An Introduction to Business Ethics

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Fraud is on the rise...

KPMG Forensics' did a fraud survey of 459 public companies (annual revenues of $250 million or more) and state and federal government agencies in 2003 and 1998…

• 75% reported experiencing fraud during the prior 12 months in 2003
• 62% experiencing fraud during the prior 12 months in 1998
Types of Fraud Experienced

- 60% Employee Theft
- 32% Consumer Fraud
- 25% Vendor-Related, Third-Party Fraud
- 18% Computer Crime
- 15% Misconduct
- 12% Medical/Insurance Fraud
- 7% Financial Reporting Fraud
Facts: You are the superior of a division manager. The division is part of a $1 billion corporation with annual sales of $100 million and a before-tax profit of $12 million. Treat each situation described as independent and unrelated. Survey adapted from a 1990 Management Accounting article by Bruns and Merchant.

Directions: For each situation indicate the level of acceptability:

1=Ethical
2=Questionable
3=Minor Infraction
4=Serious Infraction
5=Totally Unethical
Facts:
You are the superior of a division manager. The division is part of a $1 billion corporation with annual sales of $100 million and a before-tax profit of $12 million. Treat each situation described as independent and unrelated.

For each situation indicate the level of acceptability:
1 Ethical      2 Questionable     3 Minor Infraction     4 Serious Infraction     5 Totally Unethical

1. A building scheduled for repainting next year, was repainted and expensed in the current year at a cost of $150,000 because the division was far ahead of its budget
2. Hoping to save $150,000, the division manager ordered all employees to defer discretionary expenditures into the next accounting period so that the division would make budgeted earnings targets.
3. In September, the division manager realized that the division would need a strong performance during the last quarter to reach budgeted earnings targets. He implemented a sales program that allowed customers who accept delivery this year to defer payment for 120 days, pulling sales that would have been made next year into the current year.
4. In November, with the division straining to meet budgeted earnings targets, the division manager called the engagement partner of a consulting firm that had done some work for the division. He asked that the firm not send an invoice until next year. The partner agreed. Estimated work done, but not invoiced, was $30,000.
5. In an effort to meet budgeted earnings targets, the division manager ordered excess assets to be sold during the fourth quarter, realizing a profit of $40,000.
6. In December, with the division straining to meet budgeted earnings targets, the division changed its method of depreciation for plant and equipment from accelerated to straight-line resulting in an adjustment of over $100,000 to current year earnings. The firm's auditor indicates this change is in full compliance with GAAP.

Ethics Survey  Survey adapted from a 1990 Management Accounting article by Bruns and Merchant.
Situation 1.

A building scheduled for repainting next year, was repainted and expensed in the current year at a cost of $150,000 because the division was far ahead of its budget.

1=Ethical
2=Questionable
3=Minor Infraction
4=Serious Infraction
5=Totally Unethical
Situation 1
What is the issue?
Who involved?
Why would this happen?

Class results:
Ethical
Questionable
Minor Infraction
Serious Infraction
Totally Unethical

Another Class’ results...
40% Ethical
17% Questionable
34% Minor Infraction
3% Serious Infraction
6% Totally Unethical
Situation 2.

Hoping to save $150,000, the division manager ordered all employees to defer discretionary expenditures into the next accounting period so that the division would make budgeted earnings targets.

1=Ethical
2=Questionable
3=Minor Infraction
4=Serious Infraction
5= Totally Unethical
What is the issue?
Who involved?
Why would this happen?

Class results...

Another class’ results...
6% Ethical
21% Questionable
30% Minor Infraction
28% Serious Infraction
15% Totally Unethical
Situation 3.

In September, the division manager realized that the division would need a strong performance during the last quarter to reach budgeted earnings targets. He implemented a sales program that allowed customers who accept delivery this year to defer payment for 120 days, pulling sales that would have been made next year into the current year.

1=Ethical  
2=Questionable  
3=Minor Infraction  
4=Serious Infraction  
5=Totally Unethical
Ethical Thinking Process:
1. What is the issue?
2. Who involved? Who should be involved?
3. Why would this happen? What is the impact on financial results? On the manager’s bonus?
4. Additional data needs?
5. Additional resources needed or can existing resources be used?

Class results v. another class’ results...
37% Ethical
25% Questionable
20% Minor Infraction
16% Serious Infraction
2% Totally Unethical

How can you “trust but verify” as a manager in this situation?
Situation 4.

In November, with the division straining to meet budgeted earnings targets, the division manager called the engagement partner of a consulting firm that had done some work for the division. He asked that the firm not send an invoice until next year. The partner agreed. Estimated work done, but not invoiced, was $30,000.

Level of acceptability:

1=Ethical  2=Questionable  3=Minor Infraction
4=Serious Infraction  5=Totally Unethical
• What is the issue?
• Who involved?
• Why would this happen?
• What if this happened, what options do you have as the boss? What are their pros and cons? Explain your decision.

How can you “trust but verify” as a manager in this situation?

Your results v. Previous semester results...
7% Ethical
21% Questionable
30% Minor Infraction
21% Serious Infraction
21% Totally Unethical
Ethical Thinking Process Recap

1. What are the issue(s)?
2. Who involved? Who should be involved?
3. Why would this happen? What is the impact on financial results? On the manager's bonus?
4. Additional data needs?
5. Additional resources needed or can existing resources be used?
6. What if this happened, what options do you have as the boss? What are their pros and cons? Explain your decision.

How can you “trust but verify” as a manager?
Homework: Mini Ethics Case

The three pillars of our pyramid are communication, integrity, and teamwork.

Question: since when do pyramids have pillars?

Answer: shut up.

Problem: all of my team members are idiots.

If I communicate my honest opinion of their ideas, I won’t be a team player.

But if I pretend to agree with their bad ideas, I won’t have integrity.

So instead of being a pyramid, can I be a two-legged stool like you?

Wow! That was much better than my pillar question. Aren’t I on your team?