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Ethics, Transparency and Accountability

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Ethics, Transparency and Accountability



**INTER-AMERICAN DIVISION
SEMINAR
AUGUST 5, 2014**

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Ethical Lapses



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

Four Questions to Consider



How do we know what is morally right or wrong?

How do we strengthen ethical behavior?

How can we become transparent?

How can we be accountable?

ACF “Report to the Nations” - 2014



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” - 2014



Three categories:

Asset Misappropriations - 85% of cases;

median loss: \$130,000

Corruption - 37% of cases;

median loss: \$200,000

Financial Statement Fraud - 9% of cases

median loss: \$1,000,000

ACF “Report to the Nations” - 2014



Study included 1,483 cases from over 100 nations

Typical losses: 5% of organization’s annual revenue

Most common scheme: Asset misappropriation
85% of cases

Small organizations most at risk; 29% of frauds

ACF “Report to the Nations” - 2014



Initial detection happens by the following actions:

- 42% Employee tips
- 16% Management review
- 14% Internal audit
- 15% Accounting control activities
- 9% By accident, police notification, confession
- 3% External audit

ACF “Report to the Nations” - 2014



82% of the perpetrators have never before been charged or convicted

Warning signs that a perpetrator exhibits:

Living beyond their means (44%)

Experiencing financial difficulties (33%)

Unusually close association with vendors (22%)

Having control issues (21%)

ACF “Report to the Nations” - 2014



Men were responsible for 2/3 of the frauds, although women accounted for more of the frauds than men in the United States and Canada.

Men who committed fraud held higher positions than women and produced higher median losses (\$185,000 compared to \$83,000)

The First Question



The First Question:

How do we know what is morally right or wrong?

Defining Ethics



Ethics is **not**:

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

Defining Ethics



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



“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



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



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

22

“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

23

“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

24

“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

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**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

The Second Question



The Second Question:

How do we strengthen ethical behavior?

Strengthening Ethical Behavior

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Legal Requirements from Sarbanes Oxley:

1. CEOs and CFOs personally certify that financial statements and disclosures are accurate and complete.
2. Audit committees are required; they must be composed of independent members and members with financial expertise.

Strengthening Ethical Behavior

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3. Creation of a code of ethics for senior financial officers.
4. Management must attest to the effectiveness of the organization's internal controls.

Strengthening Ethical Behavior

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Organizational Steps:

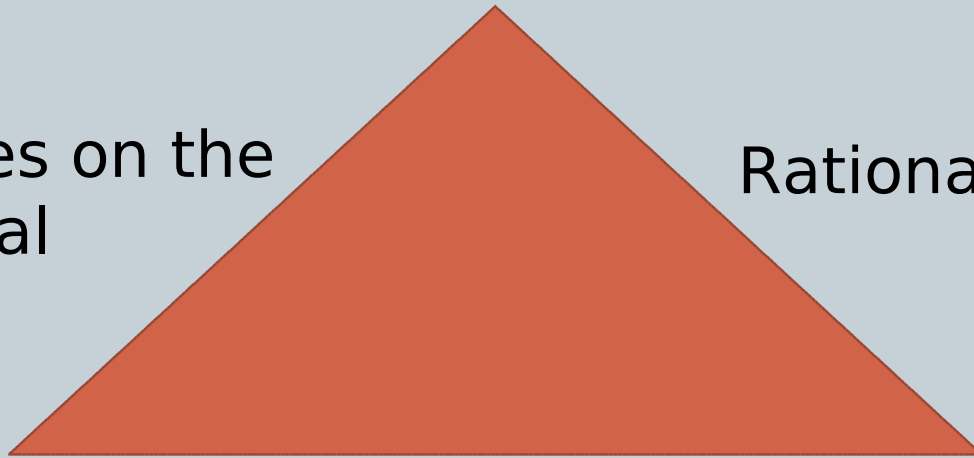
1. Don't depend on trust alone.
2. Remove the opportunity.

Strengthening Ethical Behavior

Control Pressure Points:

Pressures on the individual

Rationalization



Perceived Opportunity

Strengthening Ethical Behavior

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3. Reconcile the accounts.
4. Be sure the board fulfills its duties.
5. Keep good records.
6. Get help.

The Third Question



The Third Question:

How can we become transparent?

Transparency

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Transparency is an extension of the word “transparent,” which means *to see through, nothing hidden*.

It is associated with *honesty, openness, and trustworthiness*.

Transparency

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“A leader’s personal morality and the behavior it inspires creates the leader’s influence. A leader must follow transparent behavior.”

Lowell Cooper, Vice President
General Conference of SDA

Transparency

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“You can have all the facts and figures, all the supporting evidence, all the endorsement that you want, but if you don’t command trust, you won’t get anywhere.”

Naill Fitzgerald

Former Chairman of Unilever

Transparency



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

Martin Luther King Jr.
(1929-1968)

Personal Transparency and Trust

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1. Careful and attentive listening
2. Willingness to be influenced by others
3. Avoiding the exploitation of another's weakness
4. Commitment to fairness with oneself and others
5. Fulfilling promises; honoring commitments

Personal Transparency and Trust

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6. Being straightforward in dealing with others
7. Subjecting emotions to objectivity and reason
8. Valuing others
9. Admitting errors and weaknesses
10. Demonstrating principle-based convictions in moments of crisis

Organizational Transparency and Trust

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1. Examine the legitimacy of structure
2. Employ a range of expertise in composition of boards and executive committees
3. Executive committee members and unit officers set an example of integrity and ethical behavior
4. A system to manage conflicts of interest is in place
5. The organization has reasonable objectives and goals—no undue pressure for short-term results

Organizational Transparency and Trust

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6. Care in hiring practices
7. A safe way to report improper conduct is in place
8. Reports indicate decisions were carried out
9. Written procedures for financial transactions
10. A working internal control system and segregation of duties

The Fourth Question



The Fourth Question:

How can we be accountable?

Accountability



Accountability is the willingness to *accept responsibility*; a willingness to *account for one's actions*.

Accountability



As Christians, our accountability is **first** to God:

“So then, each of us shall give account of himself to God.”

Romans 14:12

Accountability

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“God does not desire wooden men and women to guard the interests of his institutions and the church, but he wants living, working men and women—men and women who have ability and quick perception, men and women who have eyes, and open them that they may see, and hearts that are susceptible to the influences of His Spirit. He holds men and women to a strict accountability in guarding the interests of His cause....”

Gospel Workers p. 18 (1892 edition)

Accountability



Questions for accountability:

1. Is the financial matter I am handling appropriate?
2. Is it valid?
3. Is it reasonable?
4. Is it funded?

Accountability



5. Is the item accurately recorded?
6. Is the item supportable?
7. Is the item recorded in a timely manner?

Accountability



Additional accountability steps:

Ask for an annual audit to be performed

Provide constituents with a copy of the audited financial statements

Ask all board members to sign conflict of interest statements

Accountability



“Financial Accountability” – Samaritan’s Purse

(www.samaritanspurse.org)

We believe that all we have comes from God
and we give it out of His hand.

1 Chronicles 29:14b

(Dutch paraphrase)

Accountability

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We have a responsibility to be faithful stewards and to maintain integrity and openness in our financial practices. Therefore, we are committed to fulfilling sound, Biblical standards.

We present needs to God's people, then trust the Holy Spirit to touch the hearts of those whom He wants to participate in meeting those needs.

Accountability



Because the Lord supplies us with resources for ministry through individual contributions, we recognize our accountability both to Him and to our donors.

We have a responsibility to be faithful stewards and to maintain integrity and openness in our financial practices. Therefore we are committed to fulfilling the following standards:

Accountability



We subscribe to a written statement of faith clearly affirming our commitment to the evangelical Christian doctrine. Advancing the Gospel of Jesus Christ is the singular objective of our financial conduct.

We are governed by a responsible Board of Directors, the majority of whom are not staff members or their relatives.

Accountability



Our financial statements are prepared in accordance with generally accepted accounting principles.

We obtain an annual audit in accordance with generally accepted auditing standards by an independent public accounting firm.

Accountability



Our Board appoints an audit committee, the majority of whom are not staff members or their relatives, to review the annual audit and report its findings to the Board.

We seek to conduct our activities with the highest standards of integrity and to avoid conflicts of interest.

Accountability

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Our fund-raising appeals clearly identify the purpose and programs to which donations will be applied and we ensure that donations are used for the purposes for which they were raised.

Contributions to the ministry are tax deductible to the full extent allowed by law. In order to help our donors...we receipt all donations showing the fair market value of any goods or services provided by the donor.

Accountability



We will not operate this ministry with indebtedness that dishonors the cause of Christ and hinders the work of the Gospel.

Out of respect for individuals' privacy, we do not sell or rent our mailing list to other groups wishing to use the names and addresses of our supporters.

A Closing Story



The Parable of the Sadhu

Harvard Business Review

May-June, 1997

Ethical Considerations



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.

Ethical Considerations



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?”

Ethical Considerations



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.

Ethical Considerations



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.

A Closing Word from Paul



“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

Ethics, Transparency and Accountability



Questions?

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