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What is the Impact of Teaching Business Ethics on the Incidence of Accounting Fraud?

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ABSTRACT

This paper compares the relationship between increasing business ethics education and accounting fraud cases over the past few decades. Using raw data from the SEC, scholarly journal articles, survey data, and professional opinions, the conclusion is that there is no correlation between the two variables. Due to the lack of precise data for a count of collegiate business ethics courses, the proxy of the publication of business ethics-related journal articles was used in determining the absence of a correlation. I conclude, based on the strength of other sources, that the most important factors to combat accounting fraud are ethical company cultures and strong firmwide internal controls, on top of the early introduction of ethics in a student's education and active reinforcement thereafter.

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Chapter 1

BACKGROUND AND RESEARCH OBJECTIVES

Accounting fraud is a longstanding issue that is problematic in the corporate world. Some companies commit accounting fraud with the intention of falsely misleading investors. The act of accounting fraud is said to be the "intentional manipulation of financial statements to create or hide corporate transactions, or create a false appearance of financial health" (Nickolas, 2023). According to a 2020 study conducted by professors at the University of Toronto, University of California at Berkeley, and University of Chicago, on average, 42 percent of companies are committing accounting violations over the business cycle (Dyck et al., 2020). However, six percent of public companies are committing financial reporting violations severe enough to warrant SEC enforcement. While a 42 percent violation rate is high, according to the Association of Certified Fraud Examiner's (ACFE) 2022 Occupational Fraud Report to the Nations, nine percent of fraud schemes are due to a perpetrator's intentional material misstatement of a company's financial statements (Occupational Fraud 2022: A Report to the Nations).

The ACFE further claims that companies lose approximately five percent of their revenue annually from fraud alone. In its 2022 Global Study on Occupational Fraud and Abuse, the ACFE found from 2,110 cases across 133 countries that fraud losses totaled over $3.6 billion, with the average loss per case being approximately $1.78 million. Almost 700 cases in 2022 alone came from the United States and Canada, including asset misappropriation, financial misstatement, and corruption schemes. Financial misstatement fraud schemes were discovered to be the least common method of accounting fraud; however, they are the costliest, leading businesses to suffer from a median loss of $593,000 annually. The average financial statement fraud scheme lasts 18 months with, across all methodologies, the presence of anti-fraud controls decreasing the duration of fraud.

An offered solution for the longstanding issue of accounting fraud is to increase business ethics education. As a result, I am researching the potential correlation between business ethics education and financial restatements due to fraud. I hypothesize that while ethics teaching and training over the years have increased, so have corporate pressures to grow exponentially, the drive to attract investors, and creative methods to manipulate financials, so there will be no statistically significant correlation between increasing business ethics education and a decrease in accounting fraud.

Accounting fraud can take numerous forms, including recording fictitious sales/revenues through producing counterfeit invoices or recording sales that never occurred; playing with the timing of recorded revenue by moving up or overpromising future sales; channel stuffing, or shipping more goods to retailers or distributors than they can sell and recording shipments as sales even though most items will be returned; or bill and hold schemes where customers are billed for products that are delayed by holding them in the company's warehouse while recording revenue. Not all companies just tamper with revenue recognition. Some overstate assets or understate liabilities, underreport expenses, become creative and misuse GAAP to incorrectly reallocate bad debts or liabilities, improperly transfer expenses or liabilities to related entities, evade taxes, and more.

While the overall trend is that fraud is being caught faster and resulting in smaller losses over the past decade, perpetrators are still able to create fraudulent physical documents or electronic files, alter physical documents or electronic files, or destroy/withhold physical documents to conceal their efforts (Occupational Fraud 2022: A Report to the Nations). The tendency to commit fraud is influenced by organizational pressures; lax corporate ethical culture; rationalization; and reliance on job security, promotions, or compensation stemming from company performance meeting or exceeding analyst projections.

The rationale behind my research is that the practice of accounting fraud could develop into companies imploding, employees losing jobs and benefits, individual investors and pension funds losing money that was saved for retirement, and other chain reactions that affect the economy and financial system (Hilzenrath, 2022). The significance of the problem of accounting fraud is enormous. To test my hypothesis, this paper utilizes raw data, survey responses, and interviews from professionals on the topic.

Chapter 2

NOTABLE ACCOUNTING FRAUD CASES

The accounting profession reached its peak reputation in the mid 1900s, when the profession became nationally respected and CPA laws were enacted. Most major universities began offering accounting courses and by 1950 all states and territories enacted CPA laws, all jurisdictions but one adopted the Institute's Uniform CPA Exam, and a greater portion of American literature on accounting auditing came into existence (Zeff, 2003). Soon after its peak, the perception of the field declined sharply, as businesses faced pressures to meet aggressive positive projections of financial wellbeing and many perpetrated accounting fraud by falsely reporting their financials to portray a stronger image of performance to investors. Simultaneously, many accountants had formed close-knit relationships with their clients, that ultimately led to pressure to attest to misrepresented financials.

Since the 1990s, there have been some notable accounting fraud cases that shook up the business world and resulted in government intervention with new regulations. These are routinely cited as examples of accounting fraud. However, there are less cited cases that typify the more common scales of accounting fraud. Table 1 highlights a variety of accounting fraud cases that illustrate the range of the impact of accounting fraud.

Table 1. Notable Accounting Fraud Cases

Company	*Year Accounting Fraud Charged*	*Methodology Used to Commit Fraud*	*Misstatement Materiality*	*Loss From Fraud*
Waste Management	1998	Inflated profits	Inflated net income by $1.7b	Shareholders lost $6b
Enron	2002	Inflated income, hid bad debt in SPEs	Inflated income by $568m	Shareholders lost $74b; company dissolved
WorldCom	2002	Inflated net income	Inflated profits by $3.8b in 2001 and $797m in 2002 Q1	Investors lost $175b; WorldCom paid $1.51b to SEC; filed for Chapter 11 bankruptcy
Lehman Brothers	2008	Repo 105, deflated debt	Removed $50b of liabilities from its books to conceal dependency on leverage	Filed for Chapter 11 bankruptcy—company value destroyed by $63b
Rite Aid	2002	Inflated income, understated expenses	Overstated pretax income by $2.3b and cumulative net income by $1.6b	Settled with shareholders for $200m
AHERF	1998	Fraudulently transferred reserves, overstated net income	Overstated consolidated net income by $59.6m (1997)	Investors lost over $550m
Iconix Brands	2022	Inflated revenue and EPS by misusing international joint ventures	Overstated revenue by $11m	CEO imprisoned and fined $790,200; company bought out

The accounting fraud case involving Waste Management Inc. exemplifies a complex undertaking of accounting fraud of massive proportions. By 1990, Waste Management was the largest waste management company in America, and had multiple operations globally (Adiamond, 2019). The company had acquired numerous competitors over the years to fuel its growth. Once it had won most of its competitors, it felt the need to turn to alternative methods to continue company growth. Waste Management had been using its own stock as currency to acquire its competitors, so if the stock price of the organization began to fall, that would make that means of expansion more challenging. Waste Management overstated its net income by $1.7 billion and defrauded investors out of $6 billion. The company began its fraudulent activities in 1992 and continued for the next four years.

Arthur Andersen had been auditing Waste Management since before the company went public in 1971, and it considered Waste Management a prized client (Schroder, 2001). While Arthur Andersen neither admitted nor denied its involvement in the Waste Management accounting fraud case, it was known that there was a close-knit relationship between the auditor and the client. In 2002, the SEC published a press release citing charges against Waste Management, and the SEC's fine against Arthur Andersen was the biggest for an accounting firm at that time—$220 million paid to Waste Management shareholders and $7 million to the SEC.

Arthur Andersen was one of the five largest public accounting firms in the 1990s, with over 85,000 employees and jurisdictions in 84 countries (Collins, 2016). At the company's inception in 1913, it was hailed for high-quality audit work. Its founder was regarded for his integrity (Wyatt, 2003). Under new leadership decades later, the company refocused its business model to emphasize the more profitable consulting business, and encountered conflicts of interest while serving as both auditor and consultant to the same clients. During the last decade of the firm's existence, auditors at several Arthur Andersen offices nationwide failed to detect, ignored, or approved accounting fraud for larger clients that paid lucrative consulting fees.

In another accounting fraud case that ultimately led to the dissolution of Arthur Andersen, the Enron Corporation inflated its income from 1996 to 2000 by $568 million when in reality, Enron CEO Jeff Skillings and former CEO Ken Lay had hidden the fact that Enron had lost billions (CFI Team, 2023). Enron executives successfully pressured Arthur Andersen auditors to ignore the coverup and had them attest to the misrepresented financials that were done using accounting loopholes to hide billions of dollars of bad debt. It was Sherron Watkins, an Enron employee, who blew the whistle by raising red flags to the SEC. Enron had misused Special Purpose Entities (SPEs) by transferring its troubled assets there, which kept them off of its books and made the company's losses look significantly smaller than in actuality (Ketz, 2003). The scandal ultimately led to Enron's imploding, the loss of 20,000 employee jobs and benefits, and the loss of over $74 billion from individual investors and pension funds saved for retirement as the Enron stock price dropped from approximately $90 to $1 in under one year. By 2002, Arthur Andersen was sentenced to the maximum punishment--$500,000 fine and five years of probation. It thereafter dissolved, transforming the Big Five into the Big Four accounting firms.

As a result of this accounting fraud scandal, the government in 2002 established new regulations for accounting firms to follow. The Sarbanes-Oxley Act (SOX) was set into motion. It was designed to protect shareholders, employees, and the public from accounting errors and fraudulent accounting practices. For the first time, corporate executives had to certify their company's financial statements; "maintain and assess internal controls to prevent wrong, misleading, or fraudulent financial data; and impose criminal penalties for misleading shareholders and altering documents to impede an investigation" (*What is the Sarbanes-Oxley Act?*, 2016). SOX put greater responsibility on the client to get their financial reporting right the first time.

Susan Lowe, an Arthur Andersen employee during the time of the Enron scandal and now KPMG Executive Director, recounted her experience with the shift in reporting as a result of the passage of SOX. In a January 2024 interview with me, she noted that it was challenging at first for companies to adopt the new audit standards. The cost of compliance was great for many companies. While the implementation of SOX did increase the amount of work an auditor had to conduct, she expressed that it took some of the pressure off the auditor because leaders of the company and the audit committee became more responsible for doing the right thing, catching fraud, and putting protocols into place. According to Lowe, greater regulations raised the bar for everyone.

Around the same time as the Enron scandal, WorldCom aggressively acquired its competitors to gain market share, similar to Waste Management. However, the company was experiencing a great drop in revenue and needed to prove to its shareholders and board of directors that it was still economically viable. WorldCom found creative methods to falsely portray its financials by capitalizing expenses to exaggerate its net income and cash flows. In 2001, the company reported profits $3.8 billion greater than it had realized and $797 million more in the first quarter of 2002, while it was actually experiencing a net loss (SEC.gov | WorldCom Inc., 2003). Similar to Enron, an insider, Cynthia Cooper, the Vice President of WorldCom's internal audit department, blew the whistle. She was prompted partly by a $500 million capital expenditure for which she lacked evidence of a financial transaction. As a result of the fraud, WorldCom faced a civil penalty to the SEC of $1.51 billion and filed for Chapter 11 bankruptcy. The implosion of WorldCom cost investors approximately $175 billion, which was more than twice the amount that investors lost when Enron collapsed (Kadlec, 2002).

Accounting fraud not only impacts the market and investors, but it can also be a predictor of financial recessions, which the U.S. saw with the Lehman Brothers before the 2008 financial crisis (Haqqi, 2023). Companies are more likely to alter their financials when facing fiscal pressures. If at a given time enough firms are suffering from financial instability and hiding it, then it reflects a weakened economy. When uncovered, it can push the economy over the edge. The Lehman Brothers scandal of 2008 started a chain reaction that affected the economy and financial systems that is said to have brought about the onset of the global recession (ipl.org, 2020).

Before its collapse, the Lehman Brothers was the fourth largest investment bank in America, with approximately 25,000 employees globally ("The Case Against Lehman Brothers," 2012). It had great pressure and expectations to report positive financial results. In response, it sold quick and risky subprime mortgages to homeowners who ultimately were unable to repay them. The company used the accounting practice of Repo 105 transactions to cover up bad assets, following poor investments in the sub-prime mortgage market. Repo 105 is a repurchase agreement that companies use to acquire short-term loans that are backed by collateral. It allows companies to hide the extent of their leverage. Lehman Brothers used it to temporarily remove $50 billion of liabilities from its ledgers to make it appear as if it was decreasing its dependency on borrowed money (Kenton, 2021). Lehman Brothers hid this from investors and regulators. Eventually, Lehman Brothers declared for Chapter 11 bankruptcy. It was the largest bankruptcy in history, with 26,000 employees losing their jobs, millions of investors losing most or all of their money, and triggering a chain reaction that incited the worst financial crisis and economic downtown in 70 years. Approximately $63 billion of company value was destroyed in the process of bankruptcy, including Chapter 11 fees and expenses, liquidity costs borne by creditors having their assets tied to bankruptcy proceedings, indirect costs, and lost relationships with equity clients.

Meanwhile Rite Aid, based out of Harrisburg, Pennsylvania, provided yet another classic example of accounting fraud. Between May 1997-1999, Rite Aid's CFO, Vice Chairman, and Chief Legal Officer conducted a wide-ranging accounting fraud scheme that involved inflating pretax income by $2.3 billion and net income by $1.6 billion (SEC.gov | Frank M. Bergonzi, Martin L. Grass, And Franklin C. Brown, 2004). Rite Aid was in dire need of a bank loan to avoid bankruptcy. Its CEO conveyed to lenders that Rite Aid's committee had agreed to pledge stock when in fact the committee never met and the CEO had forged the paperwork. The CEO, CFO, and Vice Chairman failed to record expenses from certain employee programs that summed to $55 million. The CFO pressured internal accounting staffers to falsify cost of goods sold and accounts payable entries to decrease company expenses and liabilities, which produced a $100 million overstatement of pretax income in the second quarter alone of fiscal year 1999. In 2000, Rite Aid settled with shareholders for $200 million. Rite Aid's stock price dropped from $50.94 in January 1999 to $2.69 by June 2002. At the break of the Rite Aid scandal, it was the third time in three weeks that the accounting profession's credibility had taken a hit, as earlier that month, Tyco and ImClone were found to be guilty of fraudulent financial activity as well (Hamilton, 2019).

Not every accounting fraud case involves a national household-name corporation. The Pennsylvania health system Alleghany Health and Education Research Foundation (AHERF), based out of Pittsburgh, was involved in a financial scandal in the late 1990s. The system employed approximately 31,000 people, ran 14 hospitals, and two medical schools (Hilzenrath, 2001). In 1997, the company should have reported a loss of $37.7 million but instead reported a net income of $21.9 million. This resulted in a $59.6 million overstatement. Coopers & Lybrand, which has since merged with PwC, was the accountant on the case. The health system fraudulently transferred $99.6 million worth of reserves from a financially-stable group of hospitals to a failing group. When the fraud was uncovered, AHERF went bankrupt in 1998. Investors lost over $550 million. The system's folding became the largest U.S. nonprofit health care collapse in history.

In a more recent and smaller-scale case, in 2022, the CEO of clothing brand Iconix, Neil Cole, was sentenced to 18 months in prison and fined $790,200 for fraudulently misrepresenting the company's financials the prior decade to meet analysts' projections and portray a healthier image to investors (Unglesbee, 2021). Iconix was a publicly-traded company that utilized its joint ventures with international companies to transfer ownership of trademarks, and misrepresent its financials by inappropriately recognizing revenue from the ownership transfers. Cole made false filings with the SEC, inflating revenue by approximately $11 million and reporting a false earnings per share (EPS) value, which he felt were the key metrics shareholders used to measured Iconix's growth (Biase, 2022). Eventually, private equity firm Lancer Capital bought Iconix Brands for $585 million, including all of its net debt.

As illuminated, the occurrences of accounting fraud have major consequences. They not only result in losses to shareholders, lead to employee layoffs, and contribute to economic recessions, they also impact public confidence in the accounting profession. In addition to adhering to new government regulations designed to prevent, catch and punish accounting fraud, the accounting industry has taken a pro-active approach to try to bolster its reputation by promoting business ethics. There has been a significant push from the industry to implement on-the-job ethics training and ethics curriculum in business schools at universities nationwide. The purpose of this research paper is to analyze if the accounting profession is obtaining its desired result of decreasing occurrences of accounting fraud with its promotion of business ethics.

Chapter 3

BUSINESS ETHICS CURRICULUM OVER THE YEARS

Being strongly urged by the accounting industry, institutions of higher education nationwide have been expanding their teaching of business ethics as a means to minimize the occurrences of accounting fraud in the workforce. Prior to the 1970s, there had been a handful of courses under the name of business ethics, but many actually only addressed social issues (De George, 2015). Business ethics as a field was not immediately accepted, and took years to develop, define itself, and incorporate standards of scholarship and rigor. The birth of business ethics is said to have come in 1974, when the first conference in business ethics was held. It took place at the University of Kansas, and resulted in the first anthology that business ethics professors began to use in the courses that formed following the conference. What separated this new wave of business ethics curriculum from prior courses that were more social issues-based is that this movement sought to provide students with a definitive ethical framework through which they should evaluate business decisions.

In the 1970s and 1980s, business ethics became a prime academic growth industry, spurring new course offerings, textbooks, research, and scholarly articles (Salmans, 1987). This modern concept dates back to the rise of anti-big business protests in America in the 1970s. By 1986, it was found from an Ethics Resource Center study that 92 percent of accredited business schools included business ethics in their curriculum, but only 21 percent had it in a separate course and six percent made that separate course a requirement rather than an elective. In 1987, there was a $20 million endowment of a Business Leadership and Ethics program at Harvard Business School that combined with other contributions exceeded $30 million. This came after Harvard already had the main ethics offering of Ethical Aspects in Corporate Policy since 1977, an elective that relied on real-life aspects of corporate dilemmas and decision making. The majority of the course was formatted as such, with one-third of the class covering readings by philosophers, economist, academics, and business executives. During that time period as well, new centers for business ethics at higher education institutions began to populate (De George, 2015). For example, the Bentley College Center for Business Ethics was founded in 1976 and still operates as one of the leading business ethics centers among American universities. For the next decade, more than a dozen centers for business ethics were established. Simultaneously, the first journal on business ethics was published in 1982.

Penn State Curriculum

Since 2000, the call to emphasize teaching business ethics in higher education has heightened in the quest to develop ethical leaders. The Pennsylvania State University (Penn State) has embraced the call for teaching business ethics and provides an example of how higher education is answering the call from the accounting industry. Penn State is a public university with an over 40,000 student population at its main campus location in University Park, Pennsylvania. With such a large student population size and demographic makeup similar to that of other Big Ten universities, Penn State's Smeal College of Business is a good surrogate for all large state universities' business schools in the U.S.

In a February 2024 interview I had with Dr. Henock Louis, the Department Chair of the accounting department and the KPMG Professor, he noted that the External Advisory Board, comprised of partners from all major audit companies and some other leaders in the corporate world, meets with Penn State's accounting department biannually. Additionally, subcommittees meet in between the biannual meetings. One function of the meetings is to advise the department on curriculum issues that the industry would like addressed at the college level. The topic of ethics has been a common denominator. In a February 2024 interview I had with Distinguished Professor of Organizational Behavior and Ethics in the Department of Management and Organization Linda Trevino, she stated that this push from industry used to come directly from the corporation to the instructor. In the 1990s, she attended Arthur Andersen-led workshops at their Chicago offices where faculty from different business schools got together in groups and developed cases related to handling ethical dilemmas that they could bring back to use in their classrooms. “Arthur Andersen was really pushing for ethical leadership. They put resources behind it and brought in faculty. They were the only Big Five at the time doing something like that. They took the lead,” she said, giving evidence to what Jennifer Reingold and Barbara Toffler, the former partner-in-charge of ethics and responsible business practices for consulting services at Arthur Andersen, wrote about in their book “Final Accounting: Ambition, Greed and the Fall of Arthur Andersen” (Toffler & Reingold, 2004).

In Smeal, students must take BA 342, a course that covers ethics, sustainability, and diversity, as a degree requirement. Professor Ronald Johnson was asked in 2011 to design the course. Prior to its inception, Smeal students took the two-credit BA 242 course that covered ethics and social responsibilities. In a January 2024 interview with me, Professor Johnson stated, “BA 342 came as a result of a push from industry. Clients have to know that they are going to get ethical and honest employees working for and with them, who they can trust. Board of Visitors, including senior leaders in organizations, and a number of other boards, said that topics such as ethics, diversity, and suitability were mandatory for business student to grasp.” As a result, he developed a course that covers those three key competencies using real-world case studies and in teaching the course, tries to implement the curriculum in a way that students can apply to their everyday life.

BA 342 is designed to prepare students to tackle some of the biggest challenges they may face in the workplace related to ethics. This falls in line with the purpose of business ethics courses at Penn State according to Dr. Louis. "The intent of business ethics courses here is to make students prepared for ethical issues they may face in the professional world and also generally to teach them to be ethical business leaders," he said. One of the drivers for how BA 342 is taught is based on responses from the Ethics & Compliance Initiative's Global Business Ethics Survey performed annually on The State of Ethics & Compliance in the Workplace. Professor Johnson uses these industry findings to prepare his students for certain ethical dilemmas they may encounter in their profession, whether they work in the U.S. or abroad. The survey was distributed to over 75,000 employees spanning 42 countries in 2022-2023 (*The State of Ethics & Compliance in the Workplace*, 2023). Only 13 percent of employees in 2023 felt they were working at a company that valued a strong ethical culture, which proves motivation for teaching business ethics in college curriculum. Some of Professor Johnson's goals include sparking students' awareness by giving them enough information and showing them enough real-world examples, helping them form wise judgment-making skills so that they will question ethical issues appropriately, and leading them to behave ethically in high-pressure cultures that typically may drive people to make unethical decisions.

While Smeal requires all students to take this business ethics course to graduate, there is also a drive for all professors to include some discussion of ethics in their curriculum, whether or not the course is designated ethics. This is because the conversation of ethical behavior can be transferred to all majors and there is an ethical component in each profession. In 2023, 150

Smeal professors were surveyed on the topic of teaching ethics, including 30 accounting professors; 27 from finance; 26 from management & operations, and supply chain & information systems (SCIS) each; 21 from marketing; and 20 from risk management. I received this survey from Michelle Darnell, an associate clinical professor, the director of the Tarriff Center for Business Ethics and Social Responsibility, and the director of honor and integrity.

Highlighting the accounting department, 93 percent (28) of the accounting professors surveyed felt that it was appropriate to include the topic(s) of ethics or social responsibility into at least one of the courses they taught regularly, which, while not statistically different, is higher than the 89 percent average for the overall Smeal Department, as displayed in Table 2. When it comes to actually introducing business ethics or corporate social responsibility, 60 percent of the accounting professors (18) do so, which is just under the 61 percent average for the overall Smeal Department. Separately, the survey indicated that of the 45 hours spent teaching curriculum per semester, accounting professors spend about 18 hours teaching ethics. That represents about 40 percent of class time being allocated towards ethics. Topics covered include ethical decision making, increasing awareness of ethical issues within the industry/discipline, understanding history of social responsibilities placed on business, behavioral ethics or managing others through ethical challenges, strategic planning associated with social responsibility, and reflecting on personal values.

Table 2. Smeal Professor Survey

Smeal Departments	Professors Surveyed	Appropriate to Include Ethics or CSR Topics in at Least One Course Taught		Formally Introduced Ethics or CSR in Any Course Taught	
Accounting	30	28	93%	18	60%
Finance	27	19	70%	9	33%
Management & Organization	26	26	100%	25	96%
Marketing	21	21	100%	14	67%
Risk Management	20	17	85%	12	60%
SCIS	26	23	88%	13	50%
Total/Average	150	134	89%	91	61%

When teaching business ethics at Penn State, the ultimate goal is to develop ethical business leaders, which coincides with the Smeal Honor Code that has been a forefront of the business school for the past 15 years. The business school's honor code states that "We the Smeal College of Business community, aspire to the highest ethical standards and will hold each other accountable to them…" and furthers its assertions by claiming that the business school community strives to "cultivate ethical leadership" (*Honors & Integrity at Smeal*, n.d.). More recently in 2020, the Tariff Center, which was created as an endowment from the Tariff family, was developed to ensure that ethics and social responsibility remain cornerstones of Penn State business. Its purpose is not only to "complement Penn State Smeal's culture of honor and integrity," but also to strengthen Smeal students' leadership by advancing their ethical business practices not just locally, but worldwide (*Tarriff Center for Business Ethics and Social Responsibility,* n.d.).

For Professor Trevino's MBA courses, she is highly focused on managing business ethics. She discusses the kind of issues that students may face in the workplace, resource issues, conflicts of interest, and how to speak up against unethical behavior. "If you are a leader, you have to understand how people behave the way they do. Understanding that can help you to guide people in the right direction, including yourself," Trevino said. She has her MBA students do certain exercises where they apply course concepts to either a personal decision that they had to make or to analyze the culture of an organization to which they are already associated. Her students are tasked with assessing what goes into making an ethical versus unethical corporate ethical culture. She is very heavy on application, as she wants them to have knowledge to understand what they will face when they enter the work world. Penn State already requires MBA students to take a seven-week course on ethics.

Chapter 4

SURVEY FINDINGS

To supplement my findings, I constructed and conducted a survey of Penn State accounting students to ascertain their perception of the accounting fraud problem in the workforce and the value of receiving a business ethics education in college on reducing accounting fraud. I used the application Qualtrics to create a survey comprised of 24 multiple choice questions, with some providing students the opportunity to expound on their responses. I asked demographic questions related to gender and class year upfront. Other questions were yes versus no on students' perception of auditors' ethicality, if they believe accounting fraud is a major issue, if the money companies lose to fraud is significant, if they perceive the lack of ethics education playing a role in why accounting fraud is committed, if they feel they have the tools to handle any ethical dilemmas they may face in their future workplace, and more. Multiple choice questions included gathering data on how many business ethics courses students would have taken in college, how many they feel is necessary, what they think are the most important teachings to curtail accounting fraud, the best way to tackle accounting fraud, ethical dilemmas they may face in the workplace and their presumed responses, who they think is most impacted by fraud, and a Likert scale question regarding how likely increasing the amount of ethics teaching would decrease instances of accounting fraud.

After developing the survey, I submitted it to the Penn State Institutional Review Board (IRB) for approval. The IRB is a "federally mandated entity that oversees the protection of human subjects in research" (*About the IRB*, 2023). The IRB had a pre-review and review process that involved not only having my survey read and approved, but documentation submitted ensuring that no student's personally identifiable information would be gathered or distributed, and confidentiality would be maintained.

To ensure student email confidentiality, Tammy Whitehill, the Administrative Support Coordinator for the Accounting Department and Office of Professional Graduate Programs, emailed the survey to all 657 students enrolled as an accounting major for either an undergraduate, graduate, or integrated masters of accounting degree. It was found on average that it took students five to seven minutes to fully answer all of the questions. The response rate was 25 percent, with 161 students responding. This level of response came after the survey was circulated for three weeks, with multiple email reminders. The distribution of respondents was fairly even as well, with 51 percent respondents being female and 49 percent male. Likewise, 51 percent of respondents were what I defined as upperclassmen—seniors and fifth years, while 49 percent were underclassmen--freshmen, sophomores, and juniors.

The vast majority of students would have already taken at least one business ethics course in college before they graduate, feel that at least one course on the topic of business ethics is necessary to be able to effectively respond to ethical dilemmas they may face in the workplace, have already learned about accounting fraud cases in college whether through an elective or a mandatory course, feel companies lose a significant amount of money to accounting fraud and that it is a major issue, believe they will face an ethical dilemma in their future workplace, but feel they have the tools to handle any ethical dilemma they may encounter on the job.

For a handful of key questions, I broke down the responses by gender and class to assess if there were statistically different variations in responses. For questions related to accounting fraud, while male and female or underclassmen and upperclassmen may have responded numerically different, their response differences were not statistically significant. For example, 136, or 85 percent, of students surveyed believed that accounting fraud is a major issue. Of those who responded yes, 52 percent of them were women and 53 percent of them were upperclassmen. The p-values were not statistically significant at 0.345 and 0.166 for gender and class, respectively. As seen in Table 3, based on the p-value measurements, there was no statistically significant difference in the variation for gender and class for the questions I analyzed.

Table 3. Accounting Fraud Survey Results with Demographic Distributions

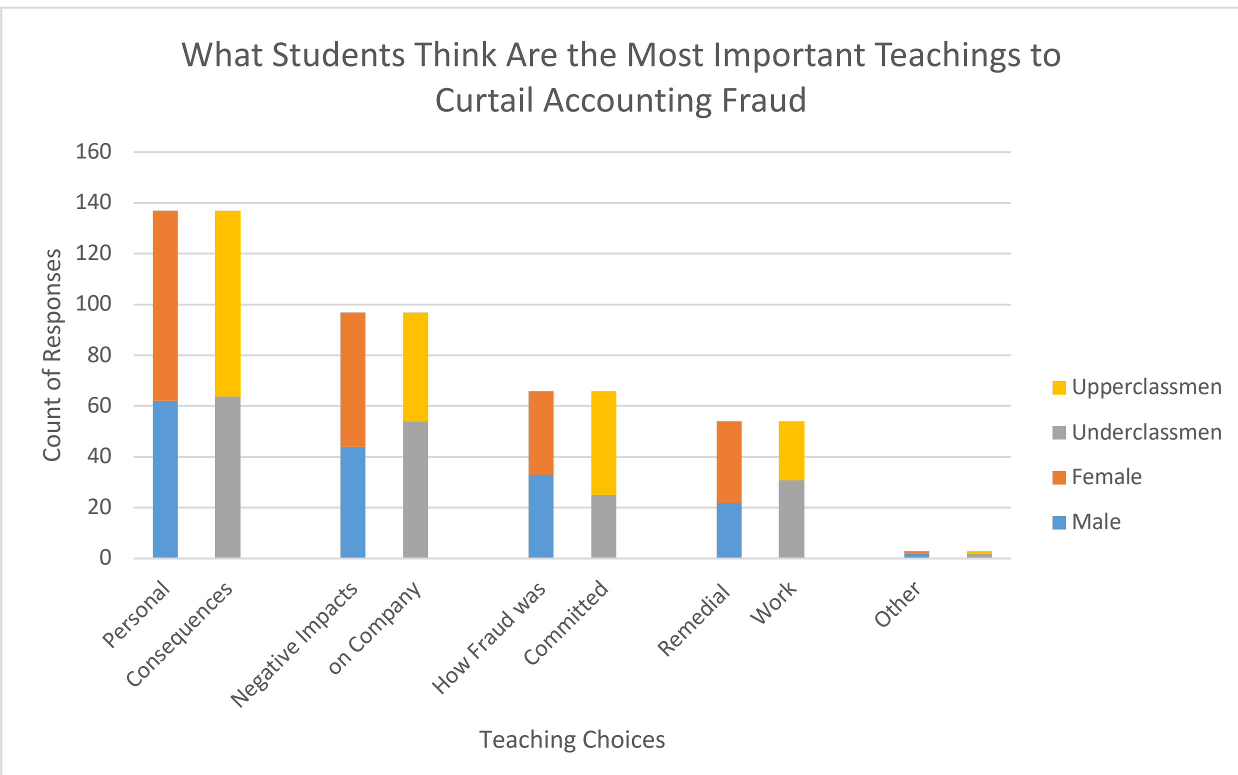
Survey Results with Demographic Distributions	*Total Respondents*	*By Demographics*	*Percent of Respondents*	*By Demographics*	*P-Value*	*Statistically Significant?*
Believe accounting fraud is a major issue	136		85%			
Female		71		52%		
Male		65		48%	.345	No
Underclassmen		64		47%		
Upperclassmen		72		53%	.166	No
Think AF is committed most frequently by overstatement/ understatement of revenues and expenses	86		59%			
Female		43		50%		
Male		43		50%	.186	No
Underclassmen		38		44%		
Upperclassmen		48		56%	.326	No
Think corporations lose a significant amount of money to AF	118		73%			
Female		60		51%		
Male		58		49%	.972	No
Underclassmen		58		59%		
Upperclassmen		60		51%	.972	No
Think the best way to tackle AF is internal control systems within a company	112		70%			
Female		59		53%		
Male		53		47%	.926	No
Underclassmen		58		52%		
Upperclassmen		54		48%	.167	No

Another interesting finding from the survey's responses is that 70 percent of students think that the best way to tackle accounting fraud is with internal control systems within a company. Students had the choice between ethics training on the job, internal control systems within a company, college-level ethics education, or to supply their own suggestion. Only seven percent of students, when given those choices, felt that through college-level ethics education was the best way to tackle accounting fraud. This was supplemented by responses to the question of if there is anything that can be done at the college level to prevent fraud instead of reacting to it in the workplace, where 26 percent of students said no, it is up to the company to implement its own controls. Surprisingly, compared to responses from the previous question, 51 percent of students answered yes, increasing ethics teaching is something that can be done at the college level to prevent fraud.

Professor Trevino offered a different perspective. She believes that the best way to tackle unethical behavior in the business sector is through organizational culture. She conducted a study and co-published the journal article "The Influence of Collegiate and Corporate Codes on Ethics-Related Behavior in the Workplace" in 1996 on if the presence of honor codes at universities can curb people from engaging in unethical acts in the workplace (McCabe et al., 1996b). Her findings pointed to that the benefits received from undergraduate degrees with an honor code only come when you work at a company with a strong ethical environment. "It is very hard to resist a culture and climate that is pushing a different agenda from your beliefs. You either have to leave or go along with it. As an individual, there is not much you can do, especially in a low-level position." With that, she believes that a lot of the responsibility in developing ethical leaders should be placed on companies themselves. However, she stated that ethics education must be introduced as early as possible. "If topics of ethics come across as an afterthought, it does not have as much of an impact. If you frame it upfront and say this is how you ought to think about business and, yes, of course you need to make money, but in the context of certain guidelines and boundaries, then people are prepared to think about it differently," she noted.

When asked what are the most important teachings to curtail accounting fraud, 85 percent of students believed that personal consequences, for example fines, jail time, etc., were the most important to learn, as seen in Figure 1. Along the same lines of increasing knowledge on how the individual will be impacted by fraud, Dr. Louis suggests that one of the best ways to combat accounting fraud is to increase regulations and punishments for those who perpetrate the crime.

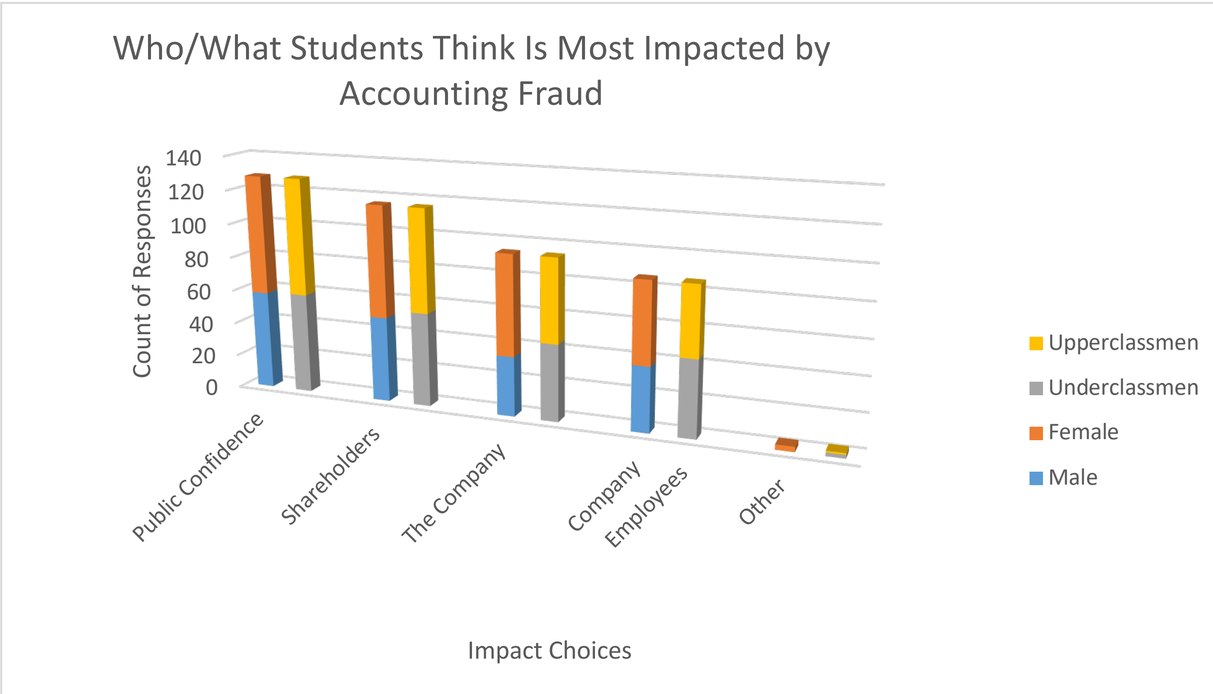
Figure 1. Most Important Teachings to Curtail Fraud



Additionally, as seen in Figure 2, when asked who or what is most impacted by accounting fraud, the majority of students chose public confidence in the profession. Students had the option to choose multiple answers, and the two most selected responses were public confidence in the profession and shareholders. This appears to be the case in the real world too, where books and journal articles have been published concerning the impact that fraud has on people's perception of the business field, and shareholders at times lose billions or millions of dollars, as seen in Table 1, related to having their assets tied up in a company that is found to commit fraud.

Gallup runs a survey every year where people (800 in 2023) have the opportunity to ethically rate nearly all professions in America (Jones, 2024). In 2023, Americans rated business executives' honesty and ethical standards at 12 percent, which is eight percentage points down from four years prior. Of the 23 professions listed, business executives are seventh from the bottom of the totem pole, only ahead of three categories of salespeople, two categories of politicians, and stockbrokers. This might be greatly due to news headlines of ethical misconduct of business professionals. Dr. Trevino stated that while she can not say conclusively that accounting fraud is a major issue, she has seen plenty of headlines of it over the years. "Negative news gets significantly more attention than positive news, so if there is a major accounting fraud scandal, it will make the papers over day-to-day non-newsworthy business activity," she noted. The news might be saturated with stories of unsavory business practices that would lead people to lose confidence in the profession.

Figure 2. Who/What is Most Impacted by Accounting Fraud



In relation to business ethics curriculum, as seen in Table 4, only 52 percent of students felt that lack of ethics education plays a role in why people commit acocunting fraud. When asked to explain the rationale behind their response, most answers revolved around people who commit fraud succumbing to company pressure or having a flawed set of morals that would lead them to commit fraud when they see an opportunity regardless of their education. One response read, “While education plays a significant role in bringing awareness of the issue, I don’t believe it can possibly alter an individual’s decision. Ultimately, it depends on the person, the situation, and his/her values.” Similarly, another student wrote “I think people usually commit fraud when they are under pressure and face losing their job/other personal reasons. I am not confident that education can combat this self-preserving mindset.” A third response read, “To an extent, yes lack of ethics education plays a role in accounting fraud, but there is so much more at play than just whether the perpetrator knows he/she is wrong or not. There are many different kinds of incentives that lead people to commit fraud. Even those who are well-versed in ethics and accountability may still commit fraud under certain circumstances."

On the opposite end of the spectrum, students who believed that lack of ethics education plays a role in why people commit accounting fraud rationalized their response by saying ethics teaching can prevent accidental/ignorant fraudulent mistakes, education raises awareness of the severity of the crime, or that it helps students develop an ethical decision-making framework. For eample, one response read, "When people lack education in ethics, they struggle to make an informed and well-supported decision when facing an ethical dilemma. Increasing education now can help improve thinking through a difficult decision." Another response read, "I think the lack of education plays a role in why people commit accounting fraud because in some cases, the perpetrator may not even know that he/she is committing fraud. If they do know, without education, he/she might not fully understand the consequences." Other students qualified their response by writing, "While I say that regardless of ethics education, a person is going to commit fraud, I would still argue that some ethics education is better than none. Even the smallest piece of ethics education could be the difference between someone committing or not committing fraud."

Additionally seen in Table 2, the demogrpahic distribution among reponses for this question does have some statistical significance. The p-value is less than 0.05, at 0.035, for repsonses related to underclassmen versus upperclassmen. This represents a statistically significant difference in their reponses. There is a weak significance between the responses among genders for the same question. The p-value was 0.083, which is in between 0.05 and 0.1, the benchmark values. This was one of two questions with a statistically significant difference in responses among any demographic.

Table 4. Business Ethics Survey Results with Demographic Distributions

Survey Results with Demographic Distributions on Business Ethics (BE)	*Total Respondents*	*By Demographics*	*Percent of Respondents*	*By Demographics*	*P-Value*	*Statistically Significant?*
Think the lack of ethics education plays a role in why people commit AF	84		52%			
Female		45		54%		
Male		39		46%	.083	Weak Significance
Underclassmen		40		48%		
Upperclassmen		44		52%	.035	Yes
Believe more than one BE course is needed to teach students how to respond to ethical dilemmas	110		68%			
Female		58		53%		
Male		52		47%	.398	No
Underclassmen		52		47%		
Upperclassmen		58		53%	.092	Weak Significance
Do not feel the way AF cases are taught in collegiate curriculum potentially teaches students how to commit fraud	108		67%			
Female		57		53%		
Male		51		47%	.507	No
Underclassmen		62		57%		
Upperclassmen		46		43%	.002	Yes
Think they will face an ethical dilemma in the workplace	150		93%			
Female		77		51%		
Male		73		49%	.904	No
Underclassmen		76		51%		
Upperclassmen		74		49%	.723	No
Feel they have the tools to handle any ethical dilemma they might encounter in their future workplace	126		80%			
Female		61		48%		
Male		65		52%	1	No
Underclassmen		61		48%		
Upperclassmen		65		52%	.368	No

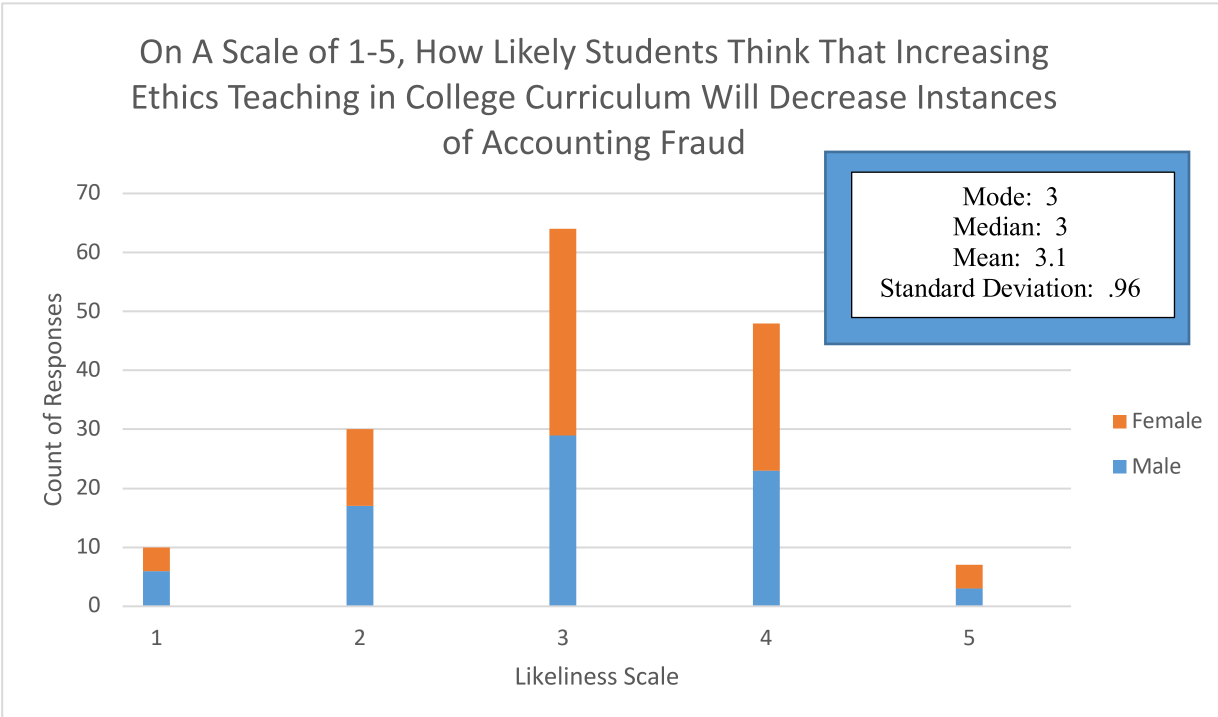
Also seen in Table 4, most (93 percent of) students feel that they will face an ethical dilemma in the workplace, but most also feel that they have the tools to handle any ethical dilemma they may encounter. When asked what specific ethical dilemma they predict they may face, 73 percent of students responded that they thought a client might ask them as the auditor to attest to misrepresented financials. The second most selected resopnse was that students feared their boss might ask them to attest to misrepresented financials for a major client. Dr. Louis attested to the students' assumption that they will face an ethical dilemma in the workplace by stating, "You will 100 percent face an ethical dilemma in your future place of work. There will be choices you have to make everyday, minor or major, that can have ethical reprocussions."

However, 80 percent of students said they can handle any ethical dilemma they may face in the workplace. Most written responses revolved around having a solid moral compass instilled in them from a young age so that they are confient they will not succumb to organizational pressures, that they were taught enough in class to know the consequnces of fraudulent actions, or that the company they plan to work for already has strong internal controls in place or a culture of integrity. Other students acknoledged the difficulty of doing the right thing when pressured to follow the lead of those higher up in the firm. One student wrote, "I have taken a number of ethics classes and also a class on forensic accounting, so I know many common signs of fraud. I believe I am well equipped to handle an ethical dilemma, but it will not be easy." Another student wrote, "I was taught the right steps to take when pressured to make unethical decisions. It is up to me to put those steps into action." Conversely, another student answered, "Ethical dilemmas are difficult to handle—whistleblowing/confronting your higher-ups can threaten your own well-being and that of the people around you. Obviously I want to handle ethical dilemmas with integrity, but I fear that it may be a lot more difficult when actually faced with one."

Commenting on these responses, Professor Trevino opines that some students may be naïve in their belief that they have the knowledge and willpower to resist ethical pressures they might encounter. She feels that taking a few business ethics courses and moral compasses students feel they possess are insufficient. "People do not understand how powerful the context of their future organization can be, especially when it is negative," she warned.

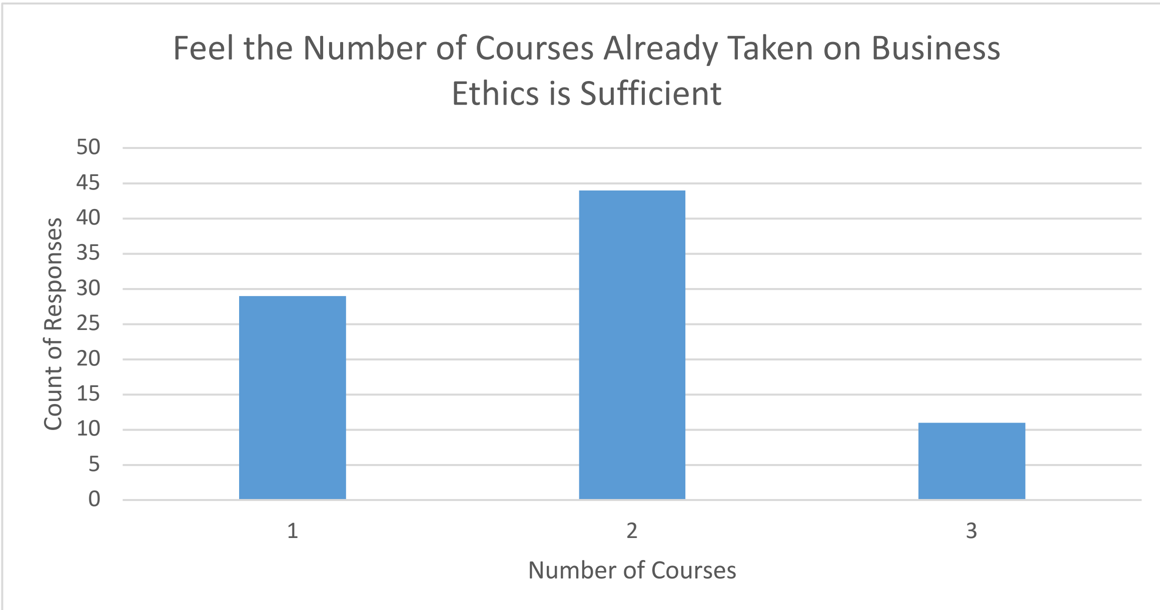
In response to answering a Likert-scale question on the likeliness that increasing ethics education curriculum will decrease accounting fraud, there was a fairly normal distribution of responses. I ran the mean, median, mode, and standard deviation of the responses in Excel, as seen in Figure 3. The mode and median are both three, with the mean at 3.1. Since the mean is greater than the median, the distribution is slightly right skewed. The standard deviation of the distribution is 0.96. Forty percent of students chose the median of three, only four percent chose five, reflecting they believed that increasing the amount of ethics teaching in college curriculum is highly likely to decrease instances of accounting fraud in the professional world. On the other end of the specturm, six percent of students felt it was highly unlikely that increasing the amount of ethics teaching in college curriculum would decrease instances of accounting fraud in the professional world.

Figure 3. Likert Distribution of Ethics Teaching Decreasing Fraud



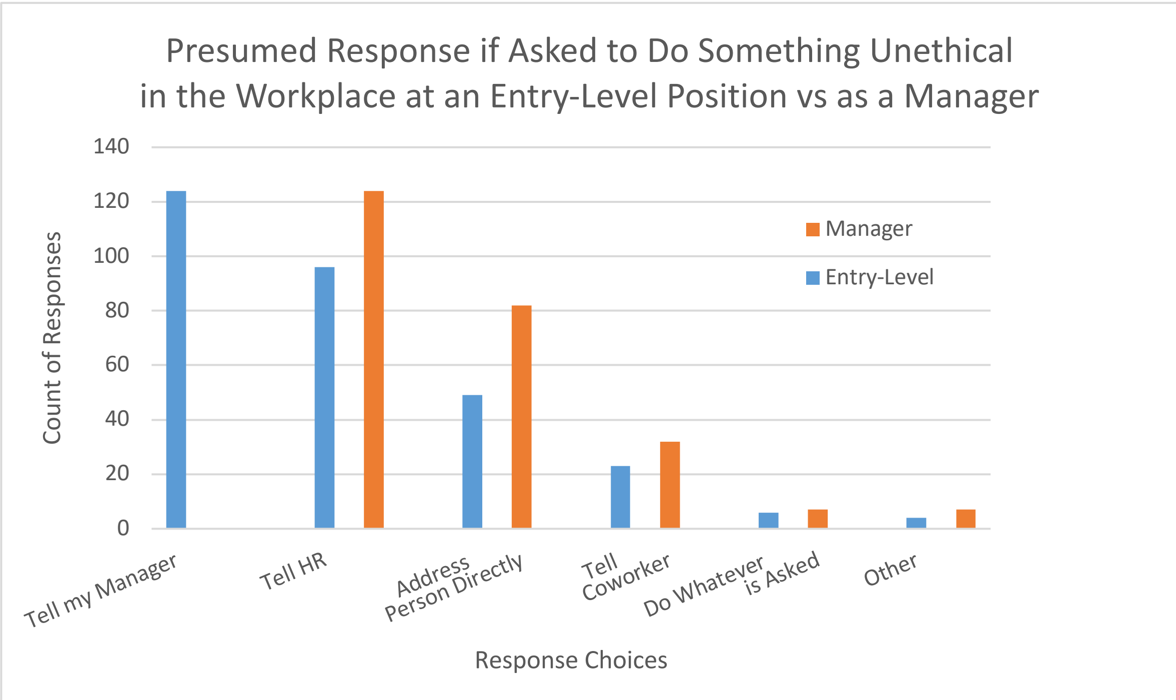
Most students (92 percent) would have taken at least one busienss ethics course during their time as a Penn State college student. Almost half of the respondents would have taken two, 36 percent would have taken one, and 13 percent would have taken three or more. When asked how many courses students feel are sufficient to effectively teach them how to respond to ethical dilemmas they may face in the workplace, 48 percent of them chose two, 29 percent selected one, and 20 percent selected three or more. When comparing those two results, as seen in Figure 4, the majority of students who feel that the number of course they have already taken on business ethics is sufficient have taken two courses. Of the 59 students who would have taken only one business ethics course, 29 feel that is all that is necessary to effectively prepare them for the workpalce. Of the 21 students who would have taken three or more courses on business ethics, 11 of them feel that amount is sufficient. The median response is two, and the distribution is fairly normal, however skewed left.

Figure 4. Sufficiency of Business Ethics Courses Already Taken



When asked exactly how students plan to react to being asked to perform something unethical in the workplace, at an entry-level position, most students said they would tell their manager. Students were given the opportunity to select more than one response, and 60 percent also said that they would report the inquiry to HR. Only four percent of students said that they would do whatever was asked of them, and some rationalized their response by saying that they just would not know that what they were asked to do was wrong at the time since they entrusted their manager. As a manager in the workplace, 78 percent of students said that they would go straight to HR. More than half of the respondents (52 percent) said they would address the person directly if they were in a mangerial position compared to only 30 percent when the repondent was in an entry-level position. The comparison between reponses when the student will be at an entry-level position versus as a manger is depicted in Figure 5.

Figure 5. Presumed Workplace Response to Unethical Request



I asked students who chose anything other than doing whatever is asked of them in those situations, why that was the case. Of those who chose to do something when presented with an unethical preposition in the workplace, 75 percent of students said that they knew the right thing through their own moral compass. Fifty-five percent of students said that they learned about fraud and believe that committing it a serious crime, and 54 percent said that they did not want to get in trouble with their copmany or any other legal issues. One student said, “I know that committing fraud is wrong and that would make me feel guilty if I committed it. Money or a job is not worth that self doubt.”

Chapter 5

QUANTITATIVE CORRELATION

My intent of this research project was to compare quantitative data on the level of accounting fraud cases detected annually over the past several decades and the number of business ethics curriculum offered at American universities during the same time period to assess if a correlation existed. The Wharton Research Data Services' (WRDS) audit analytics provides usable data on annual accounting fraud cases in the form of fraud-related financial restatements filed annually by SEC-registered companies. After working with Penn State librarian Lauren Reiter and multiple accounting and ethics professors at Penn State, I accepted that a data source compiling the number of ethics curriculum across universities over the years does not exist. As a proxy, I have turned to data on the publication of scholarly articles on the topic of ethics education from the Journal of Business Ethics, Business Ethics Quarterly, Business Ethics Journal Review, and Corporate Governance Business Ethics. The rationale behind using this surrogate is that the introduction of a business ethics course symbolizes conversation on the topic in universities, similar to a scholarly article representing discussions on the topic. I chose to look at the introduction of the topic in business journals rather than specific accounting ones because my question is broad and tailored towards the impact that business ethics education has on accounting fraud, and not just accounting ethics education. However, the journal article count may not be indicative of actual curriculum changes in business schools, nor are the journals selected comprehensive.

Figure 6 is a line graph that illustrates fraud-related financial restatement disclosures from 8-Ks, 10-Ks, 10-Qs and other filings between 1995 and 2023. An important note about the data is that the year shown represents the year of the restatement, and not the year of the fraud. Dr. Louis explained that it needs to be recognized that there will be a lag in the data between the time the fraud was committed, the amount of time it went undetected, when it was disclosed, and when the restatement occurred. Additionally, the numbers might seem smaller than anticipated because the graph is fairly narrow to only financial restatements related to fraud, and because approximately two-thirds of corporate fraud at large goes undetected (Adamek, 2023). It is reasonable to expect that more fraudulent cases occurred but have not been uncovered.

As seen in the figure below, the minimum number of fraud-driven financial restatements, two, occurred in 1995, the first year on the chart. Thereafter, the restatements trended upwards, rising to 30 in 2002 and peaking at 33 in 2005, before falling precipitously to eight in 2010, then clustering around 10-18 in 2010-2018 before trending down to five in 2023, the lowest level it has been since 1996. Over the 29-year period covered by the chart, the median number of annual restatements was 11 while the mean was 12.38. For the 33-peak number of restatements, Dr. Louis offered the possible explanation that in the early 21st century, the stock price for many companies was skyrocketing, which caused their managers to feel pressure to meet analyst projections. Stock prices were significantly overvalued in many instances. Managers became creative with their reporting, but could only do so much within legal limits. Eventually, some turned to manipulating their financial statements to keep up with the aggressive projections. As a result, in the early 2000s, there was a high number of restatements related to fraud, with the peaks in 2002 and 2005, which is a couple of years after the actual fraud would have taken place.

Interestingly, the 2008 Financial Crisis occurred shortly after the early 2000s, when financial restatements were at their heights. As discussed in Chapter 2 related to the Lehman Brothers accounting fraud scandal, the discovery of fraud on a massive scale could give rise to a recession. When firms are found to be reporting fictitious financials, then shareholders become suspicious of other companies and there is increased scrutiny as well as reevaluating and repricing other organizations. This creates a domino effect where just a few fraud reporting could lead to an economic downturn.

Meanwhile, the secondary peaks in 2012 and 2015, as displayed in Figure 6, could be indicative of the economy doing well, with stock prices increasing, and fraud occurring as managers attempt to meet high expectations. As stated in a PBD news article, the 2010s "were the first decade without a recession since record-keeping began in the 1950s" (PBS NewsHour, 2019). After 2015, the number of fraud-driven financial restatements has been on a downward trajectory. The question is have the teachings of business ethics and ethics training in the workplace played a role in this improvement. While visually it appears that overall the trend of restatements has been declining, especially since the peaks in the early 21st century, the p-value of the correlation between the year and the count is greater than 0.05 at 0.46, so there is no evidence that the correlation is statistically different from zero.

Figure 6. Number of Corporate Financial Restatements Due to Fraud

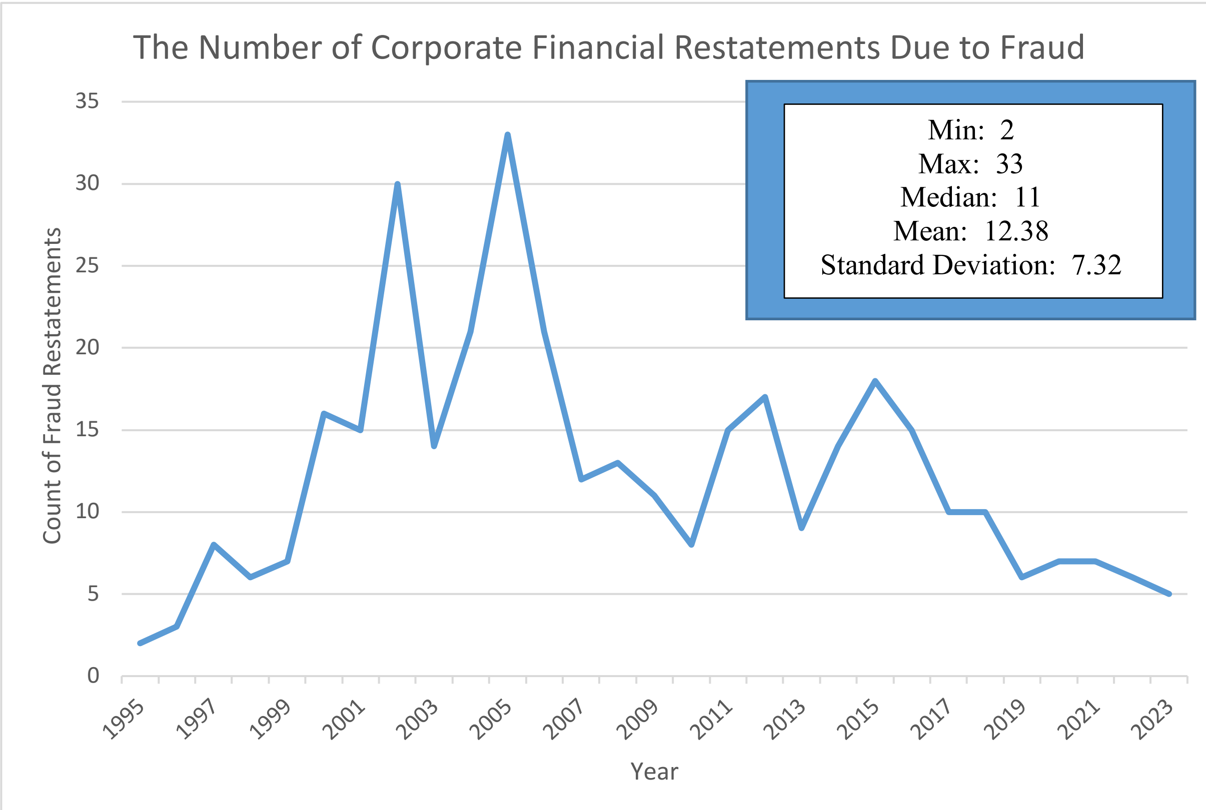
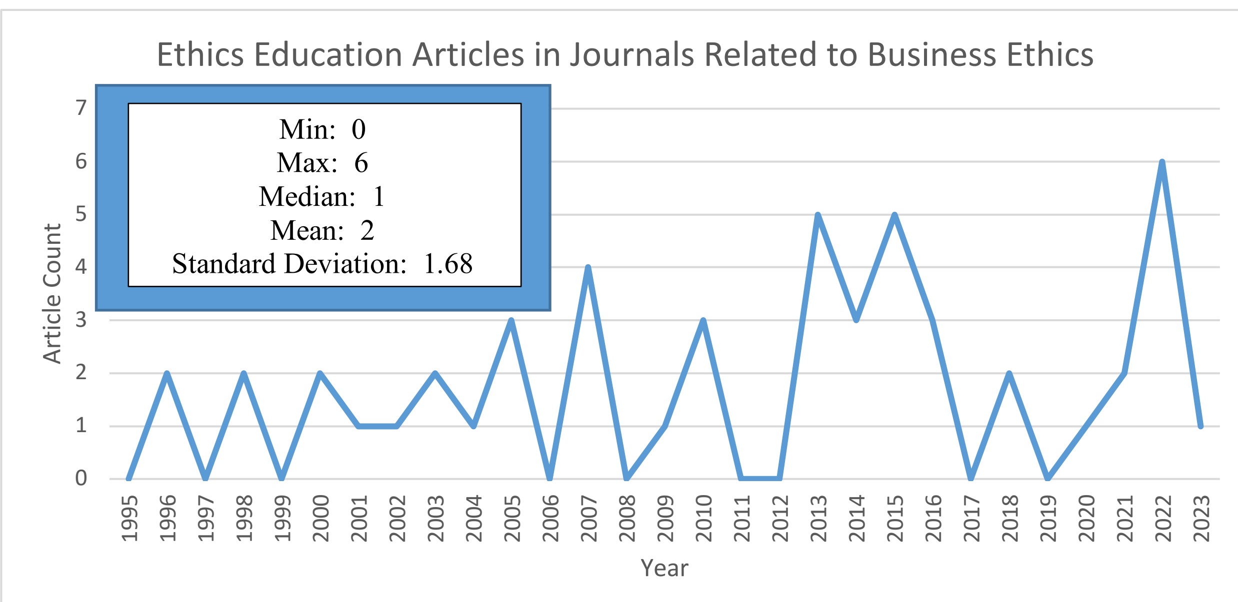


Figure 7 depicts the count of articles with the phrase "ethics education" in the title from different journals related to business ethics including the Journal of Business Ethics, Business Ethics Quarterly, Business Ethics Journal Review, and Corporate Governance Business Ethics. Ethics education-related articles have been published since the early 1980s. "The first issue of the Journal of Business Ethics appeared in February 1982; the first issue of the Business Ethics Quarterly in January 1991; and the first issue of Business Ethics: A European Review in January 1992" (De George, 2015). Since then, a handful of articles specifically relating to ethics education have been published annually.

Figure 7 includes data from 1995 to be consistent with Figure 6, for comparison purposes. The intention is that this count can illustrate the trend of conversations on the topic over the past few decades. While this data is being used as a proxy for ethics education, there are some shortcomings. One is that the results are not conclusive, as there are more articles discussing ethics education related to business ethics than in the four journals and specific title key words searched. Additionally, the publication of an article on the topic does not mean that ethics curriculum is being implemented at the same rate.

As shown in the chart below, the minimum number of articles is zero and the maximum is six, which was reached in 2022, with frequent fluctuation in the count. The average amount of articles published annually on the topic is two and the median is one. While it appears that the overall trend in conversations on the topic is increasing, particularly over the past decade, the p-value is greater than 0.05 at 0.13, so there is no statistical evidence that the correlation differs from zero.

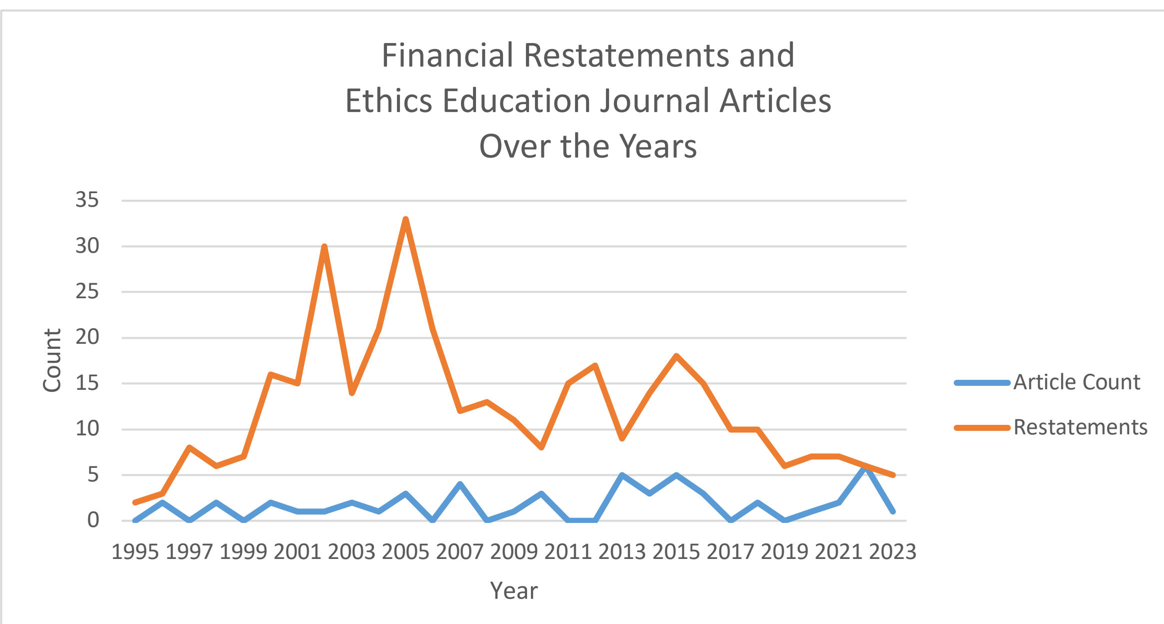
Figure 7. Ethics Education Articles in Journals Related to Business Ethics



When juxtaposed, as seen in Figure 8, there is no statistically significant correlation between the number of fraud-related financial restatements and the count of ethics education articles. I ran a regression where the x-values were the count of journal articles and the y-values were the financial restatements due to fraud. The resulting p-value was 0.87, which is greater than 0.05, and represents no evidence that the correlation is statistically different from zero.

Graphically, in 2022, when the number of published articles peaked at six, financial restatements fell to their lowest count in 25 years, also at six. However, in 2005, when financial restatements peaked at 33, the three published articles represented the high point to date. There was no business ethics publication in many years, even when there was above average restatements, such as 21 in 2006, or few restatements, such as six in 2019. Nonetheless, an observation that could be made from the two lines is that the early 2000s was a time period when fraud-related restatements surged and, lagging that by approximately a decade, conversations on the topic of business ethics grew.

Figure 8. Financial Restatements and Ethics Education Journal Articles



To recount, there are shortcomings of the data utilized in assessing the statistical correlation between increasing business ethics education and a decrease in accounting fraud, leaving room for future research opportunities. One gap is that the data used for financial restatements due to fraud may not be complete. The count is missing cases uncovered and the year restated lags the year(s) of fraud occurrence. Additionally, the article count is inconclusive because it is being substituted as a proxy and does not encompass all the potential articles that may cover the topic of introducing business ethics education. Significantly, the publication of business ethics articles does not represent the implementation of business ethics teaching. Future researchers could use more expansive data, including obtaining a count from several public universities of when they introduced business ethics curriculum. For example, the scope could be directed at the 14 Big Ten universities to determine how their implementation of business ethics curriculum correlates to the number of accounting fraud cases.

Chapter 6

CONCLUSION

Compared to my hypothesis that an increase in ethics teaching and training over the years will not be statistically significantly correlated to decreasing accounting fraud, my findings supported that, but with limitations. My initial skepticism regarding this hypothesis was that corporate pressures to grow exponentially, the drive to attract investors, and creative methods to manipulate financials have increased at a rate greater than the spread of business ethics curriculum. There were no databases on the count of business ethics courses nationwide for me to truly evaluate the hypothesis, and the data on business ethics-related articles I used to substitute that factor did not have a statistical correlation on the trend of accounting fraud cases.

The most significant finding of my research is that students, professors, industry professionals, and researchers believe that organization culture and internal controls are the most important factors in combatting accounting fraud. Additionally, while ethics education in college is important, it should be instilled at a young age, reinforced throughout primary and secondary education, again early on in one’s higher education, and must be solidified in the workplace to be most effective. According to the 2023 Global Business Ethics Survey, only 12 percent of employees indicated that their workplace has a strong ethical culture and 36 percent felt theirs was strong leaning (The State of Ethics and Compliance in the Workplace, 2023), which means that many students may become employees at a company where the culture does not align with what was advanced at their business school.

My recommendation is that each company strengthen its commitment to ethics and compliance development. According to the 2023 Global Business Ethics Survey, this can be done by implementing a strong code of ethics, hiring ethics officers, setting compliance standards, requiring company-wide training, establishing clear communication, and developing strong internal controls (The State of Ethics and Compliance in the Workplace, 2023). A high-quality ethics and compliance program can go a long way for a company, as well as having reinforcement from the top. Companies should encourage top managers and supervisors to engage in behaviors that promote a strong ethical culture. This can include "talking about the importance of ethical conduct, keeping employees informed, and modeling ethical conduct and disciplining wrongdoers for their actions," according to the survey. Employees must be trained annually and continually held accountable, just as students are constantly reminded of an honor code and retaught ethics at different grade levels. Another method to establish a strong ethical framework within an organization is to focus on minimizing unnecessary pressure from managers on associates. "Employees report feeling the most pressure to compromise workplace standards when their supervisors reward questionable work tactics, or if they only care about meeting targets," according to the survey. Monitoring this business approach can help prevent fraud.

Additional recommendations are for companies to remind employees of resources available to them to report suspected misconduct and to implement a retaliation prevention program (The State of Ethics and Compliance in the Workplace, 2023). Many accounting students think the fear of losing their job or being excommunicated from their company would prevent them from speaking up against unethical behavior they witness. It should be reinforced that speaking up is in the best interest of the company and employees should be reminded of proper steps to take to ensure that their firm maintains its integrity.

Appendix A

Survey for Accounting Students

Q1 What year are you in college?

- Freshman (1)
- Sophomore (2)
- Junior (3)
- Senior (4)
- Fifth Year/Graduate Student (5)

Q2 What is your gender identification?

- Male (1)
- Female (2)
- Prefer not to say (3)

Q3 How many courses are you required to take on the topic of business ethics?

- 0 (1)
- 1 (2)
- 2 (3)
- 3 or more (4)

Q4 How many courses would you have taken during college on the topic of business ethics?

- 0 (1)
- 1 (2)
- 2 (3)
- 3 or more (4)

Q5 How many business ethics courses do you feel are sufficient to effectively teach students how to respond to ethical dilemmas they may face in the workplace?

- 0 (1)
- 1 (2)
- 2 (3)
- 3 or more (4)

Q6 Have you learned about accounting fraud cases in college?

- Yes, it was part of a mandatory course (1)
- Yes, it was part of an elective (2)
- No (3)

Q7 Do you feel that the way accounting fraud cases are taught in college curriculum potentially teaches students how to commit fraud?

- Yes (1)
- No (2)

Q8 Do you think the amount of money that corporations lose annually to accounting fraud is significant?

- No (1)
- Yes (2)

Q9 Who do you think is most impacted by accounting fraud?

- The company (1)
- The company's employees (2)
- Shareholders (3)
- Public confidence in the accounting profession, auditing company, or specific audit client (4)
- Other (5) ____

Q10 Do you believe accounting fraud is a major issue?

- Yes (1)
- No (2)

Q11 On a scale of 1-5, how likely is increasing the amount of ethics teaching in college curriculum going to decrease instances of accounting fraud in the professional world, with 1 being “highly unlikely” and 5 being “highly likely.”

- 1 (1)
- 2 (2)
- 3 (3)
- 4 (4)
- 5 (5)

Q12 What do you think are the most important teachings to curtail accounting fraud?

- Personal consequences (i.e. fines, fail time, etc.) (1)
- Negative impacts on the company, including its employees (2)
- How the fraud was committed (methodology and gaps in the company's infrastructure) (3)
- Remedial work to fix/undo the fraud (4)
- Other (5) ____

Q13 Do you think lack of ethics education plays a role in why people commit accounting fraud? Why or why not?

- ☐ Yes (1)
- ☐ No (2)
- ☐ Why? (3) ____

Q14 What do you think is the best way to tackle accounting fraud?

- ○ Ethics training on the job (1)
- ○ Internal control systems within a company (2)
- ○ College-level ethics education (3)
- ○ Other (4) ____

Q15 Is there anything else that can be done at the college level to prevent fraud instead of reacting to it in the workplace?

- Yes, increase fraud case teaching (1)
- Yes, increase ethics teaching (2)
- No, it's up to the company to implement its own controls (3)
- No, regardless of education, a person is going to commit fraud (4)
- Other (5) ____

Q16 Do you think in your intended profession you will face an ethical dilemma? (Select yes or no and state intended profession.)

- Yes (1)
- No (2)
- Intended profession (3) ____

Q17 What type of ethical dilemma do you think you could face in the workplace?

- ☐ Client asks you (auditor) to attest to misrepresented financials (1)
- ☐ Boss tells you to attest to misrepresented financials for a major client (2)
- ☐ You know your coworker is committing fraud and let it happen (3)
- ☐ You don't think you'll face an ethical dilemma (4)
- ☐ Other (5) ____________________

Q18 Do you feel that you have the tools to handle any ethical dilemmas you might encounter in your future workplace? Why or why not?

- ☐ Yes (1)
- ☐ No (2)
- ☐ Explain (3) ____________________

Q19 How do you think accounting fraud is committed most frequently?

- ○ Overstatement/understatement of revenue (1)
- ○ Overstatement/understatement of expenses (2)
- ○ Overstatement/understatement of liabilities (3)
- ○ Overstatement/understatement of assets (4)
- ○ Misappropriation of assets (5)
- ○ Tax-related (6)
- ○ Don't know (7)

Q20 If you are asked to do something unethical in an entry-level position at your future workplace (i.e. attest to incorrect financial statements), what is your presumed response?

- ▢ Do whatever is asked of you (1)
- ▢ Address the person directly (2)
- ▢ Tell a coworker (3)
- ▢ Tell HR (4)
- ▢ Tell my manager (5)
- ▢ Other (6) ____

Q21 If you are asked to do something unethical as a manager at your future workplace (i.e. attest to incorrect financial statements), what is your presumed response?

- ▢ Do whatever is asked of you (1)
- ▢ Address the person directly (2)
- ▢ Tell a coworker (3)
- ▢ Tell HR (4)
- ▢ Other (5) ____

Q22 In relation to questions #20 and 21, if you chose anything other than (a), why do you think that is?

- ▢ I don't want to get in trouble with my company/legal issues (1)
- ▢ I know the right thing through my own moral compass (2)
- ▢ I learned about fraud like this and believe that committing it is a serious crime (3)
- ▢ Other (4) ____

Q23 Have you ever witnessed someone cheating in college, and how did you respond?

- ☐ I have not witnessed cheating (1)
- ☐ I confronted the person directly (2)
- ☐ I told a professor (3)
- ☐ I told a peer (4)
- ☐ I told an administrator (5)
- ☐ Nothing (6)

Q24 Do you think auditors who knowingly attest to incorrect financial statements are unethical? Why or why not

- ☐ Yes (1)
- ☐ No (2)
- ☐ Explain (3) ____

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