Ethics, It’s a Matter of Principle

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Ethics it’s More Than Just Rules
Operation Varsity Blues
Welcome to Ethics!

It takes 20 years to build a reputation and 5 minutes to lose it.

Warren Buffett
Professional Ethics and Conduct Rules

- Integrity
- Deceptive Conduct
- Discreditable Conduct
- Confidentiality
- Objectivity
- Cooperation
- Competence
Integrity

The reliance of the public and the business community on sound financial reporting and advice on business affairs imposes on the accounting profession an obligation to maintain high standards of

✓ Technical Competence,
✓ Morality, and
✓ Integrity.
Objectivity

A state of mind

Impartial, intellectually honest, free of conflicts of interest;

Members not in public practice have a responsibility to maintain objectivity in rendering professional services to their employer.
It’s not About Knowing More…
But Doing More With What you Know

Keep It Simple
“Find yourself and be yourself: remember, there is no one else on earth like you”

Dale Carnegie
What is the WISE Thing To Do?

- In light of my PAST experiences, what is the wise thing to do?
- In light of my CURRENT circumstances what is the wise thing to do?
- In light of my FUTURE hope and dreams what is the wise thing to do?
Controlling Costs and Social Responsibility

• Rural Dialysis Clinic with Two Types of Treatment
• Peritoneal Dialysis (PD) allows for self treatment at home.
• Hemodialysis (HD) is an in-house treatment
• HMO will only pay a $15,000 fixed fee per patient.
• Average costs is $14,000.
• ABC Study shows PD cost is $9,000 and HD cost is $20,000.
• To cancel HD treatment patients will have to drive 50 miles to nearest treatment facility.
Controlling Costs and Social Responsibility

• Does the clinic have the moral obligation to society to continue to provide HD service if it is not profitable?

• If the clinic decides to continue serving the HD patients, is it fair to charge non-HMO patients more in order to subsidize the services provided to HMO patients?
Poor Business Decision

• Bill is in charge of buying property used for retail sites.

• Recently bought a site for $110,000.

• After buying 1st site, Bill found another site that was better (had nearly double the traffic count of the 1st site) for $80,000.

• Original site is now only worth $75,000.

• Bill doesn’t want to let his boss know about new site for fear of reprimand, even though his boss has made her share of mistakes (even attributing a poor decision to an employee that had already left the company).
Poor Business Decision

• Does the amount of the loss on selling the 1st site impact the decision to sell the 1st site and purchase the 2nd site?

• By not making anyone aware of the 2nd site, is Bill violating any ethical code?

• What impact does the previous unethical action by Bill’s boss have on the decision?
Creating a Culture of Honesty and High Ethics

- Setting the tone at the top,
- Creating a positive workplace environment,
- Hiring and promoting appropriate employees,
- Providing sufficient training,
- Confirming accountability for code of conduct,
- Provide a whistle-blowing mechanism,
- Implementing effective discipline.
Fraud Check-Up
Kelly Todd “AccountingToday.com”

- Control Environment
- Perception of Detection
- Employee Education
- Conflict of Interest Statement
- Internal Controls
- Independent Checks
- Proactive Detection
- Measuring Progress
Control Environment

Kelly Todd
“AccountingToday.com”

Are employees surveyed regarding their view of management’s honesty and integrity?

Are employees anonymously surveyed to assess morale?

Has fraud prevention been incorporated into management’s performance evaluation?

Review performance goals. Are they realistic?

Is there an established process for the oversight of fraud risks?
Should I Say Something?

• Managers receive a 10% bonus whenever the actual NPV exceeds the projected NPV of a project.

• Your manager had an investment proposal ready on his desk when new bonus method was started.

• Your manager changed the rate of return resulting in a lower NPV.

• Only you know!
Should I Say Something?

• Has Mr. Jones violated any standards of ethical practice?

• What are some long-term effects that this type of bonus plan could have on the company?

• How can you compensate managers in a way to discourage gamesmanship?
Stretching the Truth

- Year-End Bonus is based on meeting sales quota (inventory turnover, etc.).

- Bailey is assigned a sales territory where her sales base is increasing by 25%. This year she estimated her budgeted sales will increase by 10%.
Stretching the Truth

• What is the name commonly given to this budget game?

• Does this violate any ethical standards?
Perception of Detection

Kelly Todd “AccountingToday.com”

- Is there a process in place for actively seeking out potential fraudulent conduct?
- Is the organization’s stance on fraud clearly and regularly communicated?
- Does the organization have a code of conduct for employees based on the company’s core values?
- Does the code of conduct identify how employees should seek advice when faced with ethical decisions?
- Is there a mechanism to anonymously report potential wrongdoing?
Employee Education

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Is fraud awareness training provided for departments, employees and managers?

Do employees know what constitutes fraud?

Does management communicate annually the importance of accountability and the organization’s zero tolerance of fraudulent activity?
Provide Ethics Training

May need to be different for management versus non-management employees.

Ethics training is useful in helping employees feel prepared to handle situations that invite misconduct.

Most effective if driven by the CEO or Managing Partner.
Conflict of Interest Statement

Kelly Todd “AccountingToday.com”

Are employees required to complete an annual conflict of interest disclosure statement?

Are employees provided a copy of the employee manual annually and required to sign a statement of acknowledgment and understanding?
Strengthening Controls

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- Are duties properly segregated?
- Are physical safeguards in place?
- Are jobs rotated?
- Are vacations mandatory?
Financial Difficulties

- Family needs outpace income (daughter going to prestigious law school)

- Betty is the CFO of a small Manufacturing Company

- Leaving for a new job after bonus is awarded

- Will not notify company

- Underpaid but company can afford bonus

- Record start-up costs that should be expensed as product cost recorded in inventory

- Will not be discovered until gone

- Ultimately will be expensed
Financial Difficulties

- What impact will it have by recording these costs as product costs instead of expensing as start-up costs?

- Why is Betty wanting to record these costs as product costs?

- How could this activity have been prevented?

- What components of the fraud triangle are present?

- What ethical principles have been violated?
**Independent Checks**

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- Are surprise audits performed?
- Is management review required for reconciliations, adjustments and write-offs?
- Does the internal audit function (if one exists) have adequate resources and authority to operate without undue influence from management?
Proactive Detection

- Is data mining software or continuous monitoring software used to detect fraud?
- Is a proactive audit approach utilized by the organization?
- Is artificial intelligence software used to identify risky transactions?

Kelly Todd “AccountingToday.com”
Measuring Progress

Kelly Todd "AccountingToday.com
Caterpillar – Ethical Dilemma

- $2 Billion Tax Bill
- Transfer Pricing
- SARL – Geneva
- Anonymous Letter
- Management Position
Profits Above All Else

• Insect-Resistant Corn Seed that two Companies have Developed, but one Distributor. A new contract was put in place in 2017.

• Company A’s seed will not be infected by insects. Distribution contract is a flat fee ($1,000,000). In 2016 1,600,000 lbs. sold, in 2017 2,700,000 lbs. sold.

• Company B’s seed will not be infected by insects and is sweeter with a higher yield. Distribution contract is based on a royalty ($.50 per lb.). In 2016 2,400,000 lbs. sold, in 2017 1,300,000 lbs.

• Distribution Company Aggressively Markets Company A’s seed and not B’s.
Profits Above All Else

- How much were royalty fees reduced in 2017?
- Is this reduction acceptable?
- Were customers harmed by the distribution company marketing Company’s A seeds over Company B’s?
How to Lead When You’re NOT in Charge

How to Lead When You Aren’t in Charge

By Clay Scroggins
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So, if we are not in charge do we just sit on the sidelines? You have to learn to lead when needed not when you are in charge with authority. Positional authority alone does not equate to effective leadership.
Influence has always been, and will always be the currency of leadership.

If you fail to cultivate influence when you are not in charge, you will have no influence to leverage when you are.

Influence outpaces authority and leading without authority means you need to have a clear understanding of your **IDENTITY**.
Your Identity is the View you Have of Yourself

By Clay Scroggins
You were created for something bigger than yourself.

You were created to contribute to the greater good.

You were created to bring good to other people.

You were created to cultivate good in other people.

You certainly have a mission greater than making yourself happy.

Your Purpose

By Clay Scroggins
Lead Yourself

Model Followership

Monitor Your Heart and Behavior

Make a Plan – You are in Charge of You

By Clay Scroggins
Choose Positivity

By Clay Scroggins
There are two kinds of personalities in the world:
Positive and ________.

Stop thinking as an employee and start thinking as an owner.

Stop stacking your meetings and start scheduling thinking meetings.

Stop being critical and start thinking critically.

Stop giving others a grade and start giving them a hand.
You will never passively find what you do not actively pursue.

Tim Cooper
MUSIC FROM AND INSPIRED BY
THE BIG CHILL
To Reach Your Potential
You Must Grow

John Maxwell
The Laws of Personal Growth

- Intentionality
- Awareness
- The Mirror
- Reflection
- Consistency
- Environment
- Design
- Pain
- Ladder
- Rubber Band
- Trade-Offs
- Curiosity
- Modeling
- Expansion
- Contribution
Intentionality

❖ Today is the day where the person you are meets the person you will become.

❖ Not how long will it take, but have far can I go?

❖ I am not going to let fear or procrastination stop me.
Awareness

❖ You must know yourself in order to grow yourself.

❖ Do you know the difference between what you want and what you are good at?

❖ Do you know what drives you and what gives you satisfaction?

❖ Do you know what your values and priorities are?

Warren Bennis
Integrity

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Integrity
The World is watching

East Carolina University
Reflection

- Learning to pause allows growth to catch up with you
- Yet I don’t go back and watch my videos
- What about a journal?
Motivation Gets You Going – Discipline Keeps You Growing

“Focus”

Nothing Really Happens in One Day. It takes Consistent Action.

You Will Never Change Your Life Until you Change Something You Do Daily

Boulders Don’t Fill Up a Dam, it is the Pebbles.
If you are always at the head of the class, then you are in the wrong class!

How to Survive in a Changing Environment

Life is about Relationships
Design

❖ To Maximize Your Growth You Must Have a Plan
❖ If You Fail to Plan You Plan to Fail
❖ If You Don’t Know Where You are Going You won’t Know When you Get There.
❖ Finish Your Day Strong because Designing Your Life Will Help Design Your Career.
Pain

- Everyone Has Bad Experiences
- No One Likes Bad Experiences
- Good Management of Bad Experiences Leads to Great Growth
- You cannot Stub Your Toe if You are Not Moving
The Ladder

- Character Growth Determines the Height of Your Personal Growth
- It Is Not About Knowing More But Doing More With What You Know.
- Developing Virtues
The Ethical Values Ladder

Ethical Leadership
Helping Others to be Ethical

Ethical Courage
Willingness to Pay the Price for Ethics

Application of Ethics to Business Situations
Fraudulent Practices, Misleading Advertising, Unfairness

Personal Ethical Understanding
Right/Wrong, Fairness, Honesty, Personal Integrity, Respect for Others
The Rubber Band

- Growth Stops When You Lose the Tension Between Where You Are and Where You Could Be
- Contentment Can Lead to Complacency
- A Grave is Just a Long Rut!
- Your History is Not Your Destiny
Trade-Offs

❖ You Have to Give Up to Grow Up
❖ Willing to give up financial security today for potential tomorrow. The future is not in the job, but in the person who holds the job – George W. Crane
❖ Willing to give up immediate gratification for personal growth.
❖ Willing to give up security for significance.
The Mirror

- You must see value in yourself to add value to yourself
- You build self-esteem by
  - Not comparing yourself to others
  - Adding value to others
  - Doing the right thing even if it is hard
  - Take responsibility for yourself.
Contribution

❖ This Thing is Bigger Than You
❖ Be a River and Not a Reservoir
❖ Don’t Let People Own You
This is the beginning of a new day. You have been given this day to use as you will. You can waste it, or you can use it for good. What you do today is important because you’re exchanging a day of your life for it. When tomorrow comes this day will be gone forever. In its place is something you left behind. Let it be something good.

- Anonymous
Thank You

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