

## : Accounting

### INTRODUCTION:

Despite increased governmental regulation and oversight of accounting practices, the presence of ethical codes of conduct in professional accounting associations, and increasingly common integration of ethics conversations in the graduate business school accounting curriculum, poor ethical decision making in financial accounting still exists and is typically cited as evidence of unchecked greed in business.<sup>1</sup> On the other hand, those companies that truly commit themselves to a culture of ethical behavior have found this to be a competitive advantage in the marketplace through increased customer and employee loyalty.<sup>2</sup>

As briefly discussed in the first Accounting *Closer Look*, released in October 2006, new frontiers of accounting practice offer opportunity for further positive differentiation in a market environment now flooded with companies touting their CSR credentials in mainstream advertising. Full-cost accounting and various forms of non-financial reporting are quickly being developed and debated in both academia and the boardroom.

Interesting examples of innovative approaches to disclosure that are worthy of review include Toshiba's and Fujitsu's efforts within environmental accounting and a report jointly issued by UBS and F&C Management that examines different accounting methods by which to assess future financial effects of HIV/AIDS on international businesses.<sup>3</sup>

### PRACTITIONER AND FACULTY POINT OF VIEW:

**In his position as Ernst & Young's Americas Vice Chair of Quality and Risk Management, [Tim Griffy](#) is responsible for challenging every aspect of quality and risk management—including the firm's employees, services, procedures, as well as client and public dealings.**

*Q: Have accounting firms changed their expectations in recent years in terms of the ethical instruction that its incoming MBAs receive while in B-school? What could business schools do better to make incoming employees better suited to the ethical, social, and environmental challenges that E&Y faces?*

A: I think that the accounting firm expectations parallel those of the general business environment, and that is for individuals to have a strong ethical education component included in their business school experience. While this was not always the case, the events of the last several years have forcefully emphasized the negative consequences resulting from unethical behavior and the resultant need for academic instruction in this area. But I don't think this necessarily argues for separate courses devoted to ethics as a stand-alone topic. The most effective grounding for ethical behavior is to integrate the teaching of ethics within the teaching of core curricula.

*Q: Could you briefly discuss one or two of the tools or resources available to current E&Y employees who wish to discuss ethics to learn more about environmental or social impact of their work?*

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<sup>1</sup> For two examples of mainstream accounting associations with an emphasis ethics, see The American Institute of Certified Public Accountants [here](#) and the Institute of Management Accountants [here](#).

<sup>2</sup> A particularly good article on employee loyalty as it relates to an employer's perceived ethics is "[Employee Loyalty Around the Globe](#)" in the Winter 2001 MIT Sloan Management Review.

<sup>3</sup> For Toshiba's environmental accounting methodology, see [here](#); for Fujitsu's shorter review, see [here](#). The UBS and F&C Management report is entitled "[HIV/AIDS Beyond Africa: Managing the Financial Impacts](#)". Accounting practices are explicitly covered in pp. 28-31.

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A: We have created the usual resources for discussion of ethical behavior and social responsibility within E&Y -- a hotline for raising ethical questions or to report unethical behavior, an oversight body (including individuals chosen and elected by the partnership as a whole) that has responsibility for ethical oversight, and institutionalized communication and training on the subject of ethics and corporate social responsibility. But we believe that, more importantly, we have to emphasize the common responsibility for an ethical culture that rests in all of our people. You can't be comfortable with "almost everyone" understanding and committing to appropriate conduct. Our message about the shared nature of this responsibility is constant and consistent.

**Lori Holder-Webb is an Associate Professor at the Simmons School of Management in Boston, Massachusetts. Her research, which focuses upon the intersection of organizational behavior and financial and non-financial reporting, has been funded by major regulatory agencies in the U.S. securities markets and appeared in highly-regarded journals such as the *Journal of Accounting Research* and *Contemporary Accounting Research*.**

*Q: A scan of courses submitted for Beyond Grey Pinstripes this survey cycle indicates that current accounting courses that address social impact management are mostly electives. Do you foresee topics of environmental and social relevance remaining in the elective space or becoming further integrated into the core curriculum over the coming years?*

A: I think that they are likely to remain largely relegated to the elective space. I think this will be true both for courses included in the MBA curriculum as well as for other business majors, including undergraduate majors. I see a few reasons for this.

First, there are substantial scheduling constraints. Most MBA programs feature minimal coverage of accounting topics - at the schools I have attended or taught at, the MBA curriculum either includes two accounting courses (one financial and one managerial) or only one (an omnibus course covering both in one semester). As an aside, I find this ironic as it seems that a consistent response to the question posed to managers about what they wish they had learned more about, or taken away from their education, is "accounting". In any event, the breadth and depth of accounting knowledge that is demanded in today's business environment - especially in the wake of the Sarbanes-Oxley Act - is substantial. This need cannot be addressed in a satisfactory way through a one- or two-semester course introducing accounting and accounting practice to the MBA. Even those pursuing accounting degrees at the undergraduate and graduate levels face significant time constraints, as the coverage of material necessary to pass the CPA exam is so extensive that it would be very difficult to squeeze in additional courses.

This preceding discussion suggests a second reason why these matters are likely to stay in the elective realm. Accounting is fundamentally a social construct - you can tell what a society values by what it chooses to account for. Managerial accounting is an unquestioned component of a business degree, because what we have historically valued is profitability - and managerial accounting covers factors that are essential to measuring profit. If we, societally, value information about social, ethical, and environmental matters, we would find a way to ensure that accounting for these things were taught. At present, we might be moving in that direction, but we certainly aren't there yet.

A third factor that arises in a discussion of this issue is that one characteristic of a useful accounting system is that there is a general (common) understanding of what is being accounted for, how the accounting is to be done, and this leads to an ability to provide some kind of generally understood interpretation of the output from the accounting system. We may engage in debates about when revenue is recorded and how much it should be measured at, for example, but we are in general accord over what revenue is. That's a difficulty with social, ethical, and environmental matters. What social issues are important enough for us to keep account of them? How can we measure the effects? How is a user to interpret the information? And, more generally, how are we to decide the answers to these questions such

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that we can develop a system that will produce useful and relatively complete information for decision-making purposes? And - even if we can arrive at a common system for processing this type of information- how are we to verify it? How can users be assured that the information they are receiving is true, and complete?

We have been accounting for financial transactions for hundreds of years, and our system is still in a state of incredible flux - consider the protracted negotiations pertaining to the efforts of the FASB and the IASB to produce a single set of financial reporting standards to be used uniformly by firms in the U.S., the U.K., Japan, and around the world.

*Q: What do you see as the vanguard issues within accounting that will be essential for future managers to have mastered?*

A: I think, at the moment, given the lack of firm or collective guidance in this area, and the lack of an existing body of knowledge or wealth of operating histories, our best crack at this as accounting professors is to sensitize our students to the nascent stakeholder desire for this type of information (from a reporting perspective) and to the potential for these costs to arise and the need to keep them in mind when making decisions and structuring internal accounting systems.

Another relevant skill necessary for the success of future managers is their confidence and facility with not only analyzing managerial practices, but also voicing and implementing accounting positions that are based in a commitment to the values of integrity and fairness toward all relevant stakeholders. At Simmons, we have embarked upon an effort to build and practice this muscle in our students by introducing the "Giving Voice to Values" curriculum and approach across the Core courses. I will be using this approach in my own course next academic year. [Click [here](#) for more information on Giving Voice the Values.]

*Q: Is there a consensus amongst accounting academics as to what constitutes today's cutting edge research in this [social impact management] subject area?*

A: That is not my perception of the current literature coming from the U.S. accounting academy. Considering the information needs of stakeholders other than the providers of financial capital is something of a novelty in our area, as is the rigorous study of non-financial disclosures. Most of the accounting information - such as it is - that is available on social, ethical, and environmental matters falls into the category of non-financial information. This work historically has found a happier home in top journals outside of mainstream accounting work (such as the *Journal of Business Ethics*) and journals outside of those provided in the U.S. The Commonwealth countries - the U.K. and Australia, for the most part - have provided the greatest mass of research done on this type of work by accounting scholars. And even that literature has a somewhat piecemeal character- it's driven primarily by observation of reporting behavior by managers in different countries, rather than by the consolidation of a guiding theory about what ought to be done, and how, and when.

One of the problems with doing this kind of research is that - because it is a nascent field - you have to be creative in your approach, and you have to be willing as an academic to take some risks. Also, this research tends to be somewhat costly in terms of access to data and/or the time required to process it. That, combined with the lack of common acceptance of this area in the mainstream of U.S. accounting research, renders it less attractive to many scholars than more conventional areas.

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## NOTABLE COURSEWORK:

The following course descriptions are drawn exclusively from the 2007-2008 edition of [Beyond Grey Pinstripes](#), a research survey conducted biennially by the Center for Business Education at the Aspen Institute.

### ■ Wisconsin School of Business

#### [Advanced Financial Reporting](#) (Core Course)

*Instructor: Lori Holder-Webb*

“Coverage of social and ethical issues is pervasive within the course coverage, through lectures, case analyses, and open in-class discussions. Specific topics addressed include the stewardship responsibilities of elected officials with respect to public resources, such as taxes and publicly-financed debt; ethical issues pertaining to the reporting of asset balances in mergers and acquisitions; professional ethical duties with respect to clear, clean and accurate financial reporting; the role of politics and lobbying in the accounting standard-setting process; the social costs of money-laundering, fraud, and downsizings; and social and ethical issues in the international business environment.”

### ■ Stanford Graduate School of Business

#### [Financial Accounting](#) (Core Course)

*Instructors: Ron Kasznik, Ilan Guttman, Yonca Ertimer*

“This course focuses on the social impact of accounting methods and practices. Much attention is placed on the individual investor's ability to gain accurate information on the financial position of public companies, as well the ways that corporations can meet standards for accurate and ethical reporting. A major course objective is to impart awareness of the judgment involved and the discretion allowed in choosing accounting methods, making estimates, and disclosing information in financial statements. Specific companies studied included Tyco, WorldCom, Enron, Qwest Communications, and other organizations where management's ethics come into question and the financial health of the firm is misrepresented to shareholders. In addition, the Yahoo! case study analyzes the social impact of stock options, whether companies should be required to expense them, and what impact this policy has on broad employee ownership compared to concentrating options exclusively in packages to senior executives. Readings include: ‘Cash-Flow Hocus-Pocus,’ ‘How to Spot Tax Tinkering,’ ‘Bad for CFOs, Good for Investors,’ ‘Yahoo, Google, and Internet Math,’ ‘You Don't Like Our Stock? You Are Off the List,’ ‘True and Fair Is Not Hard and Fast.’”

### ■ IMD- International Institute for Management Development

#### [Accounting](#) (Core Course)

*Instructor: Stewart Hamilton*

“In this course 6-7 of the 16 sessions are used to discuss these issues: International Paper, Contract Risk, Barings, Enron, and Parmalat. Also, sessions [focus] on corporate failure and international taxation and transfer pricing. My approach is: ‘All business decisions have an ethical dimension.’ During my sessions we will address issues of environmental sensitivity and remediation; bribery and corruption in overseas operations; hubris, greed and remuneration policies; tax evasion and transfer pricing; and transparency. Some of these will be covered in classes on internal controls and risk management, others as they arise in relation to M & A activities.”

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- **Babson College, F.W. Olin Graduate School of Business**

[Managerial Aspects of Accounting](#) (Elective Course)

*Instructor: Virginia Soybel*

“This course is designed for students who are interested in analyzing companies using corporate financial statements, but who do not plan to work in finance. We consider both the impact of managers’ choices on the financial statements and how we use financial statements to evaluate those choices. Using several different industries, we examine the current financial statements and ratios of companies to assess their profitability and risk and to identify the connections between their strategic decisions and their financial footprints. Our discussions routinely include ethical issues surrounding full disclosure in public filings, earnings management, and fiduciary responsibility. One case covers the carpet industry and in particular, Interface Corporation which has made environmental sustainability a core strategic objective. Using financial statement and ratio analysis, we assess the financial consequences of the firm’s mission, as compared to the condition and performance of its competitors. Another case covers the pharmaceutical industry in which we consider not only the financial characteristics, but also the ethical and societal issues of prescription drug development, manufacturing, and sales.”

- **University of California, Davis, Graduate School of Management**

[Auditing, Internal Control and Public Accounting](#) (Elective Course)

*Instructor: Michael Maher*

“Ethical issues pervade this course. We examine corporate governance from the perspective of shareholders and other stakeholders. We look at the role of shareholders and stakeholders in corporate governance plus the role of directors, auditors, financial markets and regulators. Guest speakers in this class last winter were a board member, the person in charge of CALpers corporate governance program and a former partner at Arthur Andersen and a man who faces white collar crime charges for price-fixing. For texts, I used a book by shareholder activists Bob Monks and Nell Minnow and a biography of Warren Buffett. I expect students to become expert in understanding the causes and consequences of one of the recent major business scandals and to present their findings to the class.”

For additional courses on related subjects, or to download select syllabi, search thousands of descriptions at [Beyond Grey Pinstripes](#).



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Developing Leaders for a Sustainable Society

### NOTABLE TEACHING MATERIALS:

Materials referenced are meant to represent the diversity of related teaching resources available at Caseplace.org. Most are available as free downloads to registered faculty members.

- **Presentation: [Rethinking MBA Curriculum in the Accounting Discipline](#)**

*Author: Jane Cote*

*Source: Aspen’s Corporate Governance and Accountability Project,  
supported by the Alfred P. Sloan Foundation*

“Developing MBA students into business leaders requires students to learn how individual decisions are linked and impact the larger environment in which the organization operates. In accounting, this premise shifts the topics and tone of the course from primarily information production to how accounting information impacts decision makers and stakeholders. In this accounting course we adopted a new theme, “What should be measured and how should it be measured?” It turns the course focus from rules to the tools leaders need to manage a complex organization.”

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- **Case Study:** [The Siam Cement Group: Corporate Philosophy](#)

*Authors: Prompilai Khunaphante and Lynn S. Paine*

*Source: Harvard Business School Publishing*

“In the face of Thailand's 1990 cement shortage, managers at Siam Cement Co., Thailand's largest cement provider, must decide how to allocate available supply and whether to attempt to uphold government controlled prices among the company's agents. At issue is the overall design of a rationing system as well as how to handle several special requests. Teaching Purpose: To enhance understanding of a corporate value system rooted in Thai culture. Illustrates and tests the company philosophy of corporate social responsibility and fairness.”

- **Article:** [Reporting: What? How Much? To Whom?](#)

*Source: World Business Council for Sustainable Development*

“Ever since there have been corporations, both society and companies have squabbled over how much information those businesses ought to make public. During the 1990s, as journalists accelerated their coverage of corporate environmental and social impacts, companies began offering their own reports on those impacts – often including information on philanthropy, health and safety, and stakeholder perspectives...”

### ONGOING QUESTIONS:

- What new collaborations between academic institutions and companies will be developed in coming years to address the exciting ethical, social, and environmental considerations taking place in the accounting discipline?
- Will MBA student interest in these blossoming new branches of accounting practice increase the number of accounting electives offered on business school campuses?
- Accounting- especially from a non-practitioner vantage point- has traditionally been a silo-ed field of study. Can new developments within this area lead to heightened cross-disciplinary discovery?

### RESOURCES:

[BeyondGreyPinstripes.org](#) – World’s biggest MBA database, including detailed records on thousands of courses and information on extracurriculars, university centers, and more, for 128 schools on six continents.

[CasePlace.org](#) – A free and practical on-line resource for up-to-date case studies, syllabi, and innovative teaching materials on business and sustainability. Created for the educators who will shape our next generation of business leaders!

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*A Closer Look* is a regular series of briefing papers on topical issues in MBA education, based on the research and programs of the Aspen Institute. The Aspen Institute's [Center for Business Education](#) encourages future business leaders to innovate at the intersection of corporate profits and social impacts.

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