

TED: Treasurers' Ethical Decision-Making

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Ethical Lapses

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Circa 1984: Boesky, Milken, Junk Bonds

Circa 1990: Savings & Loans; Demise of “Big 8”
accounting firms

Circa 2001: Enron, WorldCom; Tyco, Adelphia

Circa 2008: AIG, Fannie Mae, Bear Stearns, Lehman
Brothers, Goldman-Sachs

ACF “Report to the Nations” - 2010

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Occupational Fraud:

The use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.....
(these) schemes can be as simple as pilferage of company supplies or manipulation of time sheets, or as complex as sophisticated financial statement frauds.

ACF “Report to the Nations” - 2010

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Study included 1,843 cases from 106 nations

Typical losses: 5% of organization’s annual revenue

Most common scheme: Asset misappropriation
90% of cases

Small organizations most at risk

ACF “Report to the Nations” - 2010

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Initial detection happens by the following actions:

- 40% Employee tips
- 15% Management review
- 14% Internal audit
- 14% Accounting control activities
- 11% By accident, police notification, confession
- 5% External audit

ACF “Report to the Nations” - 2010

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85% of the perpetrators have never before been charged or convicted

Warning signs that a perpetrator exhibits:

Living beyond their means (43%)

Experiencing financial difficulties (36%)

ACF “Report to the Nations” - 2010

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“Occupational fraud is a global problem. Though some of our findings differ slightly from region to region, most of the trends in fraud schemes, perpetrator characteristics, and anti-fraud controls are similar regardless of where the fraud occurred.”

www.acfe.com/rtnn/2010-rtnn.asp

Defining Ethics

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Ethics is **not**:

Feelings, although we may have either positive or negative feelings when we made ethical choices.

Defining Ethics

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Ethics is **not**:

Obeying the law, although there are some laws which have ethical foundations, some laws which are unethical, and some laws which have no ethical content at all.

Defining Ethics

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Ethics is **not**:

Following my culture.

“When in Rome, do as the Romans do”
is not a Christian ethical concept.

Defining Ethics

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“Ethics” and “Morality” are used interchangeably in ordinary conversation.

In philosophy, “Morality” refers to the rules that govern our behavior as persons to persons.

“Ethics” is primarily an academic discipline that studies moral duty and obligation.

Defining Ethics

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Ethical (or moral) situations:

Require analysis

Require interpretation

Require consideration of alternatives

Require a choice

Require actions/behaviors

Ethics and World View

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I Corinthians 15:32

“If the dead are not raised, let us eat and drink for tomorrow we die.”

Paul, quoting Epicurus (342-270 BC)

Ethics and World View

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I Corinthians 15:20, 58

But Christ has risen from the dead!

We should live today in light of the fact that one should stand firm, and always give their work to the Lord, for labor in the Lord is not in vain.

Christian Ethical World View

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Genesis 1 and 2:

God plans and thinks

God acts and works

God expresses joy

God delights in beauty

God cares intensely for what He has created

God seeks a relationship with His creatures

Christian Ethical World View

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Genesis 1 and 2:

God creates and works with matter.

God asks mankind to care for the matter (the earth) that He has created.

Christian Ethical World View

17

Genesis 1 and 2:

God creates the Sabbath as a reminder that
“man cannot live by bread alone.”

Christian Ethical World View

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“For the LORD your God is God of gods and Lord of lords, the great God, mighty and awesome, who **shows no partiality nor takes a bribe. He administers justice for the fatherless and the widow, and loves the stranger, giving him food and clothing.** Therefore love the stranger, for you were strangers in the land of Egypt.”

Deuteronomy 10:17-18

Christian Ethical World View

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“Do not use dishonest standards when measuring length, weight, or quantity. **Use honest scales and honest weights**, an honest ephah (a dry measure), and an honest hin (a liquid measure). I am the Lord your God who brought you out of Egypt.”

Leviticus 19:35-36

Christian Ethical World View

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“But let him who glories glory in this, That he understands and knows Me, that I am the LORD, exercising **loving-kindness, judgment, and righteousness** in the earth. For in these I delight, says the LORD.”

Jeremiah 9:24

Christian Ethical World View

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“He has shown you, O man, what is good;
And what does the LORD require of you but to
**do justly, to love mercy, and to walk humbly
with your God?**”

Micah 6:8

Christian Ethical World View

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LORD, who may abide in Your tabernacle?

Who may dwell in Your holy hill?

He who **walks uprightly,**

And **works righteousness,**

And **speaks the truth in his heart;**

He who **does not backbite with his tongue,**

Nor does evil to his neighbor,

Nor does he take up a reproach against his friend;

Christian Ethical World View

23

**In whose eyes a vile person is despised,
But he honors those who fear the LORD;
He who swears to his own hurt and does not change;
He who does not put out his money at usury,
Nor does he take a bribe against the innocent.**

He who does these things shall never be moved.

Psalm 15 (NKJV)

When Good People Do Bad Things

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Not all misdeeds are done by bad people.

Unethical acts can result from failings rather than selfishness and greed.

Good people can inadvertently make unethical decisions.

Ethical actions require more than just good intentions.

Ethical Judgment Traps

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1. Scripts

“When I was dealing with the first trickling-in of field reports that might have suggested a significant problem with the Pinto, the reports were essentially similar to many others that I was dealing with (and dismissing) all the time...I was making this kind of decision automatically every day. I had trained myself to respond to prototypical cues, and these didn't fit the relevant prototype for crisis cases.”

Dennis Gioia
Ford Company Recall Coordinator

Ethical Judgment Traps

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2. Busyness and Distractions

“After the data was weighed and the variables analyzed, only one variable could be used to predict who would stop to help and who wouldn’t. The important factor was not personality type or whether a student’s career or the parable of the Good Samaritan was foremost in his mind. It was whether or not he was in a hurry...The study made it hard not to conclude that ethics becomes a luxury as the speed of our daily lives increases.”

John Darley and Daniel Batson

Ethical Judgment Traps

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3. Moral Exclusion

Some people are seen as outside the boundaries where moral considerations and fairness apply.

This mind-set is:

Influenced by culture

Included in language

Spread through stereotypes

Seven Signs of Ethical Collapse

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1st Sign: Pressure to maintain those numbers.

“All companies experience pressure to maintain solid performance...But in this first sign of a culture at risk for ethical collapse, there is not just a focus on numbers and results, but an unreasonable and unrealistic **obsession** with meeting quantitative goals.”

Marianne Jennings

Seven Signs of Ethical Collapse

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Antidotes for number pressure:

Keep focused on long-term survival; don't focus on the short-term report.

Maintain your values.

Take time out (i.e., take a Sabbath) to consider the long-term effect of your decisions.

Seven Signs of Ethical Collapse

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2nd Sign: Fear and Silence.

“There is never a problem with employees missing the ethical issues. There is always a problem of getting them to speak up.”

Marianne Jennings

“Our lives begin to end the day we become silent about the things that matter.”

Martin Luther King Jr. (1929-1968)

Seven Signs of Ethical Collapse

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Antidotes for fear and silence:

Create a culture that encourages employees to ask questions.

Tell your employees when bad news happens.

Seven Signs of Ethical Collapse

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3rd Sign: Young'Uns and the Bigger-than-life President/CEO.

Adored by the community; not by the employees.

Surrounds himself/herself with direct reports who never challenge top leadership.

Seven Signs of Ethical Collapse

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The Millennials (Generation Y):

Tech savy

Lack inherent strongly-formulated ethical values

Require strong ethical mentors, which may be board members outside of management.

Seven Signs of Ethical Collapse

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4th Sign: Weak Boards.

Inexperienced members.

Members who are friends of management.

Members who have conflicts of interest.

Seven Signs of Ethical Collapse

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Members who will not cross the bigger-than-life CEO/President.

Members who fail to attend meetings.

Board meetings which are generally conference calls for which advance materials are not provided, or which do not permit sufficient discussion.

Seven Signs of Ethical Collapse

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Members who are too busy to devote sufficient time to be of effective service on the board.

Members who lack understanding of the board's role and responsibility.

Seven Signs of Ethical Collapse

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Antidotes to weak boards:

Get a strong board.

Insist on full disclosure of any conflicts of interest.

If **YOU** are a board member, ask questions; challenge the data; talk to the employees.

Seven Signs of Ethical Collapse

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5th Sign: Conflicts of Interest Not Addressed.

In a conflict of interest situation, the individual plays two roles. When in one role, he or she has an interest which is at odds with his or her other role or position.

Seven Signs of Ethical Collapse

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Antidotes for Conflicts of Interest:

Get rid of it.

Disclose it.

Seven Signs of Ethical Collapse

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6th Sign: Success Is All That Matters.

The Parable of the Sadhu

Harvard Business Review
May-June, 1997

The Seven Signs of Ethical Collapse

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Ethical choices can mean that a goal is not achieved or is achieved in delayed fashion.

When there are groups responsible for making ethical decisions, each person defers to the next, with the deceptive comfort that ultimate accountability does not lie with any one individual.

The Seven Signs of Ethical Collapse

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Changing one's values (in this case, respect for life) in a different setting (in this case, a grueling mountain climb) may seem justified, but ultimately achieving the goal produces a gnawing feeling of "At what cost?"

The Seven Signs of Ethical Collapse

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Business parallels:

The climb is rugged with challenges.

There are often limited windows of opportunity for success.

Ethical choices can mean temporary setbacks in achieving goals.

Others are willing to go on to reach the goal, despite ethical dilemmas confronting them.

The Seven Signs of Ethical Collapse

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Defining dilemmas in the either/or conundrum produces choices that disregard ethics and values.

Values need to be put in place at the beginning so that when we are confronted with ethical dilemmas, our values are not compromised for the goal.

At the end, McCoy regrets his ethically shallow choice.

The Seven Signs of Ethical Collapse

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7th Sign: Goodness in some areas atones for evil in others.

Philanthropy

Environmentalism

Diversity

Human Rights

Giving back to the Community

The Seven Signs of Ethical Collapse

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“As long as I am doing good, how could anything I possibly do in accounting or disclosure to achieve that good be wrong?”

The Seven Signs of Ethical Collapse, p. 237

Universal Principles

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E = Empathy

Understanding the thoughts and needs of others.

P = Patience

Taking time to understand before we act.

I = Integrity

Honesty and truth in all situations.

C = Courage

Doing what is right even when it is difficult.

Ethics Filter for Decision Making

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P = Policies

Is it consistent with my organization's policies?

L = Legal

Is it acceptable under applicable laws?

U = Universal

Does it conform to universal principles/values?

S = Self

Does it satisfy my personal understanding of right and wrong, good and fair?

A Closing Word from Paul

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“We try to live in such a way that no one will ever be offended or kept back from finding the Lord by the way we act, so that no one can find fault with us and blame it on the Lord.”

2 Corinthians 6:3

Questions?

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