Takin' Care of Business

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Accounting: What's Right & Wrong?

Bad Ethics: Enron Implosion

Enron Corporation (former New York Stock Exchange ticker symbol ENE) was an American energy, commodities, and services company based in Houston, Texas. Before its bankruptcy on December 2, 2001, Enron employed approximately 20,000 staff and was one of the world's major electricity, natural gas, communications, and pulp and paper companies, with claimed revenues of nearly $111 billion during 2000. Fortune named Enron "*America's Most Innovative Company*" for six consecutive years.

At the end of 2001, it was revealed that its reported financial condition was based on accounting fraud. Enron has since become a well-known example of willful corporate fraud and corruption. The scandal brought into question the accounting at many U.S. corporations and was a factor in the creation of the **Sarbanes–Oxley Act of 2002**.

The scandal affected the global business community by causing the dissolution of the Arthur Andersen accounting firm, at the time, the largest in the world. The crimes Enron committed hurt the global economy, its workers, investors, retirees, and customers. It kicked-off an series of global accounting scandals including WorldCom & Tyco International. Enron shares traded as high as $85 before the scandal, but plummeted to $0.30 in the sell-off after the fraud was revealed.

Ethics refers to a system or code of moral values. It's about deciding what is right and wrong. An *ethical dilemma* is a situation where there is decision that tests this code. Often, these dilemmas are simple to see and resolve. For example, if we do not get our schoolwork done, are we honest about this or do we say, "The dog ate it".

Ethics is about distinguishing right from wrong. Accountants, like other professionals, face many ethical dilemmas, some are complex and difficult to resolve. For instance, if we are pressured to show we are earning profits, we may be tempted to bend or even break accounting rules to inflate reported net income.

There's an old joke: *Ask an accountant what dow 2+2 equals? The accountant answers, "What would you like it to be?"*

Once we learn accounting procedures and technical skills to do bookkeeping and financial accounting, we are also able to recognize ethical dilemmas.

Ethics and Professionalism

The difference between a profession and other types of work is that professionals should accept responsibility for those that are being served. A high standard of ethical behavior is expected of those engaged in a profession. These standards often are articulated in a code of ethics and even laws.

For example, legal services and medicine are professions have their own codes of professional ethics. These codes provide guidance and rules to members in the performance of their professional duties. These professional are also regulated by laws.

Public accounting is a profession. The **AICPA**, the national organization of professional certified public accountants; the **Institute of Management Accountants** (IMA), the primary national organization of accountants working in industry and government; and the **Institute of Internal Auditors**, the national organization of accountants providing internal auditing services for their own organizations; all have codes of ethics.

Ethical Decisions

Ethical codes are a start. However, behaving ethically is a decision we make as individuals. Doing the right thing must come from within and not just out of fear of penalties for violating professional codes. In order to make ethical decisions, professionals can use a 7-step tool that help us apply our own sense of right and wrong to ethical dilemmas:

1. Determine the facts of the situation. This involves determining the who, what, where, when, and how.
2. Identify the ethical issue and the stakeholders. Stakeholders may include shareholders, creditors, management, employees, and the community.
3. Identify the values related to the situation. For example, in some situations confidentiality may be an important value that may conflict with the right to know.
4. Specify the alternative courses of action.
5. Evaluate the courses of action specified in step 4 in terms of their consistency with the values identified in step 3. This step may or may not lead to a suggested course of action.
6. Identify the consequences of each possible course of action. If step 5 does not provide a course of action, assess the consequences of each possible course of action for all of the stakeholders involved.
7. Make your decision and take any indicated action.