

The Unprecedented Business Ethical Dilemma in the World Financial Markets

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Received: 11 June 2015 Accepted: 1 July 2015 Published: 15 July 2015

Abstract

The purpose of this article is to explore the importance of business ethics in the corporate business world. Good ethical practices and behaviors are critical to the success of organizations. The first code of professional conduct (as cited in Messier, Glover, and Prawitt, 2008) was introduced and written in 400 BC (Hippocratic Oath). The Sarbanes Oxley Act of 2002 brought financial transparency among corporate management and auditors in order to prevent white collar crime. Clement (2006) found in his study that in top 100 Fortune corporations, only forty engaged on unethical behavior. The Foreign Corrupt Practices Act (FCPA) is one of the fastest changing acts in the criminal law arena. It attempts to curb bribery of foreign officials that give business advantages to those paying the bribe. The Securities and Exchange Commission (SEC) has collected over

1.4 billion in fines (Turk, 2013) due to both illegal and unethical acts. In today's global economy, corporate scandals are

Index terms— business ethics, code of conduct, fcpa, sarbanes oxley act of 2002, white collar crime, auditing, white collar crime.

The Unprecedented Business Ethical Dilemma in the World Financial Markets I. Introduction his article will introduce the importance of business ethics and its purpose. In 1977, Congress passed, The Foreign Corrupt Practices Act (FCPA) in response numerous incidents of bribery and the ethical misconduct by 300 publicly traded companies in the United States (US). In 1988, The Foreign Corrupt Practices Act (FCPA) was further codified as an amendment under the Securities and Exchange Act of 1934.

Business ethics is critical to the accounting profession, because auditors in the public corporate sector need to abide by the principles of the code of professional ethics. There are four major parts to the code. The four important sections under the code of professional ethics as written by Al Momani and Obeidat (2013) are: "(1) principles, (2) rules of conduct, (3) interpretations of the rules of conduct, and (4) ethical ruling" (p.121). Panwar, Paul, Nybakk, Hansen, and Thompson (2014)

1 II. Literature Review

Business ethics it's defined as the existing relationship between ethical judgment and people's ethical choices. Professional accountants consider business ethics synonymous with corporate ethics. Business ethics can be applicable to any existing corporate ethical dilemma that arises across the business environment. Therefore, unethical act is also attributed to the violation of the rule, code and norm of the law (Sparks, & Pan, 2010).

Royae, Ahmadi, and Jari (2013) mentioned that accountants and auditors in the auditing profession should have a high degree of ethical principle and standard. Ethics can help accountants, auditors and the organization (as cited in Massey et al. 2006) to succeed by preventing fraud. The accounting discipline sustainability is supported by business ethics. Empirical studies (as cited in Murphy and Josephine, 2011) demonstrate that stockholder and shareholder theories always present a great deal of ethical differences debate. Also, organizational scandals have guided the government to increase compliance level requirement in the financial market (Royae, Ahmadi, & Jari, 2013).

Business ethics is critical to the accounting profession, because auditors in the public corporate sector need to abide by the principles of the code of professional ethics that is supported by four important sections. The four important sections under the code of professional ethics as written by Al Momani and Obeidat (2013) are: "(1) Principles, (2) rules of conduct, (3) interpretations of the rules of conduct, and (4) ethical ruling"(p.121). Auditing is an important function of the profession. In terms of practicality the auditor is required under Generally Accepted Accounting Principles (GAAP), to audit the company's financial statement and up to the best of their knowledge express a fair opinion with enough objectivity and faithfulness. Therefore, in the accounting profession auditors are affected by different accounting principles and audit ethics (Al Momani, & Obeidat, 2013).

The Ethical Business Leader's Decision Tree ??Bagley, 2013, p. 23) According to Bagley (2013) the above exhibit 2.1 "provides a tool business leaders and their counsel can use to evaluate the legal and ethical aspects of their strategy and its implementation" (p. (Miller, 2010). Braun, Tietz and Harrison (2008) indicate that Sarbanes Oxley Act of 2002 strive to enhance the internal accounting control system of publicly traded corporations by aligning management, company's financial reports and auditors reliability when expressing a fair opinion over the financial statements. Publicly traded companies have invested millions of dollars in upgrading the internal accounting control system. Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for the materiality of the information presented in the financial statements. Williams, Haka, Bettner, and Carcello, (2010) wrote that Sarbanes Oxley Act of 2002 since its enactment has affected the managerial accounting aspect of an organization, because of the high compliance cost. Therefore, the main goal of Sarbanes Oxley Act of 2002 is to bring financial transparency among corporate management and auditors by preventing white collar crime.

2 V. Comparison and Contrast of Current Practices

The code of professional conduct (as cited in Messier, Glover, and Prawitt, 2008) was introduced and written in 400 BC under the Hippocratic Oath. In 1962, the American Institute of Certified Public Accountants (AICPA) established the code of professional ethics. By 1973, the American Institute of Certified Public Accountants (AICPA) revisited and revised the same. In 1988, the American Institute of Certified Public Accountants (AICPA) incorporated six principles to the accounting profession (Neill, Stovall, & Jinkerson, 2005).

The code of professional conduct is promulgated by the American Institute of Certified Public Accountants (AICPA). Under the code of professional conduct there exist six principles that provide a complete framework of the professional ethical of accountants. The first two principles from the code of professional conduct regulate the moral judgment and responsibility of the profession. The third and fourth principle highlights ethical integrity, objectivity, honesty and the quality of independence. The fifth principle deal with the professional integrity competence level. The sixth principle indicates that accounting professionals should maintain an adequate internal control of activities among clients (Messier, Glover, & Prawitt, 2008).

3 VI. Ethical Dilemma

Example No. 1: In today's business world, the major ethical dilemma that exists is between ethics and profits. A thorough analysis of this dilemma will lead one to understand what is unethical conduct. Since 1980, illegal acts have force some of the largest publicly traded companies to file for bankruptcy. Arthur Andersen, one of the world top accounting firms, "look the other way" as several other publicly traded companies including Enron, WorldCom committed accounting fraud. They permitted this conduct in the violation of the Code of Professional Conduct in order to appease their clients and maintain their own profitability.

The U.S. Department of Justice indicted Arthur Andersen for criminal behavior and fostering unethical behavior by publicly traded companies. Arthur Andersen then went out of business. Years later they were acquitted of the criminal charges but their reputation was severely damage by their unethical behavior. One of the main purposes of the code of professional conduct is to establish ethical responsibility in the accounting industry by protecting organizations and employees from financial accounting scandals (Brigham, & Ehrhardt, 2014).

4 Example No. 2:

In the last two decades of the twentieth century the auditing profession faces major costly lawsuits. As a result of their auditing process Ernst & Young (EY) was sued for \$400 million, due to misleading financial information reported in the auditor's opinions. Once Sarbanes Oxley Act of 2002 was enacted, the Securities and Exchange Commission (SEC) focused their investigation efforts on auditor's ethical performance. The Securities and Exchange Commission (SEC) scrutiny the auditing performance in their reporting of financial results by strict review of the financial reporting Barings Bank \$94 million"(p.688). Furthermore, the top four auditing firms mentioned previously were fined by the U.S. Justice Department; because they were aggressively selling tax shelter to American companies by helping them to avoid taxes. Thus auditors were held liable for their actions and professional performance (Messier, Glover, & Prawitt, 2008).

Watson Water Technologies (WWT) Violation of The Foreign Corrupt Practices Act (FCPA)

Watson Water Technologies (WWT) is a prominent multinational corporation that purifies water at large scale for the government and other private institution around the globe. The Securities and Exchange Commission

(SEC) fine Watson Water Technologies (WWT) the amount of \$250 million, because the company failed to comply with The Foreign Corrupt Practices Act (FCPA). Messier, Glover, and Prawitt (2008) reveal that in 1977, Congress passed, The Foreign Corrupt Practices Act (FCPA) in response to the high number of bribery and the ethical misconduct by 300 American publicly traded companies in the United States (US). In 1988, The Foreign Corrupt Practices Act (FCPA) was codified as an amendment under the Securities and Exchange Act of 1934. For instance, companies under The Foreign Corrupt Practices Act (FCPA) are required to maintain an adequate internal accounting control system.

The Foreign Corrupt Practices Act (FCPA) is one of the fastest changing acts in the criminal law arena and at the same time the Securities and Exchange Commission (SEC) has collected over \$1.4 billion in fines (Turk, 2013). Watson Water Technologies (WWT) was paying foreign officials to obtain business contracts. Such behaviors are illegal under The Foreign Corrupt Practices Act (FCPA). As an additional penalty, Watson Water Technologies (WWT) has been force for the past three years to report earnings under the eXtensible Business Reporting Language (XBRL) by meeting the Securities and Exchange Commission (SEC) corporate filing requirement (Bargerstock, & Shi, 2014).

Five Publicly Traded Companies in Different Industries

In 2010, five publicly traded companies were involved in unethical act by violating The Foreign Corrupt Practices Act (FCPA). The five publicly traded companies that violated The Foreign Corrupt Practices Act (FCPA) were (1). KBR Corporation, (2). Goldman Sachs, (3). Dell, Inc., (4).General Electric, and (5). Citigroup (Verschoor, 2010).

KBR acting as a defense contractor for Halliburton Company and its subsidiary Snamprogetti; Technip, bribed the government of Nigeria in the amount of \$18 million. It was fined \$240 million by the Securities and Exchange Commission (SEC) for such behavior. Goldman Sachs was fined \$550 million for misleading investors.

Dell, Inc. manipulated the company's accounting records by indicating that they were consistently meeting their projected earnings on Wall Street. They paid \$100 million to settle the accounting disclosure violation.

General Electric was charged with bribery in Iraq during the United Nations Oil for Food Program. According to Verschoor (2010) the Securities and Exchange Commission (SEC) alleged that General Electric (GE), "made illegal kickback payments in the form of cash, computer equipment, medical supplies, and services to the Iraqi Health Ministry and the Iraqi Oil Ministry" (p.20).

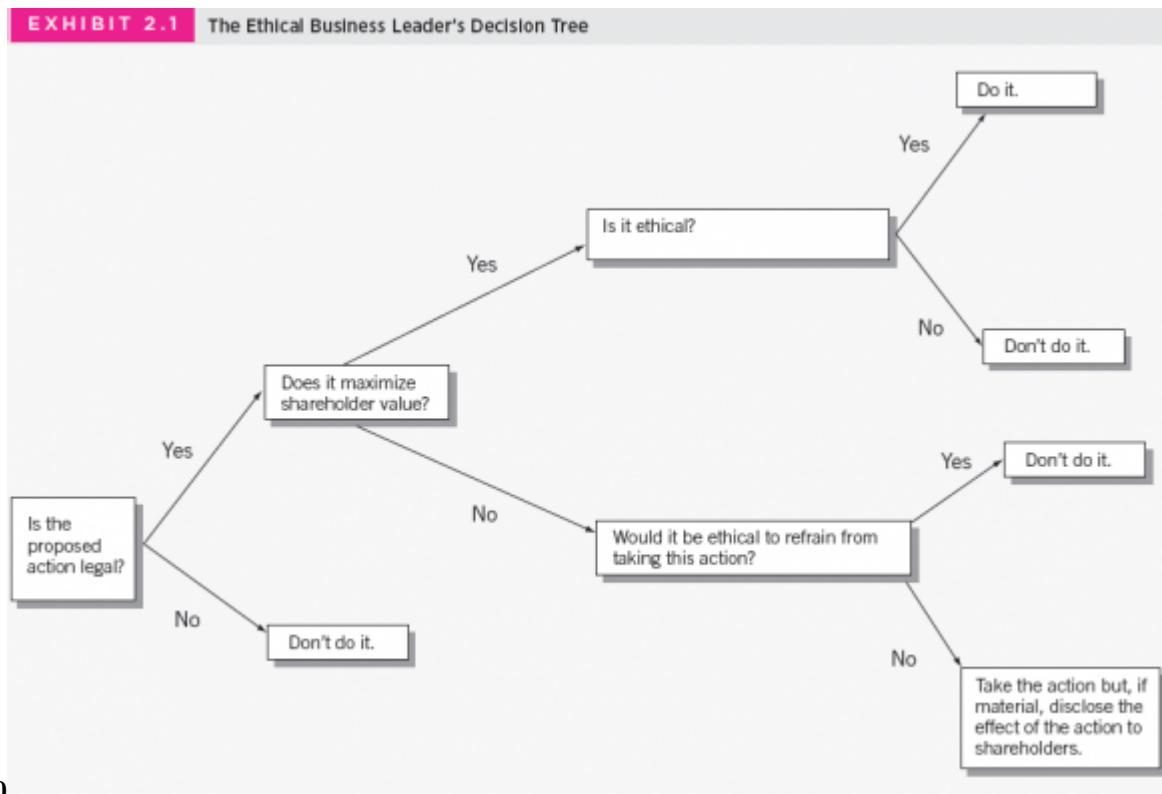
Citigroup one of the largest and stable financial banks around the world was also charged by the Securities and Exchange Commission (SEC). Citigroup was accused of under reporting their exposure during the subprime financial market crisis. Citigroup indicated that their exposure was in the amount of \$13 billion, when indeed the real bank's exposure was \$50 billion. Citigroup paid the Securities and Exchange Commission (SEC) a fine of \$75 million (Verschoor, 2010)



Figure 1:



Figure 2: Global



20

Figure 3: 20 Global

Example No. 3:

Figure 4:

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Responsibility (CSR) policies. The research study of Giannarakis and Theotokas (2011) compared and contrasted organizations that adopted Corporate Social Responsibility (CSR) part of the 2008 financial crisis versus organizations that adopted Corporate Social Responsibility (CSR) after the 2008 financial crisis. They found that there was a large difference in their financial reporting. They also concluded that two thirds of the companies that had not establish Corporate Social Responsibility (CSR) in their accounting reporting system had committed unethical act. According to (Mohr et al. 2001

.1 VII. Conclusion

In conclusion, it is inevitable that ethical practices and behaviors are critical to the accounting profession, because the information presented in the financial statements must be accurate and free of error. The profession has adopted the Code of Professional Conduct. Although, the code of conduct did not prevent the fraudulent behavior of such as Enron and WorldCom, it did provide guidance to the majority of the CPAs' in the United States (US) that continuously act in an ethical manner. The Sarbanes Oxley Act of 2002 was enacted not only in response to the corporate scandal but to raise ethical standard to a legal requirement.

.2 VIII. Recommendation for Future Studies

The authors of this article suggests that the following aspects should be considered for future studies when exploring business ethics for any professional organization: 1. Auditors and organizations (as cited in Messier, Glover, and Prawitt, 2008) need to understand the theoretical relevance that exist between "(1).utilitarianism, (2). a rights-based approach, and (3). a justice-based approach"(p.643) to ethics. Elements in each theory will help prevent ethical lapses and inappropriate behaviors in the accounting profession.

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