1-1-1990

With firmness in the right;

Frederick L. Neumann

Follow this and additional works at: https://egrove.olemiss.edu/dl_proceedings
Part of the Accounting Commons, and the Taxation Commons

Recommended Citation
Auditing Symposium X: Proceedings of the 1990 Deloitte & Touche/University of Kansas Symposium on Auditing Problems, pp. 009-019;

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Proceedings of the University of Kansas Symposium on Auditing Problems by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.
One of the earliest memories I have is, as a child, climbing a set of stone steps in the fading twilight of an early spring evening toward a marble building filled with light. As my father assisted me up the last step I remember being startled by an enormous statue of a bearded man sitting in a large chair whose kindly, though wrinkled, face seemed to be looking down just at me. I do not recall much that happened subsequently except that I could not get that initial view of the statue out of my mind. I do remember that there was some writing on the walls that my father and brothers said something about, but I could not take my eyes off of that statute. I have returned to the Lincoln Memorial several times since then and have been similarly affected. Learning his story and reflecting on the words on the walls that surround his statue have only added to my original sense of awe.

I am not a native of Illinois, but one does not live there for very long without noticing the shadow that the Great Emancipator still casts over the Prairie State. Lincoln remains somewhat of a folk hero as well as a revered resident. The nose on his weather-stained bust in Oak Ridge Cemetery is as bright as gold, rubbed shiny by countless visitors who use it as a sign of friendly respect toward this humble man of the people.

One of the attributes of Lincoln that has attracted me to him is his writing. We have probably never had another president who could write as movingly as he. In this day of ghost writers, it is difficult to know who really originated a presidential turn of phrase that may catch our fancy.

Hark back then to the days when presidents wrote their own material. Certainly there was Jefferson, but his prose, while brilliant, was not of the earthy nature or straightforward metaphor of Lincoln. Teddy Roosevelt was another of our literary presidents, but, again, his prose did not reach to the depths of Lincoln’s. Among American writers of any connection, it is hard to match the Old Testament grandeur of Lincoln’s style or the rich resonance of his expression.

Despite all the attention given to his Gettysburg Address, Lincoln had many other memorable pieces of prose. Today, I would like to focus on his second inaugural speech. The speech was delivered near the end of the Civil War, when reconstruction loomed as the new challenge. It was not long before the assassination that would keep him from carrying it out.

The particular words I want to recall deal with what Lincoln thought should be the nation’s perspective toward that future. In particular, I have
titled this paper after that phrase that so typified his own attitude, "with firmness in the right ..." For, I believe commitment is at the heart of right behavior. Resolution in execution is essential to ethical integrity. Right intentions without follow-through count for naught. We must not forget this in our discussion of ethics with our students.

In his famous address at Cooper Union in February 1860, Lincoln foreshadowed his sense of high resolve with the words, "Let us have faith that right makes might, and in that faith let us, to the end, dare to do our duty as we understand it."

I would therefore like to use Abraham Lincoln as a frame of reference for my remarks about the development of an ethical orientation in our classrooms. First, I would like to make a few remarks about ethics, just to set the stage. Then I would like to take a few minutes to consider some aspects that we, as teachers, may have overlooked in dealing with this critical topic. There are three: Personalized integrity, little vs. big, and good vs. bad. I would like to close with a discussion of just how we might look at our personal ethical choices.

What Is Ethics?

The term ethics comes from the Greek “ethos” and refers to the character and sentiment of the community. It relates to the collective judgment of human action based on some perceived standards of goodness and badness or right and wrong.

Codes of ethics refer to standards of conduct held in common among members of groups and associations. The term usually relates to rules that govern the moral behavior of its members. It may also refer to a study of principles defining one’s duty to one’s neighbor. The codes typically are derived from a set of values or a system of behavior adopted by the group. Codes can help to clarify what kind of conduct is deemed to promote the general welfare. Though they may be self-serving in some respects, codes may also encourage higher standards of behavior.

Ethics can be an important part of economic activity. It can and should permeate all aspects of administration and decision making. Some have referred to it as the soul of the management profession. The ethics of an organization and its members can therefore have a significant influence on how they conduct their business and how they are viewed by the society in which they function. Is it any wonder that consideration of ethics is creeping back into our classrooms?

The generally high level of ethical behavior of individual accountants is
one of the primary reasons the profession still retains the confidence of the public. Our Codes of Conduct provide guidance where laws and regulations do not exist, and challenge practitioners to perform at a level above the minimum expected. A mark of a professional is the ability to correctly perceive ethical dilemmas and to behave appropriately.

Professions enjoy a legal monopoly backed by the power of the state. In exchange for this exclusive franchise, professionals are expected to serve the public good. Codes of conduct are instituted as a guide and a reminder. Students need to be apprised of this contract and of the type of commitment it calls for on their part. This peculiar responsibility of the professional deserves constant reiteration in the classroom.

Personalized Integrity – Living Ethics

I am sympathetic with our nay sayers who tell us that we cannot “teach ethics” in the classroom. That, they say, is something that students should have learned at their mothers’ knee or accepted from early instruction in church, synagogue, or mosque – as if “you can’t teach old dogs new tricks.” Well, I have always felt that you are “never too old to learn,” but my point is that stressing ethical behavior is not likely to be successful if it is only just “learned.” It needs to be internalized, to be believed – like the faith of a little child – if it is to be an effective guide to future behavior.

Fundamentally, our students today seem to have pretty good instincts – from whatever source. In their discussions in class, their hearts generally seem to be in the right place – if I can characterize mainstream beliefs as being “the right place.” If that is so, then why do they make wrong decisions out there, in the work place? One response is that they do not know how to think through the issues. In today’s complex world, without some kind of model or structured response, it is believed that people make “satisficing” decisions or just go with the crowd.

On this very day, in fact, a group of accounting educators will be gathering in Atlanta for a conference on the teaching of ethics. I will be going there tomorrow. One of the things that will be stressed is how to help students structure an approach to an ethical dilemma. There is a seven-step decision model that has been suggested to help bring a resolution.

Step 1: Determine the facts, known and desired;
Step 2: Identify the ethical issues and the stakeholders involved;
Step 3: Define the norms, principles, rules, and values related to the situation;
Step 4: Identify alternative courses of action;
Step 5: Compare the alternative courses of action with the norms, principles, rules, and values;
Step 6: Evaluate the consequences of each possible course of action, both long- and short-term; and
Step 7: Reach a decision as to the appropriate course of action.

Another step might be inserted before making the final decision. If appropriate, discuss the alternatives with a trusted person to help gain a greater perspective regarding the alternatives.
I have found this approach to be very helpful, but it presupposes a willingness and a basis on which to make an often difficult decision. I would submit that one of the reasons our students make wrong choices is not that they don’t have any idea of what is right, but that they just don’t have firm enough convictions to put their right inclinations into practice.

The bureaucratization of business leads to impersonality, the loss of a sense of personal identity and accountability. Decision making becomes more centralized with the ensuing isolation of various units. Is it any wonder there appears to be a loss of altruism and a sense of personal service and commitment?

A former student told me about a friend of his who was on a job where the budget was more than needed to do the engagement – a rarity these days, I suspect. The senior doled out the added hours (to be reported as overtime work), to preserve the budget and provide a little “year-end bonus.” Besides, as the senior apparently put it, “it provides some compensation for all that time we put in and don’t charge.”

The former student asked his friend if he did not realize this was wrong. The friend replied, “If it’s wrong, why did the senior do it?” Whose ethics are we to adhere to? If our students’ frame of reference is whoever is in charge, then we are in for a difficult time and the profession, indeed this country, is in deep trouble. Was the Holocaust that long ago?

Joseph Wells [1990] reminds us in a recent article in the *Journal of Accountancy* that among those who commit fraud, three common factors are: motive (usually financial), opportunity, and an ability to rationalize the theft, usually by calling it something else – borrowing, for example. It is the third issue, the ability to compromise one’s integrity, that has to be the most troublesome.

Professional Codes of Conduct and Corporate Codes of Ethics may very well be necessary and a valuable frame of reference if today’s actions are wind-driven. They may be more effective in identifying ethical problems and be more persuasive in gaining adherence. In the last analysis, however, unless individuals know what is fundamentally right, and act on it, our world faces a dim future.

My suggested response to that latter augury is to emphasize integrity – personalized ethics – in broaching the subject in the classroom. As we consider cases with ethical overtones in class, I do not ask what Jones should have done. Rather, I ask, “what would you do in this case?” When explanations rely on the “circumstances,” I ask why the setting has anything to do with the issue, to force the students to come to grips with a more fundamental question.

I have been told that ethics is a personal thing and that to challenge students so boldly on their beliefs is threatening and a mistake. Will life be any more gentle? Isn’t it better to force students to confront such a situation in the classroom incubator than have them sweat out the fiery consequences in the furnace of life?

It seems to help my students to recognize that they, not someone else or any code of ethics, are responsible for what they do. Reminding them of the potential consequences of wrong behavior may have some effect, as well. In my experience, however, most students pass that off as not likely to be a prob-
lem inasmuch as they will probably never be in the public spotlight. Being able to live comfortably with oneself also seems to have little power, at least at their age.

In this world of growing depersonalization, students may be helped by being reminded that there is one thing that is still uniquely theirs, and that is their integrity. Though we put it at risk every day, our integrity is very fragile. It is too easily lost and, if lost, almost impossible to recover. Students may not realize what it means not to be trusted any more. We need to remind our students of this and to help them avoid losing their integrity either consciously or unconsciously.

It was Abraham Lincoln who said, "If you once forfeit the confidence of your fellow citizens, you can never regain their respect and esteem. It is true that you may fool all of the people some of the time; you can even fool some of the people all the time; but you can’t fool all of the people all the time."

The job is only half done if we let our students escape with no commitment. The memory of a vigorous class discussion may not be sufficient to sustain our students on the firing line if they have not decided which side of the battle they want to be on. We need to challenge them to commit themselves, not just intellectually, but in their hearts, to making this a better world.

This is where “firmness in the right ...” comes in. We need to help students internalize a commitment to what is right to such an extent that they are willing to take appropriate action. I had an executive tell me that one of the reasons for implementing a code of ethics in his company was to develop a corporate culture of loyalty and submission. Specifically, he did not want any opposition, especially any whistle blowers.

Whistle-blowing is not an end in itself. The need for it is rare. It should be employed sparingly and only when established methods of resolution have failed. Yet, in some circumstances, it may be the only way to fulfill an ethical obligation. It is both rational and moral, though most employment contracts may expect that remuneration is in exchange for obedient behavior. Where one is not able to live with a situation or change it, walking away neither ameliorates the wrong nor absolves of any guilt that someone who knows. If making the right choice is difficult, sometimes carrying it out may be even more so. Yet, how can we say we have done our job if we stop with the decision and ignore the implementation.

Whistle-blowing is also a very complex issue. Nevertheless, in considering ethics in the classroom, some attention deserves to be given to the follow-through – to old-fashioned moral courage.

You may not feel that this is what you came into teaching to do. But really it is. Back in your starry-eyed days, didn't you look at teaching as a chance to have some effect, to influence the lives of others, for good? What better opportunity could you have than this?

The impersonality of accounting makes it easy to neglect the people aspect. In our classrooms, and in our research, the world of numbers seems devoid of humanity. The popular epithet “bean counters” underlies this popular perception held by the world at large. But, even in the green-eyesshade era of accounting, people were important. We have long since left that
period. As teachers, it is time we returned people to stage front in our con-
sideration.

**Little vs. Big**

Lincoln was not known as a churchgoer, but seldom has this nation
known a president with a deeper, more abiding, faith. He was fond of Bibli-
cal allusions. Let me use one here. Remember the parable of the talents?
[Matthew, 1953] A nobleman, going on a journey, entrusts three servants with
five, two, and one talents respectively. When he returns he finds that the first
two have doubled the amounts entrusted to them but the third simply returns
it, having buried it in the ground for safekeeping. The nobleman’s comment
to each of the first two is, “Well done, good and faithful servant; you have been
faithful over little, I will make you faithful over much.” The third was cast into
outer darkness.

The nobleman in this story tested his servants first with little and then
made his decision whether to trust them with more. Life is often like that. As
we grow older, the temptations become greater. It is to be hoped that our
strength to deal with these situations has grown commensurately.

Sometimes I fear that our approach in the classroom to ethical issues may
overlook the need to evolve through these intervening steps. Too often the
cases that we use represent major corporations with enormous resources at
stake. Often the problems are so complex and situation-driven that they ob-
scure relevant ethical dilemmas. They may, therefore, fail to yield clear prin-
ciples of general ethical behavior. The state of affairs may be, at once, both
overwhelming and impersonal. We have just dealt with the latter; let us there-
fore turn to the former.

My suggestion is that we not start students off with major corporate per-
plexities but with more familiar, though perhaps less challenging, situations.
Get them interested in simpler predicaments that they may have already faced,
or could. Keep the situations realistic. Test the students on a level where they
sense a challenge and may feel a personal tug. Then help them to advance
from there. After all, firms do not usually start our graduates off at the part-
ner level. Is that the only level at which they will face ethical challenges?

We have to give our students a chance to grow. The old adage that a baby
has to crawl before he or she can walk may be more than an aphorism. Some
researchers have said, in fact, that children who never crawled may be ham-
pered later in life.

Who among us has not dreamed of making that great decision that will
change the course of history? Most of us, however, are not fated to do so.
For most of us, the successes in life will come in the little things that we do
every day. We need to be sure that our students know this as well. Consider
some cases where the issues are not necessarily the survival of a Fortune 500
company, but day-to-day dealings with ordinary people.

By presenting our students with complex cases having much at stake, we
may be, in a sense, expecting them to grow up too fast. By missing the in-
tervening steps of smaller decisions, their ability to cope with the larger
problems may be incompletely developed. Moreover, they may be over-
looking the very critical point that the whole of life involves being faithful over little things as well as big. Integrity encompasses how we handle all our challenges, not just the big ones.

By starting with the complex, high-level cases we may also be neglecting an important concept in ethics development – the slippery slope. This is that almost impossible task of determining at what point a minor slip becomes a major blunder. The fact that I cannot tell which hair falling out makes a man bald does not mean that there is no distinction between a man with a full head of hair and another with alopecia. Ethics by apparent consequence instead of by intent is risky business.

Over the years the profession has wrestled with this problem in many guises. At what point does a financial interest violate independence? At what point must a pooling become a purchase? At what point does a slight compromise with right become a wrong? I am sure you can recall a case or two where CPAs accommodated their clients a bit too far before they realized just how far they had gone. It would have been better had they never gotten started down that slippery slope.

Another of the comments attributed to Lincoln is, "If you call a tail a leg, how many legs has a dog? Five? No; calling a tail a leg don't make it a leg."

Much of the Lincoln lore is comprised of small things that he did or was supposed to have done. Perhaps some of them are Parson Weems-type tales, but many, I am sure, were of the substance that made him a man of high resolve. The stories are legion of his walking miles to return the correct change to a customer of his ill-fated store or how he braved a driving prairie blizzard to borrow a book. The images of his reading by the flickering light of the fire in his parents' log cabin are also legend, but they reflect a growing sense of dedication and commitment that was to bring this nation through its darkest hour.

You see, it is often the little things that lead to the greater life. It is often the smaller predicaments that build the resolve to face up to the greater quandaries. Lincoln knew both and understood the importance of each. Overwhelmed with the problems of the Civil War, he still took time to write personal letters of consolation to those who had suffered most from its devastation. In discussing ethics in the classroom, we ought not to neglect the small conflicts or how their resolution may lead to successes in confronting even larger ones. Nor ought we to overlook their effects on the people involved.

**Good vs. Bad**

Just as there may be a tendency in our classes to focus on the big rather than the small, there may also be a similar temptation to feature the bad rather than the good. Cases where auditors have erred or corporate officers have failed the test may be very appealing to students and instructors alike. They point out the consequences of evil and are unfortunately too readily available.

In auditing, wrong choices are at the heart of most of our case studies. We look at the ESM case and at Jose Gomez's *mea culpa* confession that appeared in The Wall Street Journal [Brannigan, 1987]. The list of cases in most textbooks usually consists of those considered by the courts as professional
failures. My colleagues in tax tell me that much the same is true there. We can and do learn from our mistakes. It is reasonable that we use these opportunities to teach our students not to repeat these errors. But, can’t we also provide them with some examples of accountants who made some right decisions? Are there no heroes in today’s ranks of the profession?

This emphasis on failure tends to inculcate an awareness of things to be avoided, a negative approach to ethics. Actually, it is the positive approach to life that is apt to be the more productive and the more rewarding. Moreover, students need to realize that there is more to this integrity thing than avoiding bad situations. Doing right should be our concern, not just avoiding wrong.

Unfortunately, the news does not seem to work that way. Tales of auditors who made the apparently wrong decisions get the headlines while those of auditors who made right choices, regardless of the pressure or consequences, are seldom, if ever, mentioned. One would like to think that this is because the former are such rare exceptions – and, indeed, they seem to be so. Unfortunately, there are still too many of such instances and they tend to be more fascinating than the ones with a successful ending.

For those who have taken to writing cases, let me suggest that you investigate some where the issues have been correctly diagnosed and through “firmness in the right...” an appropriate outcome has been achieved. Wrestling with intransigent management over disclosure issues cannot be an easy task nor something to which a CPA looks forward. But, as a watchdog for economic society, the profession can find few other challenges that offer a better chance for a sense of accomplishment.

Let me provide you with a few possible illustrations. Currently, the Savings & Loan crisis is in the financial headlines almost every day. Did you know that in the incipient days of the regulatory accounting blight, one of the Big Six accounting firms backed away from doing savings and loan audits? In the 1960s they resigned from their S&L clients. Congress, as one of the first of several questionable acts, had just permitted S&Ls, for tax purposes, to deduct five percent of their uncollected mortgages as estimated bad debts. Arthur Andersen felt that the differences between this amount and the generally far smaller amount charged on the income statement should be treated as a timing difference. Treating it as a permanent difference as most argued it should be, however, led to an overstatement of capital. Since capital is the amount upon which the amount of loans is based, it becomes a critical number for the operation of the business. Believing this, they resigned from their savings and loan clients who adopted this practice.

They took a similar step with regard to railroad clients because the Interstate Commerce Commission refused to recognize depreciation. When was the last time you heard of a firm resigning from all their clients in an industry because they disagreed with the latter’s accounting? Today, I suspect we might consider that there were “better,” more discreet ways, of handling such disagreements. Perhaps so, but this is still one way to make a point. You may recall that this is the same firm that also sued the SEC at one time.

I just got through recommending that we not emphasize the big at the expense of the small, so let me give you a case about a new senior. He had
just been assigned to a small insurance company. Although he had never au-
dited an insurance company, he conscientiously prepared for the assign-
ment by reading and inquiring of others.

Shortly after arriving on the job, he noticed that the company had con-
verted a substantial portion of its investment portfolio just before year-end
and converted it back shortly thereafter. The explanation was that the com-
pany normally invested in some securities that were not acceptable to the in-
surance regulatory commission so, they went through this conversion at
year-end. This, and other matters prompted the senior to suggest to the part-
tner that a more-experienced staff person take over the job. The partner
agreed. Eventually, the firm decided this was not the kind of client with
which they wished to be associated. So, in the course of time, someone else
was left to clean up the Equity Funding mess.

Those of you who have been in practice know that it must have taken a
lot of courage to go to a partner and admit that one may be in over one’s head.
Still, wasn’t that the ethical thing to do? Did it hurt his career? I don’t think
so. He is currently a well respected partner in his firm’s national office.

Accountants take courageous stands every day. We need to get more of
these cases into our classrooms. Let our students learn the names of some
of our winners and not just of our losers. We do have heroes, too.

\[\text{As God Gives Us to See the Right}\]

I know that much of what is said about approaching ethics in the class-
room cautions teachers to stay away from any particular philosophy. It en-
courages us, instead, to let students just think about issues and to provide
them some opportunity to exercise their judgment – with no right or wrong
resolution. Peer pressure is often looked to as providing the appropriate
power of persuasion.

I am not convinced that such an approach to moral values will succeed
in the long run. I believe that we must somehow challenge our students to
think through their positions and develop a philosophy of their own to guide
their behavior. To do otherwise is to abdicate our role as teachers and make
ethics another sterile, intellectual exercise.

In accounting, we often proceed as though there is only one right answer
and all we have to do is find it – and do it. We know better than that with re-
gard to ethics. Philosophers have wrestled with this issue for centuries. One
of the perplexing problems with many texts on business ethics is that their
survey of ethical approaches sometimes yields diametrically opposed solu-
tions. One such text even takes the position that if there is a majority posi-
tion on the discussed viewpoints, that must be the right answer. No wonder
our students are confused and sometimes do not know which way to turn.
Teachers, too, share this bewilderment. This may very well be a reason
ethics does not receive more attention in our classrooms.

A colleague recently admitted to me that his problem in dealing with ethics
is that he himself has no set philosophy. Who are we as teachers and what
is it we are trying to convey if we do not know what we ourselves believe?
How convincing can we be if we do not know where we stand? How much of
an example will we be for our students if our own lives are not guided by the standards we imply should be theirs?

The conclusion of Lincoln’s phrase “with firmness in the right ...” is “... as God gives us to see the right.” I am not sure that is any more reassuring than any of the better developed views. To take such an approach in our classrooms may be looked upon by some as violating the separation of church and state. To others, it may be seen as a cop-out or as creating potentially loose cannons on the decks of our corporate ships of state.

Nevertheless, I think Lincoln was trying to identify an ultimate authority. Lincoln’s perception of some of the views of his ultimate authority are evidenced in the words that precede our title. They are “with malice toward none; with charity for all ...” This concept is reflected to some extent in the three levels of thinking patterns developed by John Dewey [see Shea, 1988, for details] and augmented by Lawrence Kohlberg [Lande and Slade, 1979]. I was first introduced to this structure in a book by Gordon F. Shea [1988] called Practical Ethics which was written for the American Management Association.

Dewey’s three stages of moral development were:

Preconventional: where we concentrate on our fundamental needs, where survival and security are our primary concerns;

Conventional: where we are led by the rules and conventions of society; and

Postconventional: where we think through our principles and are guided by fairness and justice and the rights of individuals.

As a result of studying how subjects solved moral problems, Lawrence Kohlberg suggested six stages of moral development and found that they fit into Dewey’s framework as follows:

Preconventional morality
   Obeying orders – to avoid punishment;
   Marketplace morality – maximizing pleasure, minimizing pain;

Conventional morality
   Conforming to group norms – belonging;
   Focusing on law and order;

Postconventional morality
   Principled morality – autonomous and responsible; and
   Universal morality.

Gordon Shea had added to this his own fourth stage:

Transcendent morality
   Integrity – integration of thought and feeling (creative, caring, and sensitive).

While this model does not supply answers, it does get the student to think about the level at which he or she is currently situated, compared to the level at which she or he may want to perform. It provides an insight into moral values and can sensitize the student as to the relative status of various virtues. I use it at step 5 in the seven-step decision model.
Conclusion

We need to impress on our students an awareness of personal integrity and the will to make it a habit. We need to nurture its development and direct it appropriately. We need to promote character and the thinking about values. To accomplish this, I suggest we consider approaching our study of ethics “with malice toward none; with charity for all; with firmness in the right, as God gives us to see the right ...”

References


