

Business Ethics and Integrity and It's Role in Leadership Today

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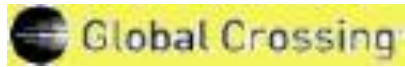
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In the Last 30 Days...

Boeing to Face SEC Probe of Dreamliner and 747 Accounting

BloombergBusiness

2/11/16

- The SEC is investigating whether Boeing Co. properly accounted for the costs and expected sales of two of its best known jetliners
- The probe, which involves a whistleblower's complaint, centers on projections Boeing made about the long-term profitability for the 787 Dreamliner and the 747 jumbo aircraft
- Underlying the SEC review is a financial reporting method known as 'program accounting' that allows Boeing to spread the enormous upfront costs of manufacturing planes over many years



Valeant Uncovers Accounting Red Flags

Wall Street Journal

2/23/16

- Internal review at Valeant Pharmaceuticals International Inc. has raised questions about the company's accounting practices that will likely prompt a restatement of past financial statements
- Potential restatement of revenue that Valeant booked when its drugs were shipped to a distributor, Philidor Rx Services LLC
- Valeant said that a review of its past accounting practices found that about \$58 million of revenue recognized in late 2014 should have instead been booked the following year

Fuzzy-Math Gets Fresh SEC Scrutiny

Accounting Today

March 1, 2016

- With more and more companies promoting bookkeeping that deviates from US standards (known as GAAP-Generally Accepted Accounting Principles) the SEC is warning about getting TOO creative
- The concern is too much non-GAAP accounting could make it harder for investors to size up companies (Groupon)
- Using non-standard accounting is perfectly legal, provided companies also report the official GAAP numbers. These days, young companies aren't the only ones offering up two sets of books (ConocoPhillips)

100 YEARS OF CAUSE AND EFFECT



Stock market crash	1929
Securities and Exchange Commission established	1930
Periods of economic stability	1950-1960
Sharp rise in financial fraud, illegal corporate acts, bribes and kickbacks	1970s
Foreign Corrupts Practices Act	1972
Student marketing/Equity funding/ZZZZ Best	1970-1980
AICPA – SEC practice session	1977
The Cohen commission	1977-1978
Era of rapid technology growth	1980s-2000

100 YEARS OF CAUSE AND EFFECT, continued



Rapid rise in personal wealth	1980s-1990s
COSO established	1985
Tort reform/class action lawsuit	1996
Enron collapses – Arthur Andersen fails	2001-2002
SOX and PCAOB established	2002
Enron, Worldcom, Adelphia, Peregrine, Quest, HealthSouth, Tyco	2002-2005
Global financial crisis, mortgage meltdown, hedge fund/SAC, GSK, KPMG insider trading	2007-2014
Economic downturn in a global economy – new accounting problems	2015-present

What is the Common Theme?

“Short Answer”



1. Trading “short-term gain” for “long-term value”
2. Ignoring the “Elephant in the Room”
 1. **Subprime mortgages**
 2. **Material** weaknesses
 3. **Excessive** rates on return
 4. **Trillions** of dollars of debt
3. Failure in personal ethics and decision making (code: greed!)
4. Failure in “Tone at the Top” – leadership at the top

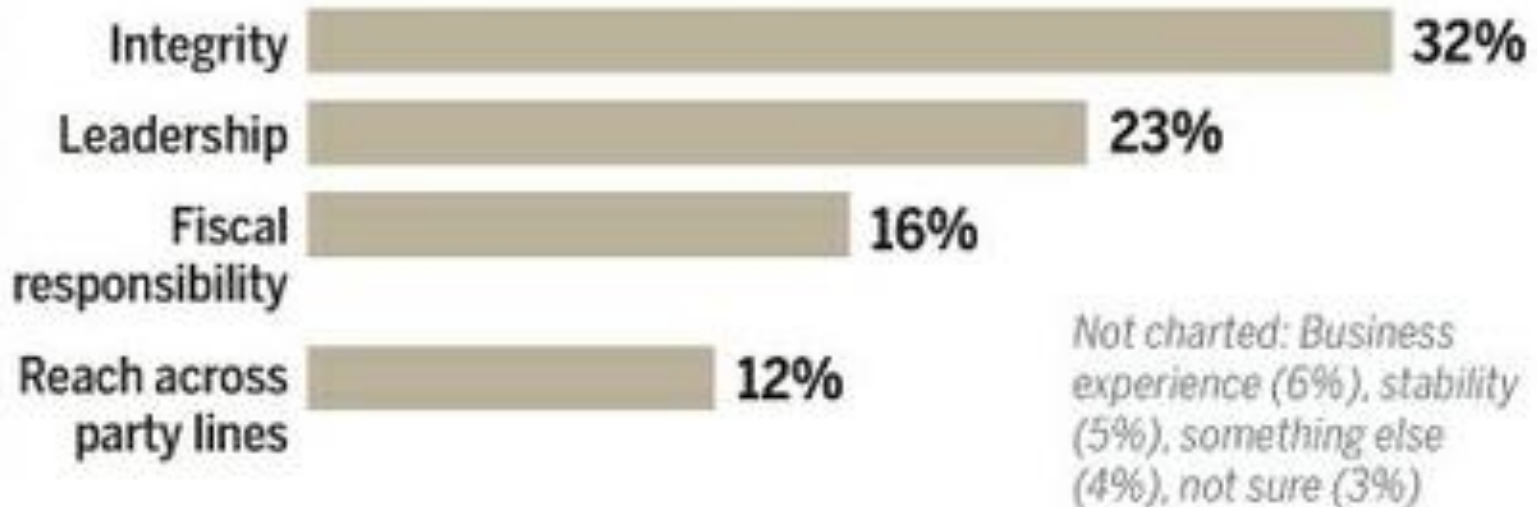


Are We Making Any Progress?



Integrity and Leadership Still Top of the List of Most Important Traits | U-T San Diego, 1/12/14

Q: Which of these would be the most important quality for a new mayor to have? (Choose one)



Restatements

Center for Audit Quality

February 2, 2016

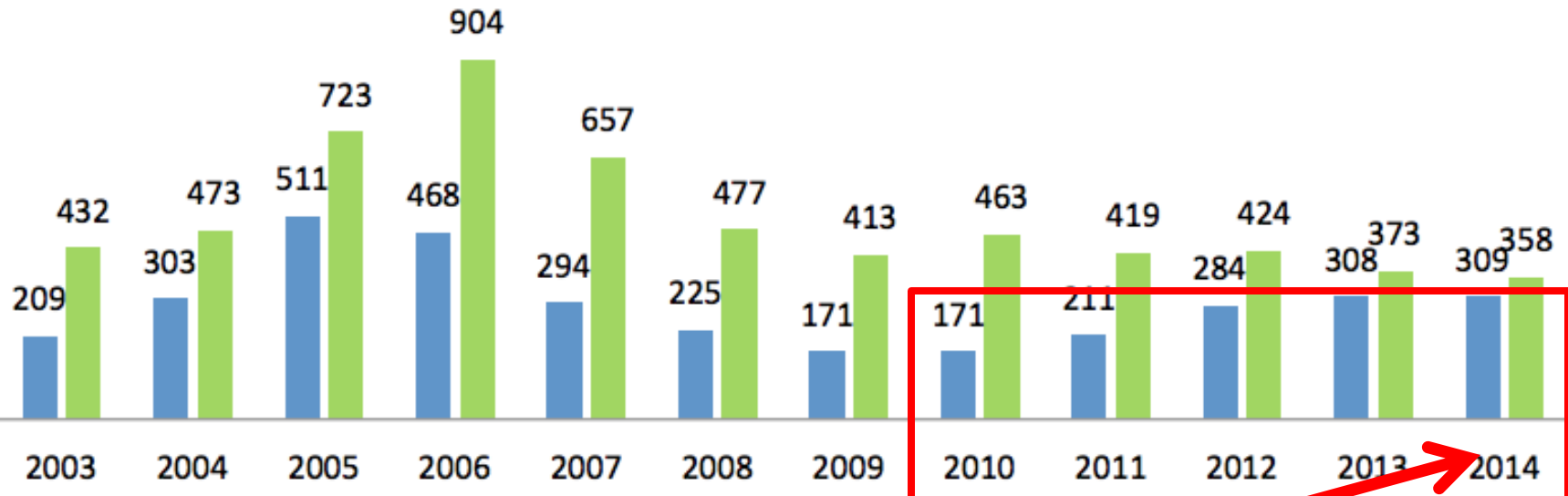
“Though restatements have been down since their peak during years immediately following implementation of Sarbanes-Oxley, they’re still flourishing,”

Wesley Bricker, SEC Deputy Chief Accountant
2015 AICPA Conference on Current SEC
and PCAOB Developments



12 Years of Restatements (Post SOX Introduction)

■ US Accelerated filers ■ US Non-accelerated filers



Source: www.AuditAnalytics.com

Total number of restatements has remained relatively low, however restatements among accelerated filers are increasing again.

Creating a Positive Company Culture

Blazing a Path to Success for the Profession

Journal of Accountancy
November 2015

AICPA Chairman Tim Christen takes pride in people as he advocates for CPAs to shape the profession's future through change

Christen said his goals for the profession include:

- ✓ Enhanced relevance for the marketplace of the future with an emphasis on the value and timeliness of service
- ✓ Acting for a position of strength
- ✓ Continue focus on quality

“The most important thing you can do for your own success is make the people below you successful.”

-Tim Christen, CPA, CGMA
Chairman of the AICPA Board of Directors

Corporate Culture Affects a Company's Results – But in Surprising Ways

Wall Street Journal

2/22/16

- Corporate culture – *refers to the way that the values and actions of managers and employees create a unique business environment*
- Study looked at the relationship between culture and sales at 95 auto dealerships over six years
 - Findings:
 - A positive company culture – one that engages and motivates employees – helps a company's bottom line
- One good reason to strive for better company culture is that it can provide a unique competitive advantage

Corporate Social Responsibility (CSR)



CSR has been around since the early 1950s and has increasingly become the expectations of business leaders

- CSR improves profitability; customers have a positive reaction to philanthropic efforts (which heightens their loyalty to an organization); CSR can attract new business; CSR efforts correlate to employees reporting in increased health and happiness
- To implement the CSR program, consider:
 1. CSR should be a component of firm culture and mission
 2. Employee involvement is key
 3. Sharing skills of our profession
 4. Create operational infrastructure to support CSR

**Leaders are being called upon to act responsibly
and be engaged with societal issues**

Standing Firm

The University of Georgia Magazine
December 2015



Samantha Joye endured a firestorm of criticism for her research contradicting early governmental reports on the BP oil spill



“A lesser person might have knuckled under.

The pressure that was imposed upon her for speaking the truth in a very clear, unbiased way has made her a hero in the eyes of those who respect integrity and the truth.

It’s hard when your job and reputation are on the line, and she just says, ‘Look, I tell you what I see. I’m telling the public what the world needs to know.’”

Sylvia Earle

NOAA’s former chief scientist under President George H.W. Bush

Pillar: Ethics & Firm Culture

Initiative: "Tone at the Top"

We believe in honest and forthright business practices and compliance with all applicable laws and regulations. We believe ethical business practices help us maintain credibility and a competitive edge.

Pillar: Client Base

Initiative: "A" Clients

Our client base consists of quality companies and individuals, reflecting an extension of the ethical practices and philosophies of our firm. Our third generation clients can attest to our ability to meet your needs and deadlines.

Pillar: Client Service

Initiative: On Time, Accurate, and High Quality Work

Each of our clients should receive the highest level of attention and responsiveness. We seek to be a distinguished professional services firm meeting our clients' regulatory requirements on a timely and effective basis.

Pillar: Financial Management

Initiative: Fiscally Prudent

We believe in "practicing what we preach" to our clients. Our firm strives to operate in a debt-free manner.

Pillar: Employees

Initiative: High Integrity Stable - Family Focused

We take pride in the caliber of our staff. We continually seek team members that can bring exceptional credentials, practical experience, and high integrity to our firm. We strive to maintain a firm culture which promotes balanced lives and places value on professional, family, and personal commitments.

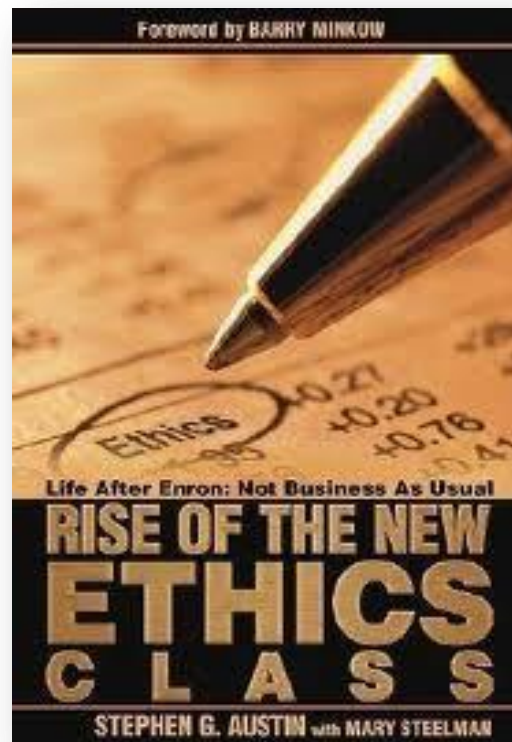
Pillar: Global Citizens

Initiative: Integra International SwenAsia

Through our long-term relationship with Integra International, we provide worldwide services leveraging 175 offices in 60 countries with over 3,000 CPAs. Our SwenAsia initiative is designed to provide middle-market turnkey business solutions for

Pillar: Firm Growth

Rise of the New Ethics Class



Understanding the Foundations for Ethical Behavior



1. Changing hearts and minds vs. “check the box”
2. Establish “Ethics Pillars” in your company
3. Communicate your Ethics Pillars at least four times per year – employees, customers, vendors
4. Financially reward ethical behavior
5. Focus on long-term values
6. Enjoy the rewards of an ethical climate

How to Culturally Address Our Continuing Ethics Issues



1. The home (childhood)
2. The school (classroom)
3. Religious platform (basis for decision-making)
4. Corporate culture/"Tone at the Top"
5. Repeat the cycle – by generation
6. Breaking the pattern – historical cycles of fraud

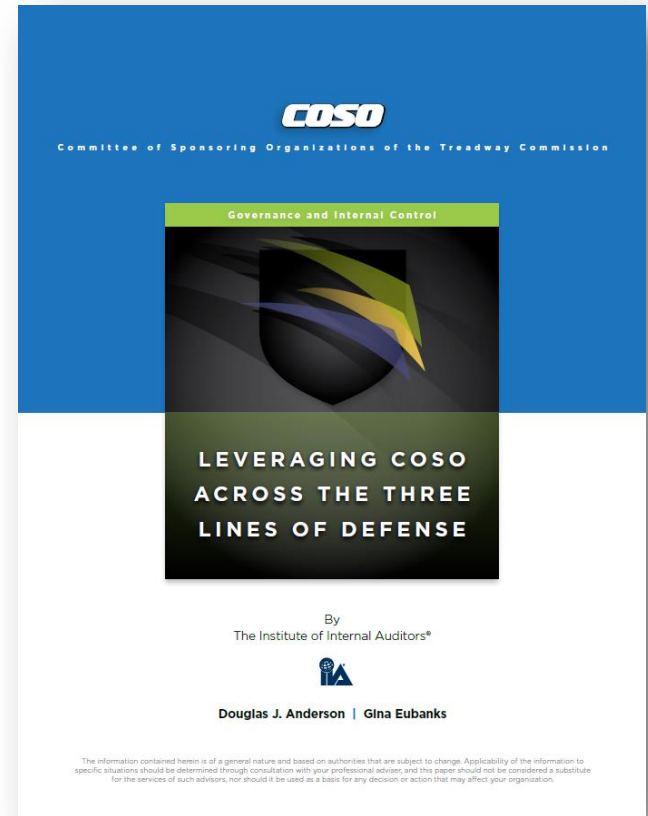


**Biblical Perspective
on Corporate Values:**

**Ideas and Worldviews
Shape our Actions**

Resources

- Ethisphere
<http://ethisphere.com>
- AICPA's Fraud Resource Center
- Convene
www.convenenow.com
- Institute for Global Ethics
www.globalethics.org
- The Red Flag Group
www.redflaggroup.com
- Swenson Advisors, LLP
www.SwensonAdvisors.com



Questions?

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