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Chapter 2 -- Discussion Questions

Suggested Discussion and Solutions

Instructor Note: One of the authors of this text, Steven Mintz, writes ethics blogs under the name "Ethics Sage." He writes three blogs: www.ethicssage.com, www.workplaceethicsadvice.com, and www.higheredethicswatch.com. These blogs are referenced occasionally to support possible solutions.

From time to time students at various universities submit rather elaborate comments on postings on one of these blogs as part of their course assignment. You may want to ask students to find one of Steve's blogs that is of interest, craft an *opposing view*, and then submit it to him as a comment on the blog and see whether he posts it and replies to the student.

1. **Why do you think good people sometimes do bad things? Explain.**

   Good people can largely avoid doing bad things by clarifying their own values and acting on them whenever possible. We become ethical people by practicing ethical actions. We become kind people by practicing kindness; fair-minded people by seeing all sides of a story and then acting in accordance with our values; trustworthy people by keeping our word; and honest people by not exaggerating the truth for our own benefit and deceiving others by omitting important information another party has a right to know.

   Good people do not need laws to tell them to act responsibly, while bad people will find a way around the laws. This is the challenge to ethical behavior in life and the workplace.

   As the "Ethics Sage" points out[1], good people strive to do the right thing. They recognize that their actions have consequences. They are aware of the rights of others and act in a way they hope others would act if faced with similar situations that affect the good person. Good people think with their head and act in concert with their heart, and they apply the knowledge and wisdom gained through a lifetime of experiences. Good people are honest, trustworthy, fair-minded, and empathetic towards others. Good people accept responsibility for the consequences of their actions and strive to improve their behavior throughout their lifetime.

   Good people sometimes do bad things. It doesn't mean they are bad people. Instead, circumstances may arise where they feel pressured by peers to deviate from ethical behavior. This happens in business all the time. Take the case of Betty Vinson. Asked by her bosses at WorldCom ($11 billion fraud) to make false accounting entries, Vinson questioned the entries and knew they were wrong. Still, she recorded the improper amounts out of fear of losing her job and not being able to support her family. In other

[1] http://www.ethicssage.com/2013/11/why-good-people-do-bad-things.html.

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situations, good people may do wrong things because they want to be seen as a 'team player.'

The ethical challenges come not from one's own ethics but from the ethics of people around you and the organization of which you are a part. At work, a person may be called upon to do things that turn out to be unethical or even illegal, just as Betty Vinson. Good advice to those who want to avoid involvement in wrongdoing is being prepared for organizational challenges that will inevitably test your personal values, moral beliefs, and commitment to doing the right thing. The first step is to be sensitive to ethical issues that may arise in the workplace.

System 1 thinking can lead to snap decisions that make it more difficult to resolve an ethical dilemma in a morally appropriate way. It may occur because you lack important information regarding a decision, fail to notice available information, or face time and cost constraints. You don't have the time or inclination and fail to see the dangers of deciding too quickly.

Mark Pastin, who deals with issues related to ethics and compliance, points out that most individuals and companies do not set out to make a defective product or to engage in massive fraud.[2] Very often, these situations begin in small ways, with very small steps that seem inconsequential. It is also important for people to understand that most ethics scandals typically involve a number of people who are included in the decision-making process at each stage. As a result, responsibility becomes diffused among these individuals, making it difficult to attribute blame to or impose accountability on any particular person. Although people may feel uncomfortable with what is happening as they move down the "ethical slippery slope," they convince themselves that "so long as it is legal, it is ethical" or that they are doing what is expected of them. Rationalization — the ability to justify our behavior — is one of our greatest moral failings. Behavior that would clearly be considered unethical by an outsider becomes acceptable to those involved because "that is the way it has always been done" or "it doesn't really hurt anyone" or "that's the way they do it at Firm X."

So, ethics can be dangerous to your career if you have not been trained to identify and analyze ethical problems and to resolve them effectively. Ethics can also be dangerous to your career if you work in an organization that does not support ethical behavior or, worse, encourages misconduct. Finally, we should recognize that anyone can get caught up in unethical conduct under the right circumstances. Organizational forces are very strong and people have psychological weaknesses that make them vulnerable to wrongdoing. Steps can be taken to improve both organizations and the individuals in them, and we should take those steps. But the dangers cannot be eliminated entirely.

2. How do theories about the world, other people, and ourselves influence ethical decision making?

[2] https://markpastin.com/.

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Theories about the World

Per Messick and Bazerman[3] people have a tendency to simplify complex issues to make decision making easier. This can lead to underestimating risk and making poor decisions by ignoring low-probability events; failing to identify all stakeholders impacted; ignoring the possibility the public will find out; not thinking about long-term consequences; and, undervaluing the magnitude of the consequences in total. A good example of the damage underestimating risk can have has been demonstrated in the retail store Sear's decision to incentive their automotive division employees in a way that encouraged them to fraudulently charge their automotive customers for repairs they did not need in the early 1990's. This decision eventually led to the closer of the entire automotive division. Had executives at Sears thoroughly explored potential consequences (good and bad, short term and long) of their proposed incentive plan, they may have been able to avoid this catastrophic outcome.

The biases identified above are often compounded by the false belief that the world is more deterministic (controllable) than it is. This illusion of control causes us to underestimate the risks involved with our decisions. Memories of past-experiences change to support this erroneous belief. Hindsight bias is the tendency of people to believe that they expected a past outcome before it occurred (even when they did not). This belief leads to people being more confident than they should be in their own abilities to predict the outcomes of their actions.

Finally, theories about the world also suggest that we tend to blame individuals for events, rather than their work environment, policies and procedures or incentive programs. This often leads to problems being framed inaccurately and can result in decisions which do not correct and may exacerbate the problem. Therefore, it is important to take time determining how a problem is framed in order to maximize the probability of finding a solution for it.

Theories About Other People

Businesses today operate in a global economy rich in diversity doing business with people who speak different languages, have different customs, mores, cultural beliefs, religious beliefs, laws and accepted ways of behavior. Unfortunately, people have a tendency to think of themselves, the groups they belong to, or share their beliefs with as better than those they don't belong to: whether that be race, religion, nation, political affiliation, social club, etc... This bias is known as Ethnocentrism.

Ethnocentrism is best described an 'us versus them' mentality that is pervasive in most societies. Having national pride, a favorite sports team, or civic organization is natural and there is nothing wrong with that. The problem lies in our tendency to inaccurately believe that our group is better than any other, without taking the time to thoroughly

[3] Messick, M, and M. Bazerman, 1996 Ethical Leadership in the Psychology of Decision Making. *Sloan Management Review* v37, pp.9-22.

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analyze whether these beliefs are valid. This kind of thinking is dangerous and can lead to poor decision making.

In businesses, unconscious beliefs can manifest themselves through discriminatory hiring and promotion practices, and favoritism for white employees over employees of color and other ways as well. Understanding the role that stereotypes can play in our decision-making process is critical if we hope to avoid their negative manifestations.

Luckily, there is currently an effort across the United States to reduce the impact of this bias by educating people on and promoting the benefits of having diversity in communities, businesses, schools and social groups people belong to. These efforts are more commonly known as Equity, Diversity and Inclusion (EDI) Initiatives. For example, faculty and staff at the University of Wisconsin, Eau Claire have effectively spliced EDI into their DNA with spectacular results. A core mission of UW-Eau Claire is to create an inclusive community where all students thrive and find the programs and support needed to reach their full potential. Too often, members of underrepresented groups feel alienated and/or are unconsciously or consciously discriminated against resulting in them transferring schools or dropping out completely.

To operationalize this mission, the faculty, staff and administration came together setting goals surrounding student enrollment and retainage specifically for underrepresented groups. The faculty have common language surrounding EDI within all course syllabi and encourage all their students to help make the classroom environment more welcoming and inclusive to all. They have all agreed to participate in EDI initiatives in some way and to have that participation be a part of their annual performance review. In 2017, they created their first office of EDI and hired an Assistant Chancellor of Equity, Diversity and Inclusion to lead the effort.

In 2017, UW-Eau Claire has jumped from No. 44 to No. 3 in the College Choice rankings for the 50 Best Colleges for LGBTQ Students in the United States behind just behind Princeton and MIT. The College Choice organization seeks out those schools that protect their LGBTQ students through policy inclusion; those that offer a number of resources and services for LGBTQ students, from specific health care and counseling services to safe spaces and resource centers; and those schools that promote LGBTQ perspectives in their curriculum.

UWEC has also developed a 12-week training program called Circles of Change to start an open in-person dialogue about race throughout the region the university is located within. Launched as a pilot in the Spring of 2017, the fall of 2017 had more than 120 people participating in Circles of Change action groups, gathering weekly to discuss race relations on campus and in the community. "The goal is to help make the Chippewa Valley a more welcoming place for everyone.[4]"

The 2015 massacre of nine black parishioners at Emanuel AME Church by Dylann Roof in Charleston South Carolina and the violence and death caused by White Nationalists at

[4] https://www.uwec.edu/news/news/circles-of-change-helping-bring-community-together-2623/

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a rally in Charlottesville North Carolina in August 2017 demonstrate a great need for programs like this. Statistics from the FBI suggest that hate crimes in the United States are on the rise.[5] In addition, the demographics of the United States are influx with the population of Asian Americans, Latino Americans and African Americans growing while the number of Caucasian Americans are decreasing.

Theories About Ourselves

People have a tendency to believe they are more capable than they actually are. We have a tendency to overestimate our positive attributes and to underestimate our weaknesses. This like hindsight bias results in people being overconfident in their own abilities. This superiority bias can lead to executives making decisions based on incomplete or inaccurate information. The best decisions surrounding complex matters are made through consultation and inclusion of other points of view.

Asch 1951[6], found that people have a tendency to yield to group pressure, even when they know the majority view is incorrect. The greater the number of people in the majority, the more likely those in the minority change their view to conform with the majority. This bias known as "Group Think" speaks to an unconscious need for approval and avoidance of conflict within the groups we belong. This bias can result in individual group members not sharing concerns they may have about potential consequences a decision may have leading to poor decisions being made.

In Milgram's classic 1963 study[7] involving a persons' willingness to administer increasingly more severe electrical shocks to others as punishment, the experiment demonstrated the tendency of some to bow to the will of an authoritative figure. The experiment shows that people have a tendency to follow the instructions of those they perceive to be in authority, even when those instructions conflict with our own values. This bias can result in a person unconsciously giving more weight to their loyalty to their employer than their own integrity when making a decision as to whether to go along with an unethical request made by that employer. How we might utilize our understanding of these and other biases to improve our ethical decision making is demonstrated in Chapter 4 when we discuss the link between KPMG's Professional Judgement Framework and our cognitive processes.

People also have a tendency to not report incidents of wrong doing they may witness. This bias is known as the bystander effect. Studies have shown that the greater the number of people present, the fewer the incidents of assistance; we take our cues from the behavior of others, and that is, after all, less stress and hassle to ourselves to assume

[5] Berman, M. 2017 Hate Crimes in the United States Increased Last Year. The Washington Post November 13, 2017: https://www.washingtonpost.com/news/post-nation/wp/2017/11/13/hate-crimes-in-the-united-states-increased-last-year-the-fbi-says/?utm_term=.5f3e0f443444.

[6] Asch, S.E. 1951. Effects of Group Pressure Upon The Modification and Distortion of Judgement. Chapter 5 in Maccoby, E. Readings in Social Psychology. Holt; NY 1958. A summary and video of the experiment can be found here: http://www.psychologyconcepts.com/solomon-aschs-conformity-study/

[7] Milgram, S, 1963. Behavioral Study of Obedience. Journal of Abnormal and Social Psychology V.67, No.4, pp.371-378.

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others will intervene.[8] In 2017, we have seen just how strong this effect can be in relation to what appears to be a systemic problem in the entertainment industry surrounding sexual assault and sexual harassment. A floodgate of stories have emerged around the decades of abuse that Harvey Weinstein[9] inflicted on the female actresses and other female industry personnel he interacted with. Weinstein's crimes were evidently common knowledge throughout the entertainment industry, yet no one stepped forward to intervene.

Understanding the unconscious biases that people may have is an important first step to preventing unethical behavior. The Betty Vinson situation at WorldCom, discussed in Chapter 1, is a case in point about the dangers of reducing dissonance by changing one's attitudes and behaviors. Vinson knew it was wrong to "cook the books." She felt it in her inner being, but she did not act on those beliefs. Instead, she followed the orders from superiors and later justified her behavior by rationalizing it as a one-time act and demanded by people who knew accounting better than herself. In a sense she reduced the importance of her own intuitions about the appropriateness of what she was asked to do.

You Tube videos: Milgram experiment condensed for educational purpose: https://www.youtube.com/watch?v=xOYLCy5PVgM. Complete experiment: https://www.youtube.com/watch?v=2kqaMhm6dlg.

3. **On November 21, 2017, a story broke that *New Yorker* reporter Ronan Farrow had alleged that Harvey Weinstein used lengthy nondisclosure agreements attached to hefty monetary settlements to prevent accusers from coming forward with reports of his alleged sexual activities. Do you think it would be right or wrong for someone who alleges Weinstein sexually harassed them to violate the nondisclosure agreement in order to get their story out in the press and potentially help other victims? Explain using ethical reasoning.**

   Details of alleged sexual assaults by Hollywood mogul Harvey Weinstein, comedian Bill Cosby and other famous figures are now widely known in part because several accusers did something they promised in writing never to do: They talked publicly about their allegations.[10]

   [Some instructors may want to address a similar situation in the allegations of a sexual relationship with President Trump made by Stormy Daniels and her suit to void the nondisclosure agreement. Other instructors may decide to stay clear of any such discussion].

   When those women spoke out, they broke nondisclosure agreements -- contractual pledges not to discuss what happened that are common features of financial settlements. In doing so, they helped start a national discussion about sexual misconduct and showed

[8] Mathewson, K., "Whistleblowing and Bystander Apathy: Connecting Ethics with Social Responsibility", The Corporate Social Responsibility Newswire, Posted August 7, 2012, www.csrwire.com/blogs/posts/494-whistleblowing-and-bystander-appathy-connecting-ethics-with-social-responsibility.

[10] https://www.cbsnews.com/news/accusers-face-risks-when-violating-nondisclosure-agreements/.

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that the agreements do not necessarily offer the same ironclad protection that for decades has shielded the rich and powerful.

A look at how the agreements work and what can happen when accusers go public anyway follows.

The agreements amount to contracts to buy and sell silence. Some require that accusers destroy emails and other evidence related to the allegations. The pacts are typically signed before an accuser sues or before a lawsuit gets to trial.

The accusers may see trading silence for money as their sole recourse to obtain a degree of justice, especially if statutes of limitation rule out criminal charges. Others fear opting for a civil or criminal trial means an emotionally draining courtroom fight in a media spotlight.

"Many women go into the settlement agreement because they just don't want to face what potentially could be coming," said former Fox News anchor Juliet Huddy, who, according to a New York Times report in January, signed a confidentiality deal to settle claims against former Fox News host Bill O'Reilly." Some people just want to make it go away and move on with their lives."

The rightness or wrongness of violating nondisclosure agreements rests largely on one's motivation to disclose. If it is to save other women from the embarrassment and stress of sexual harassment incidents, then that can be viewed as a valid motive. It rests on the harms vs. benefits (utilitarianism) theory.

Women have the right to disclose but is it the right thing to do? The universality perspective asks us to consider what others might do in similar situations. We could argue such agreements are against public policy and disclosure is warranted. On the other hand, if everyone started to violate nondisclosure agreements, they wouldn't be worth the paper they are written on and all trust may be lost.

The justice theory argues that those who commit such heinous crimes should be punished no matter the consequences to those who violate nondisclosure agreements.

4. Back in August 2017, a leaked memo by Google employee James Damore alleged that the company was discriminating in its hiring practices based on race or gender. He claimed that Google was "pressing individual managers to increase diversity" and is "using race or gender" to decide which workers are promoted and with which teams' job candidates are placed. Damore made controversial statements like: "Women, on average, have more openness directed towards their feelings and aesthetics rather than ideas. Women generally also have a stronger interest in people rather than things, relative to men...These two differences in part explain why women relatively prefer jobs in social or artistic areas. More men like coding because it requires systemizing and even within software engineers, comparatively more women work on the front end, which deals with both people and aesthetics." Google's CEO, Sundar Pichai, criticized the memo that claimed women had biological issues that prevented them from being as

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successful as men in technology. He said Damore's statements had "crossed the line by advancing harmful gender stereotypes in our workplace."[11] Damore was fired by Google after 3 1/2 years for writing the memo critical of the company's diversity efforts. Evaluate Damore's statements with respect to the discussion in this chapter of equity, diversity, and inclusion.

Google's CEO criticized the memo that claimed women had biological issues that prevented them from being as successful as men in technology. CEO Pichai stated in his official response to the memo that these statements violated Google's Code of Conduct and had crossed "the line by advancing harmful gender stereotypes in our workplace." It also was counter to the culture Google sought to develop – one of welcoming diversity.

[Ironically, the controversy has come at a sensitive time for Google, which is under investigation by the US government after accusations of gender pay inequality and has been forced to hand over pay records].

Google was supposed to have a town hall meeting to discuss these issues, which would have been the mature thing to do. But, apparently, some within the company who objected to his statements did not want to be identified and had concerns about their safety if they spoke out. Google decided to cancel the meeting. How sad for Google and its employees. More ironic is the statement of Pichai in cancelling the meeting that: "People must feel free to express dissent." Isn't that what Damore was doing?

Damore's memo implies the environment at Google is not inclusive. Women can't advance like men can. The nature of the work holds them back because, somehow, they lack the necessary skills. The diversity of Google's workforce is directly challenged by Damore's statements.

The bottom line of the Google memo affair is we have morphed into a society where the sides are clear. There are those who believe their point of view is correct and all others are incorrect and even offensive – and must be shut down. And, there are those who want an open and honest dialogue on differences of opinion with the hope it will open our minds to divergent points of view and discussions we can have about them without fear of reprisals. Sadly, the former seems to be growing in numbers and influence while the latter feel threatened when they express an alternative point of view. This is not healthy for a democracy such as ours and this conflict of interests may be the most serious challenge facing our free society today and whether we will remain so in the future.

5. **In 2016, an incident of price gouging raised issues similar to those in the Heinz and the Drug discussion in this chapter. Turing Pharmaceuticals purchased the right to the prescription drug Diaprim, a life-saving drug that treats toxoplasmosis, an infection that affects people with compromised immune systems, particularly those**

[11] Swisher, K., Google has fired the employee who penned a controversial memo on women and tech, August 7, 2017, https://www.recode.net/2017/8/7/16110696/firing-google-ceo-employee-penned-controversial-memo-on-women-has-violated-its-code-of-conduct.

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with HIV/AIDS and some forms of cancer. Lacking competition for their drug, Turing raised the price from $13.50 per tablet to $750 per tablet, or an increase of 5,000 percent. The reason given for the increase was to help the company fund its research work on toxoplasmosis, along with new education programs for the disease. Turing's CEO, Martin Shkreli, explained that it was a great business decision that benefited the company's stakeholders. From an ethical perspective, what's wrong with a pharmaceutical company charging whatever price the market will bear?

The reason given for the price increase was to help the company fund its research work on toxoplasmosis, along with new education programs for the disease. Turing's CEO, Martin Shkreli, explained that it was a great business decision that benefited the company's stakeholders. The public wasn't buying it, instead labeling Shkreli as greedy. He became the poster-child for hated corporate executives.

The rationalization that the price increase was needed to fund additional research ignores the right of the public to buy drugs at a reasonable price. To charge $750 per tablet is not reasonable and it discriminates against those who most likely need it the most – the poor and the sick.

The harms of raising the price exceeded the benefits. Only Turing and its stockholders benefit from such enormous price increases. The decision to raise the price was based on egoism; enlightened egoism might be argued by some students. Ask them: How did the company consider how its actions affected others prior to raising the price?

Justice calls for equals to be treated equally, unequals unequally. Turing did not raise the price of all its drugs to $750 per tablet so why signal out the users of Diaprim? Was it because the supply of that product was dwarfed by the demand? Is supply and demand a valid ethical reason for raising prices? If so we are bound to see more cases like that of Turing Pharmaceuticals.

You Tube videos: Shkreli interviewed for CNBC program *American Greed:*
https://www.youtube.com/watch?v=lJkHl9SZ1DY.
Martin Shkreli on Drug Price Hikes and Playing the World's Villain:
https://www.youtube.com/watch?v=2PCb9mnrU1g.

6. **Do you believe all sexual relationships should be forbidden in the workplace? Use ethical reasoning to support your view.**

When an employee of one rank dates another of a higher rank, the fairness of the performance evaluation system comes into question. Assuming other employees know about the relationship, it may appear that the employee of higher rank will show favoritism toward his/her dating partner. The problem with allowing sexual relationships between employees and/or management is the potential for the relationship to go south and a sexual harassment claim to be filed.

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It could be argued that employees have a right to date whomever they want. True enough, but such relationships can cause additional stress in the workplace and divert the dating employees from the task at hand. Just imagine if all companies allowed such dating relationships and did not restrict dating relationships for those whose performance is evaluated by the employee of higher rank. At least in some cases, the result could be a chaotic workplace environment.

One perspective on dating relationships is provided by the Ethics Sage. His blog is as follows:[12]

"It's really not surprising that today workplace romances are on the rise and many employees do not see the problem with becoming involved in such relationships. Some will argue that it's natural given all the time spent in the workplace. Others will say that it might even improve performance. The naysayers contend there may be a conflict of interests in that one employee might end up supervising the other."

According to a survey from CareerBuilder,[13] nearly 2 out 5 U.S. workers have dated someone within their company, and 16% report having an office relationship more than once. "It's important to really get to know the person first and weigh the risks and benefits of starting an office relationship," says Jennifer Grasz, vice president of corporate communications with CareerBuilder. While dipping into the office dating pool can be risky, 31% of people who have dated in the workplace have walked down the aisle with their office sweetheart, she adds.

To look at the other side of the issue, consider that employees work longer hours and the office has become the only available place to meet people. Maybe the truth is that in spite of conventional wisdom, not *all* office romances are destined for failure. People who are drawn to the same employer often have common interests and a similar outlook on life. In fact, some of today's best-known power couples began their relationships while working together. Barack and Michelle Obama met when they both worked at a Chicago law firm, and Michelle was assigned to mentor Barack while he was a summer associate. They married in 1992 and have continued to work together throughout the rise of his political career. Would he have become President without her influence? Who knows but certainly it speaks to the potential value of dating relationships.

Have views of workplace dating changed over time? Yes, just have societal views on other cultural issues. *Workplace Options and Public Policy Polling* [14]surveyed American workers and the results shows that for millennials, workplace relationships are nothing to shy away from. The poll results show that 71 percent of employed millennials (aged 18-29) see a workplace romance as having positive effects such as improved performance and morale. But opinions about inter-office romances differ widely across generations. While 40 percent of millennials report no negative effects whatsoever from an office

[12] http://www.workplaceethicsadvice.com/2016/02/ethics-of-workplace-dating.html.
[13] https://www.foxbusiness.com/features/heres-your-guide-to-dating-in-the-workplace.
[14] https://www.workplaceoptions.com/polls/millennials-more-likely-to-be-smitten-with-superiors-co-workers-2/.

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romance, only 10 percent of older workers shared that sentiment, meaning the majority of employed Americans feel more harm could be done than good.

Human beings are going to interact and these relationships are going to happen, but it is essential that companies have clear policies in place that outline what is acceptable and what is not so that there are no perceptions of inequality, favoritism or an imbalance of power. Regardless of the culture or industry of any given company, clear communication about personal relationships among co-workers is vital. Employees must be made aware of where the boundaries are so that things that occur on personal time don't become a distraction or a source of conflict in the workplace.

7. **How do you assess at what stage of moral development in Kohlberg's model you reason at in making decisions? Do you believe your level of reasoning is consistent with what is expected of an accounting professional? How does the stage you indicate relate to the findings of research studies discussed in this chapter about moral reasoning in accounting?**

Students are usually reasoning at level two or three, trying to do what is expected of them by different standards, perhaps out of self-interest or beliefs held by others influential in their lives (i.e., peer group). Accounting students who become professionals are often reasoning at level three, influenced by the firm and what is in the best interests of clients.

Some students will mistake themselves for higher levels of reasoning by stating that they choose their own ethical principles to follow rather than following the law. This is consistent with Ayn Rand's *Rational Egoism* that was discussed in Chapter 1.

To follow-up on Rand's philosophy, ask students if the principle applies to themselves and to others equally. If they do not like to pay sales taxes, do they skip all taxes? Do they think others should skip the taxes they do?

As indicated in the text, Kohlberg's theory of ethical development provides a framework that can be used to consider the effects of conflict areas on ethical reasoning in accounting. For example, if an individual accountant is influenced by the firm's desire to "make the client happy," then the result may be reasoning at Stage 3. The results of published studies during the 1990s by accounting researchers indicate that CPAs reason primarily at Stages 3 and 4. One possible implication of these results is that a larger percentage of CPAs may be overly influenced by their relationship with peers, superiors, and clients (Stage 3) or by rules (Stage 4). A CPA who is unable to apply the technical accounting standards and rules of conduct critically when these requirements are unclear is likely to be influenced by others in the decision-making process. If an auditor reasons at the postconventional level, then that person may refuse to give in to the pressure applied by the supervisor to overlook the client's failure to follow GAAP. This is the ethical position to take, although it may go against the culture of the firm to "go along to get along."

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8. **In his research into the components of ethical decision making, Rest raised the following issue: Assuming someone possesses sound moral reasoning skills, "Why would they ever chose the moral alternative, especially if it involves sacrificing some personal value or suffering some hardship? What motivates the selection of moral values over other values?" How does Rest's model deal with such a question? How would you answer it from the point of view of an accounting professional?**

   James Rest attempted to address some of the problems that are recognized in Kohlberg's work, and used a model with three levels of understanding: personal interest, maintaining norms, and post-conventional. Rest focuses on maintaining norms (similar to the conventional level) and post-conventional schemas. By maintaining norms, Rest means recognizing the need for society-wide norms, a duty orientation, the need for cooperation, uniform and categorical application of norms, laws, and rules, and that individuals will obey the norms and laws and expect others to do the same even though it may not benefit all affected parties equally.

   Moral motivation reflects an individual's willingness to place ethical values (e.g., honesty, integrity, trustworthiness, caring, and empathy) ahead of non-ethical values (e.g., wealth, power, and fame) that relate to self-interest. An individual's ethical motivation influences her intention to comply or not comply with her ethical judgment in the resolution of an ethical dilemma.

   Sometimes individuals want to do the right thing but are overwhelmed by countervailing pressures that may overpower their ethical intentions because of perceived personal costs. The loss of a job or a client can be motivating factors that compromise integrity and block ethical action.

   Emotions also play a part in moral motivation. Organizations should create ethically rewarding environments to increase moral motivation. To reduce the costs of behaving morally, policies and procedures should be instituted that make it easier to report unethical behavior, prevent retaliation, and create an ethical culture in the organization. Leaders have to inspire employees and build confidence that their ethical intentions are supported by organizational systems.

   Rest's conception has particular appeal for accountants who at this level of moral development recognize the importance of various laws and standards, complies with them, understands that sometimes compliance would benefit them and sometimes not, but recognizes that obeying these norms is important for society. Rest recognized that while operating at this level would be ideal for an accountant, it does not ensure that the accountant can make good decisions when there are options and ambiguities within accounting and auditing standards, nor does it ensure that they have the ability to make good decisions when business circumstances arise that are outside the current laws, norms, or standards.

9. **In the text, we point out that Rest's model is not linear in nature. An individual who demonstrates adequacy in one component may not necessarily be adequate in**

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another, and moral failure can occur when there is a deficiency in any one component. Give an example in accounting when ethical intent may not be sufficient to produce ethical behavior and explain why that is the case.

An example from accounting might be the public accounting firms' conflict of responsibilities to the public and to the client organizations. The audit fees are paid by the client organization rather than the general public. (There is an old German proverb which says "Whose bread I eat, his song I sing.") The general public including investors and creditors are the direct beneficiary of independent auditing services. The public interest often conflicts with the client's interests over disclosures, transparency, and valuations of the balance sheet and income statement. It has often seemed as if the client interests (being the ones who paid the fees) were emphasized over the public interest in the corporate accounting scandals of the early 2000s and the subprime mortgage bubble of the 2007-2008 financial crises.

The ethical domain for accountants and auditors involves (1) the client organization that hires and pays for accounting services; (2) the accounting firm; (3) accounting profession; and (4) the general public. Andersen auditors may not have been aware that ethical issues existed in the audit of Enron (ethical sensitivity) because they were blinded by the size of scope of the non-audit fees. The auditors may have been perfectly capable of applying ethical judgment but absent the awareness that an ethical issue exists, moral action is unlikely to occur.

In the Enron case, Enron was paying more consulting fees to Andersen than audit fees. Enron paid Andersen $25 million for the year 2000 audit and $27 million for consulting. As one of the largest clients of Andersen's Houston office, if not entire firm, Enron expected Andersen to do the audit quickly and with minimal disruptions so that the consulting could continue to expand the business model, revenues and net income. Andersen wanted to continue as the largest accounting firm; this would only happen if the firm kept the high fees from Enron. The accounting profession, at the time, wanted more consulting engagements and was looking to rebrand the CPA as a "cognitor," a certified consultant. The public wanted Enron to continue to grow so that the stock prices would remain high. The conflicting interests all seemed to be suggesting that Enron should continue to grow and all would be happy. The biggest conflict was if Andersen should have been concerned about upholding the accounting profession's requirement to follow GAAP and to be independent. However, the lure of the large consulting fees encouraged Andersen to look the other way and to go along with Enron at the expense of the profession's reputation and the need of the public for reliable financial statements.

10. **In teaching about moral development, instructors often point out the threefold nature of morality: It depends on emotional development (in the form of the ability to feel guilt or shame), social development (manifested by the recognition of the group and the importance of moral behavior for the group's existence), and cognitive development (especially the ability to adopt another's perspective). How does this perspective of morality relate to ethical reasoning by accountants and auditors?**

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Accountants and auditors must have the proper emotional development in order to put others first and before self; the social development to recognize the importance of the public need for fair financial statements, and being able to follow a code of ethics; the cognitive development to be independent, objective and non-biased. The needs of the public underlie the development of these characteristics and enhance moral development in accounting. In some situations, one's social development is negatively influenced by group norms that may create pressures on audit teams to back the client on contentious issues so as to not rock the boat in the client relationship and possibly lose the client. Thus, ethical reasoning is often challenged in accounting by outside forces that create internal conflict even though one's emotional and cognitive development would otherwise lead to ethical decisions.

11. Do you believe that our beliefs trigger our actions, or do we act and then justify our actions by changing our beliefs? Explain.

A highly ethical person knows his values, principles and beliefs. Those values, principles and beliefs would then determine his actions in an ethical situation. A person who does not understand or fully know his values, principles and beliefs, might act in an ethical situation without thinking through the consequences to others (i.e., System 1 thinking) rather than from an enlightened egoistic view point. Later, rationalizations may be used to reconcile actions to ethical beliefs and reduce cognitive dissonance. If this is a one-time event, the person can learn from the experience, refine his values, and reconsider principles and beliefs for future situations. However, a person who always justifies or rationalizes his actions has a flexible belief system or is lacking in the moral virtues and consistency in behavior. In effect justifications and rationalizations become the belief system of that person and relativistic' situational considerations inform decision-making rather than sound ethical principles.

Extended Discussion

Cognitive dissonance theory is based on three fundamental assumptions.[15]

1. *Humans are sensitive to inconsistencies between actions and beliefs.*

- According to the theory, we all recognize, at some level, when we are acting in a way that is inconsistent with our beliefs/attitudes/opinions. In effect, there is a built in alarm that goes off when we notice such an inconsistency, whether we like it or not. For example, if you have a belief that it is wrong to cheat, yet you find yourself cheating on a test, you will notice and be affected by this inconsistency.

2. *Recognition of this inconsistency will cause dissonance, and will motivate an individual to resolve the dissonance.*

[15] https://web.mst.edu/~psyworld/cognitive_dissonance.htm.

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- Once you recognize that you have violated one of your principles, according to this theory, you won't just say "oh well". You will feel some sort of mental anguish about this. The degree of dissonance, of course, will vary with the importance of your belief/attitude/principle and with the degree of inconsistency between your behavior and this belief. In any case, according to the theory, the greater the dissonance the more you will be motivated to resolve it.

3. *Dissonance will be resolved in one of three basic ways:*

    a. *Change beliefs*

        - Perhaps the simplest way to resolve dissonance between actions and beliefs is simply to change your beliefs. You could, of course, just decide that cheating is o.k. This would take care of any dissonance. However, if the belief is fundamental and important to you such a course of action is unlikely. Moreover, our basic beliefs and attitudes are pretty stable, and people don't just go around changing basic beliefs/attitudes/opinions all the time, since we rely a lot on our world view in predicting events and organizing our thoughts. Therefore, though this is the simplest option for resolving dissonance it's probably not the most common.

    b. *Change actions*

        - A second option would be to make sure that you never do this action again. The guilt and anxiety can be motivators for changing behavior. So, you may say to yourself that you will never cheat on a test again, and this may aid in resolving the dissonance. However, aversive conditioning (i.e., guilt/anxiety) can often be a pretty poor way of learning, especially if you can train yourself not to feel these things. Plus, you may really benefit in some way from the action that's inconsistent with your beliefs. So, the trick would be to get rid of this feeling without changing your beliefs or your actions, and this leads us to the third, and probably most common, method of resolution.

    c. *Change perception of action*

        - A third and more complex method of resolution is to change the way you view/remember/perceive your action. In more colloquial terms, you would "rationalize" your actions. For example, you might decide that the test you cheated on was for a dumb class that you didn't need anyway. Or you may say to yourself that everyone cheats so why not you? In other words, you think about your action in a different manner or context so that it no longer appears to be inconsistent with your beliefs. These relativistic ethics decisions geared to a particular situation makes decision-making uniquely individual without established norms of behavior. If you reflect on this for a moment you will probably recognize why cognitive dissonance has come to be so popular. You may notice such post-hoc re-

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conceptualizations (rationalizations) of behavior on the part of others all the time, though it's not so common to see it in one's self.

12. **Explain why moral problems may be of greater intensity than nonmoral problems**.

    Nonmoral problems include what movie will I go see this weekend, what shoes to wear today, or whether to eat out dinner or cook in? These problems present dilemmas for me, but for the most part really only affect me individually. Moral problems normally present dilemmas that affect other stakeholders besides myself. These problems require more thought, reflection, knowledge of values and responsibility for consequences to others. These problems require some sober thinking on my part (which brings the intensity); it is sometimes easier to try and live a "charmed" rather than do such thinking.

13. **Michael just graduated with a degree in Accounting from State University. He worked hard in school but could only achieve a 2.95 GPA because he worked 40 hours a week to pay his own way through college. Unfortunately, Michael was unable to get a job because the recruiters all had a 3.0 GPA cut-off point. Michael stayed with his college job for another year but is anxious to start his public accounting career. One day he reads about a job opening with a local CPA firm. The entry-level position pays little but it's a way for Michael to get his foot in the door. However, he knows there will be candidates for the position with a higher GPA than his so he is thinking about using his overall GPA, which was 3.25 including two years of community college studies, rather than his major GPA and the GPA at State, even though the advertisement asks for these two GPAs. Michael asks for your opinion before sending in the resume. What would you say to Michael and why?**

    You should inform Michael of the need for integrity in accounting. It is possible that he (Michael) would not get passed the screening process even if he uses the 3.25 GPA. If he does get passed the screening process, normally the firm will require an official transcript. The firm could figure out that Michael was lying. That would disqualify him on honesty and integrity grounds. If Michael uses the 2.95 GPA he can make the case for being hired by writing a strong cover letter in which he emphasizes his work ethic and skills learned from working his way through school. Those skills might include time management, budgeting, prioritizing tasks, customer service, and possibly supervision of others. Even if his past jobs are not in the accounting area, he might be able to emphasis being in the business world, learning inventory/purchasing management, payroll, invoicing, and others. Then on the actual resume he should list the major GPA, the State University GPA, and his cumulative GPA. He might note that he worked full time while attending school full time. This approach would allow Michael to provide the information required by the firm in an honest matter but also invites the firm to look past the GPAs and see him as a hard worker, a trait most firms like to see.

14. **In this chapter, we discuss the study by Libby and Thorne of the association between auditors' virtue and professional judgment, done by asking members of the Canadian Institute of Chartered Accountants to rate the importance of a variety of**

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virtues. The most important virtues identified were truthful, independent, objective, and having integrity. The authors note that the inclusion of these virtues in professional codes of conduct (such as the Principles of the AICPA Code of Professional Conduct) may account for their perceived importance. Explain how these virtues relate to an auditor's intention to make ethical decisions.

The virtues of independence and objectivity relate to the auditor being responsible to the accounting profession and the general public: the ethical domain of auditing. The virtues of honesty and integrity are part of the questioning mind, search for knowledge, and the exercise of skepticism and professional judgment which enables an auditor to be objective and independent. The intention to make ethical decisions requires an auditor to deliberate on whether to employ honesty, integrity, independence and objectivity in his work. The action of this deliberation of virtues affects the intention and exercise of professional judgment.

15. **You are in charge of the checking account for a small business. One morning, your accounting supervisor enters your office and asks you for a check for $150 for expenses that he tells you he incurred entertaining a client last night. He submits receipts from a restaurant and lounge. Later, your supervisor's girlfriend stops by to pick him up for lunch, and you overhear her telling the receptionist what a great time she had at dinner and dancing with your supervisor the night before. What would you do and why?**

As a responsible employee you should know what the accounting and reimbursement policies of the firm are. (If there are no policies, then policies need to be developed or possibly at least written down.) Many firms will have at least oral policies that reimbursements are for business related activities. The IRS would require detailed receipts for business meals over $75, if the tax return were audited, with proof of who was present and business reason or discussion at the meal. After lunch or the next day the accountant should ask his supervisor for that information. Once that information is obtained, you may want the owner to approve the expense or least made aware of the expense.

16. **According to a survey reported by the *Daily Mail* in the United Kingdom, one in eight women has bought expensive clothes, worn them on a night out, and then returned them the next day. Nearly half of those who did confess said they were motivated by money because they couldn't afford to keep the clothes given their current economic condition. But 18 percent said they did it because they enjoyed the "buzz." Those most likely to do it were 18- to 24-year-olds, 16 percent of whom admitted to returning worn clothes.[16]**

Assume you are best friends with one such woman. She asks you to go shopping with her for a dress for the Senior Prom. She says the dress will be returned after the prom. You know what she does is wrong, but she is your best friend and don't

[16] http://www.dailymail.co.uk/femail/article-2157430/How-women-wear-expensive-new-frock-shop.html#ixzz3ea5m2mo.

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***want her to get in trouble. What would you do and why? How might you counter the likely reasons and rationalizations she will give for her actions?**

Borrowing clothes or other merchandise from a retailer and then returning them after being used for a special occasion is a form of stealing. Retailers are in business to sell their merchandise, not rent it (not rent free at that).

We should want our best friends to have values close to our own values. Why? For a couple of reasons. One is that we are judged by the company we keep and another is that we could have our values eroded by our friends' values. If we often observe our friends acting unethically and do nothing, we can become immune to the fact that the act is unethical, and we can start down the slippery slope of convincing ourselves that the act is acceptable.

Your friends' actions are dishonest, essentially stealing, and solely motivated by greed and self-interest. It harms others while benefiting only herself. Imagine if everyone did what your friend does. Stores would never sell clothing and may have to go out of business or lay off workers. What if you owned such a store and someone did what your friend does? How would you feel? How might you react in this instance? Our actions should be consistent given similar circumstances and not relative to the person(s) involved in the wrongdoing.

To discuss the reasons and rationalizations, let's call Nicole, the friend who wants to be an ethically responsible person, and Kelly, the friend who likes to "borrow" clothes. Let's assume that they have the following conversation as they are walking to the store from the parking lot.

Nicole: Why do you want to 'borrow' the dress?

Kelly: You know that these stores charge too much for these clothes. It is almost highway robbery!

Nicole: Don't you want to keep the dress after the prom? Wouldn't it would be fun for you to show your future daughter or son, the dress you wore to your senior prom? Are you going to borrow your future wedding dress?

Kelly: Silly, of course I will buy and keep my wedding dress! Look, the stores expect this kind of borrowing, especially on gala and prom dresses, and everyone does.

Nicole: So, if everyone does it that makes it okay? I still think it is a form of stealing or at least unauthorized borrowing. If it is okay because everyone is doing and the stores expect it why don't you tell the salesperson as we check out? Why does the store want to do all the paperwork for a sale and then a return?

Kelly: I just have to follow the way it is always done. It would be easier if the store would just let me take the dress and return it after the prom. But there is a slight thrill of

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excitement in borrowing the dress. Last time I did this, the dress was still on my credit card at the closing date and it sent my credit card over the credit limit. Boy, did I get in trouble with my parents!

Nicole: What happens if you spill something on the dress or if you trip and tear the hem?

Kelly: That has never happened so I am not worried. How else could I get a designer dress to wear to the prom?

As they are entering the store, Nicole sees a security guard.

Nicole: Sir, may I ask you a question?

Security: Sure, how may I help you?

Nicole: It is senior prom time of year. Does the store have much problem with customers buying senior prom clothes and accessories and then returning the items after they are worn and used?

Security: Yes, it is growing problem. We are getting on top of it. We now video tape and record all returns via the cash register and security cameras. We look for any signs of usage, stains, pulls, missing tags, before we accept the return. If we accept the return and later find that the items were worn or used, we put that customer on a watch list. We track further purchases and will prosecute for shoplifting. The stores in the mall are working together and share watch lists.

All of the sudden, Kelly is having a change of heart and wants to leave the store.

17. Sharon is an intern with a local CPA firm. Prior to returning to school, her supervisor goes on sick leave and asks her to do some complicated reconciliation work for him. She is given what seems to her to be an unrealistic deadline. Sharon looks at the workpapers and supporting documentation and realizes she doesn't have the skills to complete the work without help. She contacts her supervisor who tells her to talk to Holly, a good friend of Sharon and former intern at the firm, for help. Holly returned to school one semester ago. What ethical considerations do you have in this matter? What would you do and why?

Sharon should be properly supervised as an intern. Holly might be able to explain to Sharon the reconciliation, particularly if she had done the reconciliation in the previous year. However, it is possible that Holly might not have time to fully help Sharon with her work and she might not remember the details to provide much help to Sharon. Sharon may feel frustrated and overwhelmed being tasked with doing a reconciliation beyond her abilities and training.

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What if the work is not done correctly? What if Holly suggested that Sharon copy the prior year workpaper, including copying the tickmarks and legends? What if Sharon takes that suggestion as making dry or ghost tickmarks?

The firm should properly supervise Sharon, as an intern, to ensure that the work is performed with due diligence and provides sufficient evidence to draw conclusions. Since the supervisor is on sick leave, the firm should put another senior or supervisor be assigned to the job. If that is not done, Sharon should ask the manager on the job to help her.

Holly stills has a confidentiality obligation to the client even after leaving the firm. She will violate it without the client's approval to disclose such information to another party because Holly is no longer with the firm. Just imagine if firm personnel were always contacting others who no longer work for the same firm. In fact, that other person may now be working for a competitor firm. The client has a right to expect its confidential information to remain confidential and accessible only to continuing CPA firm personnel.

The supervisor suffers from ethical blindness. It could be because of the sick leave or just to push the matter aside. It is a Systems 1 level of thinking motivated by egoistic behavior.

18. Identify the ethical issues in each of the following situations and what your ethical obligations are, assuming you are faced with the dilemma.

a. A consultant for a CPA firm is ordered by her superior to downgrade the ratings of one company's software package being considered for a client and increase the ratings for another company, which is run by the superior's wife. What would you do and why?

The firm does not have to be independent on consulting engagements as it must be on assurance and attestation engagements. However, the firm has an obligation to disclose any conflicts of interests. The supervisor and his wife have a conflict of interest on this client. The consultant has an obligation to perform his work with objectivity and due professional care. He should honestly evaluate the different software packages. If the supervisor tries to pressure the consultant into changing the ratings in a dishonest or biased way, the consultant should talk to HR, the manager or the partner on the client engagement. Bias and self-interest should not be allowed to interfere with objective decision-making.

b. A tax accountant is told by his superior to take a position on a tax matter that is not supportable by the facts in order to make the client happy. This is a common practice in the firm and the likelihood of the IRS questioning it is remote. Would you go along with your supervisor?

The tax accountant has an obligation to perform his work objectively and with due professional care. Tax accountants share the same ethical standards as auditors, except for

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independence. If the tax position is not supported by the facts, the accountant should not take the position that the supervisor requests. According to tax standards known as *Statements on Standards for Tax Services (SSTS),* the tax accountant must believe that the tax position has a *realistic possibility of success* if challenged by the IRS. The tax accountant and the firm can be assessed tax preparer penalties for preparing a tax return not supported by the facts.

c. An auditor for a governmental agency concluded a contractor's accounting system was inadequate; her supervisor changed the opinion to adequate in order to minimize the audit hours on the job and make the process seem more efficient. Would you go above your supervisor in this matter and bring your concerns to high-ups in the agency?

You should follow the guidelines in your agency's contract audit manual and take the matter above your supervisor's level. If the concerns are still not taken seriously, you should consider calling the agency's ethics hotline. These actions would show your skepticism, persistence, consultative, and courage; all instrumental values for an auditor. Auditors can't allow their opinions to be changed by supervisors without compelling reasons to do so. Integrity requires to stick by your principles in this kind of a matter.

19. One expression in particular seems to sum up why the accounting frauds at companies such as Enron, WorldCom, and HealthSouth were allowed to persist for so long: "If I Do It, I Must Do It Again." Explain what is meant by this statement in the context of ethical decision making.

In a sense this statement is an off-shoot of the ethical slippery slope. If an accountant goes along with financial fraud in one period, he feels pressured to go along with it in the next to keep up the charade. Falsifying the financial statements in one period can lead to falsification in the future. In other words, once that first step is taken it becomes difficult to reverse course and reclaim the moral high ground. In each of the frauds mentioned above, the company felt pressure to meet or beat financial analysts' earnings projections. They were greedy so higher earnings, regardless of the way it occurs, motivates unethical action.

Ethical decision making can be viewed from the lens of Rest's Model. First, identify that an ethical issue exists. The way in which earnings is reported is an ethical issue. Next, use moral judgment to think through the proper course of action: to record revenue in one way or another; to record/delete expenses. Next, internalize the motivation to act in accordance with ethical values; and lastly, carry through ethical intent to ethical action.

20. Explain why the process of ethical decision making depends on a number of moral, social, psychological, and organizational factors.

All ethical decision making is done by humans. Each human has his own values and moral reasoning. We are influenced by society and the social norms accepted in our culture. We work for organizations that set a tone at the top and establish ethical

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expectations within that organization. Hopefully, we all work for ethical organizations. Hopefully, these organizations and top leaders "walk the talk" of ethical behavior. The likelihood of taking a stand against the organization's ethical policies and expectations is dependent on our psychological factors, including self-confidence and whether we want to be accepted and seen as a team player. Motivation and courage are two important psychological factors that influence whether we will take ethical action when conflicts exist.

Accountants and auditors must have the proper emotional development in order to put others first and before self; the social development to recognize the importance of the public need for fair financial statements and being able to follow a code of ethics; the cognitive development to be independent, objective and non-biased.

An organization with high ethical values encourages the same in employees while an organization with low ethical values may make it more difficult for an employee to act ethically regardless of his own moral development. The consistency between one's values, beliefs and actions are influenced by all of the factors mentioned.

Organizational dissonance means that the ethics of the organization may be different than the ethics of an individual(s) who works for that organization. The result can be the way in which one believes he should act, in accordance with ethical values, is different from the way he decides to act. The dissonance is caused by social, psychological and organizational factors.

21. Select one of the rationalizations for Enron's actions identified by Andy Fastow in the chapter opening and explain how you would counteract that statement by emphasizing its ethical deficiencies.

As mentioned in the Introduction, Andy Fastow made a presentation about the fraud on April 6, 2016, and he explained the rationalizations Enron used for its improper actions.

- Helping the company and its shareholders by increasing profits and stock price.
- Timing problem or "We'll grow out of it."
- Immaterial amounts.
- Rewarded and recognized behavior by the company.
- Systemic problem.
- It has been approved. I'm following the rules.

Helping the company and its shareholders by increasing profits and stock price. Inflating earnings and stock prices by aggressive accounting that does not conform to GAAP doesn't help shareholders – at least in the long run. It simply masks a larger underlying problem and could lead to a future decline in profits and stock prices much greater than the increase, as occurred at Enron. Its stock price had risen above $90 during the fraud but collapsed to less than $1 per share once it became public that the company was built on a house of cards.

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Timing problem or "We'll grow out of it." Companies rarely grow out of difficult situations by inflating profits and stock prices. The future is unknown so to base a decision on financial reporting using the unknown future is bad accounting.

An interesting quote comes from Donald Rumsfeld, the former Secretary of Defense in the George W. Bush Presidential administration:

"There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns. There are things we don't know we don't know."

The last two parts of this statement addresses future unknowns and why it can't be determined whether a company will "grow out of it."

Immaterial: Even relatively small amounts can become big items because they deal with masking negative trends or are done by a serial fraudster. Materiality has qualitative as well as quantitative features and the former should be considered along with the latter.

Rewarded and recognized behavior by the company. There is no doubt Enron rewarded behavior that increased market share, profits and stock price.

An interesting policy to discuss with students is "rank and yank." This casual amorality turned office politics into one endless episode of Corporate Survivor, in which the policy had employees give one another annual ratings, with the bottom 15 percent being fired. In such a cutthroat culture, it's hardly surprising that Enron executives would sell off their own shares for a fortune and prohibit underlings from doing the same, even when it became obvious that Enron stock was sinking faster than the Titanic.

Systemic problem. This implies the problems are organization-wide. That doesn't explain why they should be acceptable in any one situation. Problems in one area should be examined to determine if other problems exist within the accounting and financial reporting system.

It has been approved. I'm following the rules. Betty Vinson (WorldCom) and Aaron Beam (HealthSouth) illustrate this rationalization. They didn't initiate the improper accounting but did enter false amounts into the record when prodded to do so by an overly aggressive top management. They deflected their responsibility by blaming others. However, in ethics we learn to take responsibility for our actions and not rationalize them away. The Giving Voice to Values technique deals specifically with these rationalizations by developing a script to respond to them. Vinson and Beam should have argued more forcefully for following the GAAP rules and not to run afoul of SEC regulations. They should have had the moral courage to act in accordance with their beliefs and had the integrity to carry through ethical intent with ethical action.

22. Windsor and Kavanagh propose in a research study that client management economic pressure is a situation of high moral intensity that sensitizes auditors'

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emotions and thus motivates their moral reasoning to make deliberative decisions either to resist or accede to client management wishes. Explain how you think such a process might work.

An auditor's independent opinion is supposed to be emotionally detached and objective in order to verify the accuracy and reliability of financial statements in light of the regulatory oversight of corporate financial reporting. Yet auditors are employed by large accounting firms which are economically dependent on the very companies that they are required to provide an independent verification of financial information. The accounting firms and individual auditors are dependent upon fees paid by companies for the audit. This payment of the fees by the client when the auditors should place the public interest before the client's interest causes an inherent conflict of interest. The client may think that payment of fees help ensure that its interests come first. Auditors are human who may succumb to pressure from the client and let the public interest become secondary to the client's. The clients may encourage the auditors to think that the fees are truly for keeping them happy – or at lease to portray "the client's side" of the picture about its financial results. The auditors must guard against an audit becoming a service to help the client gain a favorable appearance to the public rather than providing an independent verification and exposing real financial results. In other words, the public interest requires post-conventional reasoning not level 3 (in the clients' best interest).

23. Explain how an overconfidence bias might influence an auditor's judgment about the proper balance sheet value of inventory.

The overconfidence effect is a well-established bias in which a person's subjective confidence in his judgments is reliably greater than the objective accuracy of those judgments, especially when confidence is relatively high.

Overconfidence is one form of a cognitive bias and can create a mismatch between the auditor's confidence in his own judgment and the correctness of these judgments. Among other things, overconfidence can be described as the tendency of people to believe that their judgment is more correct that it actually is in reality.

An auditor suffering from overconfidence bias might decide to accept the client's explanation for inventory accounting or go with the approach used in prior audits and documented in the work papers rather than take a fresh, objective look at the numbers.

24. Explain what you think each of the following statements means in the context of moral development.

- **a. How far are you willing to go to do the right thing?**
- **b. How much are you willing to give up to do what you believe is right?**
- **c. We may say that we would blow the whistle on client wrongdoing but what should we do if firm management tells us to drop the matter?**

Each of the statements indicates that doing the right thing may not be easy or comfortable. It may require speaking up when it is easier and more comfortable to remain silent. The statements highlight why doing the right thing is not the most common thing

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to see. Moral development of character requires the courage to act, not just the knowledge of right and wrong. When personal sacrifice is needed, such as jeopardizing one's position by being honest and trustworthy, we sometimes change our beliefs to conform to our desired actions in a particular situation rather than the other way around.

The most difficult ethical act to explain to students is why they should risk their position in order to do the right thing. They may believe that cheaters get ahead; there are no consequences for wrongful acts; or the ends justify the means. We need to fall back on the ethics of the accounting profession to make it clear that even in a whistleblowing situation, the accounting ethics rules requires self-sacrifice. While it may not always occur in practice, the foundation of ethics in the profession is altruism.

Extended Discussion

A classic story of a person struggling with his conscience on these very issues is the tobacco industry whistleblower, Jeffrey Wigand. Wigand, previously the $300,000 research chief at Brown & Williamson (B&W), uncovered documents implicating B&W and, indeed, the entire tobacco industry, in a plot to make cigarettes more addictive than they already were by adding a chemical additive to the mix. Wigand agonized with the knowledge of the scandal until he could be silent no more. He is the highest-ranking executive ever to reveal what goes on behind the scenes at the highest level of a tobacco company.[17]

After raising the issue within B&W, being treated badly as a result, and eventually leaving B&W and signing a non-disclosure agreement, in 1994, Wigand broke his confidentiality agreement and agreed to work as a consultant with CBS's *60 Minutes* producer Lowell Bergman on a story about tobacco industry efforts to develop a "fire safe" cigarette. Thus began a dramatic two years that would see Wigand become one of the most famous "whistleblowers" (corporate informants) in American history. Driven by a potent mixture of moral outrage and desire for revenge, Wigand slowly overcame his fear of retribution to expose the tobacco industry's lies about the health risks of cigarettes. On November 29, 1995 he gave deposition testimony in a case brought by the state of Mississippi against tobacco companies in which he stated that tobacco companies manipulated nicotine content, suppressed efforts to develop safer cigarettes and lied about the addictive properties of nicotine. Excerpts of his testimony were published in the Wall Street Journal. After months of debating whether to risk provoking the ire of the big tobacco companies, on February 4, 1996 CBS aired a *60 Minutes* interview with Wigand during which he made his attacks on the tobacco industry directly to the nation.

Wigand's decision to become a whistleblower came at great cost to his personal life and even brought risks to his personal safety. Under enormous pressure and stress, Wigand turned to drinking heavily. His drinking problem became so severe that he stole a bottle of liquor from a convenience store, got into a drunken physical confrontation with his

[17] http://www.biography.com/people/jeffrey-wigand-17176428.

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wife and eventually filed for divorce. B&W then unleashed a ruthless smear campaign against Wigand that publicized – and greatly exaggerated – such incidents to paint him as a raging alcoholic, wife-beater and pathological liar. Wigand's home and his lawyers' offices were broken into and robbed of personal documents, and he received several death threats that forced him to abandon his home and live secretly in various hotels with a full-time bodyguard.

For braving such hardships, and exposing such revelatory information about the tobacco industry, Jeffrey Wigand will go down in American history as one of the most daring and important whistleblowers of all time. His exposure of tobacco industry lies led directly to stronger government curbs on the behavior of the tobacco industry. As an expert witness in litigation, he helped to bring about the 1998 Master Settlement Agreement in which tobacco companies agreed to pay billions of dollars to states to offset medical costs incurred treating smoking-related illnesses. Wigand also founded a nonprofit called Smoke-free Kids to educate children about the dangers of smoking. His dramatic life story as popularized in the highly acclaimed 1999 film *The Insider*, in which Russell Crowe portrayed Wigand's part. While many revere Wigand as a hero, he maintains that he simply did what any decent human being in his situation would have done. "I am honored that people think I am a hero," he once said. "But I do not accept that moniker as others are much more deserving of it. I did what was right… have no regrets and would do it again. As you see, we were just ordinary people placed in some extraordinary situations and did the right thing… as all should do."

25. **A major theme of this chapter is that our cognitive processes influence ethical decision making. Use the theme to comment on the following statement, which various religions claim as their own and has been attributed to Lao Tzu and some say the Dalai Lama:**

"Watch your thoughts; they become your words.

Watch your words; they become your actions.

Watch your actions; they become your habits.

Watch your habits; they become your character.

Watch your character; it becomes your destiny."

One's character reveals one's values and whether one has the courage to act on those values. Character traits include integrity, honesty, compassion, trustworthiness, loyalty, fair treatment of others, and citizenship. A person shows his character by displaying these traits, which ones are important and which are not. The quote above shows the relationship between thoughts, words, actions, habit and character. One's character will determine whether one is virtuous or not, and thus, holds the key to one's destiny.

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It has been said that character is revealed over time and under pressure. To know one's character, observe what they say, what they do, and how they treat others when pressures mount up. The way they handle the situation demonstrates how their words influenced their thoughts and, ultimately, their behavior.

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