PRINCIPLES OF ETHICS FOR MANAGEMENT ACCOUNTING PROFESSIONALS

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by
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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 **RECognition of **E**L**ite **S**tatus
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
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
Timeline of Knowledge Acquisition with Stages of Life

(Stages in Early Cognitive-) (Stages in Adult Development)

Development

Birth

1. General Knowledge
   a) Self:
   b) Structured: Pre Elec Mid High Gen Prof CPE

2. Gen Bus
3. Tech Acctg
4. Theor Acctg
5. Tacit Know
6. Mastery of KSAs

Generative
- Intimacy
- Identity
- Career Consol
- Keeper of the Meaning
- Integrity

Additional Expertise
- Expert/Teach/Admin
- General Practitioner

Retirement
Knowledge Acquisition and Desired Ethical Behavior

Growth in Knowledge

- Technical Accounting
- Theoretical Accounting
- Tacit Knowledge

Sources of Knowledge

- General University
- Professional University
- Experiential Learning

Growth in Professional Attitude

- Sensitivity
- Prescriptive (Principled) Reasoning
- Ethical Motivation
- Professional (Ethical) Behavior

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.*
"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

<table>
<thead>
<tr>
<th>Professional Organization:</th>
<th>IMA</th>
<th>IIA</th>
<th>ISACA</th>
<th>AICPA</th>
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<td>International Auditors</td>
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<tbody>
<tr>
<td>Honesty</td>
<td>Integrity</td>
<td>Compliance w/standards</td>
<td>Member’s responsibilities</td>
<td>Integrity</td>
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<td>Fairness</td>
<td><strong>Objectivity</strong></td>
<td><strong>Objectivity and due care</strong></td>
<td>Public interest</td>
<td><strong>Objectivity</strong></td>
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<td><strong>Objectivity</strong></td>
<td>Competency</td>
<td>Honesty and character</td>
<td><strong>Objectivity and Independence</strong></td>
<td>Competence and due care</td>
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<td>Competency</td>
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<td>Scope and nature of services</td>
<td>Professional behavior</td>
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<td>Full disclosure</td>
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<td></td>
<td>Professional education</td>
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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.

<table>
<thead>
<tr>
<th>Personal Interest</th>
<th>Maintain</th>
<th>Post-Conventional</th>
<th>P/N2</th>
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<tr>
<td></td>
<td>Stage 2</td>
<td>Stage 3</td>
<td>Stage 4</td>
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<tr>
<td>A</td>
<td>25</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>B</td>
<td>10</td>
<td>32</td>
<td>30</td>
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<tr>
<td>C</td>
<td>4</td>
<td>16</td>
<td>43</td>
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<tr>
<td>D</td>
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<td>16</td>
<td>39</td>
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<tr>
<td>E</td>
<td>1</td>
<td>12</td>
<td>32</td>
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# ACTUAL AVERAGE SCORES

DIT2 Schema Scores and N2 Score by Educational Level.

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

<table>
<thead>
<tr>
<th></th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
<th>Stage 5</th>
<th>Stage 6</th>
<th>P/N2score</th>
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<tbody>
<tr>
<td>Students</td>
<td>6.41</td>
<td>15.71</td>
<td>36.08</td>
<td>30.11</td>
<td>4.38</td>
<td>34.49</td>
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<tr>
<td>Staff</td>
<td>4.91</td>
<td>13.76</td>
<td>36.35</td>
<td>32.63</td>
<td>6.13</td>
<td>38.77</td>
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<td>Managers</td>
<td>3.40</td>
<td>14.38</td>
<td>38.54</td>
<td>31.60</td>
<td>7.25</td>
<td>38.90</td>
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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