prevent any links between the

customer and any of the accountants that make up the team for this customer. Although nothing independency related is signed in company X each time a new customer is accepted apart from these yearly checklists, employees in the company were confident that co-workers would step forward if any links would still exist between the accountant and the customer not caught by the yearly regulatory independency checklist (interview 1 and 5 company X), which is illustrated by the following quotation;

‘yesterday someone called who said, I received a gift voucher of 50 euro from a customer, is this allowed? Can I keep it?’ (interview 3, company X).

Another illustration of how company X assures independency of accountants from clients is that the accountancy firm may decide to buy new company cars from customers of the accountancy firm. However, even though these garages are customers from the accountancy firm, it is not allowed for any employee of the accountancy firm to try to get a price cut. These accountants are left out of the process of buying the company cars completely, to assure that no events occur which may harm independency (interview 3, company X). Furthermore company X uses an internal working program in which any issues that come forward may be addressed, including independency issues. In this way the company unofficially checks for independency (interview 1, company X). These examples show that the company maintains high quality checks on independency of accountants both officially and unofficially.

The above points demonstrate how the major accountancy scandals that have occurred during the past few years and that are sometimes still in the news at the moment have a large impact on the way in which accountants do their work, as the accountant is increasingly required to check their customers by documenting information as much as possible and the accountancy firms themselves are also increasingly checked by external parties to assure independency and integrity of the accountancy firm. That this is significantly different from a few years ago is evident from the increase in regulations which have made for instance integrity checks of customers much stricter and more intricate than in the past (interview 4, company X). In the past something like a ‘customer acceptance form’, which are now used, did not even exist. The customer was simply entered in a system and no real integrity checks were carried out back then (interview 3, company X). In the following section the internal accountability structure will be discussed to see how and why the accountancy firms

themselves cope with the increasing call for more forms, regulations, integrity checks and more.

Accountability, ethics and the internal organization

In organization X and Y accountability has characteristics of both instrumental and relational response-ability, although instrumental, and especially calculable, accountability clearly has a larger influence on behaviour of employees in both companies than relational response-ability. As discussed above both accountancy firms are accountable to external regulatory parties such as the AFM and the WTA and to external customers. These two parties combined have established that both accountancy firms have to increasingly rely on instrumental measures such as tangible files and checklists in order to assure high quality, independence and the integrity of both the accountant and the customer while remaining within a certain budget. Although this points to an incredibly calculable instrumental accountability focused firm, both accountancy firms do try to make their internal structure less oriented towards these measures which will be discussed in the section below.

Most calculable measures have already been discussed in previous sections and mostly stem from laws and regulations and external supervisory institutions that require the accountancy firm to sign and fill out a lot of forms to assure integrity, quality, independency etc... Apart from these external checks, both accountancy firms also internally check whether work is done in a correct way and to see whether it is compliant with all rules and regulations;

‘‘we (the accountants) are often internally checked, by colleagues who look into our files, to see what the file looks like and where things might be improved. And these files are evaluated (...) and eventually feedback is given back to the accountant, who is responsible, like, we have reviewed these files, these are the good points and these points need improvement. And if your file is really insufficient, then you do have a problem’’ (interview 1, company X)

In this way files are checked as a means to see whether someone has done a good job or not. Apart from checking quality these files are also used to see how the process went and how many hours were spend on a certain project. The accountability of the budget for accountancy work increasingly is transferred from the external client to the accountancy firm, as fixed prices become more common instead of hourly tariffs. In that case it is the responsibility of the accountant to stay within their own budget (interview 1, company X). This means that

accountants may be increasingly reprimanded from both a quality and a quantity origin as the accountant has

“two goals, you want to stay within your budget (...). And you want your files to be of a high quality, otherwise you will be held accountable for this, so either you will be held accountable because you spend too many hours to increase the quality of your files, or you are held accountable because you did stay within the budget, but the quality of your work is very low” (interview 6, company Y)

Both accountancy firms however also use the checks and files for another purpose; to start conversations with each other on how to improve the organization. An example are monthly meetings conducted in company X which are intended to talk about what is going on in the organization, where obstacles lie and how to overcome them (interview 2, company X). In this way employees try to learn from each other. The organization is very focused on allowing employees to improve their work and grow. In this way the organization tries to make the organizational structure less hierarchical and focused on learning and personal growth;

“we have an open culture. Everyone here is responsible for projects. When you just arrive in this organization you get responsibility over small tasks, you get help from accountants, and if you show that you can carry this responsibility and want to carry this responsibility, then you automatically grow into higher functions. This is greatly stimulated here” (interview 1, company X).

“when you do the right work at the right place, you can leave enough room in your budget and then it is also possible (to learn from work). That time is simply necessary for development. Everyone starts as an assistant, and you need to learn how to work, so time and explanations should always be available. (...) You always need to think (about your work); you need to know what is going on. You need to know why you do things a certain way. And only in that case you improve” (interview 4, company X)

The organization continuously tries to give each employee more freedom over their goals and how to achieve these goals, instead of having a very hierarchical organizational structure in which the owners and directors of the company fully decide everything that is happening with the organization (interview 1-4, company X). Furthermore in both accountancy organizations employees in higher functions are easily accessible;

“when you walk around on the department upstairs, all doors are open and everyone walks in everywhere. Furthermore in the rooms themselves, employees from different functions sit together, accountants and assistants sit together” (interview 4, company X)

“I think that the culture at company Y is quite accessible. For instance I can walk in to the directors’ office and ask like, how does this work, or I have a certain issue” (interview 6, company Y)

Through giving employees responsibility over small projects and the ability to ask questions and offer new ideas and insights to people with more experience company X does not only use the many documents that need to be filled out simply as an instrument to see whether someone is doing their job in the correct way, but also to learn and grow as an organization.

In company Y the organization seems to be more focused than company X on calculable measures, as here in cases of smaller issues the accountant is frequently reprimanded for this in their computer systems, instead of trying to start a conversation on these issues with the employee;

“You make flags for notes, or you get mail like, you need to improve on this and this, or in Excel. It is in your files so then they make a flag and they start with my name and then they say something like; ‘I would add this and this’ or ‘I would do it differently’ or ‘this is wrong’” (interview 6, company Y)

Only when something is significantly wrong or is very technical, and therefore impossible to discuss in a note, employees in higher functions start a conversation with employees in lower functions in company Y. Moreover company Y seems more focused on commercial goals than company X, although this is slowly changing as quality becomes increasingly important relative to quantity (interview 6, company Y). From the above section it can therefore be concluded that both organizations mainly rely on calculable accountability measures with narrative accountability in the background.

Accountability in both organizations is somewhat limited. Even though in both organizations employees try to document as much and possible and account for everything through this documentation there always exist unpredictable events which may happen;

“sometimes you have to respond to changes that happen at a certain moment and maybe you had a very good plan of we want to go this way, but when circumstances, when something happens and this is not possible anymore, then you have to be flexible” (interview 2, company X)

The quest for recording as much as possible may lead to problems in this way as the future is often uncertain. Additionally it is questionable whether it is possible for the accountant to provide full assurance on audit work as

“the accountant is unable to see everything, we cannot see whether the inventory has been ransacked by employees, of course you see this in your inventory list, in that case there are inventory differences, but the accountant cannot see everything and you have to accept that there will remain some undiscovered mistakes in the financial statements and in the entity” (interview 6, company Y)

The accountant is unable to provide full assurance and therefore it is not possible for him or her to be fully accountable for every detail that is in the financial statement.

On the ethical side of things the company X and Y rely mainly on contractual ethics, not only through the independency forms and integrity checks of both accountants and customers as mentioned before, but also through rules and regulations such as the “Verordening Gedrags en Beroepsregels Accountants” (VGBA), rules regarding behaviour and the profession of the accountant. These rules are general Code of Ethics rules originating from the International Ethics Standard Boards for Accountants of the International Federation of Accountants (IFAC), adapted for the Netherlands, applicable to all accountants working in the Netherlands (Toelichting VGBA, 2013). Apart from these general rules, both accountancy firms also have their own instruction manual which contain ethical rules (interview 2 company X, interview 6 company Y and question list 1 company Y), although it is debatable how this exactly influences the work of employees in both companies;

“In the work contract that I signed ten years ago some things were put in there such as that you do not do work on the side which may harm the accountancy profession. But it has been ten years since I have signed this contract and it is not like I have looked in this contract anymore since then. And other real regulations or something that you have to sign (concerning ethics), no, that does not happen in this company” (interview 4, company X)

It therefore seems debatable how much the internal company rules regarding ethics influence behaviour of employees, besides the general VGBA rules. On the other hand it also seems likely that many of these rules are so integral in the company culture (such as rules concerning playing music, where to park your car, how to behave yourself when you talk to clients etc...) that it is not necessary for the company to make employees aware of them through the use of a Code of Ethics. In this way companies X and Y use both written rules (mostly stemming from external regulations) and unwritten rules (interview 1, 3, 4, 5, company X, interview 6, company Y).

Apart from these ethical rules both accountancy firms also try to convey a sense of ethics to their employees in different ways. Although it is debatable whether any training programs exist in either organization specifically oriented towards ethics, company X does offer training programs that focus on the integrity of accountants (interview 3, company X), training programs focusing on young professionals, for instance on how to behave yourself when dealing with customers (interview 5, company X) and also meetings that are about the accountancy profession itself that may also be about ethical behaviour of accountants when something has occurred, to discuss how and why something ethical or unethical has happened and how to improve on this (interview 2, company X). In these ways employees increasingly become aware of any ethical difficulties which may occur during work and how to deal with them. In addition both companies have put into place an ethics officer in the form of both a compliance officer and a confidential adviser (all interviews/question lists), including a whistle-blower policy which is required by law (article 27 of the ‘Verordening Accountantsorganisaties’). This means that whenever an employee experiences something unethically, whether it is because of actions of him or herself or because of actions of a co-worker or client, they always have the opportunity to anonymously report this. Apart from the ethics officer there are no specific policies in place to specifically prevent unethical behaviour however, although random sample surveys are carried out that check employees on the quality of their work which may also raise ethical problems if they exist (interview 4, company X). Lastly, company X carries out background checks of new employees. The resumes of new employees are checked and references are sometimes called, something that is illustrated in the following quotation;

‘when I came here 1.5 years ago there was a customer who was my client in the previous accountancy company where I worked, who switched from that accountancy company to company X two months before. So two months later I came here to apply for a job and then they called this

customer like, he (interviewee 1) has just applied for a job at our office, what is he like?’’ (Interview 1, company X).

However, according to various interviewees, these background checks do not tread further into detail than that, or at the very least the accountants themselves are unaware of what the policies exactly are in the company regarding the hiring of new personnel. An explanation for why background checks of new employees are less intricate than most other checks and forms may be found in the register in which accountants who have earned a title such as Chartered Accountant (RA) or Accountant Administratieconsulent (AA) are entered;

‘with accountants, when you do something which is not allowed, they simply throw you out (of the register), so at that moment you are no longer an accountant. So it is very simple, you are not an accountant anymore, so something has definitely happened. Or you get a note which can be found in the register. If you receive a complaint from a customer this is registered so you can always find this complaint later on’’ (interview 3, company X)

As any serious ethical events are registered in these registers, it is fairly easy for an accountancy firm to check new hires on whether or not they have acted ethically and therefore it is not that strange that the accountancy firms do not undertake more detailed investigations into new hires.

In short, although the accountants are internally checked by colleagues in a calculable, instrumental fashion, especially company X does try to convey a sense of narrative accountability in the organization through encouraging learning and personal growth. Furthermore employees in company X early on get responsibility over smaller projects and time and explanations from more experienced employees. In this way the organization is trying to have an influence itself on accountability and ethics within the organization. However, because of outside influences the organization can only do this to a certain extent, as their accountability enactment is strongly influenced by these external parties. Furthermore the calculable accountability that is central in the organization because of the external parties also has a significant influence on ethics, as it causes ethics to also mainly be enacted through contracts instead of more informal ways. This is apparent in both organizations, making it hard for either organization to enact accountability and ethics in such a way that they do not hinder professional work.

Relational response-ability and virtue ethics

The above discussion shows that the two accountancy firms have relatively strong calculable accountability while narrative accountability is used to convey a story behind the forms and numbers used in the accountancy firm. In addition most of the ethical culture in the companies is based on contractual ethics, as general Code of Ethics rules posed by external parties are central here. However, both accountancy firms also try to create an internal culture based on relational response-ability and virtue ethics, although this may not be visible to the outside world as much as the accountancy firm would like as external parties including customers mostly only see the many forms that need to be filled out; forms that are based on instrumental accountability. The accountant tries to balance both the rules of the external supervisory institutions on the one hand and the interests of the client on the other hand (interview 2, company X), which is often done with the help of forms to assure regulators that the quality of the work is high and everything is done according to the rules and to assure clients that no time was wasted for instance in order to carry out the work (interview 6, company Y). Because so many things are very rigidly determined through these parties it seems likely that the accountancy firm is simply unable to change this view to the outside world. Internally in the organization however company X does try to create a culture which is based in part on relational response-ability and virtue ethics;

“We think that ‘together’ is very important, so we feel a joint responsibility to the client and (...) that we avoid a narrow-mindedness, like, those people from that department, I know nothing about them, no, you do things together and when an issue arises we also try to solve it together” (interview 2, company X)

In relation with the mentioned culture of placing responsibility low in the organization (interview 1-4 company X), the organization also works hard to create an internal company culture built on trust in which employees learn from each other and, when there are problems, employees try to solve them themselves instead of immediately starting a very official procedure (interview 3, company X). Furthermore

“at this office you notice that, outside of working hours there are a lot of activities happening. People go out and do things, there are events that are being held or they are going sporting together. (...) Therefore I think that working here is much more than only working” (interview 5, company X)

In company X and company Y there is a combination of a logic of appropriateness and a logic of consequences in the behaviour of the employees, as on the one hand the end result is very important, but the way how this is reached is found to be equally as important;

“the end goal is not sacred and not all means that may be used to reach the end goal can always be justified” (interview 1, company X)

Although the company tries to retain a combination of both the logic of appropriateness and the logic of consequences

“in periods of high work pressure short term thinking has the upper hand. And long term (goals), those goals really become long term” (interview 5, company X)

This means that sometimes long term goals such as learning and growing as an organization may be put aside to get things finished. In company Y this behaviour seems to be more the norm than in company X as this organization is at the moment still very focused on commercial goals instead of delivering a high quality service to customers, although this balance is slowly shifting from quantity to quality. Societal goals therefore become increasingly important.

The last section of this paper will summarize the above discussion and provide a conclusion to the main research question with the use of both the field study and the literature study.

Discussion and conclusion

To conclude this paper the findings of the field study in the two accountancy firms in the Netherlands will be summarized, to finally answer the main research question of the paper: *how are accountability and ethics related and how do they have an influence on behaviour in Company X and Y?* The following section will firstly discuss the specific conclusions for the two researched accountancy firms. Secondly more general conclusions relevant for the scientific field of accountancy will be discussed. The paper will end with discussing limits of this paper and possible future research ventures for research in accountability and ethics.

As discussed in the previous sections the study was carried out in two similar accountancy organizations in the Netherlands. Both organizations furthermore were comparable as they have similar customers, with a focus on small- and medium enterprises, similar size and similar services. Both accountancy organizations, although they have not been part of a big accounting scandal directly, have been clearly impacted by the recent scandals such as those of Enron (Healy and Palepu, 2003; Benston and Hartgraves, 2002), Royal Ahold (Knapp and Knapp, 2007) and others. This has caused external supervisory bodies to increasingly make more rules and enforce them more strictly (interview 2, company X and Duska, 2005), which has had a significant influence on both accountability and ethics in accountancy firms. Whether this really works however is debatable as more rules do not necessarily lead to better behaviour (interview 2, company X) and it may even cause more problems as the increasingly instrumental way in which accountability influences behaviour may not fit with the societal, commercial and personal objectives that the accountancy firm and its employees have (Hofstede, 1981; interview 1 and 4 company X and interview 6, company Y). Furthermore instrumental measures are not neutral, as they are influenced by the judgment of people who compose these measures and the specific context in which the measures were constructed (Healy and Wahlen, 1999).

At the moment the two accountancy firms always need to balance the interests of the customer, the accountancy organization itself and the external supervisory institutions. To cope with all these different interests the accountancy organizations seem very focused on instrumental measures to the outside world. The accountants are required to comply with a very diverse set of rules and checks leading to a relatively high amount of calculable accountability as these measures are used to see whether employees in the accountancy companies have done a good job or not. Judging from the field study this seems especially applicable to auditors (RA) as AA accountants are influenced less by new regulations than auditors. This may be explained by the fact that customers hire auditors mostly because it is required by law that a certain degree of assurance is provided over their financial statements, while customers usually hire AA accountants because of voluntarily reasons as they want help in composing their financial statements and require consultancy services on what is the right course of action in the future for instance. As customers mostly hire auditors because it is required by law, regulations in this profession are much stricter than in the profession of the AA accountant. Internally the companies try to use the files that are compiled by employees based on calculable accountability in narratives to see how employees can help each other to improve on their work (interview 4, company X). Furthermore bi-monthly meetings about

developments within the accountancy profession are used to discuss any other issues which may arise, including ethical issues (interview 2, company X). This leads to an organization where accountability is enacted with instrumental measures on the foreground and narrative accountability in the background.

This accountability enactment has a direct influence on the ethical culture in both companies as ethics is also based on contracts. Van Oosterhout et al. (2006) states that contracts create expectations and may also create an effective relationship which would not be possible without the use of the contract. This is similar to how contractual ethics are used in company X as here contracts often are used as a safety mechanism, so whenever something will go wrong at any point at least there will always still be something to fall back on (interview 2, company X). As a consequence of this reasoning these contracts are established even in cases where both the accountant and the customer may feel that this is not necessary based on the relationship that has been built over a certain period. In this way the company tries to create a safety net with which they try to catch all possible dangers to the organization. Just as with accountability the way that ethics is used in the two organizations is greatly influenced by regulations such as the Dutch VGBA rules. That this may lead to problems is evident from Van Oosterhout et al. (2006) as contracts are imperfect and may lead to desolation, because of bounded rationality of parties involved in the contract, deception, because of possible ex ante opportunistic behaviour by either party, defeasance, because of contract incompleteness as a contract cannot incorporate everything which may happen in the future, and defection, because of ex post opportunistic behaviour.

Both relational response-ability and virtue ethics have a relatively lower influence on behaviour than instrumental accountability and contractual ethics, although company X does try to combine both and create an organization in which employees are intrinsically motivated because of a culture of trust and learning in which end goals are not the only thing that are important (interview 1-4, company X). As a lot of behaviour is codified however and because of the checklist mentality that some regulations have (interview 2, company X), as a consequence, virtuous behaviour and relational response-ability at the moment cannot become central in the organization (Brien, 1998).

Generally it can be said that the enactment of accountability in organizations X and Y seems to be somewhat similar to intelligent accountability (Vriens et al. 2016; Roberts, 2009). In both organizations the “development of knowledge, skills, and experience” (Vriens et al. 2016, p. 9) is clearly very important, although it can be said that the infrastructure and the

goals as they are established within the two accountancy organizations do hinder professional work (Vriens et al. 2016), as it is clear from various interviews that the amount of rules and regulations (especially in assurance work), frequent checks of the quality of files carried out by both external and by internal parties, and high work pressure in certain periods can sometimes be hindrances for carrying work out the way that employees would want to. This enactment of accountability may lead to problems as it is clear both from literature that calculable accountability is limited in general (Roberts, 2009; Messner, 2009) and from the field study (interview 2-4, company X and interview 6, company Y). External parties want to see a lot on paper however as, according to Vriens et al. (2016), narrative accountability is very hard to report to the outside world as this requires extensive knowledge of the profession. Therefore the organizations are forced to fill out a lot of forms and assure these parties in this way of the quality of their work, integrity, independency and more, even though their internal accountability structure may be much less formal and based partly on narrative accountability and relational response-ability. Accountability is thus heavily influenced by outside parties and through influencing the enactment of accountability in the accounting organizations they also influence behaviour. Moreover an ethical culture based on trust between employees of the accountancy firm and external customers is not possible at the moment as a consequence of regulations. It therefore seems likely that in accountancy organizations accountability mostly influences the ethical culture instead of the other way around. The ethical culture that is needed to change the enactment of accountability in the organization is simply not possible to create in the current accountancy climate in the Netherlands. The interaction between accountability and ethics therefore seems to be relatively one-sided, as accountability mainly influences ethics instead of the other way around. Accountability and ethics within the company influence behaviour of employees as they get used to having everything on paper even when they would feel that this is not necessary. Furthermore, while company X tries to build a trusting organizational culture, it is only possible to do this up to a certain point as the frequent quality checks and other ways in which they are held accountable by other parties force them to focus on calculable accountability and contractual ethics. Similar to the paper by Wolters et al. (working paper) accountability in the two accountancy organizations can be seen as performative, as it directly influences employee behaviour as they try to balance the needs and goals of regulators, clients, and those of the internal organization.

Regarding contemporary scientific accountancy literature an interesting future venture of research could be to find out whether accountancy organizations would carry out many of

the policies that influence accountability and ethics within these organizations without all of these rules and regulations. As the two accountancy companies, but especially company X, do try to create an internal culture based more on trust and less on contracts this is debatable. Especially on the assurance side of accountancy however it seems unlikely this will change because of the loss in trust over the years in the accountant and the inability of authorities to find better solutions at the moment instead of creating more and more rules. Judging from the field study however there is a possibility that there might be better solutions to many of the issues that have caused accountancy scandals in the past.

Limitations of the field study are that the study was carried out in two medium-sized accountancy firms that both mainly have small and medium sized enterprises as their clients. The study could be expanded to include smaller accountancy firms and larger accountancy firms such as the Big Four to see how and why these firms differ regarding their accountability and ethics enactment. Furthermore in the field study it was not possible to for instance observe the working climate for an extended amount of time. Such observations could especially help to give a better answer to how relational response-ability and virtue ethics are enacted within the organization, as with these types of accountability and ethics it is hard to come to a reliable portrayal of what is going on in accountancy organizations regarding relational response-ability and virtue ethics through the use of interviews as these require an intricate study into the company culture.

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Appendix

Interview structure (in Dutch)

Interviewschema (half-gestructureerd) Master Thesis

Introductievragen

- (1) Wat is uw naam?
- (2) Kunt u een beschrijving geven van uw huidige functie?
- (3) Wat kunt u vertellen over de belangrijkste diensten waar het bedrijf verantwoordelijk voor is?

Accountability

Instrumental/representational accountability

(4) Op welke manier moet u verantwoording afleggen aan het accountantskantoor? (kwantitatief/kwalitatief) Hoe worden deze maatstaven gebruikt?

- Worden de accountability maatstaven gebruikt als een manier om te straffen als iets niet gehaald is, en als beloning als iets wel gehaald is?

- Worden de accountability maatstaven gebruikt om een conversatie aan te gaan met diegene? → bijv. achterhalen waarom iemand iets op een bepaalde manier heeft gedaan?

- Worden de accountability maatstaven gebruikt om van te leren?

(5) Op welke manier moet u verantwoording afleggen aan de client?

- Materialiteitsbeginsel, wanneer is iets wel of niet een significante afwijking van ‘de waarheid’ → kwantitatief, hoeveel procent mag iets afwijken? Hoe wordt dit vastgesteld?

- Hoe worden kwalitatieve maatstaven gebruikt zoals neutraliteit, hoe waarheidsgetrouw is informatie (representational faithfulness), betrouwbaarheid, relevantie → kwalitatief

- Hoe wordt er omgegaan met de ethische kwestie van de onafhankelijkheid van de accountant met de client?

(6) Op welke manier moet u verantwoording afleggen aan de overheid (bijv. door middel van regulering?)

- Wat is de invloed van de strenger wordende regulatie (Nederlandse Corporate Governance Code, uitbreidingen GAAP etc...) op uw werk? (bijv. client-accountant relatie)

(7) Vind u dat het huidige accountability systeem u voldoende in staat stelt om de doelen van de organisatie en de client te behalen?

(8) Vind u dat het huidige accountability systeem u voldoende in staat stelt om uw eigen doelen te behalen?

(9) Heeft u het gevoel dat er een limiet zit aan accountability, dat er bepaalde dingen zijn die je niet kunt verantwoorden bijvoorbeeld?

Contractual ethics

Contractual ethics (deontological and utilitarianism) → negen dimensies van Kaptein (2008) → in hoeverre is ethiek vastgelegd in ‘contracten’?

(10) Wordt er een ‘Code of Ethics’ gebruikt in de organisatie? Zo ja, waarom en wat is het effect hier van? Zo nee, waarom niet?

(11) Worden er trainingen gegeven over ethiek in de organisatie? Zo ja, hoe en wat is het effect hier van? Zo nee, waarom niet?

(12) Is er specifiek beleid aangaande ethische kwesties? → onderzoeken naar onethisch gedrag, incentives en beloningen die onethisch gedrag tegen zouden moeten gaan (extrinsieke vs intrinsieke motivaties om ethisch gedrag te bevorderen) etc...

(13) Hoe wordt er intern gecontroleerd op ethisch/onethisch gedrag (monitoring)?

(14) Is er een specifieke persoon waar naar toe gestapt kan worden in het geval van een ethische kwestie, of een telefoonlijn/e-mail adres? (ethics officer) Zo ja, wat is het effect hier van op het bedrijf?

(15) Hoe wordt er omgegaan met iemand die nieuw wordt aangenomen bij het bedrijf? Wordt haar/zijn achtergrond gecheckt op ethisch gedrag?

Virtue ethics en relational response-ability

(16) De afgelopen 20 jaar is er veel te doen geweest over accountancy schandelen. Kunt u merken dat de werkzaamheden in het bedrijf daardoor beïnvloed zijn? (bijv. voorkomen van reputatieschade)

(17) Heeft u het gevoel dat het bedrijf actief bezig is om een vertrouwelijke cultuur op te bouwen? Oftewel een cultuur waarbij werknemers intrinsiek gemotiveerd zijn om ethisch te handelen en vertrouwen in elkaar en in de organisatie te hebben?

(18) Hoe worden de gedragingen in het bedrijf vooral geleid zou u zeggen en waarom? Meer door wat aanvaard wordt als behoorlijk gedrag, of meer door de verwachte consequenties van de handeling, oftewel resultaatgericht gedrag?