

The Ethics of “Faking Left and Running Right”

Marianne M. Jennings left a recent panel discussion on ethics “perplexed, bemused, and frustrated.” She recorded her experiences of participating on a panel discussion of the application of ethics in the technological era in an article entitled, “The Frustration of Business Ethics.” “What is it about business ethics that defies not only answers, but also logical thought processes,” she asks.

Ms. Jennings is a Professor of legal and ethical studies in the College of Business at Arizona State University. Her article appeared in the July/August issue of *Corporate Finance Review* published by RIA.

During the discussion a general counsel for an international bank expressed the relativistic view that in business ethics depend on the situation. He said that it was a perfectly acceptable practice in business as it was in sports to “fake left and run right.” In response to his “flexible” approach to business ethics, one of the participants, a former executive vice president of another international bank and now an entrepreneur acknowledged falsifying her accounts receivable for a six month period to maintain solvency, prevent violation of loan covenants, and avoid certain bankruptcy. She also asserted that what she had done was not legal, but absolutely was ethical, and that she would do it again. Her justification was that she had saved the jobs of 6,000 of her employees, and that all she needed was time to resolve her problems --- which she was able to do.

She claimed to have had no other choice, because the economy was tight and the “young bank executives” with whom she was dealing would never have waived the covenants, reduced payments, or extended any further credit. Surprisingly other ethics professors agreed that the woman’s actions were not unethical. The attorney, who had espoused the relativistic view of ethics, responded as a banker to this situation and determined that what the businesswoman had done was “absolutely unethical.” He did not enjoy being “faked out.”

For an accountant, the intentional falsification of financial information is the worst possible compromise of professional ethics. But is there a humanistic view that would justify doing so? I strongly disagree that there is. The entire purpose of the rigorous standards of ethical conduct to which the accounting profession is subject exists *to enable the financial, and business world to place reliance on our work*. Falsification of the kind perpetrated by the businesswoman undermines trust. One of the defining purposes of ethics in business is to encourage and sustain the trust necessary for business transactions to occur with confidence.

Ms. Jennings explains that she lived through an experience of a woman embezzling \$12,000 from a company. She was fired, and her case got the attention of the Board. Board members suggested that she be reinstated, because her punishment should depend

on why she took the money. Ms. Jennings states that taking something from someone else, even a corporation is stealing. She argues that in life rarely is theft the only possible solution to a problem. And to justify it for any reason is “devoid of values.”

Ms. Jennings asks why no one at the ethics panel discussion posed the question, “Given that I do not lie, that I respect the importance of transparent financial statements, that I understand the role of trust in business and that I am angry when others lie to me, do I falsify my accounts receivable?”

She explains that trying circumstances cannot justify a breach of business ethics. She explains that ethical mettle is not measured by the easy choice. “Values do come with a price.” A businessperson must commit in advance to *what they will not do to make a business work*. The businesswoman who compromised her financial statements had made a shortsighted decision, which was a breach of trust for creditors. She had set an example for employees that it was acceptable to lie if the circumstances were difficult. She had established precedence for the next crisis --- to solve it by similarly false means --- or worse.

To establish a basis for judging ethical conduct, Ms. Jennings poses a simple question: “If the rest of the business world operated under my standards, would I feel comfortable or nervous about the standard of conduct I had created?”

---*William F. McKnight, CPA*

Editors Note --- Bill is a Partner in the firm's Grove City location. Bill has spent many years as an auditor, Chairing the firm's Quality Control Committee, and he is thoroughly familiar with ethical issues related to the preparation of financial statements.