

ETHICS 101

by Tim J. Leech, FCA, CIA, CFE, MBA

A prerequisite for business success

Who are you kidding! Where have you been all your life? I can hear the scoffing remarks to this article's title without leaving my office.

Many students believe that high ethical standards and the business world are incompatible. This view isn't particularly difficult to understand since most students have already been exposed to such things as misleading advertising, uncaring landlords, backdoor business deals, income tax evasion, and faulty products. Those personal experiences, together with the barrage of news on kickbacks, insider trading, price fixing, contractor frauds, corrupt politicians, conflicts of interest and so on, are almost sure to produce "ethics skeptics".

Are high ethical standards and the business world mutually exclusive? Unfortunately the answer is not a simple one.

My practice area includes forensic/investigative auditing, control consulting, fraud vulnerability assessments, and litigation support. My work involves me in some of the failures of the business world - such as criminal investigations,

employee frauds, civil lawsuits, and suspect insurance claims - as well as with companies which want to be, and to be seen as, ethical corporate citizens. My career has provided me with both the opportunity and motive to reflect on why "good" managers make poor ethical choices and why "good" people go bad.

Decisions of the early years

While growing up, we are confronted daily with the need to make decisions that relate to the concepts of honesty and integrity. As a child, there are temptations to lie, steal, cheat, or hurt others in some way. Later, practices such as plagiarizing from textbooks, copying the assignments and papers of others, ripping critical reference materials from key books to disadvantage others, stealing test papers, etcetera, are well known to university students.

For those of you who have already fallen victim to those temptations and have little or no remorse, you will likely feel quite comfortable in later years engaging in such things as giving or receiving secret commissions, committing statute violations, manufacturing dangerous

and/or unsafe products, carrying out insider trading, stealing competitors' information and strategies, filing fraudulent financial reports, falsifying insurance claims, and so on. It is unlikely that I can say anything that will change your outlook now.

Are high ethical standards and the business world mutually exclusive?

For those of you who have grappled successfully with the difficult ethical issues faced to date, be warned. The business world will present you with new challenges. Indeed, the ethical decisions you will face will become more difficult as you advance through the corporate hierarchy.

The decisions of business

In addition to the temptations of personal greed, benefit and power that we all face, managers must deal with business objectives which are frequently in conflict. The basic objectives of most business corporations are:

- to make profits and minimize unnecessary costs;
- to safeguard assets;
- to avoid unintentional exposure to risk;

- to detect or prevent errors and irregularities;
- to ensure that accounting records are reliable;
- to ensure timely preparation of reliable financial information;
- to ensure that delegated responsibilities have been discharged;
- to discharge statutory responsibilities.

Those seem simple enough, right? Wrong. You may have to decide, for example:

- whether to break "inexpensive" pollution laws rather than invest in costly technology and equipment;
- how much to spend on safety training programs for employees to minimize the likelihood of accidents;
- whether to "dress-up" financial statements to impress the capital market and/or the banks;
- whether to "buy" business and increase sales by explicitly or implicitly condoning customer "bonding" practices designed to play on the

- personal weaknesses of purchasing agents;
- whether to lie to the union or to a partner in order to negotiate a less costly or more beneficial contract;
- whether to obtain business by paying commissions to outside consultants without the knowledge of the final customer;
- whether to increase profits by including non-eligible items on invoices or insurance claims; and
- whether to insist that your client provide fair disclosures in financial statements, knowing that it may cost you the account.

That list could easily be extended. The dilemmas are real and they are being confronted every day by business executives and professionals. Resolving conflicts like these will soon be dilemmas you will face.

You will be tested

There will be no textbook to refer to for the solution. The circumstances and "right" choices will likely not seem as clear-cut to you as they do now. You will face these

decisions both as individuals and as representative of the companies you work for.

Unethical or "wrong" choices may result in financial success and rapid career advancement. They may also result in dismissal, personal ruin, and front page coverage in the press. The "right" choice will often go unrecognized and unrewarded. Indeed, you may even be punished for choosing the high road.

You will soon decide whether high ethical standards and the business world are compatible. Millions before you have been faced with the question - perhaps now is an appropriate time to reflect on what your answer will be.

At the time this article was written in 1988 Tim Leech was Director Control and Risk Management Services at Coopers & Lybrand. Tim Leech is now Principal Consultant and Chief Methodology Officer at Paisley Consulting, a world leader in business accountability software solutions. He can be reached by phone at 905 823 5518 or by email at tim.leech@paisleyconsulting.com

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