

# **PRINCIPLES OF ETHICS FOR MANAGEMENT ACCOUNTING PROFESSIONALS**

Michigan IMA, MSU  
7th Annual Fall Conference  
October 29, 2008

by

Olen Greer

Jim Lampe

# TERMINOLOGY

- Ethics
  - Values / Norms
  - Principles / Theories
  - Codes of Conduct
- Professional
  - Colloquial
    - Paid for service
    - Highly skilled / Quality
  - Sociology / Theories
  - ***SOCRECELIST***

# Theories of Professionalization

- ***Functionalists***

  - Structural functionalism

  - Interactionism

- ***Monopolists***

  - Critical theory

- ***SOCRECELIST***

  - SOC**ietal **REC**ognition of **EL**ite **St**atus

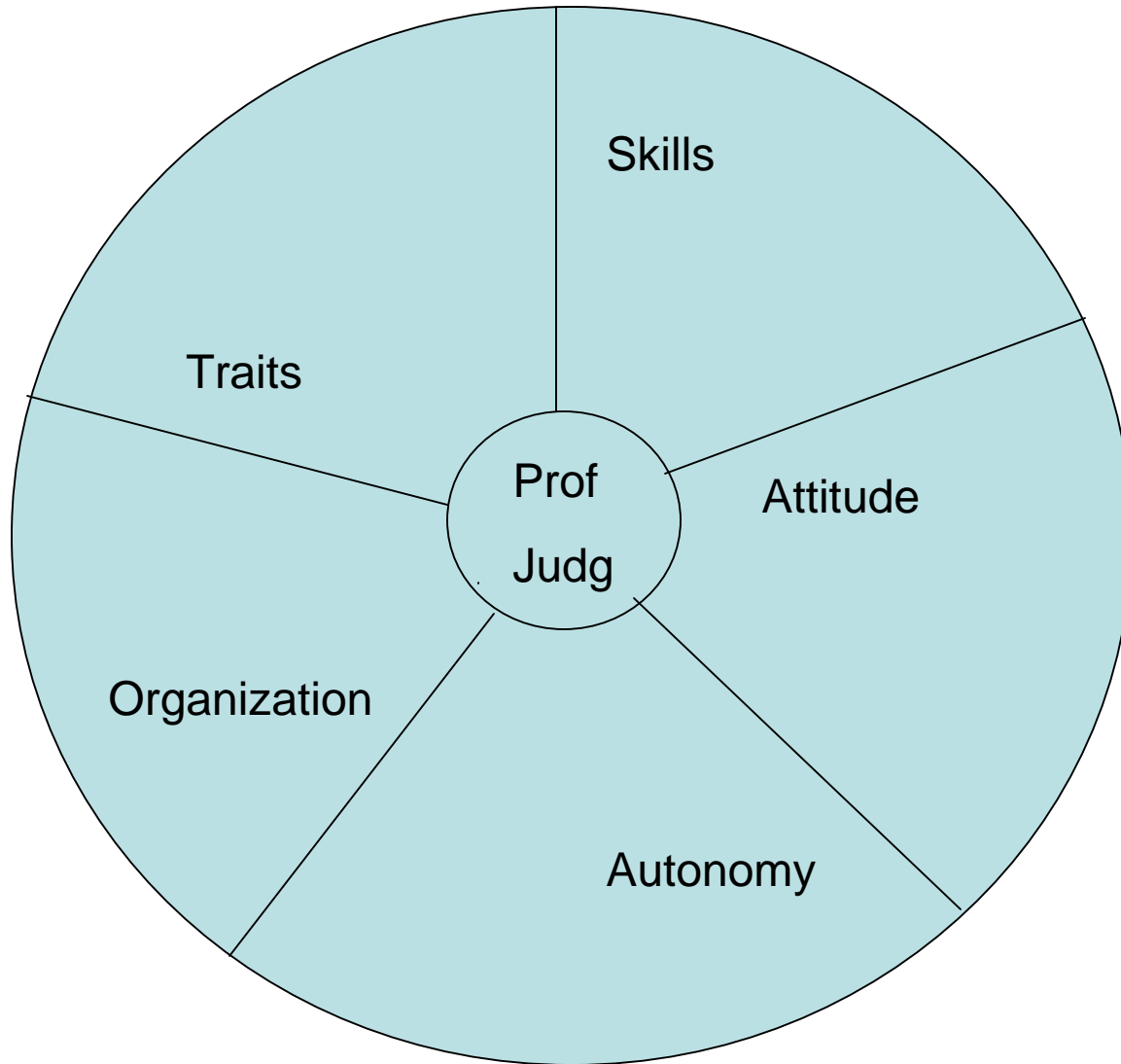
# Components of Professional Status

## The *SOCRECELIST* model

Structural functionalism (SF)      Interactionism (I)      Critical Theory (CT)

- SF      Altruistic orientation
- SF      Skills based on theoretical knowledge
- SF      Code of ethical conduct
- SF      Education and training
- I      Differentially recognizable from the laity
- I      Desired traits
- I      Perceived to improve good of society (public service)
- CT      Organized by one or few large organizations
- CT      Practice restricted by licensure
- CT      Entrance and practice standards self-regulated
- CT      Authority to monitor / sanction substandard or unethical practice

# PROFESSIONALISM



# Professional Judgment in Accountancy

- Skill – apply theories/principles to nebulous problems encountered
- Attitude – altruistic public service
- Autonomy – judgment not subordinated
- Traits/Values – integrity, objective, fair
- Organization – one or few

# CASELET #1

## *Ethical Reasoning: Domino's Pizza*

- Domino's green, yellow, red coding to decide deliveries
- Some delivery personnel have been mugged and even killed.
- Most re-designated neighborhoods are minority.
- The ACLU charges delivery practice discriminatory.
- The CRA asserts legal/moral duty to eliminate danger

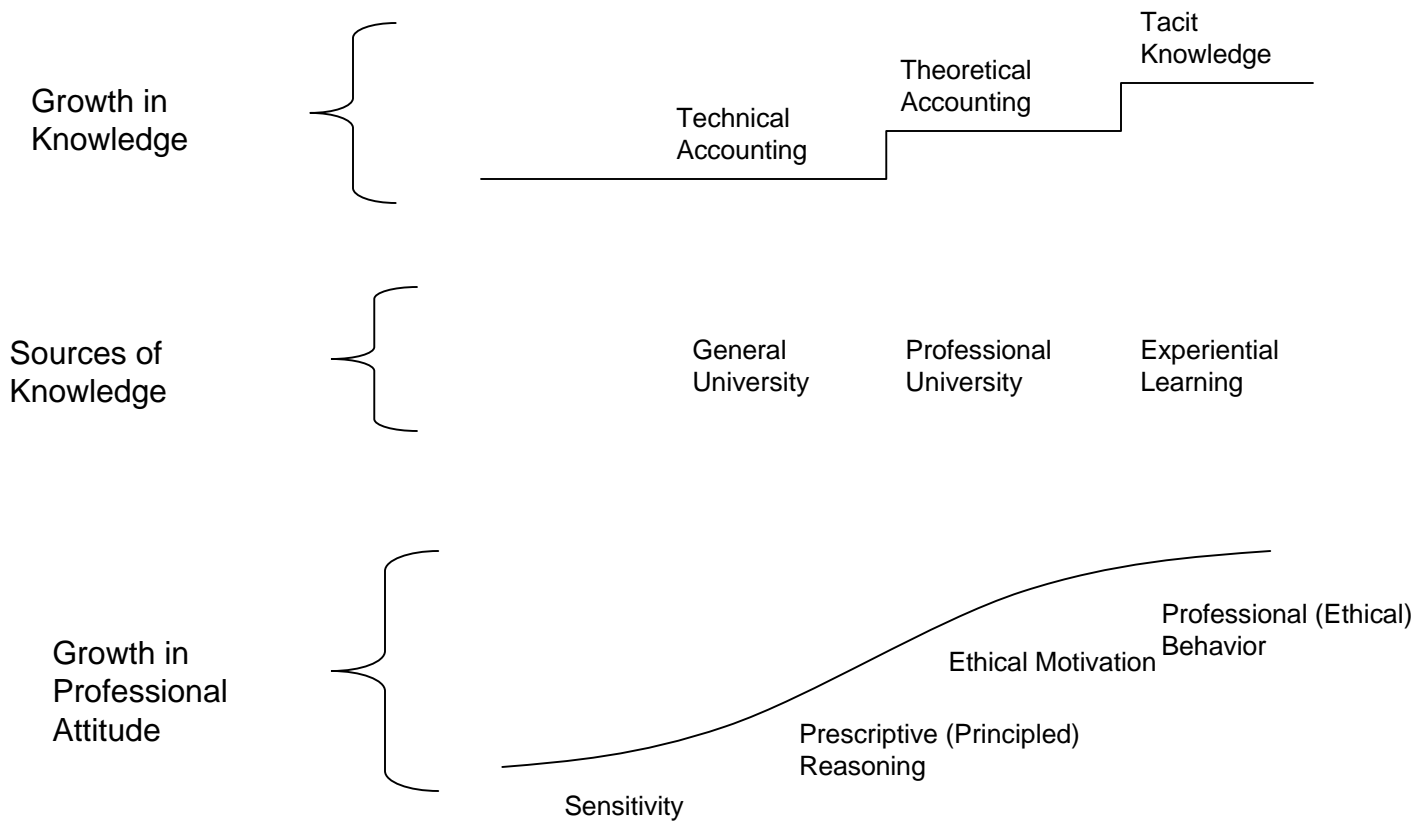
***What is your professional responsibility as a management accountant?***

# CAN ETHICS BE TAUGHT ?

- Children (by parents – church – school)
- ***All I Really Need to Know I Learned in Kindergarten*** – Robert Fulghum
- ***There's No Such Thing as Business Ethics*** -- John Maxwell



# Knowledge Acquisition and Desired Ethical Behavior



# FROM THE IMA

- . Margaret Butler, in her letter as the President of IMA, states: (2003)
- *We have learned that rules, which require compliance in specific situations, are less powerful in promoting ethical behavior than values, which influence behavior in all situations. For us as financial professionals, this means that we must diligently apply our Standards of Ethical Conduct – the standards of competence, confidentiality, integrity, and objectivity. Instead of viewing them as “rules” which we may feel comfortable “bending” just up to the “breaking point,” we must make them personal values that force us to look past the rules and focus on the outcomes – the effects of our actions on our companies, our shareholders, the public, and the profession.*

# FROM THE IMA

*"Ethics in its broader sense, deals with human conduct in relation to what is morally good and bad, right and wrong. It is the application of values to decision making. These values include honesty, fairness, responsibility, respect and compassion."*

# Case #2

## HEFFELFINGER ELECTRONICS

- Basic budget
- Revised profit goals
- Manufacturing quantity
- Fair presentation

# COMPARING ORGANIZATIONS' PRINCIPLES OF ETHICS

<u>Professional Organization:</u>	<u>IMA</u>	<u>IIA</u>	<u>ISACA</u>	<u>AICPA</u>	<u>IESBA</u>
<u>Applicable Professional:</u>	Management Accountants	Internal Auditors	IT Governance Professionals	CPAs	International Auditors
	Honesty	Integrity	Compliance w/standards	Member's responsibilities	Integrity
	Fairness	<b>Objectivity</b>	<b>Objectivity and due care</b>	Public interest	<b>Objectivity</b>
	<b>Objectivity</b>	Competency	Honesty and character	<b>Objectivity and Independence</b>	Competence and due care
	Responsibility	Confidentiality	Confidentiality	Due care	Confidentiality
			Competency	Scope and nature of services	Professional behavior
			Full disclosure	Integrity	
			Professional education		

# **RULES vs. PRINCIPLES**

- Trend by standard setters is to principles
- Applying professional principles requires professional judgment
- Professional judgment in applying principles requires principled reasoning

# PRINCIPLED REASONING

- Several measures
- DIT2 illustrated

Cognitive Developmentalist Stages of Hypothetical Students.

	<b>Personal Interest</b>		<b>Maintain</b>	<b>Post-</b>		<b>P/N2</b>
	<u>Stage 2</u>	<u>Stage 3</u>	<u>Norms</u> <u>Stage 4</u>	<u>Conventional</u> <u>Stage 5</u>	<u>Stage 6</u>	
A	25	40	20	10	0	10
B	10	32	30	19	4	23
C	4	16	43	28	6	34
D	1	16	39	29	11	40
E	1	12	32	38	15	53

# ACTUAL AVERAGE SCORES

DIT2 Schema Scores and N2 Score by Educational Level.

	<b>Personal Interest (Stage 2/3)</b>	<b>Maintain Norms (Stage 4)</b>	<b>Post Conventional (Stage 5/6)</b>	<b>N2 Score</b>
<b><u>Educational Level</u></b>				
Grade 7-9	35.21	41.69	15.78	12.84
Grade 10-12	28.25	36.24	30.13	31.69
Freshman	28.53	33.57	32.32	31.05
Sophomore	29.27	32.36	32.62	31.24
Junior	27.36	32.93	34.45	32.65
Senior	24.80	32.40	37.84	36.85
Prof. degree	19.76	31.41	44.87	44.97
Ph.D./Ed.D	18.71	27.24	50.69	48.99

## For Accountants

	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6	P/N2score
Students	6.41	15.71	36.08	30.11	4.38	34.49
Staff	4.91	13.76	36.35	32.63	6.13	38.77
Managers	3.40	14.38	38.54	31.60	7.25	38.90

# HOW TO INCREASE PRINCIPLED REASONING IN DECISION MAKING

- Ethics and professionalism courses
  - Early and Capstone
  - Sandwiched cases / caselets
- Discussion and verbalization
  - Not indoctrination
  - Principles oriented
- Continued throughout career
  - Reinforce and extend

# A SIX STEP MODEL

1. Obtain all relevant facts available.
2. Identify and verbalize the ethical issues included in the facts.
3. Identify and list all known stakeholders.
4. Identify the ethical principles involved.
5. Brainstorm the alternatives (and likely consequences) for resolving the dilemma.
6. Exercise judgment to determine the best possible course of action.

# IMA Ethical Caselet Discussion Worksheet

## Definition:

- Right/Wrong
- Human conduct
- Respect
- Compassion

## Principles:

- Honesty
- Fairness
- Objectivity
- Responsibility

## Standards:

- Competence
- Confidentiality
- Integrity
- Credibility

## Discussion Steps:

1. Obtain relevant facts
2. Verbalize ethical issues
3. Identify stakeholders
4. Identify the ethical principles
5. Brainstorm alternatives/consequences
6. Judgment for best possible action

# CASELET #3

## ***Capital vs. Operating Leases- Don's Decision:***

- Sam is a small business owner completely maxed out with debt and cannot disclose more balance sheet debt
- Don is able to construct a lease agreement that costs more, but keeps the debt off the balance sheet.
- Many accountants use the SFAS #13 rules for guidance.

***What percentage of accountants believe Don is performing his duties correctly?***

# GAAP GUIDANCE

SFAS 13 states that the overarching accounting principle is that if substantially all the risks and benefits of ownership are transferred, then the asset and liability should be recognized as if in a purchase transaction – i.e., a lease. SFAS 13 goes on to provide four bright line rules (situations) that would indicate required capitalization:

- Ownership transfers to the lessee
- The lease contains a bargain purchase option
- The lease term is equal to or greater than 75% of the economic life
- The present value of minimum lease payments is 90% or more of fair value.

# WRAP UP

- **IMA Accountants**
  - Professional
  - Principles oriented
  - Discuss ethical dilemmas
  - Six-step worksheet

