

An Analysis of Three Ethical Issues:
Different Christian Traditions Lead to Different Perspectives

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As professors in Christian higher education, it is important to look at business issues from a Christian viewpoint. It is also important to demonstrate to students how to analyze issues from a Christian perspective. One of the overriding obstacles to this is that there is usually no single Christian point of view. Therefore, it is important to develop tools to examine multiple ways Christians can examine issues.

While there are many denominations, Christianity can be divided into four major faith traditions: Roman Catholic, Reformed, Anabaptist and Wesleyan. This paper begins with a brief discussion of each of these major faith traditions.

The main part of this paper examines three important, current issues of marketplace justice. The discussion of each issue follows a similar sequence. First, the issue is discussed providing various background information. Then two perspectives of the issue are provided. The first issue is examined in light of Roman Catholic and Wesleyan views. Reformed and Anabaptist traditions shape the discussion of the second issue. For the third issue a different approach is used. Rather than rely on denominational differences, it demonstrates how issues can be examined from different Biblical bases. The final part of the discussion of each issue encompasses pedagogical methods which could be utilized to guide student thinking of these issues.

The three issues examined in this paper have been drawn from the fields of accounting and finance. While for many, accounting is seen as a secular activity that has no

particular ties to any faith tradition or biblical foundation, this paper demonstrates that because of the influence of faiths on all walks of life, including business, faith traditions should and do have an impact on how accounting is done and reported.

This examination of a variety of ethical issues demonstrates that a single Christian view of ethical issues is not possible and it is important to understand there is a breadth of Christian points of view that should be explored when looking at ethical issues. Although all three of the issues examined are important, of greater importance is the methodology followed in this paper. A similar methodology to that followed in this paper can be utilized to examine other issues of marketplace justice.

Four Major Faith Traditions

Roman Catholic Tradition

The Roman Catholic tradition is the original of the Christian faiths. In the Catholic tradition, God is viewed as having unlimited authority or influence. Although the world is seen as a fallen world, God administers grace to the world through the Church. Even though God's relationship to the church is broken, through the Church hierarchy individuals can be saved. The implications of this would be a very structured authoritarian business model. The centralized management structure would typically fit within the Catholic tradition, as top management would make the majority of decisions. The Church's focus tends to be on social justice in the workplace, so is somewhat skeptical of traditional business practices (Stackhouse, McCann, Roels, & Williams, 1995, p. 141; S.G. Johnson personal communication, May 27, 2003).

Reformed Tradition

The Reformed tradition began with Martin Luther as he broke away from the Catholic Church. John Calvin later influenced the Reformed tradition. Under the Reformed tradition, God is seen as all knowing and the world has gone through a natural revelation that is saved by God's common grace. The role of the people, who bear God's image, is to serve God. This extends into the business world by seeing the work of people as a means of a call to serve God. Successful business enterprises are seen more as a reward from God for good and faithful service. This tradition recognizes that the world is influenced by sin and evil still exists, but there are redemptive qualities through forgiveness once the individuals choose to follow Christ. Much of the focus of this tradition tends to be on how individuals can help the business rather than how the business can help the individuals (Stackhouse, et al., 1995, p. 171-172, 180; S.G. Johnson personal communication, May 27, 2003).

Anabaptist Tradition

The Anabaptist tradition, which came sometime after Luther and Calvin, is also known as the "Radical Reformation." This tradition rose mostly out of the less educated and less powerful parts of the population, who were often poorly treated by the other established denominations. They were thought of as "simple believers" who saw in the Bible a spiritual model of life that demanded opposition to the patterns of the world. Some of the recognized leaders of the Anabaptist tradition include Ulrich Stadler and Gerrard Winstanley. Their goal was to establish a pure church in which those who lived simple, saintly lives would have authority. This tradition sees God as a God of salvation and people are considered lost until they can find a relationship with God which brings them back. The tradition looks at the relationship to God as closer to a partnership and in order to bring themselves back to God

individuals need to follow a disciplined life. This is played out in a business setting by encouraging success and monetary wealth as a means to a greater end. God uses the individual as an instrument to save others. In a business setting then the primary goal is beyond the business and is a tool to bring others to God. Because successful businesses are much more capable of carrying out this mission, business success is seen as the catalyst to bring about the greater good (Stackhouse, et al., 1995, p. 187; S.G. Johnson personal communication, May 27, 2003).

Wesleyan Tradition

The fourth of the major Christian traditions discussed in this paper is the Wesleyan tradition, founded by John Wesleyan. He turned to evangelical preaching and while he preached from the classical doctrines of the previous Church traditions, as well as the Bible, he added “the idea that each person should seek to experience the ‘warmed heart’ that comes from knowing Christ directly.” (Stackhouse, et al., p. 193). In this tradition God is seen as loving and redemptive towards creation. Each person should strive for a personal relationship with God. Humans are naturally needy of love and intimacy that can only be filled with a relationship with God. This has implications in the business world, where individuals, rather than the Church, are responsible for justice ends. This tradition affirms business theories of relationships, as work can be a caring, loving environment. A sense of deep emotional needs of individuals can play out in a highly supportive, intimate, caring workplace, which would add to the glory of God (Stackhouse, et al., 1995, p. 193; S.G. Johnson personal communication, May 27, 2003).

Issue 1 – Fraud

Understanding the Issue

While fraud has always been a favorite topic in accounting, in light of the recent financial scandals there has been a new awareness as to the problem of fraud not only in corporate America, but also all over the world, in many types of organizations, and both for-profit and not-for-profit enterprises. After the Enron scandal was discovered and even before the other corporate scandals came to light, many political and business leaders were calling for a change in corporate America. According to President George W. Bush (2002, ¶ 29), “Business relationships, like all human relationships, are built on a foundation of integrity and trust.” The President indicated that reform should begin at the top as “the chief executive officer has a daily duty to oversee the entire enterprise, the entire firm, and therefore, bears a unique responsibility for serving shareholder interests” (Bush, ¶ 18).

According to Albrecht & Albrecht (2004), the Association of Certified Fraud Examiners conducted a study of fraud in the mid-1990s and again in 2002 and estimated that fraud costs U.S. organizations more than \$400 billion annually. While it is difficult to measure, most people believe fraud is a growing problem. The FBI has labeled fraud as the fastest growing crime. While fraud is a general term it can be defined as “any and all means a person uses to gain an unfair advantage over another person” (Romney, p. 329). Albrecht & Albrecht (2004, p. 8) went a step further and divided fraud into six types:

1. Employee embezzlement
2. Management fraud
3. Investment scams
4. Vendor fraud.

5. Customer fraud
6. Miscellaneous fraud.

While all of these forms are serious, large companies such as Enron, WorldCom, Global Crossing and Tyco have all experienced massive management fraud. In these cases management wanted stockholders to believe that the companies' financial positions were better than they actually were. The top corporate executives in all of these companies did profit, not only at the expense of the employees in their companies, but also at the expense of the American public and worldwide investors. While many frauds are not as large nor have the lasting effects of these frauds, the motives of the majority of perpetrators are very similar. People commit fraud because of three factors: perceived pressure, perceived opportunity, and rationalizing fraud as acceptable. These can occur in various proportions, but the studies indicate all three are present in order to commit and justify the fraud (Albrecht & Albrecht, 2004).

One of the challenges of fraud is to reduce its occurrence. According to Albrecht & Albrecht (2004, p.47), "fraud prevention involves two fundamental activities (1) creating and maintaining a culture of honesty and integrity and (2) assessing the risk of fraud and developing concrete responses to minimize risk and eliminate opportunity." While management is responsible for creating and maintaining the culture of honesty, in publicly traded companies the outside auditors also have a responsibility to the public to provide oversight in the ability of management to maintain and encourage that culture. The recent management frauds have brought to light the depth and magnitude of potential corporate fraud. These scandals have surfaced the importance of developing controls and mechanisms to reduce fraud. While the secular business community develops methods and reasoning

behind internal controls set up to discourage the misappropriation of assets, it is helpful to look at some of the Christian traditions and how they might inform the establishment of the control environment in order to reduce fraud. The following pages discuss both the Catholic and the Wesleyan traditions.

Perspective 1 – The Roman Catholic Tradition

Because the Catholic tradition is hierarchical, businesses influenced by this tradition tend to have a more structured hierarchical model. The theory of the tradition is that those at the top are more knowing and closer to the actual needs of the organization; therefore a CEO can and should have more voice as to the operation of the business. As this filters into the control environment being created in a company, it would seem this tradition would be supportive of a very rule-based internal control structure.

Consistent with this tradition, management would assume that all employees were capable and perhaps even intended to commit fraud. This would be consistent with the belief that humans are fallen and separated from God and it is through the Church hierarchy that they are saved by the grace of God. Extending this reasoning to the business world would indicate that the employees are only saved from committing fraud if management designs and implements an accounting system that prevents or at least reduces the possibility of the employee committing the misappropriation.

This mind set would also extend to the outside auditors preparing the audit for the company. They would expect clear guidelines from management as to the internal control structure and expect that management is closely following the guidelines. The auditor would also tend to assume that everyone in the organization was capable of fraud if given the right

set of circumstances. This attitude may indeed help the auditor maintain a skeptical viewpoint, which could be extremely valuable in the audit of the company.

The disadvantage of the Catholic tradition may become evident if structure and procedures become more important than the actual operation of the company. With the focus on the rules and who is in charge, there may be an improper shift as if that is the only important function of the company. Internal controls must not only be implemented but they also must be cost effective. If the influence of the Catholic tradition is high there may be a tendency to spend unnecessary dollars protecting pennies. While good internal controls are important, one must not lose sight as to the purpose of the business.

Overall this tradition may be an excellent model as to the reduction of fraud through the internal control structure implemented. Its only caution may be to not allow the structure and the rules to become more important than the company's business purpose.

Perspective 2 – The Wesleyan Tradition

The Wesleyan tradition would approach internal controls differently. Under the Wesleyan tradition, rather than a strict hierarchical top down approach to internal controls, this tradition would be more likely to emphasize the need for the individual to be more responsible. Because this tradition believes in a loving God and that individuals seek a personal relationship, they would also reflect that love. Therefore, rather than internal controls being determined and handed down from the top management, internal controls would more likely be a result of a consensus out of a desire to help one and another do what is right.

Therefore upper management would be more likely to assume that individuals normally would not desire to commit fraud, rather than assume that everyone will naturally

have intent to commit fraud. Any misappropriation committed by these individuals would be because of an overwhelming need by the individual and a system that allows for the fraud to occur. This would be consistent with the belief that God is redemptive and each individual that has come to know God is experiencing God as a friend and a guide for life. Management would also feel a responsibility to set up an effective system of internal controls, not to catch or suppress individuals, but in order to be supportive of the individual's desire to act in a godly loving manner.

The outside auditors would also approach the company with a less skeptical attitude as there would be more of an assumption that the company and the individuals working within the company are basically honest and do not have a desire to commit fraud. The evaluation of the internal control would be conducted primarily to confirm their assumptions, rather than with an attitude that fraud exists and they have been hired to find it. While guidelines would clearly exist, they would be designed and implemented primarily for those that have not yet come to know God and therefore have not yet found this friendship with God and do not imitate His loving nature. While the auditors would be assessing internal control, the overriding assumption would be that it is working and fraud does not exist unless evidence comes to their attention to the contrary.

The downside to the Wesleyan tradition may come if there are those in the company that do not share the Wesleyan view that individuals desire to be honest and loving, and there are actually individuals who do desire to commit fraud or are at least open to the idea if the opportunity exists. A view that individuals within the company are basically honest may cause management to not fully implement internal controls or to ignore when procedures are not being followed with an assumption that people are basically honest. The danger lies in

those individuals that do not share the Wesleyan tradition as part of their belief structure. While believing in the good of individuals is valuable, not setting up effective internal controls could cost the company in the long run.

Overall this tradition may be an excellent model as to the belief in individuals, but may be less effective in the implementation of internal control structure. This tradition puts more belief in the individual and less in the structure of the internal control system. Therefore, unless one can hire only others of a like belief structure, the potential for fraud may be higher.

Pedagogical Possibilities

In order for students to gain a greater understanding of fraud and the nature of people, it is important for them to understand how prevalent and costly it is in our society. Beyond the normal textbook coverage, the students would explore what motivates management to establish internal controls, primarily looking at the four major Christian traditions.

Once there is a foundation of the Christian traditions, the students could then look at fraud and the implementation of internal accounting controls. In order to accomplish this, the course would utilize the Association of Certified Fraud Examiners video “Red Flags” or a similar film, which shows the students different cases of fraud. Each of the cases is a scenario of how the fraud was accomplished and the amount of money involved. The case also talks of how the fraud was discovered. The students would then evaluate not only how the fraud was perpetrated, but also look at the motivation of management and the company in setting up the business and accounting control environments. To arrive at this discussion, students would answer a series of questions similar to the following:

1. Describe the fraud that was committed. How did the perpetrator carry out the fraud?
2. What amount of money or products was embezzled?
3. Explain the control environment that allowed the fraud to happen.
4. Based on the information given, did management make a decision based on assumptions of the nature of people? What were managements' assumptions of the nature of people?
5. In light of the Christian traditions, can you find any influence on the management based on the control environment that was set up?
6. What could management have done differently to reduce or prevent the fraud?
7. Does management bear any responsibility for the fraud or did they simply hire the "wrong" people?

After having the students individually answer the questions as a homework assignment, they could be put in small groups to discuss with others their perceptions and reactions to the questions. Once the small groups have had time to discuss these questions, the class would be called together as a whole. Students would be asked to volunteer some of their answers, with particular emphasis on the assumptions of management, the nature of people, and the potential influence of the Christian traditions. The discussion would then be directed to how the various Christian traditions or other faith perspectives can have an influence on business, especially as it relates to trust and honesty of individuals. The following questions should then be discussed as a class:

1. As Christian accountants or business professionals, how should the internal control systems be structured?

2. Is there a responsibility of management to watch out for others, or should there be an expectation of trust throughout the organization?

The goal would be to have the students explore connections between faith and business and also to understand that there may be more than one way that the interpretation of faith impacts business decisions.

Issue 2 – Self-Regulation

Understanding the Issue

Also in the wake of recent accounting scandals has been the move away from self-regulation within the industry. Self-regulation has been a part of the accounting profession for almost 110 years (House, 2002). With the new Sarbanes-Oxley Act, there is a message that the era of self-regulation is over. The Sarbanes-Oxley Act, passed in July 2002, formalized the Public Company Accounting Oversight Board (PCAOB) whose duty is to be responsible for the regulation of the audit of U.S. public companies by both U.S. and foreign accounting firms, with oversight provided by the Securities and Exchange Commission (SEC) rather than the profession itself.

Prior to the Sarbanes-Oxley Act accountants prided themselves on self-regulation. While the SEC has had statutory authority over the trading of publicly held securities in the United States since 1933, prior to such fiascos as Enron, they allowed the accounting profession to manage its own affairs. The accountants, through the Financial Accounting Standards Board (FASB), established accounting principles and procedures through a due process system. They also managed each other with a peer review system to help ensure integrity in the profession. Therefore, while the SEC and Congress had an influence on the profession and were able to prosecute wrongdoers, the profession itself was able to self-

regulate. This changed when the Enron (and later WorldCom) case surfaced and it was found that the outside auditors, Arthur Anderson, were knowledgeable of some of the fraudulent activities going on in the company. The outcomes of the new regulations are to protect the public and enhance transparency in financial reporting. Rather than the accountants regulating themselves, the PCAOB would assume these functions under the oversight of the SEC.

Prosser (2003) reported that at the 16th World Congress of Accountants meeting, the participants noted that the effect of scandals was worldwide. While pure self-regulation may now be inappropriate, direct government intervention could undermine professional judgment. Over-control may stifle growth in standards and would move the accounting profession to simply a compliance job. The critical issue will be to come to a negotiated level. While it is important that the public interest be protected, it may be just as important that the accounting profession is seen as the organization that can help carry out that mission. In spite of the reaction of Congress, this does not necessarily imply any conflict of interest, as the best protection of the public happens when professionals work to the highest technical and ethical standards (Prosser, 2003). The accounting scandals violated the trust of the accounting profession not only by the American public, but also by investors and other interested parties worldwide. The result was the demise of Arthur Anderson and the passage of the Sarbanes-Oxley Act.

Part of the problem of the Sarbanes-Oxley Act according to Keller (2002) was the act was passed in haste for the purpose of restoring confidence in the investing public. Because of the haste and the sweeping provisions of the Act, there are many issues that will need sorting out for years. In light of the repercussions of the Act, the self-regulation of the

industry may not be over. In looking at this issue of whether the move away from self-regulation is positive or negative, it would be valuable to look at it from two of the Christian traditions. The following pages will look at this issue from the Reformed and the Anabaptist traditions.

Perspective 1 – The Reformed Tradition

Under the Reformed tradition, God is seen as full of knowledge and will. While it is not of the authoritarian nature of the Catholic tradition, humans are seen as needing to serve God. In this call to serve God, there is also a need to serve others. This tradition also recognizes the influence of sin in the world, and Christians have a need for forgiveness. Because of this recognition of sin, it would be reasonable to believe that the Reformed tradition would be supportive of oversight even to the extent of the Sarbanes-Oxley Act, which requires a greater involvement of the SEC in providing oversight in the accounting profession. In the Reformed tradition the business world is seen as a means to serve God.

In the eyes of Congress, the accounting profession has failed to meet the needed trust of the public. Because of this failure the profession needs to reform, which in the opinion of Congress includes greater oversight by the PCAOB, so that the public will be better served. While the whole profession is required to reformat because of the sins of a few, the Reformed tradition, which sees the people of God as a body, would be supportive of the change. According to Luther's (1995) writings, Christians are rare on the earth and "this is why the world needs a strict, harsh temporal government which will compel and constrain the wicked to refrain from theft and robbery." Luther went on to say that without this intervention trade and society would be destroyed. Laws and rules were indeed necessary in order to force and contain the wicked. He also discussed the teachings of St. Paul in the

letters to the Romans (13:3-4) where people are called to do what is good and follow the authority of leaders. Christians are to realize that rulers are not to be feared by those with good behavior, but are necessary for those doing evil.

As Stackhouse, et al. (1995, p.180) noted, Calvin added to these thoughts by emphasizing that awareness of God's perfection causes individuals to become "aware of how unjust, unrighteous, pretentious, and even wicked most of the things we humans think and do are by comparison." It would follow in this tradition that outside oversight of the accounting profession would be viewed as more helpful than destructive.

While the new legislation is not designed for the accountants already following the rules, the Reformed tradition would encourage all to follow the increased rule structure. This would be done not to hurt those doing things correctly, but to call into check those that are practicing evil. This tradition clearly sees a fallen world that needs to be held in check until they ask for forgiveness.

Perspective 2 – The Anabaptist Tradition

The Anabaptist tradition believes in a God of salvation and that people are lost, seeking a relationship to bring them back to God. The relationship of God to humans is more of a partnership with individuals as free agents to choose God. Humans are also able to lead each other to the truth of God. Under the Anabaptist tradition, there would be less support for the oversight mandated in the Sarbanes-Oxley Act. While this tradition finds value in business and desires businesses to succeed, it is more supportive of people leading others to the true and successful operation of the business. Self-regulation would seem to be more consistent with the Anabaptist tradition than the government oversight model. Business is

seen as a means to bring others to God in the Anabaptist tradition and government involvement would not necessarily be considered a useful part of that movement.

While the Anabaptist tradition would not deny that the accounting profession had failed, at least in the specific companies that underwent scandals, they would not necessarily believe the solution was government intervention through legislation. They would support reform, but this reform may include refined but continued self-regulation. In the Anabaptist tradition, with people seeing their obligation to lead others to the truth, finding those already in the profession to help lead the profession in rebuilding integrity and trust once enjoyed by accountants would be a better solution. As Stackhouse, et al. (1995, p. 187) pointed out, the Anabaptists

saw in the Bible another, spiritual model of life, one that demanded opposition to the given patterns of the world. As the prophets opposed the kings and the privileged, and as Christ opposed the priests and Caesar, they wanted to establish a pure church in which only those who lived simple, saintly lives would have authority.

Based on this the Anabaptist would tend to have less trust in the government and want to put more trust in saintly individuals to reform the profession without the intervention that is found in the Sarbanes-Oxley Act.

Even with the clear violation of trust in the accounting profession due to the involvement of the accounting firm of Arthur Anderson, Anabaptists would most likely not want to turn to more government intervention. The tradition would most likely support reform from within. The publicized information would not tend to bother those influenced by this tradition as there are instances when more involvement of the government is seen as a negative solution rather than a positive solution.

Pedagogical Possibilities

The teaching of this concept may best be done by a more in depth study than can be accomplished in a single class session. Therefore, in order to look broader than the self-regulation issue, a short research paper could be assigned on the Sarbanes-Oxley Act. Because this Act profoundly impacts the accounting profession it would be beneficial for the students to gain a greater understanding of the entire act. Also included in the research paper would be an expanded section on the move from self-regulation to a greater oversight by the PCAOB. As a part of this portion of the paper, students would be required to expand on the implications that losing self-regulation has and also whether in their opinion the Act went too far in this area. They should also be required to look at how faith, particularly Christian traditions, influence or should influence the professional move to less self-regulation.

Possible topics and questions to guide the students' research may include:

1. Briefly summarize the Sarbanes-Oxley Act.
2. Who was responsible for authoring and shepherding the Act through Congress?
3. What was happening in the profession that gave rise to the passage of the Act?
4. Why does the profession see the Act as one of the most significant events to change the accounting profession since the 1933 and 1934 Securities Acts?
5. As a part of the Act, the profession is losing its ability to self-regulate. What is the Act referring to by the term self-regulation?
6. Why was this seen as a major loss by the profession?
7. Does the loss of self-regulation have any impact on other professions?

8. Explain whether different Christian faith perspectives would be supportive of government intervention in self-regulation or would be more supportive of going back to self-regulation.
9. In your opinion, do you believe the loss of self-regulation is a major shift in the profession and how do you believe it will impact your future in a business environment?

While these research projects would primarily be done outside of class time, it would seem reasonable to spend a class session discussing the student's answers to questions six through nine. The students could gain valuable insight by sharing their views on the issue of self-regulation.

Issue 3 – Use of Special Purpose Entities (SPEs)

This issue demonstrates how one can utilize different Biblical viewpoints without consideration of a particular denomination tradition.

Understanding the Issue

The use by large firms of unconsolidated, non-independent special purpose entities (SPEs) is growing rapidly. SPEs are often utilized to shift assets and liabilities off a corporation's books. The use of SPEs is often appropriate. However, at times corporations use SPEs to record allegedly bogus income or to hide liabilities that should actually be disclosed. The issues with SPEs began about two years ago with the collapse of Enron, and continue as firms and public auditors wrestle with questions regarding the independence of SPEs and disclosures required when firms use SPEs.

Enron. Enron represents perhaps the epitome of the nefarious use of SPEs. Enron clearly used SPEs to manufacture income and hide losses. If Enron had not been able to use

SPEs, Enron still would have failed. In fact, Enron would have failed earlier. The use of SPEs allowed Enron to postpone its day of reckoning. This deliberate falsification of its financial statements hurt those investors who purchased Enron stock during the last few years prior to its collapse.

Enron utilized numerous SPEs over its last several years. According to Sloan (2001), Enron established four partnerships, called Raptor, which Enron or Enron employees controlled. Enron sold stock to these partnerships. This allowed Enron to record profits from the sham sale of the stock while still retaining control of the stock. Also, Enron pledged \$1.2 billion of support for these partnerships, and this liability did not appear on Enron's books. When the value of the stock owned by the partnerships plummeted, Enron had to make good on the \$1.2 billion. This ultimately resulted in a \$1.2 billion write-off for Enron.

Based on the characters from the *Star Wars* movies, Enron created Chewco and Jedi partnerships. These were similar to the Raptor partnerships. According to Emshwiller and Smith (2001), these partnerships allowed Enron to record another \$390 million of net income while simultaneously keeping hundreds of millions of dollars of debt off of Enron's books.

According to Hirsch (2001) Enron used several other partnerships which held Enron stock. As the Enron stock price tumbled, it had to include these partnership losses on Enron's own books. Enron was continuously evasive about its partnerships and, when pressed, frequently mischaracterized them and the amount of losses and exposure Enron had with these partnerships.

Numerous factors contributed to Enron's ultimate fall – its investments were earning less than what Enron had to pay for borrowing money, and ultimately Enron lost credibility with the investing public. But Enron was clearly able to deceive investors and the public for

several years. By utilizing SPEs Enron was able to report extra income and avoid reporting losses, which delayed Enron's inevitable collapse.

Despite Enron's misuse of SPEs, many firms use SPEs for legitimate and appropriate activity. Corporate finance officers and accounting firms will continue to wrestle with SPEs for the next several years. One can make a biblical case both against and for the continued use of SPEs.

Perspective 1 – Managers Should Not Utilize SPEs

Arguments against the use of SPEs can be based on both a consideration of ethical behavior as well as a consideration of stewardship issues.

Use of SPEs is not consistent with ethical behavior. Clearly the Bible calls managers to act in an upright and ethically proper manner. SPEs remove assets and liabilities from the firm's books. Further, firms book income from transactions with SPEs, when these are clearly not arms-length transactions. These practices are not consistent with upright and ethical behavior; therefore, they should not be tolerated.

God is upright and desires his followers to be upright. "Good and upright is the Lord; therefore he instructs sinners in his ways" (Psalm 25:8). "He holds victory in store for the upright, he is a shield to those whose walk is blameless" (Proverbs 2:7). "The Lord detests a perverse man but takes the upright into his confidence" (Proverbs 3:32). "My shield is God Most High, who saves the upright in heart" (Psalm 7:10).

The scriptures admonish us to be upright and ethical. Firm management knows that these actions are not consistent with ethical behavior. This is evidenced by the reluctance with which they have disclosed their involvement with SPEs. Most companies have not been as forthright as GE, and even GE is not blameless. GE's actions were defensive. It only

disclosed the effect of SPEs under intense pressure and after seeing investors lose all confidence in Enron and some other firms which extensively utilized SPEs. GE's position was almost, "Yes, we use SPEs but we want to make it clear that we do not use them nearly as much as some other firms, and thus we are not as bad as they are."

Managers must consider stewardship issues. Managers are stewards of corporate assets. They have been entrusted with the care of these assets by the owners; that is, the shareholders, of the corporation. Thus, the use of SPEs by managers may be considered in light of stewardship models. A parallel can be drawn between managers' use of resources which have been entrusted to them by owners, and individuals' use of resources which have been entrusted to them by God.

Monsma (1989) points out that individuals are not entitled to use the resources with which they have been entrusted as they see fit. Rather, they are to use them as God commands. Further, Monsma points out that the Bible consistently calls stewards to use resources to promote justice.

To apply this principle to corporate managers, it seems that managers must remember that they are not free to use corporate resources only as they see fit. Their actions must be consistent with the desires of the owners. Is it possible that owners have a consistent view of the use of SPEs? Some shareowners undoubtedly support the use of SPEs. However, these shareholders have a shortsighted view. The use of SPEs provides temporary support to stock prices, but generally leads to long-term share price erosion. Thus, the vast majority of shareowners cannot support the use of SPEs.

Finally, managers must ask if the use of SPEs promote justice. Clearly they do not. Managers use SPEs to hide the true condition of the company from owners and investors and at times to book fictitious profits. Thus, they are not consistent with any theories of justice.

SPEs are not consistent with good stewardship and they are not consistent with ethical behavior. Therefore managers should refrain from the use of SPEs.

Perspective 2 – Managers Should Continue to Use SPEs Freely

Surely, if an action is legally permissible then it is acceptable. There are fairly strict rules which govern the use and disclosure of SPEs. As long as firms follow the rules, they should continue unfettered use of SPEs.

It was noted in the previous section that corporate managers are stewards of corporate assets. Stockholders elect the members of the Board of Directors, and the Board hires the officers. Financial theory says that the primary goal of the management of a firm is to increase shareholder value by increasing the price of the firm's stock (Brealey & Myers, 2003, p. 22; Ross, Westerfield, & Jordan, 1998, pp. 9-10). If management believes shareholders will be better off if an organization transfers assets and liabilities off its books, and if management can do this in a way that meets all accounting requirements, then management should feel free to pursue these actions. Management will do this only if they believe such actions will result in long-term increases in stock price, and this is in the best interests of the shareholder owners.

Clearly officers and employees have a duty to act honestly and ethically. But surely they do not have an obligation to go beyond what the law requires. These people work very hard on behalf of shareowners, and it is inappropriate to limit their activities. As noted in

both the Old and New Testaments, “Do not muzzle an ox while it is treading out the grain.” (Deuteronomy 25:4 and I Timothy 5:18)

Management needs to ensure that the firm meets all legal and accounting requirements. The accounting profession is considering revising the criteria which determines whether an SPE is independent and thus does not need to be consolidated with the firm’s operations. Management needs to be aware of any revisions and scrupulously ensure that it fully meets all requirements for independence. Management is of course also obligated to meet all disclosure requirements. Again, it needs to make sure it fully complies with all such requirements. A firm may decide to disclose more than is required, but it should feel under no compulsion to do so.

Ultimately it is management’s responsibility to ensure that SPEs and related disclosures meet all requirements. However, external auditing firm can provide good advice in this area. At times the external auditors will not do the job they should. Arthur Andersen was Enron’s auditors, and Arthur Andersen’s work for Enron was clearly deficient in many areas. Arthur Andersen’s work was also deficient for several other clients. Although it took a few years, market mechanisms eventually worked and in 2002 Arthur Andersen ceased operations. This has caused the remaining public auditing firms to be more diligent in all areas, but especially in the understanding and reporting of SPEs. As long as firms are completely honest with their auditors, they have reasonably good assurance that the auditors will provide good advice regarding the SPEs.

Finally, it should be noted that aggressive, but fair, practices of management appear to be endorsed by both Christian and Islamic religious traditions. Catherwood (1983) makes the point that Christians have a responsibility to do the best job they are able to do. Prudent

use of SPEs by managers seems to be mandated by such an attitude. Hefner (1992) points out that Islam supports commercial capitalism. The Koran does have some injunctions which seem to be counter to capitalism, the most well known being the prohibition of charging or paying interest. But by and large Islam is consistent with capitalism. Since SPEs can be an appropriate part of capitalism, presumably Islam is not against the use of SPEs.

Pedagogical Possibilities

It is difficult to conceive of a way for students to experience or participate in SPEs. SPEs are complicated, complex, and obscure. Nevertheless, it is important for management students, especially accounting and finance students, to understand the ethical issues involved with SPEs.

Awareness of the issue. First, students need to understand SPEs and both their legitimate and illegitimate uses. This issue is new enough that finance textbooks have not yet begun to include material related to SPEs. It would seem appropriate for an instructor, via lecture, to provide basic information about SPEs. The class could then be divided into small groups, with three or four students in each group. Each group would be assigned a company which has used SPEs. Enron and GE are examples of such companies, but many other firms also use SPEs. Each group would be responsible for an oral presentation to the class describing what they have been able to learn about how their assigned firm has utilized SPEs. Through these presentations students would gain a broad understanding of the extent and purposes to which various firm have used SPEs.

Understanding the ethical implications. After students have gained an understanding of SPEs, it is important for students to begin to formulate their own perspective of the ethical issues associated with SPEs. This could again be effectively accomplished through the use of

group exercises. However, the groups would be larger than those utilized for the first part of this exercise. The entire class could be divided into three groups. After several days set aside for preparation, there would be a class debate. Each of the three groups would be responsible for defending its assigned position.

One group could have the position that management should never use SPEs. Another group could have the position that SPEs are at times appropriate, but there should be greater controls over their use and more disclosure should be required. The third group could be assigned the position that the current system is fine as it is. No greater controls or restrictions are needed and management is free to use SPEs as it sees fit. If one wanted to go to the extreme, there could be a fourth group which would be responsible for arguing the position that controls and disclosure requirements should be reduced from what is currently in place.

Although students may not agree with the position to which they have been assigned, by preparing for the class debate they will better understand the ethical issues regarding the use and reporting of SPEs. It is very possible that their position regarding SPES will change as they review the arguments and prepare for the debate. During the course of the debates it is very possible that their position will change again, especially if the groups present well-prepared, cogent arguments.

Conclusion

While there are many issues in accounting and finance, this paper examined three of those issues and offered examples of how faith traditions or Biblical interpretations could have an impact on business decision making. A pedagogical method was also offered for each issue. The purpose of these are to expose students to the issues as well encourage them to explore how faith traditions or Biblical interpretation may inform the decision making

process. While many outcomes may not change, looking at issues from different points of view helps students understand that there are several Christian perspectives and there may be various ways to resolve an issue. While there is one God, our human interpretation of God has created the faith traditions as well as Biblical interpretations that have long been with us. Whether up front or behind the decisions, these faith traditions and Biblical interpretations have had and should continue to have a substantial influence in the world of business. Therefore, it is useful for the Christian businessperson to look at issues through the many lenses of the Christian faith.

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