Self-Interest vs. Concern for Others

WHAT'S THE IMPACT ON MANAGEMENT ACCOUNTANTS' ETHICAL DECISIONS?

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Accounting cover-ups, fraud, and downright illegal practices keep grabbing the headlines. Much of the negative attention focused on the accounting profession has centered on evidence that some auditors and accountants have been willing to compromise ethical and professional standards to accomplish personal or corporate goals.

Perhaps less discussed in the popular press has been management accountants' role in permitting or facilitating some frauds as well as the critical role that management accountants will play in undertaking the necessary reforms to calm the financial markets regarding the reliability of financial statements. Management accountants have been directly implicated in such frauds as WorldCom and HealthSouth, leading to guilty pleas and pledges of cooperation with authorities. Of course, this isn't to say that management accountants routinely involve themselves in dishonest behavior. Yet they're clearly part of the problem facing the accounting profession—and will be part of the solution.

As a response to the scandals, the Sarbanes-Oxley Act holds all parties involved in producing and approving financial statements more accountable, so CEOs and CFOs must now provide explicit assurance regarding both the financial statements and the company's internal controls. And auditors of public companies must now provide opinions on management's representations regarding both financial disclosures and internal controls in addition to ensuring that their clients extensively document controls. To strengthen their independence, these same auditors are now restricted from providing a variety of consulting services to their audit clients.

A STUDY OF ETHICS

Because of the attention that the recent financial scandals have brought to the accounting profession, it's important to understand what factors contribute to management accountants' willingness to engage in behaviors that clearly cross the line of professional ethical standards. An earlier study we did with MBA students revealed a surprisingly strong willingness to engage in brazen accounting and financial behaviors. These findings led us to study management accountants and factors that might influence their willingness to engage in questionable behaviors.

In performing such research, it wasn't our purpose to "catch" anybody doing anything wrong or to try to identify the percentage of management accountants willing to participate in unethical behavior. We sought the answers to two basic questions: First, does a management accountant's motivated self-interest (greed) affect his/her willingness to endorse questionable behavior? And, second, does a management accountant's concern for others mitigate that willingness? We also wanted to see if the answers were different depending on whether management accountants themselves realized the benefits or whether they only improved the appearance of the financial statements. Basically, how do people's important life views shape their ethical reasoning in facing situations that are clearly unethical?

To find out, we used a survey that we developed and refined in the earlier study using MBA students from three universities. Thanks to the IMA, we were able to e-mail a large percentage of its membership and within the e-mail provide a link to our online survey. We received 1,150 responses from IMA members. Our questionnaire consisted of six items measuring motivated self-interest, nine measuring concern for others, and five brief scenarios describing questionable ethical behavior.

Table 1: MOTIVATED SELF-INTEREST

Descriptive Statistics
(n = 1,147, 1 = disagree, 5 = agree)

	AVERAGE
1. I will do whatever it takes to enhance my job security.	2.26
2. I will do whatever it takes to enhance my reputation with my company's executives.	2.22
3. I will do whatever it takes to enhance my promotion potential.	2.17
4. I will do whatever it takes to enhance my pay raises.	2.09
5. I will do whatever it takes to enhance my pay relative to my peers.	1.85
6. I will do whatever it takes to avoid losing my job.	2.22

The good news is our results indicate that IMA members are unlikely to endorse participating in these behaviors. The results also show, however, that the more committed the IMA member is to motivated self-interest, the more likely that person would endorse the questionable behavior whether it results in direct payoff to the individual or only indirect payoff through manipulating the financial statements. In addition, the greater the IMA member's concern for others, the less likely the accountant is to engage in either type of questionable behavior.

WHAT INFLUENCES ETHICAL DECISIONS?

Management accountants are required to make ethical choices in many settings, some of which are transparent to them and some that are less clear. Let's look at how we measured management accountants' motivated self-interest, concern for others, and how direct and indirect payoffs affect their ethical choices.

Motivated Self-Interest

A significant body of research, as well as casual observation, strongly supports the idea that people act in their own self-interest. This view, which provides the essential support for market economic theory, has been explored in the accounting literature through the study of "expectancy theory." Under expectancy theory, people calculate in their minds the likelihood that various outcomes will occur from their behavior and the probabilities of those outcomes. People generally choose to engage in actions or behaviors that maximize positive outcomes and minimize negative ones.

Table 2: CONCERN FOR OTHERS

Descriptive Statistics
(n = 1,147, 1 = disagree, 5 = agree)

CONCERN FOR OTHERS	AVERAGE
1. I value the relationship between all living things.	3.92
2. It is important that we be sensitive to pain and suffering.	4.11
3. It is important that each of us find meaning in our lives.	4.59
4. All forms of life are valuable.	4.12
5. I feel sad when I see someone in pain.	4.26
6. I listen closely when people tell me their problems.	4.06
7. I share my private thoughts with someone else.	3.35
8. I feel guilty when I don't tell the truth.	4.54
9. I enjoy guiding young people.	4.20

Self-interest is inherently recognized in using incentives to motivate management behavior. Think money. Although money is among the most common rewards people seek, it has the ability to induce both positive and corrupt behavior. Beyond money, accounting research reveals that individuals value other externally generated rewards, such as status, job security, and promotion potential. To measure motivated self-interest, we selected six rewards from prior research and inserted them into the statement, "I will do *whatever* it takes to (obtain) . . . [desirable reward]." Five-point scales, anchored with disagree – agree (1=disagree, 5=agree), measured the extent to which the desirable extrinsic reward influences each person.

Table 1 depicts the individual items comprising Motivated Self-Interest and the average responses of IMA members. The overall average on these items was 2.14, indicating that the average IMA respondent has only a moderate level of motivated self-interest (or greed).

Concern for Others

Though motivated self-interest is an important force in choices, there's evidence that people don't uniformly act in their self-interest, something that has intrigued researchers in many disciplines. Of course, considering the interests of others is at the heart of ethics. Most ethical decision-making theories include a component that goes beyond a calculation of external rewards or consequences to an internal evaluation based on a sense of duty or a religious teaching. For example, there's both a duty-based component and a calculation component in the General Theory of Marketing Ethics that Shelby Hunt and Scott Vitell developed. This is consistent with the argument that individual morals may also influence work motivation and, thus, should be incorporated into expectancy models.

In our earlier study involving MBA students we used a nine-item measure of concern for others, which was derived from an instrument developed by Luther Wheat. These items measure a person's connectedness with and compassion for others, including the ability to trust and be trusted. Beyond simple wealth maximization, this instrument also assesses the importance of meaning in life.

Table 2 depicts the IMA members' average responses to individual items comprising concern for others. The average score for these items is 4.12; consequently, the average IMA member in our sample has a relatively high level of concern for others.

Direct and Indirect Payoffs

Our focal variable is the individual's willingness to engage in questionable or unethical financial and accounting decisions. To study this matter, we developed ethical decision-making scenarios, an acceptable research approach for examining how individuals make ethical decisions. The scenarios, which were part of a pilot study with MBA students, mirror actual events involving Tyco International, Inc., Enron, Martha Stewart Living Omnimedia, and MCI WorldCom, so they're realistic and easily recognized as ethical issues.

Table 3 features the five scenarios and averages for IMA member respondents. The overall average score for these scenarios was 1.47, which indicates that the IMA participants were relatively unlikely to engage in these unethical behaviors. It's noteworthy, though, that the most likely scenario to be endorsed, insider trading, had an average score of 2.19 and involved using inside information to protect a person's retirement.

To facilitate analysis, we grouped the five scenarios into two subgroups of unethical actions—those involving *direct* payoffs to the individual (evading taxes, self-dealing, and insider trading) and those directly benefiting the *company* (inappropriate capitalization and converting allowance for doubtful accounts). Of course, the latter two scenarios could benefit the employee *indirectly* through making the company or business unit more profitable, potentially resulting in enhanced pay, promo-

Table 3: DECISION SCENARIOS

Descriptive Statistics
(n = 1,147, 1 = not likely, 5 = likely)

VARIABLE NAME	SUMMARY OF ETHICAL DECISION-MAKING SCENARIOS	AVERAGE
1. Evading taxes	A former top-level executive of Tyco International, Inc., allegedly requested that an art consultant remove a $425,000 painting from his luxury apartment and ship it to Tyco offices, where an employee allegedly signed for it and immediately reshipped it to his apartment. The action was orchestrated to avoid New York state taxes on the transaction. Consequently, we created a scenario involving Native American art that was similarly being "shipped" to corporate offices to evade taxes.	**1.30**
2. Self-dealing	Convicted felon and former Enron CFO Andrew Fastow created numerous special entities, usually partnerships, whose main purpose was to transfer debt from Enron's balance sheet. While Fastow controlled some of these entities, he went a step further and had a personal investment stake in others. Thus, he was, in fact, dealing with himself. Consequently, we developed a scenario where respondents were asked how likely they were to allow their employer's firm to utilize a vendor in which they had a personal interest, even though other vendors would be more advantageous for their employer.	**1.20**
3. Insider trading	Martha Stewart, founder and former president of Martha Stewart Living Omnimedia, Inc., allegedly received insider trading information from the now convicted former CEO of ImClone, Inc., Sam Waksal. It's alleged that when Waksal learned that an important cancer-fighting drug developed by ImClone wouldn't be approved by the FDA, a broker called Stewart before the information was made public. Stewart then allegedly sold her investment in ImClone stock based on this "insider" information. Consequently, we created a scenario involving insider trading where our respondents were asked how likely they were to use insider information to avoid a serious loss they would face on a personal investment.	**2.19**
4. Inappropriate capitalization	WorldCom falsely recorded billions of dollars of operating expenses as *capital* expenditures, an action resulting in their claiming a profit when they were actually losing money. Based on the WorldCom situation, respondents were asked how likely they were to capitalize a material amount of advertising costs rather than treating them properly as expenses.	**1.51**
5. Converting allowance	WorldCom manipulated the allowance for doubtful accounts as a means of inappropriately managing income. The company inflated accounts receivable by amounts that had been deemed uncollectible, resulting in a $2.6 billion pre-tax increase in net income. In our survey, respondents were asked how likely they would be to make a journal entry transferring a significant amount of allowance for doubtful accounts to "Other Income," an entry with no justification in fact.	**1.14**

tion prospects, or recognition. So our two focal variables are direct payoffs and indirect payoffs.

SELF-INTEREST, CONCERN, AND PAYOFFS

We used a technique called structural equations modeling to show how motivated self-interest and concern for others relate to direct and indirect payoffs. This analysis provides "path coefficients" that are similar to correlation coefficients and show how these concepts relate to each other (i.e., path coefficients range from +1.0 to -1.0 with the size indicating the strength of the relationship. Thus, if the coefficient between the attitudes A and B is positive, individuals who believe A likely believe B, and, if negative, individuals who believe A were *not* likely to believe B).

Thus, in our study, we found that motivated self-interest is related positively to both payoff types (coefficients = .26 and .29, respectively); i.e., individuals with a high motivated self-interest are more likely to engage in unethical behaviors. Interestingly, the coefficient paths were higher when related to indirect payoffs, such as scenarios from the WorldCom scandal including inappropriate capitalization and converting part of their allowance for doubtful accounts to income.

Concern for others, however, mitigates tendencies to make unethical decisions. Concern for others was negatively associated with questionable behaviors involving both direct and indirect payoffs to themselves. Thus, individuals with high levels of concern for others were increasingly unlikely to commit these unethical acts.

IMPLICATIONS FOR THE ACCOUNTING PROFESSION

Again, our goal wasn't to estimate the extent to which management accountants engage in unethical behavior, something that's highly unlikely to be reported accurately. The goal was to determine whether motivated self-interest and concern for others impact management accountants' likelihood of engaging in these behaviors. As expected, reported likelihood of engaging in these behaviors was low, yet both factors had a significant influence on that reported likelihood.

The accounting profession wrestles with whether values can be taught once someone joins an organization or whether the organization must rely on internal controls to prevent and detect unethical behavior. The results of our study contribute to this discussion.

First, organizations must recognize that motivated self-interest affects all of us, including management accountants. The most fundamental reason people engage in unethical behavior is that it benefits them in some way. There's a payoff. When management accountants aren't emotionally or financially detached from engaging in certain behaviors, self-interest can be expected to affect their choices.

Second, three things have an effect: internal values, organizational values, and professional values. This study indicates that personal values, particularly an individual's concern for others, make that person less likely to engage in unethical behaviors. Employers and the accounting profession should encourage management accountants to consider the implications of their decisions for others, both inside and outside the organization. They should also encourage the development of personal values that would restrain unethical and promote ethical behavior in the organization.

Third, adopting organizational values that reinforce the idea that something other than motivated self-interest matters has the potential to prevent employees from engaging in unethical behavior. For that to happen, the organization must do at least four things:

◆ Clearly articulate ethical values to employees.

◆ Understand its employees' values well enough in the hiring and promotion process to ensure that there is an adequate correlation between individual and corporate values.

◆ Set an example at the top with leaders acting consistently with the company's stated values rather than contradicting them with their actions.

◆ Reward employees who uphold those values, and punish the ones who undermine them with a public enough enforcement that everyone clearly gets the message.

WHAT SHOULD WE DO AS A PROFESSION?

Though we have addressed what we can do at the individual and organization level, it's important that the accounting profession as a whole address these issues. When considering management accounting behaviors at companies like Enron, WorldCom, and HealthSouth, it's apparent that highly skilled and trained professionals impacted thousands of lives and shook the financial markets.

Management accountants must communicate to the public a commitment to the public interest, even when it counters their motivated self-interest. Along with a special expertise and the requisite training necessary to gain that expertise, this commitment to the public is the hallmark of what it is to be a professional. Management accountants do this by aligning themselves every day with organizations that are committed to truth-telling and to full disclosure of relevant information to interested parties. They do this by being objective and by following their best judgments rather than submitting to the pressures of targets and management preferences. Society is relying on management accountants to serve as a bulwark against unethical behavior by other business professionals.

Organizations like IMA have the opportunity to provide leadership in this difficult and delicate area of professionalism. Codes of ethics provide guidelines and occasionally bring clarity to specific situations, and establishing and enforcing a code of ethics is an important role of the IMA. But it's the ongoing discussion of the importance of personal, corporate, and professional values that has the potential to make a long-term difference in management accountants' ability to reject unethical behavior.

IMA programs at the undergraduate and graduate levels, in corporate settings, and in continuing professional education can reinforce standards that society values and that are important to the operation of our capital markets. Internal values, organizational values, and professional values all matter. The ongoing challenge for the accounting profession is to make sure that all of these values are incorporated at a level that will reduce the frequency and severity of unethical financial and accounting behaviors in organizations. ■

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Ethics is a topic at IMA's Annual Conference June 18-22. For details, visit www.imanet.org/boston.