Ethics, Values, and Professional Responsibilities

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• Ethical foundations
• IIA Code of Ethics
• Ethical culture and management
• Reputation and ethical role models
• Example: product safety
• Reasons for unethical behavior
• Using an ethical decision making model
• AICPA Conceptual Framework for Members in Business
• Catholic social teachings applied to business
• Improving organizational ethics and decisions
Ethical Foundations

- Religious (Theology)
- Philosophical (Philosophy)
- Societal (Society)
- Legal (Law)
- Economic (Economics)
- Professional (Professionalism)
• Personal
• Professional (Accounting, Law, Medicine, etc.)
• Organizational (mission, values, code of conduct)
• Principles and Rules
  – Integrity
  – Objectivity
  – Confidentiality
  – Competency
Guidelines for Effective Ethics Management

• Understand the existing ethical culture.
• Communicate the importance of ethical standards.
• Focus on the reward system.
• Promote ethical leadership throughout the firm.

“Ethical culture has been conceptualized as the multidimensional interplay between an organization's formal and informal systems that promote ethical or unethical behavior”

Be more concerned with your character than your reputation, because your character is what you really are, while your reputation is merely what others think you are.
• Think of someone you know that you believe is a good ethical role model.
• Write down at least two attributes that you believe make that person a good ethical role model.
• Share that person (by name or description) and the attributes you chose with your neighbors.
• Discuss and report to all of us.
Moral Person and Moral Manager

• Moral Person
  – Individual traits
• Moral Manager
  – Reputation
The Moral Person and Moral Manager

Moral Person

- Traits
- Behaviors
- Decision-Making

Moral Manager

- Role Model
- Rewards and Discipline
- Communicating About Ethics and Values

Example: Product Safety and Recalls

What comes to your mind as the best example of how a company should react to a product safety issue?

1982
A subsidiary of Johnson & Johnson pleaded guilty Tuesday to a federal criminal charge that it sold over-the-counter infant’s and children’s liquid medicine containing metal particles…Metal particles, including nickel, iron and chromium, were introduced during the manufacturing process at McNeil’s plant in Fort Washington. Prosecutors said McNeil knew about the problem for nearly a year but failed to take immediate steps to fix it…McNeil is a unit of Johnson & Johnson. The New Brunswick, New Jersey, health care giant has struggled with scores of product recalls since 2009.

Source: Associated Press, reported in the *Los Angeles Times*, March 11, 2015
Recent products recalls – 1

Takata airbags: >14 million recalled, numerous injuries, at least 2 deaths
GM Ignition Switch: 28 million recalled worldwide, 56 documented deaths thus far
Accidents or Corporate Culture?
Corporate Steps to Deal with Safety Issues?

- Concealment
- Denial
- Recall
- Litigation/settlements
- Remediation and reform
Reasons for unethical or bad decisions

• Culture, values, norms, and socialization
• Assigning responsibility
• Rationalization
• Self-deception
• Organizational deviance
The fraud triangle was created by Dr. Donald Cressey, criminologist.
Rationalization Tactics

- Legality*
- Denial of responsibility*
- Denial of injury*
- Denial of victim*
- Social weighting*
- Appeal to higher loyalties*
- Balancing the ledger*
- Everyone else is doing it**
- Entitlement**


Three Major Ethical Approaches

• Teleology: Utilitarianism & Consequentialism
• Deontological: Duties/Motivation for Behavior
• Virtue Ethics
Applied Ethical Decision Model

• Recognize an Ethical Issue
• Get the Facts
• Evaluate Alternative Actions
  – Consider and prioritize:
    • Professional principles and standards
    • Consequences (stakeholder analysis)
    • Personal and organizational values
• Make a Decision and Test It
• Act and Reflect on the Outcome

Adapted from an ethical decision model developed by the Markkula Center for Applied Ethics: http://www.scu.edu/ethics/practicing/decision/making.pdf.
Potential Applied Ethical Approaches

- **Laws, regulations, professional principles and standards (Deontological)**
  - Professional and regulatory codes and rules of conduct
  - Fiduciary responsibilities
  - Legal responsibilities
  - Organizational rules and procedures
  - Other relevant standards of practice, codes, or rules

- **Consequences (Consequentialism)**
  - Stakeholders and their interests

- **Personal and organizational virtues/values (Virtue Ethics)**
  - Integrity
  - Responsibility
  - Commitment
  - Objectivity
  - Courage
  - Etc.
“If you don’t stick to your values when they’re being tested, they’re not values: they’re hobbies.”

Jon Stewart on Values
AICPA Code of Professional Conduct Principles

- **Responsibilities principle.** In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities (ET 0.300.020.01).

- **The public interest principle.** Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism (ET 0.300.030.01).

- **Integrity principle.** To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity (ET 0.300.040.01).

- **Objectivity and independence principle.** A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services (ET 0.300.050.01).

- **Due care principle.** A member should observe the profession’s technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member’s ability (ET 0.300.060.01).

- **Scope and nature of services principle.** A member in public practice should observe the Principles of the Code of Professional Conduct in determining the scope and nature of services to be provided (ET 0.300.070.01).
New addition to revised AICPA Code of Professional Conduct

Effective December 15, 2015 (early implementation allowed)

When the rules and interpretations in the Code do not address a particular relationship or circumstance, the conceptual framework should be applied.

Steps:
- Identify threats
- Evaluate the significance of a threat
- Identify and apply safeguards
Definitions

.04 Acceptable level. A level at which a reasonable and informed third party who is aware of the relevant information would be expected to conclude that a member’s compliance with the rules is not compromised.

.05 Safeguards. Actions or other measures that may eliminate a threat or reduce a threat to an acceptable level.

.06 Threats. Relationships or circumstances that could compromise a member’s compliance with the rules.
Adverse interest threat. The threat that a member will not act with objectivity because the member’s interests are opposed to the interests of the employing organization.

Advocacy threat. The threat that a member will promote an employing organization’s interests or position to the point that his or her objectivity is compromised.

Familiarity threat. The threat that, due to a long or close relationship with a person or an employing organization, a member will become too sympathetic to their interests or too accepting of the person’s work or employing organization’s product or service.

Self-interest threat. The threat that a member could benefit, financially or otherwise, from an interest in, or relationship with, the employing organization or persons associated with the employing organization.
**Self-review threat.** The *threat* that a *member* will not appropriately evaluate the results of a previous judgment made or service performed or supervised by the *member*, or an individual in the *employing organization* and that the *member* will rely on that service in forming a judgment as part of another service.

**Undue influence threat.** The *threat* that a *member* will subordinate his or her judgment to that of an individual associated with the *employing organization* or any relevant third party due to that individual’s position, reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the *member*. 
Catholic Social Teaching Applied to Business

- Human Dignity
- Community and the Common Good
- Preference for the Poor and Vulnerable
- Participation
- Dignity of Work and Rights of Workers
- Stewardship of Creation
  - One of the major principles of Catholic Social Teaching is that we have a responsibility to care for creation. God gave humans dominion over the earth’s resources, but these resources are intended for the good of all human beings. We need to care for the earth, use its resources wisely, and preserve these resources for future generations. We must also respect the integrity of all creation.*

- Solidarity
- Role of Government

Catholic Social Teaching Applied to Business

We have 125 years of Catholic social doctrine that provide a map for us. There are four well-developed principles that can be incorporated in our businesses:

- **The dignity of the human person.** Do we see our employees’ growth in dignity as our primary responsibility? Do we really believe that this is the purpose of our business? How might we measure this?

- **Promoting solidarity.** “All are responsible for all” means that we have to be looking outside the immediate confines of our business to see if we really feel responsibility for others. Is there a way to include our customers and suppliers in a common effort to improve others’ situation?

- **Promoting subsidiarity.** Are we a top-down organization where too many decisions have to “go up the chain” and be approved by senior management? If these decisions can be made at lower levels, subsidiarity demands that we trust others (where it’s been earned) with the decision-making process. Living subsidiarity should reduce our costs. We’ll need fewer layers of management if we empower employees to make decisions on their own.

http://www.legatusmagazine.org/what-is-pope-francis-saying-to-business-leaders/
Corporate Stakeholder Accountability

Shareholders

Activists

Governments

Creditors

Lenders

Employees

Customers

Suppliers

Others, including the Media, who can be affected by or who can affect the achievement of the corporation’s objectives

Stakeholders: Now you are at a stage to identify the interested parties (i.e., stakeholders) based on the compiled facts and alternatives.

- Who is affected by our decision or any of the alternatives?
- What are their relationships, their priorities to me, and what is their power over my decision?
- Who has a stake in the outcome?
- Do not limit your inquiry only to those stakeholders to whom you believe you owe a duty; sometimes a duty arises as a result of the impact. For instance, you might not necessarily first consider your competitors as stakeholders; however, once you understand the impact of your decision on those competitors, an ethical duty may arise.

Consultation/Collaboration

• In applying the ethical decision model, DON’T GO IT ALONE!
• Find others to get their feedback (consultation)
• Work with others toward a solution (collaboration)
• Seven Pillars of GVV Curriculum
  – Acknowledging shared values
  – Choosing to act
  – Normalizing values conflicts
  – Defining professional purpose
  – Understanding the self
  – Using one’s voice
  – Preparing responses ("scripts")

Consequences to the person and organization

- Self
- Company/organization
- Clients/customers
- Community
- Trust of business
Improving Organizational Ethics and Decisions

- Mission
- Tone at the top
- Leadership (at all levels)
- Culture, shared values, shared responsibilities
- Appreciation of cultural differences
- Policies and procedures
- Ethical decision models, including consultation/collaboration
- Risk assessment, including ethics/reputational risk
- Proper reward structure
- Training and reinforcement
- Hiring and retention practices
Questions?