ADVANCES IN MANAGEMENT ACCOUNTING

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ADVANCES IN MANAGEMENT ACCOUNTING

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STATEMENT OF PURPOSE

Advances in Management Accounting (AIMA) is a publication of quality applied research in management accounting. The journal's purpose is to publish thought-provoking articles that advance knowledge in the management accounting discipline and are of interest to both academics and practitioners. The journal seeks thoughtful, well-developed articles on a variety of current topics in management accounting, broadly defined. All research methods, including survey research, field tests, corporate case studies, experiments, meta-analyses, and modeling are welcome. Some speculative articles, research notes, critiques, and survey pieces will be included where appropriate.

Articles may range from purely empirical to purely theoretical, from practice-based applications to speculation on the development of new techniques and frameworks. Empirical articles must present sound research designs and well-explained execution. Theoretical arguments must present reasonable assumptions and logical development of ideas. All articles should include well-defined problems, concise presentations, and succinct conclusions that follow logically from the data.

REVIEW PROCEDURES

AIMA intends to provide authors with timely reviews clearly indicating the acceptance status of their manuscripts. The results of initial reviews normally will be reported to authors within eight weeks from the date the manuscript is received. The author will be expected to work with the Editor, who will act as a liaison between the author and the reviewers to resolve areas of concern. To ensure publication, it is the author's responsibility to make necessary revisions in a timely and satisfactory manner.

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MANUSCRIPT FORM GUIDELINES

1. Manuscripts should include a cover page that indicates the author's name and affiliation.
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3. Tables, figures, and exhibits should appear on a separate page. Each should be numbered and have a title.
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INTRODUCTION

This volume of *Advances in Management Accounting (AIMA)* represents the diversity of management accounting topics, methods and author affiliation which form the basic tenets of *AIMA*. Included are papers on traditional management accounting topics such as management control systems and performance measurement, as well as articles on broader topics of interest to management accountants such as corporate social responsibility, sunk costs and the integration of financial and management accounting policies. The papers in this volume utilize a wide-variety of methods, including archival data analysis, literature reviews, experiments, and framework development. Finally, the diversity in authorship is apparent with affiliations from Australia, France, Germany, Ireland, Republic of Korea, and the United States.

This volume begins with a paper developing a framework integrating topics in the ethics and management control literatures. At the 3rd *AIMA* World Conference on Management Accounting Research in May 2016, Kenneth Merchant presented a compelling session on this topic. The paper by Merchant and White is the product of that plenary session. The article brings to light the many topics where ethics and management control converge. By linking these topics, organizations can provide a framework to promote behavior that both contributes to the achievement of the organization's objectives and also follows ethical principles. This is clearly a fruitful area for research and for integration in the classroom.

The next two papers explore the topic of corporate social responsibility (CSR) and how we, as management accounting researchers, can leverage our expertise to advance knowledge in CSR/sustainability. Ella Mae Matsumura presented a plenary session at the 3rd *AIMA* World Conference on Management Accounting Research. The paper by Kim and Matsumura is the product of that plenary session. Kim and Matsumura build a framework for analyzing CSR issues and Soderstrom, Soderstrom and Stewart conduct a literature review linked to the framework proposed in Kim and Matsumura. Both papers identify numerous research opportunities available for those interested in the intersection of management accounting and CSR/sustainability.

The fourth paper in the volume revisits Simons' Levers of Control (LoC) framework. Curtis, Lillis, and Sweeney draw researchers back to the conceptual underpinnings of the LoC framework in order to advance the development of management control theory. The authors focus on the way the LoC have been operationalized in practice, the separate trajectories of the qualitative and quantitative literatures which often do not "speak" to each other and the potential to build a more coherent literature by drawing attention back to the conceptual core of the framework.

Reinstein, Bayou, Williams, and Grayson provide a summary of various literatures dealing with the age-old issue of sunk costs. The paper presents the impasse or conflict that exists between accounting/economic theories that sunk costs ought not to be brought into incremental decision-making and what actually happens in practice as reported in the organizational behavior literature. The authors bring together the various literatures in a coherent way so as to provide guidance to future research and practice.

The sixth paper by Schmidt examines the effects of various aspects of firm complexity on the alignment between firms' financial and management accounting systems. The author tackles the difficult issue of understanding some firm-level determinants of integrated financial and management accounting systems. This is an interesting topic and the author utilizes a novel approach based on reported financial information to examine this issue.

The final paper by Roberts, Neumann, and Cauvin investigates the potential characteristics, causes and boundaries of the financial measures bias. The authors develop a theoretical model to explore evaluators' choice and use of the most important performance measurement criterion among financial and non-financial measures. They run an experiment to provide direct evidence of participants' experience and attitudes about the relative accounting qualities of financial and non-financial measures and links them to their choice of the most important performance measures.

The seven papers in Volume 28 represent relevant, theoretically sound, and practical studies that can greatly benefit the management accounting discipline. They manifest the journal's commitment to providing a high level of contribution to management accounting research and practice.

Mary A. Malina
Editor

LINKING THE ETHICS AND MANAGEMENT CONTROL LITERATURES☆

Kenneth A. Merchant and Lourdes Ferreira White

ABSTRACT

Purpose – *This paper examines the linkages between the ethics and management control literatures and suggests some potentially fruitful areas for future research and for integration in the classroom.*

Methodology/approach – *We review topics in the ethics and management control literatures organizing them around the six modules used in the accounting ethics course taught at the University of Southern California: (a) professional standards, (b) distinguishing right from wrong, (c) understanding why (good) people do bad things, (d) getting employees to behave ethically (corporate ethics programs), (e) getting people to speak up when they see something wrong taking place (Giving Voice to Values), and (f) whistleblowing (the last resort).*

Findings – *While we find many topics where ethics and management control are concerned with similar issues, there are very few papers that approach these topics from the two perspectives.*

☆This paper was developed based on a plenary presentation given at the 3rd AIMA World Conference on Management Accounting Research on May 19, 2016 in Monterey, CA.

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Originality/value – *We provide an overview of topics where ethics and management control overlap, and highlight the need for greater convergence between the two literatures. By linking MCS and ethics, organizations can provide a framework to promote behavior that both contributes to the achievement of the organization's objectives and also follows ethical principles. We comment on what may happen when ethics and management control diverge, and discuss controls that can promote a strong ethical climate.*

Keywords: moral reasoning; organizational wrongdoing; corporate ethics programs; fraud detection; Giving Voice to Values; whistleblowing

INTRODUCTION

From a definitional viewpoint, at least, the ethics and management control literatures should be closely linked. The study of ethics involves distinguishing "right" from "wrong," and corporate ethics programs are designed to ensure that employees do the right things. Defining ethics for business purposes is so challenging that it has been compared to "nailing jello to a wall" (Lewis, 1985, p. 377), but the Institute of Management Accountants has provided a practical definition of ethical conduct:

> A commitment to ethical professional practice includes: overarching principles that express our values, and standards that guide our conduct. […] ethical principles include: Honesty, Fairness, Objectivity, and Responsibility. […] A member's failure to comply with the following standards may result in disciplinary action: (I) competence, (II) confidentiality, (III) integrity, and (IV) credibility. (Institute of Management Accountants, 2016)

A management control system (MCS) is designed for a similar purpose – to ensure that employees are acting in their organization's best interest. To serve the organization's best interest typically means implementing the business strategy as intended. For example, Merchant and Van der Stede (2017, p. 6) define the scope of MCS as "all devices or systems managers use to ensure that the behaviors and decisions of their employees are consistent with the organization's objectives and strategies." This can be interpreted as another definition of doing the right things. Thus, both ethics and MCS involve deciding what employees should do and then ensuring that they do it.

However, in our research and teaching of courses in accounting ethics and MCS, we both have observed that the materials for these two subjects have developed largely independently. Few course materials are focused on this ethics/MCS linkage (Berry, Broadbent, & Otley, 2005). In the MCS literature, key components of MCS such as objective setting, performance feedback, and performance-based rewards have been linked to ethics-related mechanisms such as corporate governance and ethics programs (Lindsay, Lindsay, & Irvine, 1996). As Bolt-Lee and Moody summarized, this is fitting because "at their core, ethics programs are control systems designed to align employee behavior with management's values" (Bolt-Lee & Moody, 2010, pp. 39–40). Rosanas and Velilla (2005) approached this linkage from a philosophical perspective, and Langevin and Mendoza (2013) focus on two types of possibly unethical behavior, budgetary slack and data manipulation. But none of these papers was empirically based, and the ethics and control systems literatures continue to develop separately. In an extensive literature review of the accounting ethics research published in academic journals, Bampton and Cowton (2013) found that less than 4% of accounting ethics papers were focused on management accounting topics. This seems like a lost opportunity.

In this paper, we attempt to stimulate more work in this area. We draw linkages between the two fields, provide an overview of what has been done, with some illustrative references, and suggest some potentially fruitful areas for future research. We assume that most of the readers of this journal have MCS familiarity, but they might not have the same level of knowledge of the field of ethics, so we focus most of our discussion on ethics topics and relate them to MCS topics. We organize the paper using the structure of the accounting ethics course taught at the University of Southern California. This course consists of six main modules: (a) professional standards, (b) distinguishing right from wrong, (c) understanding why (good) people do bad things, (d) getting employees to behave ethically (corporate ethics programs), (e) getting people to speak up when they see something wrong taking place (Giving Voice to Values), and (f) whistleblowing (the last resort). This organizing framework is not the only way to ensure coverage of the core ethics topics, but it is a useful one.

PROFESSIONAL STANDARDS

Many professionals, including accountants, engineers, doctors, brokers, human resource managers, and even hairdressers, are subject to professional standards. These standards are developed by licensing bodies, regulators, and professional organizations. The standards are expressed in terms of both behavioral prescriptions (e.g., maintain expertise through continuing education) and virtues to live up to (e.g., act with integrity). The behaviors of the professionals who are subject to those standards are reviewed as needed by ethics or compliance committees. Violators are subject to penalties that can be as severe as loss of license and/or expulsion from the organization.

Professional standards are thought to be essential for members of a profession to execute their duties fully (Stava, Caldwell, & Richards, 2006). By providing an external control system regarding its members, the professional organizations also contribute to the internal MCS of employers. For example, the Statement of Ethical Professional Practice of the Institute of Management Accountants (IMA) established how management accountants are expected to resolve an ethical conflict. They should communicate suspected wrongdoing to their immediate supervisor and, if needed, proceed to communicate with higher hierarchical levels up until the board of directors. The code also states that "Communication of such problems to authorities or individuals not employed or engaged by the organization is not considered appropriate, unless you believe there is a clear violation of the law" (Institute of Management Accountants, 2016). This type of professional standard regarding confidentiality is similar to other confidentiality commitments by professionals such as attorneys, physicians, and members of the clergy.

It seems logical that professional standards should lower the costs of MCS and have other positive effects on the organizations that employ the professionals. How can it not be right to act with integrity, for example? However, little is known about how much the employer organizations benefit from the professional standards being followed by their employees. Do people who have these professional credentials and affiliations, and thus who are subject to specific professional standards, behave better than those who do not? Should a corporation wanting to hire a chief financial officer (CFO), for example, look primarily (or exclusively) for someone who is a member of Financial Executive International (FEI), or someone who holds the Certified Public Accountant (CPA) credential and is a member of the American Institute of CPAs, or who is a Certified Management Accountant (CMA) and a member of the Institute of Management Accountants? Does it matter if the employees keep their credentials active? Even though definitive academic research evidence is not available to address these questions systematically, an analysis of job markets suggests that such professional standards have a positive signaling effect (Ball, 2009). The value of the signaling is indicated by the fact that individuals with relevant credentials earn higher compensation than those without the credentials. For example, a CPA working from ages 22 to 65 is expected to earn a lifetime premium of more than $220,000 over someone in similar conditions without the CPA credential (Krippel, Moody, & Mitchell, 2016).

It should be noted, though, that, in some circumstances, the professional standards might have a limiting effect, actually hindering employees from acting in their organization's short-term interest. For example, there is an obvious conflict between the profit goal and brokers' obligations not to churn stocks and not to give private information to "high value" clients. There could be a conflict between medical doctors' Hippocratic oath and the profit goal. To protect against these types of conflicts, these professions are heavily regulated. For instance, brokerage firms cannot hire unlicensed brokers, and hospitals cannot hire medical practitioners without the proper licenses. But similar conflicts might occur between corporate goals and the standards of professions, and employers can choose between hiring people subject to ethical codes and those who are not. These include most management and financial professionals. To our knowledge, no research has focused on this issue.

RIGHT VERSUS WRONG

Distinguishing right from wrong is the core issue in the field of ethics. Philosophers have debated right-versus-wrong issues for millennia and developed multiple theories with which to organize their arguments. Among the most commonly discussed theories or approaches are utilitarianism (consequentialism), rights and duties, fairness, and virtue theories. These theories, and sometimes others, are discussed in most textbooks on business ethics (Donaldson & Werhane, 2008) and accounting ethics (Mintz & Morris, 2017).

Prescribed, structured decision processes complement the ethical theories. These processes help decision-makers identify the key facts in any given situation so that they can be examined in light of one or more ethical models in order to reach a conclusion. These processes have been shown to improve accounting students' ethical judgments (Martinov-Bennie & Mladenovic, 2015).

One representative of such ethical structured decision processes is the seven-step process suggested by the American Accounting Association (Langenderfer & Rockness, 1993). This process, shown in Fig. 1, highlights the complexity of ethical decision-making. The process starts with a determination of "who" is affected by the action in question; that is, the stakeholders. This step affects all the following steps (especially step 6, which requires evaluating stakeholder consequences).

Distinguishing right from wrong with an MCS lens is both similar and different from doing it using an ethics lens. Similar to the structured processes described above for ethical decision-making, organizations commonly use strategic structured processes such as SWOT (strengths, weaknesses, opportunities, and threats) analysis to develop the corporate and business unit strategies and

The 7-Step Decision - Making Process.

1. Determine the facts: what, who, where, when, how
2. Define the ethical issue
3. Identify major principles, rules, values
4. Specify the alternatives
5. Compare values and alternatives. See if clear decision.
6. Assess the consequences
7. Make your decision

Fig. 1. The Ethical Decision — Making Process. *Source*: Langenderfer and Rockness (1993).

to discern what actions are necessary to execute those strategies. Unlike the ethics lens that emphasizes moral principles and values, what is deemed right strictly from an MCS perspective are actions that are consistent with the organization's strategy. Boland (1982) suggested that a consideration of stakeholders should be an important part of both ethics and MCS design:

> Those concerned with professional ethics are also interested in the design of organizational control systems. For them, a well-controlled organization would be one in which the ethical concerns of its members were identified, analyzed and acted upon in a rational, coherent way. (Boland, 1982, p. 15)

Further research is needed to discover the extent to which ethical considerations are an explicit part of the executive discussion during the strategy formulation processes (Robertson, 2008).

One recent trend in the convergence of ethics and MCS is the inclusion of ethical criteria such as corporate social responsibility (CSR) into corporate objectives, performance appraisals, and rewards (financial and nonfinancial). This trend shows the influence of stakeholder and, hence, ethical thinking in the corporate strategy formulation process (Weber & Wasieleski, 2013). Despite widespread efforts by a wide range of organizations to integrate CSR concerns into their MCS, recent empirical research found that a financial measure bias still persists in appraisal and bonus decisions. Evaluators are prone to drop CSR measures from evaluations in favor of financial measures, consistent with an ideology of shareholder value maximization (Bento, Mertins, & White, 2017). Notwithstanding the financial bias in MCS, the emerging area of accounting for the environment and sustainability offers a promising opportunity for MCS developments with an explicit concern for ethics and social responsibility (Hopwood, 2009). Corporate social responsibility raises questions fundamental to both MCS and ethics, as accountability toward many types of stakeholders over the long run is explicitly examined (Karim & Taqi, 2013). By intentionally applying stakeholder theory to MCS (Parmar et al., 2010), researchers and practitioners alike can further bring ethics and MCS together when distinguishing right from wrong.

WHY (GOOD) PEOPLE DO BAD THINGS

A key part of every ethics course involves helping students to understand why people, even "good" people, do bad things. Usually the focus in an ethics course is on fraudulent behaviors because those actions are so obviously wrong. MCS courses and writings look at a broader range of unacceptable behaviors, including opportunistic behaviors caused by greed and laziness that serve narrow self-interests and errors of commission or omission caused by lack of knowledge or poor organizational communication. Some empirical evidence suggests that simply "knowing what to do" may *not* necessarily lead to "doing what you know" (see review by Loh & Wong, 2009).

In their MCS textbook, Merchant and Van der Stede (2017) discuss three causes of MCS problems:

1. Lack of direction. Some people do not know what the organization wants from them.
2. Lack of motivation. Some people are not interested in doing what the organization wants, for various reasons like personal beliefs, greed, and laziness.
3. Personal limitations. Some people are not able to perform well in the role they are given.

However, these MCS explanations of the causes of undesirable behaviors, as well as those of the narrower field of agency theory, are simplistic and incomplete. The ethics and forensics literatures provide richer, more complete explanations.

A common rule of thumb used in forensics is the 10-80-10 approximation. It asserts that approximately 10% of the population will steal or commit fraud given any opportunity; 80% is honest most of the time; and 10% is honest in all situations (AGA, 2016). The obvious MCS implications of this rule are that organizations should focus on ridding themselves of the bad 10%, the employees who are looking for a chance to steal, and finding more people in the upper 10%, the good, honest people. Then the MCS can be designed to control the behaviors of the middle 80%, the vast majority of the population that is situationally honest. The organization's MCS should avoid the conditions that would tempt the mostly honest people to do bad things.

Another key model in forensics is the fraud triangle, shown in Fig. 2. This model suggests that there are three precursors to fraud – motivation, opportunity, and rationalization.[1] Generally, all three precursors must be present for an individual to commit fraud. Economic motivations, which are a subset of the motivation side of the fraud triangle, are similar to the agency theory notion of greed, but the fraud triangle also notes some individuals' *needs* to commit fraud, such as financial needs caused by crushing debt loads. Sometimes the motivation is not just economic but arises in the form of pressure or threats from peers or supervisors.

Controlling opportunity is similar to what is discussed in the MCS literature as internal controls, or behavioral controls and constraints, as well as softer controls, such as organizational culture. A culture that promotes honesty (instead of truth spinning), reliability and fair-mindedness (instead of political gamesmanship) can play a crucial role in "avoiding big-ticket misdeeds" (Paine, 2000).

Rationalizations are rarely discussed in the MCS and agency literatures. Some research has focused on managers' thinking processes as they engage in earnings management or creation of budgetary slack (Church,

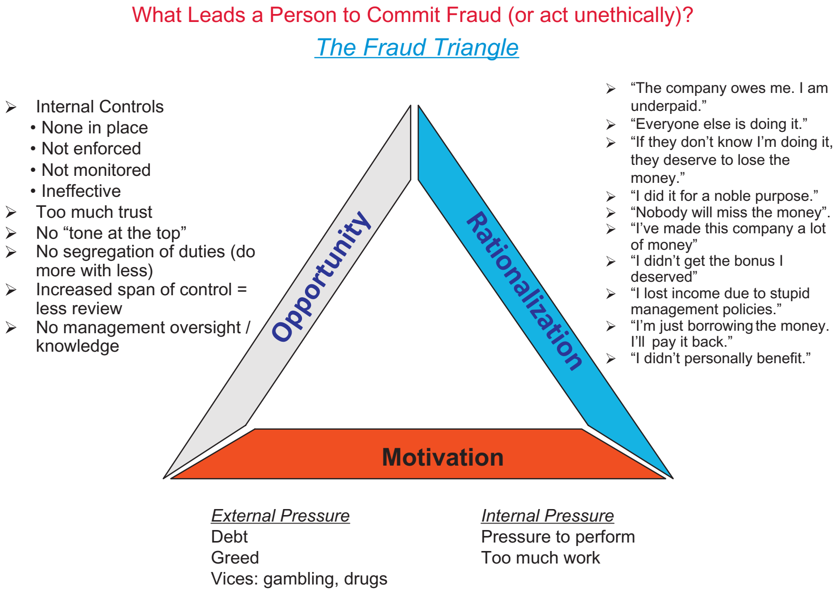

Fig. 2. Precursors to Fraud.

Hannan, & Kuang, 2012; Merchant, 1989; Merchant & Manzoni, 1989). Some of the motivations for managing earnings or padding budgets involve motivations; for example, to avoid a layoff. However, little has been done to incorporate this rationalization idea into the MCS literature to understand how controls could be better designed to counter employee rationalizations of doing "wrong" things.

But does the combination of the fraud triangle and the common MCS explanations provide a near-complete explanation of the causes of bad behaviors? No, clearly not. There are many other potential causes. A survey of professional accounting bodies from around the world identified self-interest and lack of objectivity/independence as the two main causes of ethical failure (Jackling, Cooper, Leung, & Dellaportas, 2007). We will review several additional causal explanations used in the ethics literature.

A framework of moral functioning derived from Rest's Four-Component Model uses four processes to describe ethical decision-making: (1) moral sensitivity relates to the ability to recognize a moral dimension in a situation; (2) moral judgment involves choosing the best moral outcome; (3) moral motivation or intention prompts a decision to act; and (4) moral character facilitates (or hinders) actual ethical behavior, or the implementation of the chosen course of action (see a literature review by Bailey, Scott, & Thoma, 2010). A deficiency in any of these four processes may lead a "good" person to act unethically, even within the constraints of behaviors considered acceptable by the MCS. For example, a manager may fail to recognize the moral dimension of a practice of creating budgetary slack; or s/he may judge one course of action to be superior because it will benefit shareholders and employees but ignore how it harms customers; or, even if the manager demonstrates high moral sensitivity and judgment, s/he may still be motivated by fear of dismissal or lack the skills to secure team support and choose the "right" action.

Deficiencies in ethical reasoning and decision-making are often caused by cognitive biases (Bazerman & Tenbrunsel, 2011). Cognitive biases are unconscious, automatic influences on human judgments that produce reasoning errors. Biases interfere systematically with both perception and memory: "judgments and decisions are produced by storing and subsequently retrieving objective evidence in memory and […] biases are the result of distortions in this mental process" (Hilbert, 2012, p. 212). A prominent example is the difference between System 1- and System 2-type thinking (Kahneman, 2011). Sometimes these two types of thinking are referred to as intuitive and reflective, respectively. System 1 thinking is fast, automatic, instinctive, emotional, based on gut feel, and low effort. It is maybe even subconscious. But most of us use it most of the time. System 1 thinking often includes what is sometimes called the "knee-jerk bias." In contrast, System 2 thinking is slow, effortful, deliberate, calculating, conscious, explicit, and logical. This type of thinking is activated when we perceive that System 1 thinking is running into trouble, such as when the stakes are high, an obvious error is perceived, or rule-based reasoning is required.

System 1 thinking can cause unethical behaviors because System 1 thinking reflects cognitive biases of which we are not aware. It tends to suppress the search for alternatives. And decision-makers do not seem to learn from experience, mainly because they even fail to perceive that they have made a mistake; they simply do not deliberate rationally before making an ethical decision. The point is that people place great trust in their intuition, but it might not be reliable. Some other biases that are particularly relevant for accounting ethics include information availability, anchoring and adjustment, overconfidence, confirmation, and rush to solve (Fay & Montague, 2015). Decision-making processes matter. Having smart, highly motivated, honest employees plus good information is not enough. How can organizations get their employees to overcome cognitive biases when they encounter ethical issues? This is a key topic for both the MCS and accounting ethics literatures, and much is yet to be learned.

An important impediment to moral judgment occurs when organizational participants are faced with decisions framed as potential losses (see discussion on "bounded ethicality" by Kern & Chugh, 2009). The association between loss aversion and risk-taking is well documented in the prospect theory literature (Kahneman & Tversky, 1979). The implication for organizational wrongdoing is that, once an employee is already involved in unethical practices, the prospect of significant losses may motivate more risk-taking in an effort to continue to cover up the wrongdoing and avoid getting caught. Furthermore, experience with past failures may contribute to increased risk-taking in wrongful conduct; and, the more severe the anticipated punishments if caught, the more an employee is likely to gamble by engaging in more daring wrongdoing (Palmer, 2012).

Paradoxically, "good" people do bad things when certain aspects of MCS actually motivate them to resort to wrongdoing. MCS and ethics may collide, for example, when MCS elements such as performance targets and negative consequences for unmet targets exert pressures on organizational participants. The recent fraud at Wells Fargo, which resulted in the firing of 5,300 employees for secretly creating up to 2 million unauthorized accounts is a striking example of this effect. One bank employee was quoted as saying, "I told [my co-workers] that's not only unethical but illegal" (Egan & Gogoi, 2016). Langevin and Mendoza (2013) argue that many MCS elements can induce unethical behaviors such as budgetary slack and data manipulations. Experimental studies have shown that employees tend to attribute fraudulent earnings management practices more to the pressures created by rigid budgetary controls than to other factors such as personal dispositions (Kaplan, McElroy, Ravenscroft, & Shrader, 2007). In another set of experiments, Niven and Healy (2016) found that participants were more likely to propose unethical behaviors when under pressure to meet a specific goal than when simply told to "do your best." This "dark side" of goal setting in promoting unethical behavior is more significant during the "*process*" phase of goal striving (i.e., acting unethically while striving to reach the goal) than during the "*outcome*" phase of goal striving (i.e., while overstating performance outcomes after the fact). The effect of the type of goal (specific vs. vague) on unethical behavior, however, is moderated by an individual's tendency for moral justification, by which a person may reconsider the unethical activity as serving supposedly higher moral purposes (Barsky, 2011). Interestingly, moral justification seems to be a more significant driver of unethical behavior than goal setting during the "outcome" phase of goal striving (Niven & Healy, 2016).

The implications of these findings for MCS are that personnel selection and training need to account for individual differences in ethical predispositions, and that superiors need to communicate to their subordinates the importance of ethical conduct over and above goal accomplishments. Especially in situations of clearly defined goals, MCS designers need to select an appropriate level of control tightness to monitor activities and ensure the reliability of self-reported performance.

Recent psychology-based research in MCS also suggests important implications for ethics. For example, the rise in narcissism among the millennial generation may require new MCS approaches, such as an emphasis on frequent and public rewards (instead of penalties), less control tightness, and more reliance on cultural controls (Young, Du, Dworkis, & Olsen, 2016). A challenge for

MCS is that narcissistic employees are more likely to engage in riskier behaviors in the workplace, one type of which is participation in fraudulent activities. Narcissist employees' preoccupations with themselves may limit their concern for others, which is essential for effective ethical judgment.

These psychological aspects of the decision to behave unethically discussed above constitute a relatively underdeveloped MCS area related to identifying the pressures on specific individuals to do the wrong things. Managers are under intense personal pressure to produce results to avoid job termination, to receive financial rewards associated with performance-based compensation and promotions, and to enjoy nonfinancial rewards such as prestige or autonomy. From the organization's viewpoint, managers are responsible for ensuring that debt covenants are not violated, that the stock price and revenues show sustained growth, and that investors (current as well as future ones) believe that the organization will remain as an ongoing concern. It should come as no surprise, then, that some managers are willing to do whatever it takes to produce the necessary results.

Fig. 3 shows the results of a Gallup (2015) poll assessing the perceived honesty and ethical standards of Americans in different occupational fields. The business-oriented fields appear toward the bottom of the scale. Do the institutional pressures listed above cause the need for more or different types of controls in MCS?

There is also evidence about individual differences affecting ethical judgments. Chen, Tuliao, Cullen, and Chang (2016) found that as compared to female managers, male managers were more willing to rationalize business-related unethical behaviors, such as bribery and tax evasion, and the gender difference is more pronounced in the presence of some cultural dimensions, including collectivism, humane orientation, performance orientation, and gender egalitarianism. People with an economics or business background are less likely to think and act ethically (Frank, Gilovich, & Regan, 1993; Lane & Schaupp, 1989; Yezer, Goldfarb, & Poppen, 1996). The more exposure one has to economics, the more likely one is to see problems from a self-interested perspective rather than an ethical one. This is reflected in studies of free-riding, cooperation, fair bargaining, charitable giving, honesty, and whistleblowing. Also, business students are ranked lower in moral reasoning than students in political science, law, medicine, and dentistry (Elm, Kennedy, & Lawton, 2001; McCabe, Dukericah, & Dutton, 1991; Smith & Oakley, 1997). Pierce and Sweeney (2010) found in a study of trainee accountants, comparing accounting with non-accounting business majors, that accounting majors exhibit higher ethical intention, but lower perceived ethical intensity than non-accounting majors. Ethical or moral intensity is "a construct that captures the extent of issue-related moral imperative in a situation" (Jones, 1991, p. 372). Intensity is higher depending on the perceived potential harm and social pressure (Sweeney & Costello, 2009). Ponemon and Glazer (1990) examined ethical judgment among auditors and concluded that business education eroded their judgment

Gallup Poll Rating of Honesty and Ethical Standards

Field	% very high/high
Nurses	84
Pharmacists	68
Medical doctors	67
High school teachers	60
Police officers	56
Clergy	45
Funeral directors	44
Accountants	39
Journalists	27
Bankers	25
Lawyers	21
Real estate agents	20
Business executives	17
Stockbrokers	15
Car salespeople	8
Members of Congress	8

Fig. 3. Honesty and Ethical Standards of Americans in Different Occupational Fields (Business-Oriented Roles Appear in Lighter Shade). *Source*: Gallup (2015).

quality. Another finding with potential business implications is that higher GMAT scores are negatively related to ethical orientation (Aggarwal, Goodell, & Goodell, 2014).

A novel theoretical framework by Palmer (2012) helps tie the MCS and ethics literatures with respect to why good business people might do bad things. He views wrongdoing not as an abnormal or individual-level phenomenon but as a common, organization-wide practice. He argues that pervasive structures and processes, such as rules and standard operating procedures, job descriptions, groupthink, power structures, and social control by powerful organizational agents, can lead to the dissemination and institutionalization of wrongdoing, whether intentionally or not.

Concerns about widespread wrongdoing increase in complexity for multinational organizations, in part due to a lack of consensus about what is right across various national cultures. Annually, Transparency International (2015) reports what they call an international corruption perceptions index, as shown in Fig. 4. The results show that behaviors such as cheating and taking bribes are much more likely in countries like Somalia, North Korea, and Afghanistan than in Scandinavian countries. The implications of designing control systems in environments that are relatively corrupt have not been well explored. For example, codes of ethics have been shown to have no significant effect on ethical decision-making of management accountants in Libya (Musbah, Cowton, & Tyfa, 2016). Contrary to the researchers' expectations, auditors in China did not perceive the ethical climate in local firms more negatively than in international firms operating in China, but as compared to those working in the international firms they were more likely both to consider dubious actions more ethical and to engage in such actions (Shafer, 2008). When national culture is operationalized using implicit theories to explain cultural differences in cognition, Chinese and American subjects differed significantly in their ethical judgment of fraud scenarios (Wong-On-Wing & Lui, 2013). Rationalization, one of the elements in the fraud triangle, seems to vary across different societies depending on the prevailing moral attitudes and values regarding financial reporting fraud (see review in Trompeter, Carpenter, Desai, Jones, & Riley, 2013).

This diversity in ethical climates poses challenges for adoption of the code of ethics recently released by the International Ethics Standards Board for Accountants (Teitelbaum, 2016). More than 100 national accounting organizations, including the American Institute of CPAs in the United States, are expected to achieve convergence between their own codes and the proposed IESBA code, on culturally sensitive topics, including how to proceed when an

Index of Perceived Corruption by Country

1. Denmark	91
2. Finland	90
3. Sweden	89
4. New Zealand	88
5. Netherlands	87
5. Norway	87
16. United States	76
163. Angola	15
163. South Sudan	15
165. Sudan	12
166. Afghanistan	11
167. North Korea	8
167. Somalia	8

Fig. 4. Corruption Perceptions Index (Higher Scores Indicate Less Corruption). *Source*: Transparency International (2015).

accountant discovers wrongdoing and needs to report it. Research has shown that national culture affects how participants perceive both ethics (Ardichvili et al., 2012) and MCS (Merchant, Van der Stede, Lin, & Yu, 2011). Some experts argue that multinational organizations that design MCS elements using the same U.S.-centered approach to corporate ethics programs in diverse countries fail to achieve their objectives of encouraging ethical behaviors (see review by Weaver, 2001).

In practice, organizations operating in multiple countries have to bear the burden of costly control structures to ensure participants along the value chain follow the organization's ethical policies. For example, Hewlett Packard tracks about 1,000 suppliers around the world regarding their use of minerals originating from mines run by warlords; similarly, L'Oréal performs costly social audits of its international suppliers and subcontractors regarding fair labor practices (Epstein & Rejc-Buhovac, 2014). The costs of such controls pale, however, in comparison with the costs of not putting effective controls in place to prevent unethical conduct. The average corporate cost of a monetary resolution of an enforcement action related to a violation of the Foreign Corrupt Practices Act (FCPA) has climbed from $22 million to $157 million just in the 2012–2014 period, and a securities class-action settlement costs an estimated median of $10.2 million (Ethics and Compliance Initiative, 2016, pp. 14–15). This escalation in the costs of wrongdoing may help explain why in some markets, such as the European Union, compliance with ethical standards has become a necessary requirement for doing business.

CORPORATE ETHICS PROGRAMS

The Sarbanes-Oxley legislation and listing standards of the New York Stock Exchange and Nasdaq require companies to have codes of ethics governing the conduct of all their directors, officers, and employees. In most companies, these codes are an integral part of broad ethics programs that typically include (1) definitions of desired behaviors, (2) methods of communicating desired behaviors, both in specific and general terms, through mechanisms like policies, manuals and codes of conduct, (3) training to ensure that the communications are received, (4) avenues for employees to report and receive guidance regarding the "gray" behavioral areas that they encounter (Noreen, 1988), (5) an ethics or compliance staff, (6) internal ethical audit or monitoring of actual behaviors, (7) sanctions for deviant behavior, and (8) a supporting culture, which includes a good tone at the top of the organization (DeColle & Werhane, 2008). The 2013 National Business Ethics Survey results indicated that, among participating organizations, 81% offer ethics training and 74% respond to findings of wrongdoing with internal communications about disciplinary actions (Ethics and Compliance Initiative, 2013). These ethics programs are certainly related to MCS, and might even be considered part of them, although their focus is different – act ethically, rather than implement the strategy as intended.

We only identified a few descriptive studies to date that have addressed how these ethics programs are developed and how they work. Weber and Wasieleski (2013) found that in about 60% of surveyed organizations the board of directors is involved in developing the code of ethics. Codes of ethics have been shown to reduce managers' opportunistic behavior, but only when managers publicly certify that they will abide by the code (Davidson & Stevens, 2013). Firms where the board oversees the ethics programs disclose more information and have greater financial transparency than others with less involved boards (Felo, 2007).

Still many questions regarding corporate ethics programs remain. Do the designers of ethics programs rely on any formal ethics theory in developing their programs? Are most corporate ethics programs built around a virtues approach to ethics, either explicitly or implicitly? Virtue ethics "posits that what is moral in a given situation is not only what conventional morality or moral rules require but also what a well-intentioned person with a 'good' moral character would deem appropriate" (Mintz & Morris, 2017, p. 32). But how can employees be educated to build a virtuous character via corporate ethics programs? Are there conflicts or redundancies between the ethics program and the MCS? Are corporate ethics programs actually designed to be effective, or is their primary purpose just window dressing?

Weber and Wasieleski's (2013) results suggest that most corporate ethics programs have been implemented in response to regulations such as the Foreign Corrupt Practices Act (FCPA), the Federal Sentencing Guidelines for Organizations (FSGO), and the Sarbanes-Oxley Act (SOX) of 2002. These regulations should have promoted a convergence of MCS and ethical concerns because of the requirements the regulations introduced regarding corporate governance, internal controls, and codes of ethics. But if actual implementation of these regulatory requirements is limited to a compliance mentality, without a real change in ethical climate, regulations may have created more, not less, potential conflict between MCS and ethics. For example, when an employee finds out that the organization's code of ethics was created for compliance purposes only and its provisions are not enforced, she or he may adopt a cynical attitude that extends toward other MCS elements such as budget targets or earnings management.

Furthermore, ignorance about how these regulations have changed the responsibility of managers to oversee internal controls is still widespread. In a survey of management and accounting faculty (Miller, Proctor, & Fulton, 2013), the percentage of management *professors* who responded wrongly that internal auditors, not managers, are responsible for establishing (39%) and maintaining (44%) internal controls was notable. This gap between what is now expected of managers and what business majors are learning about ethics programs is disturbing, and calls for more ethics content throughout the business and accounting curricula. Textbooks are also in need of revision: in a literature review by Gordon (2011), accounting textbooks were lacking relevant ethics content, especially in the topics of governance, corporate social responsibility, and discussion of corporate scandals.

Evidence from the management literature has helped explain further the role of top management in aligning formal control systems and corporate ethics programs. For example, Weaver, Treviño, and Cochran (1999a) found that ethics program *scope* (i.e., how many formal ethics initiatives are implemented, such as ethics codes, staff training, hotlines) is more influenced by environmental factors such as media attention, than by top management's commitment to ethics. On the other hand, ethics program *orientation*, that is, whether it is focused on complying with regulations or encouraging shared values, is more influenced by management's commitment to ethics than by environmental factors. These results highlight the important role that top managers need to play in designing ethics programs, instead of delegating this responsibility to ethics officers or other staff.

In order to design and implement corporate ethics programs that help align MCS and ethics, organizations need a solid understanding of what constitutes an effective ethics program (see the five principles of high-quality ethics and compliance programs, ECI, 2016). But what makes a good ethics program, and what are the relevant metrics? As often happens, it seems that practitioners are ahead of academics in addressing this key question. The practitioner literature offers some suggestions on how to build high-quality ethics programs and evaluate their efficacy (see the seven steps outlined by Ostrosky, Leinicke, Digenan, & Rexroad, 2009 based on the FSGO regulations). A recent survey by the Ethics and Compliance Initiative (ECI, 2016) has identified that one of the hallmarks of a high-quality ethics and compliance programs is when "Ethics and compliance is central to business strategy […] the program is not an 'add-on' feature of the organization; rather, it is designed to complement and support the organization's strategic objectives. While E&C can be found as a function on the organizational chart, it is also considered to be an essential element within every other operation" (ECI, 2016, p. 17). This is an example of ethics and MCS perspectives converging. Other characteristics of good corporate ethics are strong risk management, a culture of integrity, protection for employees who report misconduct, and timely disciplinary action in response to wrongdoing (ECI, 2016).

Some organizations have received awards recognizing their outstanding corporate ethics programs. For example, L'Oréal and Bechtel were recent recipients of an award on Innovation in Corporate Ethics by the Ethics and Compliance Initiative, and Cisco has won ethics program awards from multiple organizations, including the Ethisphere Institute and *Corporate Secretary* magazine. Practitioners think about how to judge ethics and compliance programs (Verschoor, 2007). However, it is not well known, at least in the academic literature, how these award winners are selected and whether the judgments on which they are based are valid and reliable.

The academic literature still has not made much progress in providing systematic empirical evidence on what constitutes effective corporate ethics programs. Since much of the MCS field is devoted to developing performance measures, MCS researchers and practitioners can apply this expertise to investigate which measures best assess if corporate ethics programs are working to get employees to behave ethically.

Recent research has indicated, for example, that a critical element of a corporate ethics program is a strong internal audit function. Arel, Beaudoin, and Cianci (2012) have found that, even when executives demonstrate weak ethical leadership, if internal audit is perceived to be strong, employees are less likely to record a questionable accounting entry and more likely to challenge the request to book such an entry. Furthermore, they found that both ethical leadership and internal audit help shape the employees' perceived moral intensity of the decision they are facing; moral intensity, in turn, via a full mediation model, significantly influences financial reporting decisions.

Langevin and Mendoza (2013) suggest perceived organizational justice as a mediator variable between MCS and unethical behaviors: the more an employee perceives the control system to be fair, the less inclined will he or she be to engage in unethical behavior such as data manipulation. Langevin and Mendoza recommend participatory budgeting, the controllability principle, feedback quality, and multiple performance measures as MCS characteristics that can enhance perceived organizational justice which, in turn, improve organizational commitment and trust in superiors, thereby reducing the likelihood of unethical behaviors.

From an MCS perspective, "perfect" ethical controls, whereby people's actions, results, and values are so carefully controlled to ensure no wrongdoing, would be not only prohibitively expensive to implement but also probably impossible to design (the "illusion of control" mentioned in Rosanas & Velilla, 2005). While it is true that organizations need to be selective about which wrongdoing to punish, the usual MCS cost−benefit approach may contradict the principles of good corporate ethics programs. When considering ethics, benefits, and costs may transcend the short term, or may be borne by other stakeholders inside or outside the firm. In other words, one could argue that cost−benefit analyses typical of MCS framework do not help build an ethical climate; instead of aiming to build an ethical culture, a cost−benefit mentality may lead MCS designers to approach corporate ethics programs simply with a risk-management attitude. When the MCS encourages behaviors that are unethical, it is not reasonable to expect that everyone will follow their ethical convictions and behave accordingly, regardless of the incentives created by the MCS; rather, it is worthwhile to conduct an organizational ethics audit to revise the MCS in order to promote goal-congruent behaviors that are also ethical (Metzger, Dalton, & Hill, 1993). To promote such alignment between individual and organizational goals, the limitations of extrinsic rewards need to be recognized, and a focus on communicating moral values takes precedence (Rosanas & Velilla, 2005).

Internal controls also have limitations in their ability to deter and detect major ethical misconduct. An extensive study by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) found that the Chief Executive Officer (CEO) and/or the CFO were implicated in 89% of fraud cases of public companies investigated in the 1998–2007 period (COSO, 2010). This finding leads to the question: if the CEO and/or CFO is involved, and they are presumably the officers with most opportunity to circumvent internal controls, what role can MCS really play in preventing unethical conduct? The study also concluded that there were few differences in corporate governance characteristics between firms where fraud did or did not occur. Again, this counterintuitive finding is a call for more research on the intersections between MCS and ethics.

Even in organizations where all the elements of a formal corporate ethics program are present, wrongdoing may still remain as a commonplace occurrence (Palmer, 2012). Furthermore, the same MCS elements that may contribute to good controls can also lead to organizational wrongdoing, be it through unrealistic performance targets or a lack of rewards for ethical behaviors. Controls, if perceived to be coercive and based on values dictated by management (instead of values shared by employees and managers) can actually lead to an "atrophy of moral competence" when individuals are not encouraged to develop their moral reasoning abilities (Stansbury & Barry, 2007). Some critics argue that codes of ethics are often devoid of meaningful ethics content and only serve as a management control tool to promote "employee compliance" (Schwartz, 2000). In order to be successful, corporate codes of ethics need to be embedded in a strong ethical culture, where ethical values are truly part of the organization's strategy and processes at all hierarchical levels (Webley & Werner, 2008).

Another line of research on getting people to behave ethically has compared the responses to corporate ethics programs by younger and older employees. One study documented that, for managers at the beginning stages of their careers, their motivation to do good comes mostly from their own moral reasoning and personal reflection, with little influence from corporate ethics programs or codes of conduct, ethics hotlines, or formal mission statements (Badaracco & Webb, 1995). This results in a significant gap in perceptions of organizational ethics, with senior managers believing that employees will report unethical behaviors and consult them about ethical concerns, and lower level employees viewing ethics programs as processes to protect top managers from blame (Bobek, Hageman, & Radtke, 2015; Treviño, Weaver, & Brown, 2008). Similarly, employees under 30 were found to be significantly less likely (43%) to report misconduct than older ones (69%) according to the 2003 National Business Ethics Survey (Clark, 2003).

GETTING PEOPLE TO SPEAK UP WHEN THEY SEE SOMETHING WRONG

Frauds are not uncommon; 70% of businesses had to deal with at least one fraud just in the 2013–2014 period (Bolt-Lee & Kern, 2015). There is a major need for employees to report suspected misconduct before it becomes a large-scale fraud. A well-designed MCS should not only spot large schemes but also detect minor infractions because these frequent acts of misconduct can, collectively, amount to even larger economic losses if small wrongdoing behaviors are frequent or widespread (Paine, 2000).

A relatively new area of study and teaching in ethics is focused not on distinguishing right from wrong but on the actions people should take when they see something that they believe to be wrong; that is, not consistent with their values or those of their organization. This approach, called Giving Voice to Values (GVV), was developed by Mary Gentile (2010). It is now supported by an extensive array of papers and teaching cases, most of which are included or referenced on the GVV website (http://www.babson.edu/Academics/teaching-research/gvv/Pages/home.aspx). To date, however, relatively little GVV-focused research has been published in the mainstream academic journals.

GVV encourages people to ask the questions: What if you were going to act on your values? What would you do and say? And then it focuses on the tools for speaking up effectively to get the problems fixed. The GVV approach was motivated by the observation that, to curb unethical behavior, more people inside organizations need to have both the moral courage to stand up for what they believe to be right, and the skills to raise the issues intelligently to give themselves a better chance of success (Gentile, 2010).

GVV is built on seven "pillars":

1. Values (knowing yourself)
2. Choice (believing you have a choice about voicing values)
3. Normalization (learning to expect conflicts so that you can approach them calmly and competently)
4. Purpose (understanding your personal and professional purposes before value conflicts exist)
5. Self-knowledge, self-image, and alignment (knowing your strengths and preferences so that you can use them when acting on your values)
6. Voice (acting on your values)
7. Reasons and rationalizations (anticipate the typical rationalizations given for ethically questionable behavior and identify counter arguments) (Gentile, 2010, pp. xxxvi–xliv)

Individuals who build these pillars are more able to speak up when they see something wrong taking place and have the skill to head the problem off before much damage is done. The approach is similar to those taught in a course in negotiation and persuasion, but the knowledge and skills are applied to ethical issues and problems after the person has made a decision about what the right thing to do is (Mintz & Morris, 2017).

The study of MCS focuses on methods of motivating employees to do the right things or otherwise ensuring that employees do not do the wrong things. To our knowledge it has not considered the power of having everybody in the organization working to get problems of inappropriate behavior fixed before they rise to significant levels. GVV could be seen as a type of cultural control (Merchant & Van der Stede, 2017) or clan control (Ouchi, 1980), but the MCS literature does not get much into the specifics of these more informal types of controls. This could be a useful addition to MCS research and teaching.

One form of cultural control worth researching in accounting ethics is the "tone from the immediate supervisor." While the "tone from the top" or ethical leadership discussed in the ethics literature is critical for an organizational climate where employees are encouraged to report wrongdoing (Eisenbeiss, Knippenberg, & Fahrbach, 2015), a less-discussed topic is the importance of improving ethical training at all supervisory levels. Perhaps nothing undermines an organization's ethical culture as much as when an employee finally decides to report wrongdoing to his or her immediate supervisor, and then realizes that no appropriate investigation is conducted, and no disciplinary actions are taken. In addition to seeing no punishments for wrongdoing, a number of individuals believe there are no rewards for behaving ethically; 49% of the participants in the 2003 Business Ethics Survey responded that "ethical conduct is not rewarded in business today" (HR Focus, 2003). Since rewards and punishments are major MCS elements, those would be important areas to explore for greater congruence between MCS and ethics.

According to the 2016 ethics study by the Ethics and Compliance Initiative, "the greatest risk…is an environment where employees are unwilling or unable to make management aware of their knowledge of or suspicions that wrongdoing is taking place" (ECI, 2016, pp. 27–28). The same study reported that, after ethical misconduct is uncovered, organizations incur indirect costs such as "employee turnover, lost productivity, external legal and consultant fees, decreased share price and reputational harm" (ECI, 2016, p. 15). These high costs suggest that the sooner misconduct is addressed, the better the outcomes. MCS design can contribute to an organizational climate that encourages early reports of concerns and suspected wrongdoing by offering not just ethics hotlines, but also training for supervisors at all levels on how to encourage and respond to reports of misconduct, with proper escalation to higher hierarchical levels as needed. Effective protections for employees who report misconduct deserves to be a priority for MCS designers.

The good news is that corporate ethics programs seem to influence positively the willingness of employees to report misconduct (Clark, 2003). Data from the 2003 National Business Ethics Survey indicates that, if working in an organization with no formal ethics program, 39% of respondents said they reported misconduct; if the organization has written standards of conduct only, 52% report misconduct; if the organization has a written code and either ethics training or ethics advice lines or offices, this percentage goes to 67%; if an organization has four elements of an ethics program, 78% of the employees said they report misconduct. This evidence argues in favor of integrated corporate ethics programs, as opposed to decoupled ones where one or only a few elements of ethics programs are formally implemented. However, top management commitment is needed for such integrated programs (Weaver, Treviño, & Cochran, 1999b), and an orientation toward values (Weaver & Treviño, 1999). A strong corporate ethics program is also a moderating factor of the relationship between CEO ethical leadership and firm performance: that is, ethical leadership results in performance gains *only if* there is a strong corporate ethics program in place (Eisenbeiss et al., 2015).

WHISTLEBLOWING

Whistleblowing occurs when someone, usually an employee, discloses some mismanagement, corruption, illegality, or some other wrongdoing to the public or to those in authority, which includes auditors and regulators. In contrast to GVV, whistleblowing is an extreme approach. While it can be effective in stopping the deviant behavior, the damage is often significant. The company can lose control of the situation, and organizational reputations and cultures can be severely damaged (Near & Miceli, 2016). For example, expensive and prolonged lawsuits may expose the company to negative media coverage, even if the company responds responsibly (e.g., with product recalls or earnings restatements). Some key stakeholders may lower their perception of the organization as being socially responsible, and regulators may increase monitoring, consumers may stop buying its products, or employees may quit working at the organization.

Individuals may not be willing to blow the whistle, even when they see an obvious crime. For example, in a large-scale U.S. government study (2011), 35% of government employees who were aware of a crime chose to remain silent. This is similar to the findings of the National Business Ethics Surveys of the U.S. workforce, conducted by the Ethics and Compliance Initiative (ECI). The ECI biannual surveys have consistently shown that about 35% of respondents who observed misconduct did not report it (2013). Fear of retaliation was the main reason for the silence. These fears were well-founded, as in the case of federal employees, where 33% of those who reported misconduct suffered retaliation within one year of blowing the whistle (Near & Miceli, 2016).

But whistleblowing is important. A PricewaterhouseCoopers survey (2009) found that the second most common way that fraud was detected was through "tip-offs." Tips and whistleblowing alerted officials to 34% of the crimes.

Internal audit detected only 17%. A global fraud study by the Association of Certified Fraud Examiners (2014) found that initial detection of occupational frauds was through "tips" (42.2%). The next most important method of detecting frauds was through management review (18.0%) and internal audit (14.1%).

Encouraging whistleblowing (and also the GVV-type behaviors that head off the problem) is a standard part of corporate ethics programs. The ethics programs generally include an ethics hotline and/or an official staff person (e.g., from human resources or internal audit departments) who receives the complaint by the whistleblower (Near & Miceli, 2016). Research has demonstrated that the recent trend to use third parties to manage ethics hotlines actually discourages reporting of suspected fraud (Kaplan, Pany, Samuels, & Zhang, 2009) because of concerns about disclosing privileged information outside the company. On the other hand, audit committee members and other company officers are less likely to follow-up on anonymous whistleblowing reports than non-anonymous ones (Guthrie, Norman, & Rose, 2012). The practitioner literature contains several recommendations on how to implement and manage ethics hotlines (Libit, Draney, & Freier, 2014), including mechanisms to protect, 24 × 7, the whistleblowers from being discovered and being the subject of retaliation.

"Good" whistleblowing can be encouraged through personal financial rewards (Stikeleather, 2016), a supportive culture, and protections from retaliation (Near & Miceli, 2016). After 30 years of systematic research on whistleblowing, the results indicate that in most cases whistleblowers first report misconduct internally, usually to their immediate supervisor, and, upon not reaching satisfactory results (e.g., no investigation or no corrective action), they resort to reporting to external parties. Therefore, depending on how the organization responded to previous allegations, whistleblowers will decide to report wrongdoing "if the wrongdoing is serious, the evidence is clear, and management provides a culture that is supportive of hearing and acknowledging bad news" (Near & Miceli, 2016, p. 113).

In particular, internal auditors play a critical role in deciding when whistleblowing is appropriate, and, in many situations, whistleblowing may be mandated as part of their jobs. Internal auditors are thus expected to provide valuable contributions to MCS quality, while maintaining a delicate balance between being loyal to managers and adhering to professional standards. Research has shown that internal auditors with high levels of moral reasoning (measured by the Defining Issues Test or DIT, developed by Rest, 1986) decide to blow the whistle more often than those with lower DIT scores (Brabeck, 1984), especially in extreme situations where job termination is the likely retaliation (Greenberger, Miceli, & Cohen, 1987). The particular position of the whistleblower is also an important factor in predicting whistleblowing: external auditors are most likely to engage in whistleblowing, followed by internal auditors, and marketing analysts being last (Arnold & Ponemon, 1991). In the context of CPA firms, auditors are more likely to report wrongdoing by their superiors when the organization has been responsive to past whistleblowing, but less likely to report on their peers (Taylor & Curtis, 2013), suggesting that the intent to whistleblow is quite sensitive to MCS responses to wrongdoing. The importance of whistleblowing and methods of encouraging good whistleblowing should be a standard part of MCS courses. At present it does not seem to be.

It must be recognized, though, that not all whistleblowing is good. There are false alarms that can be costly to investigate, disproportionate responses, bad motives (e.g., those not serving the public interest, such as revenge), and distractions that undermine the ability of the whistleblower to do his/her job. Money motivations might even create some professional whistleblowers. The SEC Whistleblower Program, for example, offers eligible whistleblowers up to 30% of monetary sanctions above $1 million collected in connection with the case (Libit et al., 2014). As of the end of August 2016, the U.S. Securities and Exchange Commission (SEC) has paid over $107 million to 33 whistleblowers, and some of the awards were substantial, including one for $30 million in 2014, and another for $22 million in 2016 (SEC, 2016). Such rewards may motivate whistleblowers to report problems to regulators before trying to address the problem internally using the elements organization's MCS and ethics programs.

Whistleblowing is really an extreme solution to an ethics problem, a last resort. It is obviously better to fix the issue through internal channels of MCS (e.g., through GVV programs). Still, whistleblowing has its place, and not enough of it is taking place. Encouraging whistleblowing should be considered an integral part of a good MCS, and not just for outright frauds, but also for a broad range of actions that are not in the organization's best interest.

CONCLUSION

The fields of ethics and MCS have some significant overlaps. In this paper, we reviewed several areas where MCS and ethics converge, such as when CSR becomes a central strategic issue and strategic decision-making is overtly informed by ethical considerations. We also suggested areas where MCS and ethics may diverge, as when MCS encourage goal-congruent behaviors without explicit attention to ethics and when MCS pressures actually motivate unethical behaviors. If the MCS does not communicate what is right or wrong, the chances are that employees could assume that nearly any means by which the organization objectives are achieved is acceptable. Conflicts between MCS and ethics may occur when MCS elements such as unrealistic performance targets and performance-based compensation and punishments lead good people to act unethically, or when corporate ethics programs are intended only for compliance with regulations.

Not much has been done to connect the fields of ethics and MCS to date. Corporate ethics programs should be considered part of organizations' MCS, and parts of MCS should be considered key elements of ethics programs. By linking MCS and ethics, organizations provide a framework to promote ethical behavior that contributes to the achievement of the organization's objectives. We have provided a start to the linkage between these two literatures. MCS researchers should scan the ethics literatures, both academic- and practitioner-oriented. There are great opportunities for new contributions that will come from connecting the two fields more closely, as we discussed above.

Several important limitations, however, make the progress in ethics research within the MCS domain difficult to execute. Because of data access constraints, and social desirability biases, ethics research tends to focus on attitudes instead of actual behaviors, and uses convenience samples instead of organizational participants in real ethical dilemmas (Bampton & Cowton, 2013). The research topics mentioned in this paper, drawing from both MCS and ethics literatures, would be best explored with a variety of research methods, including surveys, experiments, archival-data analysis, as well as qualitative methods such as in-depth field studies.

NOTE

1. A more recent version of the fraud triangle added capability (traits and abilities of the fraudsters) as a fourth dimension, to create a "fraud diamond." However, some argue that capability is already included in the opportunity dimension (AGA, 2016).

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