ETHICS OR CORPORATE LOYALTY, WHICH WOULD YOU CHOOSE?

Mark D. D'Antonio
Christopher T. Arra
Douglas J. Boe
Northern Virginia Community College
WOODBRIDGE, VIRGINIA, U.S.A.

Abstract

This case study assists students in gaining an understanding of the conflict between ethical conduct and corporate loyalty. The case study tracks the career of a young CPA working in a growing corporation that has just completed an initial public offering. Topics discussed include the demands of financial reporting for a public corporation and the moral dilemmas created for employees. Students develop an understanding of corporate social responsibility, employee commitment, interests of multiple stakeholders, fundamental accounting principles and recent changes in accounting oversight requirements contained within the Sarbanes-Oxley Act. Finally, the case study also provides a format where students can learn through discussions of complex and multidimensional issues.


ETHICAL AND CORPORATE LOYALTY CONSIDERATIONS:
CASE STUDY SCENARIO CASE OBJECTIVES

The purpose of this case study is to construct a clear model of the frequent conflict between corporate loyalty and corporate ethics. The study is designed to present a tenured employee with an ethical dilemma related to accounting. The circumstances of the dilemma develop slowly and are not initially clearly defined. The case requires students to consider the fundamental tenets of corporate ethics, social responsibility, and employee commitment in relation to both the rules of accounting and the expanded oversight requirements of the Sarbanes-Oxley Act.

- The evaluation and multidimensional nature of ethical behavior, employee commitment, and corporate loyalty;
- The manifestation of corporate social responsibility;
- The implementation of fundamental accounting rules such as the revenue recognition principle;
- An understanding of how the expanded oversight provisions contained in the Sarbanes-Oxley Act have altered the manner in which accounting decisions are evaluated.
The case can be used for management, leadership, organizational behavior, human resource, psychology and accounting applications. Case questions are divided into different groups following the case.

CASE FRAMEWORK

Accounting fraud cases such as Enron and WorldCom resulted in the 2002 passage of the Sarbanes-Oxley Act. When implementing aggressive accounting alternatives corporate accounting professionals have also been forced to more seriously address ethical issues. Expanded reporting requirements and more assertive enforcement actions have profoundly altered the accounting field. Furthermore, numerous cases have come to light involving premature revenue recognition, improper deferral of expenses, and the overstatement of assets and understatement of liabilities.

This case study introduces and discusses the dilemma that employees face when they evaluate ethical accounting conduct in relation to corporate loyalty. This case highlights the conflicts between ethical conduct, the needs of the firm, and the need of the employee. Additionally, the nature of employee commitment is also examined.

THE SCENARIO

NOVA Allied Inc (NAI) is a rapidly growing computer programming, networking, and support firm that works with private industry and government agencies in the Washington D.C. Metropolitan area. In 2007, NAI was in need of additional capital in order to expand its market share and bid on larger contracts. NAI had been privately owned from its inception in February of 1995 through October of 2007. In the summer of 2007, the firm formally filed paperwork with the Securities and Exchange Commission in order to complete a public offering of its equity securities. On November 1st, 2007 the initial public offering occurred at a price per share of $15. That same day, NAI CEO Larry Horton was allowed to ring the opening bell at the New York Stock Exchange where NAI was now listed.

Nina Nguyen held a degree in accounting, and had worked for NAI since her graduation in 1997. NAI had recruited Nina during an on-campus interview at her college. Nina was initially interested in the firm because they were a small but growing company where she would be able to become involved in multiple areas of accounting and financial management. Nina was ultimately offered a position in the accounting department at NAI’s Falls Church, Virginia headquarters by a Manager of Human Resources, Barbara Singer. Over the next ten years, Nina received four promotions including being elevated to her current position as Director of Accounting Policy. In that role, Nina was responsible for selecting and documenting appropriate accounting policies for NAI and for coordinating the annual audit by NAI’s independent accounting firm, Andrew Arthursen Inc. Nina’s position also required her to ensure NAI’s compliance with the recently enacted Sarbanes-Oxley Act. Specifically, Nina was responsible for implementing what was widely viewed to be Sarbanes-Oxley’s most onerous requirement; completing an annual management assessment of NAI’s internal controls. During her ten years as an employee, NAI had paid for her to earn an MBA at nearby George Mason University and reimbursed her for the expense of becoming a licensed Certified Public Accountant (CPA) in the Commonwealth of Virginia. Nina’s personal life had also undergone great change during her decade at NAI. She had gotten married and divorced and was now a single mother raising two young boys. In fact, Nina’s youngest son, Willie, was afflicted with a rare respiratory disorder. Nina was thankful that NAI’s insurance plan covered her son’s considerable medical expenses and grateful that she was always allowed time off to attend to her son’s medical needs. Nina frequently reflected on what a good choice she had made joining a smaller company like NAI where she was always treated like a member of the family.

Prior to its IPO, NAI had generally viewed the monthly reporting of financial results as a necessary formality. The Company had consistently reported quarter over quarter revenue and profit increases. In fact, one reason NAI was interested in completing an IPO was to reap the financial rewards that accrue to public companies that consistently achieve their financial targets. NAI also needed the proceeds of the IPO to finance growth. Larger firms often utilized the information technology skills of NAI to perform systems implementations on larger government and commercial contracts. Many of those firms were interested in subcontracting or partnering with NAI on even larger contracts because the Company always delivered quality work at an excellent price. However, NAI found that the up-front investment
required to execute those larger deals was often prohibitive. It was for these reasons that NAI CEO Larry Horton decided that NAI should complete an initial public offering.

THE IPO BRINGS NEW CHALLENGES

Immediately following the IPO, Larry Horton called a senior staff meeting to discuss the evolution of NAI into a public company. Nina was both surprised and honored at being invited to the senior staff meeting. At the meeting, Nina found herself surrounded by individuals she considered to be mentors including NAI’s long time Chief Financial Officer, Mel O’Conner, and the woman who had hired her, Barbara Singer.

At the meeting, Horton addressed the transitions that were occurring now that NAI was a publicly owned entity. He spoke directly to various managers about the legal, logistical and financial changes required for NAI to flourish as a public company. Nina listened as Horton explained that he wanted employees to be well informed about the requirements and expectations of a publicly traded enterprise. Horton had a disarming way about her and Nina had always found him to be both approachable and likable. The CEO handed out small envelopes to each person present and asked that they not be opened until after the meeting was over. He said that he did not want the fact that the firm was now publicly traded to change the way NAI did business. Nina held her envelope and smiled as Horton emphasized that the highest ethical standards of the firm would be respected in this new era after the IPO. Horton summarized his presentation by projecting a power point slide on the conference room screen that listed the following bullet points:

• Employees should be informed, knowledgeable and involved in the changes resulting from the IPO;
• Employees should be excited about the IPO and their enthusiasm should create a commitment to the firm at all levels of the organization;
• Employees should share in the growth of the firm;
• All employees should continue to maintain the highest ethical standards in conducting the ongoing business of NAI.

After her presentation, Larry Horton proceeded to introduce a new executive, Harry Fontana, who had been hired to ensure that NAI’s IPO achieved success. Fontana gave a brief presentation in which he stressed that the IPO could only succeed if NAI successfully executed its business strategy in a manner that satisfied the expectations of Wall Street. He repeatedly emphasized that “Larry has made a commitment to The Street” which was an informal way of saying that NAI was expected by Wall Street investors to meet the financial targets that Horton had communicated to the New York investment firms that were tracking the progress of the NAI initial public offering. Fontana indicated that he would work closely with all individuals present at the senior staff meeting to ensure that everyone understood and dedicated themselves to achieving what he repeatedly described as “Larry’s commitment.”

After the meeting, Nina reflected on the coming process. Nina’s supervisor, Mel O’Conner, had previously told her that NAI would need her dedication and work ethic more than ever to continue to execute its strategy as a public company. As they left the meeting together, O’Conner told her that the contents of the envelope was a way of rewarding her past efforts and creating an incentive for her to continue to work hard in the future. When Nina opened the envelope she found it contained stock options allowing her to purchase 10,000 shares of NAI stock at $1 per share. She stopped in the middle of the hallway. Nina knew that the stock had gone public at a price $15.00 per share and that, therefore, the options were already worth $140,000. Nina felt both joy and satisfaction as she immediately thought, “I just paid for my sons to attend college.”

THINGS GET BUSY

Following the IPO, Nina’s job got a lot busier. She worked closely with her supervisor, Mel O’Conner, to document NAI’s accounting policies and prepare documentation for the upcoming audit by Andrew Arthursen Inc. Nina trusted Mel O’Conner. He had been her mentor since early in her career and as he was promoted to the CFO position he promoted Nina to be the chief architect of NAI’s accounting policies. Nina particularly appreciated the fact that Mel always stressed, above all other considerations, the importance of making ethically defensible accounting decisions. Both Mel and Nina were Certified
Public Accountants and they both took great pride in being a member of what they considered to be a highly ethical profession. The months of November and December also saw the stock price of NAI perform strongly. Most of the managers at NAI had been granted stock options similar to Nina's and they monitored the price of the stock very closely. NAI even posted the previous day's closing stock price next to the reception desk at NAI's Falls Church headquarters. By mid-December the stock price increased another 33% from the IPO price, rising to over $20.00 per share. Nina's options were now worth over $190,000 and she began planning a spring vacation to Disney World for herself and her two boys. But before she could begin her vacation Nina needed to support Andrew Arthursen Inc. in completing the year-end audit and assist Mel in filing the required 2007 audited financial statements with the Securities and Exchange Commission. Nina noticed that during the two months following the IPO the level of stress exhibited by her fellow managers had risen considerably. The tension seemed to be particularly acute between her colleagues responsible for marketing and program management. Nina had heard from several of those managers that the firm's newest senior executive, Harry Fontana, was incessantly pressuring marketing and program managers to ensure that NAI booked and completed enough projects to meet or exceed the revenue and net income forecast Larry Horton had provided to Wall Street. One program manager told Nina "All Fontana talks about is achieving Larry's commitment to the Street for revenues and net income."

A FINANCIAL CRISIS BRINGS CHANGES

During the first week of December, NAI experienced a significant financial crisis. The Company's largest commercial customer, Macro Strategy Inc, abruptly filed for bankruptcy and immediately discontinued operations. Mel O'Conner had been concerned about the financial condition of Macro Strategy for quite some time because they had fallen several months behind in paying their bill to NAI. Now NAI was faced with a loss of nearly one month of revenue from Macro Strategy since work on the account was immediately suspended. The program manager on the Macro Strategy account estimated that this suspension of business would result in a revenue shortfall of twenty million dollars in the month of December. To make matters worse, at the date Macro Strategy filed for bankruptcy, NAI was owed over sixty million dollars on unsecured accounts receivable. The Washington Post reported that several Macro Strategy senior executives were indicted by the Securities and Exchange Commission for fraudulent financial reporting following the bankruptcy. Even worse, Government officials were quoted as saying that Macro Strategy had bilked investors and lenders out of nearly one billion dollars and that unsecured creditors like NAI were unlikely to recover any amount in the anticipated bankruptcy liquidation. An unnamed government source in the article described Macro Strategy as "a financial fraud very similar to Enron."

Mel O'Conner immediately asked Nina to document the accounting impact of the Macro Strategy bankruptcy. In addition to the twenty million dollar revenue shortfall, NAI would need to record a bad debt loss for the entire sixty million dollars it was owed by Macro Strategy. Combined, these adverse events would result in a reduction of eighty million dollars in NAI's 2007 pretax income. The timing of this adverse event could not have been worse; it was too late in the year to find an offsetting opportunity and it occurred just as NAI was reporting its first financial results as a public company. Nina felt sick about this turn of events. She knew that NAI would now report 2007 net income that was well below Wall Street's expectations. Surely that would cause the stock price to plummet, lowering the value of the stock options that she and her colleagues in management had counted upon. Still, there was no denying that the eighty million dollar impact would have to be absorbed. Mel remarked that he was not looking forward to telling Larry Horton and Harry Fontana about the impact on NAI's 2007 net income but added: "unfortunately generally accepted accounting principles leave us with no other alternative."

Nina did not see Mel for the rest of the afternoon. He went to break the bad news to Horton and Fontana and she retired to her office to document the accounting impact of the Macro Strategy bankruptcy. That evening when Nina was at home she received a call from Mel. He told Nina that his meeting with Horton and Fontana did not go well and that he had "decided to accept a very generous severance package." Nina was shocked. She asked Mel what had occurred and he replied that his severance package was conditioned upon his not discussing anything further with other NAI employees. Mel said only that "we had a disagreement about the direction of the company" and that he looked forward to taking some time off to spend with his family. Nina asked when Mel would be leaving NAI for
good and he responded immediately, “I have already cleaned out my office.” She then asked Mel who would be his replacement as Chief Financial Officer. He told her that Harry Fontana was now the CFO of NAI. Mel thanked Nina for her years of hard work and wished her good luck in the future. Nina felt numb as she hung up the phone, realizing that she would no longer be working with Mel O’Conner, her long time supervisor and mentor.

THE MEETING

Nina dreaded coming into the office the following day. Word had circulated regarding Mel O’Conner’s abrupt departure and most everyone was speculating that Mel had been blamed for the losses NAI had incurred as a result of the Macro Strategy bankruptcy. Nina was less certain about why Mel had been dismissed. She wondered if the reason for his departure instead had to do with his plan to record the entire eighty million dollar adverse accounting impact in the month of December, although Nina agreed with Mel that generally accepted accounting principles afforded no other alternative.

At three o’clock that afternoon, Nina received a call from Harry Fontana asking her to come to his office for a meeting to discuss her on-going role in his organization and accounting for the Macro Strategy bankruptcy. When Nina arrived at Fontana’s office she found that CEO Larry Horton was also in attendance. They asked Nina to sit down, “We have great news for you Nina” Horton stated. “We have decided to promote you to a newly created position: Vice President of Accounting.” Fontana chimed in “Now that I am the CFO, I will need someone with a strong accounting background as my chief accountant. Since I am not a CPA, you will be the highest-ranking accounting officer in the company. The position comes with a big raise- more than $35,000 per year to a new annual salary of $125,000. We will also be doubling your stock options to 20,000 shares. You will be moving into Mel’s old office and the entire accounting function will be under your control. I know this is a sudden change but you have been here for more than ten years and you have the utmost confidence of Larry and me. Congratulations Nina, you have earned this promotion.” Nina was at once both pleased and concerned. The promotion, the raise and the stock options sounded wonderful, but she was pretty sure there was something more required.

Larry Horton continued the discussion: “Nina now that you are our chief accountant, we are going to need to rely on your creativity. As you know we are facing a temporary crisis involving the Macro Strategy account. Harry has a plan to enable all of us to meet the financial commitments I just made to Wall Street. I will let him fill you in on the details.” Fontana stated “Although I am not a CPA, heck, I have never even taken an accounting course, I have been the CFO of a public company before and I know that the accounting rules are quite flexible.” Nina began to feel uncomfortable as Fontana sketched out his scheme: “We need to execute two accounting strategies. First, we will need to carefully document our rationale to the auditors for not writing off the sixty million dollar accounts receivable from Macro Strategy. As Larry indicated, Nina, we will need your creativity on this one. Second, we will need to replace the missing twenty million in revenue. I have been able to negotiate a one time twenty million dollar cash advance payment from one of our other commercial customers. I have got the check right here on my desk. We will record that as revenue in December and then we will all meet the commitments that Larry has already made to Wall Street. I know all the managers in the company are worried about the value of their stock options. Nina, with your help, we can meet our financial commitments and ensure investor confidence in the shares of NAI”.

Nina was immediately uncomfortable with Harry Fontana’s proposal. She cautiously remarked that she was concerned that Andrew Arthursen Inc might not agree to either of Fontana’s accounting tactics. “I am pretty certain that the auditors will view the accounts receivable as uncollectible and they probably will not allow us to recognize revenue on the advance payment since no work has yet been performed.” Fontana replied that he could handle the auditors stating emphatically: “I have known the audit partner on the engagement, Tom Lester, for over twenty years. I am certain that I can persuade him that this is a one- time situation. He certainly would not want our IPO to be a failure. After all we are not only one of their audit clients, we also employee Andrew Arthursen Inc. consultants on many of our largest contracts. In fact, I think we are one of the largest consulting clients of their local office”. Nina realized that there was no point in arguing the accounting issues with Fontana and Horton, at least not now. She thanked them for the promotion and exited the meeting. As she walked back to her office she thought to herself, “I never imagined that my job could become so complicated.”
THE DILEMMA

Following the meeting, Nina returned to her office to reflect upon the situation. She was glad that it was Friday afternoon and that she would have the entire weekend to consider how she should deal with what she felt certain were illegal accounting methods proposed by Harry Fontana. Nina’s first thought was that she might want to meet with someone inside NAI who could potentially provide an independent look at the situation. She wisely concluded that her long time mentor, Barbara Singer the vice-president of human resources, was the best person at NAI with whom to hold a discussion of the situation. Nina called Barbara’s office and scheduled a meeting for 10 AM Monday morning. Nina also recognized that the situation involved legal issues related to securities law and Sarbanes-Oxley Act compliance as well as potential risks to her on-going employment with NAI. Nina correctly concluded that she, therefore, needed to consult an attorney. She remembered that the lawyer who handled her divorce, Lisa Reagan, also specialized in the area of employment law. Nina called Lisa and scheduled an appointment to meet with her early Saturday morning. Lisa asked Nina to prepare a list of relevant issues prior to the meeting.

When Nina arrived home that evening she began to prepare a list of items to discuss with her attorney. She listed the following issues:

1. There are two pending accounting proposals that would violate generally accepted accounting principles- the twenty million dollar premature revenue recognition and the eighty million dollar bad debt not written off in a timely manner.
2. How will these accounting proposals be reported to the outside auditors (Andrew Arthursen Inc.) and how can the auditors possibly approve?
3. How can NAI submit the report on internal controls to the Securities and Exchange Commission required by section 404 of the Sarbanes-Oxley Act if the improper accounting proposals are implemented? Nina is responsible for preparing this report.
4. If Nina refuses to participate in this accounting fraud how will it impact her employment? Is she entitled to the whistleblower protections that are included in the Sarbanes-Oxley Act? What must she do to be entitled to whistleblower protections if they become necessary?
5. Can she accept the promotion and additional stock options yet refuse to participate in the accounting fraud?
6. Can she exercise her stock options immediately considering that she has knowledge of an impending accounting fraud?
7. Should she discuss the matter with someone else at NAI (such as Barbara Singer) or should she keep the situation private? Should she contact Mel O’Conner to ask for more information and advice even though he has said he cannot discuss the matter further under the terms of his severance agreement?
8. Is she required as a Certified Public Accountant to report the improper accounting proposal to the Securities and Exchange Commission? Considering that the SEC has indicted several executives at Macro Strategy, the risk of criminal prosecution is obviously real.
9. Should Nina consider having her lawyer negotiate a severance package? She may be better off leaving NAI particularly if she can receive a severance payment in an amount similar to the value of her stock options.
10. If Nina chooses to leave the company with a severance package, what actions must she take to avoid potential future legal problems if NAI is accused of accounting fraud by the Securities and Exchange Commission or private litigants such as shareholders rights lawyers?

SOCIAL RESPONSIBILITY

Nina was troubled by the emerging conflicts that were becoming a major element of her employment. She felt a strong personal commitment to, her employer. NAI, in fact, had been her only employer for her entire ten-year professional career. Research indicates that employer-employee relations often get more personal as an individual advances through his or her career [Zimbardo, 2004]. After all, NAI had given her multiple promotions, valuable stock options and challenging assignments. NAI paid for her to earn an MBA and reimbursed her for the cost of becoming a certified public accountant. The Company had also
helped out with her greatest need by providing full medical coverage and paid time off to attend to the medical condition of her son, Willie. At the same time, she believed that she needed to comply with the ethical obligations inherent to being a certified public accountant. Indeed, she was concerned that failure to adhere to proper accounting practices could result in enforcement actions by the SEC. Employees are often motivated and guided by ethical considerations independent of their employers [Postmes & Spears, 1998]. Nina further recognized that because NAI was now a publicly owned corporation that she had an even broader responsibility to protect the interests of shareholders and the general public.

Nina thought back and remembered her leadership class in her MBA program. She recalled how the concept of corporate social responsibility had developed. She reflected on the traditional ideas of Nobel Prize winner Milton Friedman who said that corporate social responsibility was a threat and that it was ultimately a bad thing for shareholders [Friedman, 1962]. Friedman had argued that managers should focus on making as much money as possible for shareholders (see Figure 1).

Although Friedman had said that the actions of the firm should comply with the law, Nina believed that this view was incomplete and inconsistent with current views of social responsibility. She remembered that Friedman had argued that senior executives who felt obligated by social responsibility would have no way of knowing what acts were, in fact, socially responsible. Although she agreed that Friedman had raised an important point regarding management’s inability to correctly recognize social responsibility, she found herself leaning to the more progressive view of his detractors. She saw a sharp contrast between Friedman’s views and the more expansive concepts of the modern approach to corporate social responsibility. The more contemporary view acknowledged that a firm had a responsibility to satisfy investors. However, it also recognized and sought to satisfy a much larger number of stakeholders (see Figure 2).

Nina remembered that the form of corporate social responsibility that had been taught in her classes referred to multiple constituencies on multiple levels. Therefore, business had an obligation to serve both society and the financial interests of its investors and internal stakeholders [Carroll, 1979]. She knew that a firm might consider a multidimensional model of social responsibility (see Figure 1).
This multidimensional view includes the economic perspective that emphasizes that the firm must, first and foremost, earn a profit because otherwise it could not exist in the long run. Nina knew from her experience that this fact was always true. It was an economic reality that a firm that did not watch the bottom line would soon be irrelevant. No firm could afford to be overly generous to its various stakeholders or it would become uncompetitive.

The legal view referred to the idea that a firm that acted in an illegal manner would also quickly find itself in trouble. A firm that consistently acted illegally would ultimately face enforcement actions including fines and significant bad publicity. As a result, corporate behavior that was consistently illegal would likewise render a company uncompetitive.

The ethical view adopted the perspective that a firm should take a balanced approach to addressing the needs of multiple constituencies. Under this perspective, a firm would be mindful of projecting a balanced approach to all of its stakeholders. This view was particularly relevant to matters that were inherently legal but might be construed as unfair. Examples might include outsourcing production to low cost overseas locations and laying off employees no longer needed due to cost saving initiatives.

Finally, the discretionary view included additional actions taken by a firm that provided no direct economic benefit but instead were undertaken for reasons of social responsibility. Examples include direct charitable contributions by firms as well as initiatives where employers team with their employees to further social aims such as matching the charitable donations of employees.

Nina knew that NAI had been active in the past by sponsoring little league baseball and softball teams and providing charitable gifts to the Boy Scouts and Girl Scouts in the local area. She was concerned that the goodwill from these donations would be overlooked if NAI were indicted by the Securities and Exchange Commission. Nina believed that NAI would be vilified as a “cheater” for blatantly violating the rules of accounting. Nina knew that many people would group NAI with other known wrong doers such as WorldCom, Enron and even Macro Strategy. She was concerned that her own reputation would be tarnished if she remained with a company that might be branded a law-breaker. Nina was particularly worried that she might have trouble locating another job if she continued to be associated with a company that engaged in accounting fraud. Employees often find themselves in dilemmas related to disparities between personal ethics and the professional behavior of their employer [Kuhn & Lao, 1996].

EMPLOYEE COMMITMENT

Nina reflected on the meeting when she first received her stock options. She smiled when she remembered how proud she was of her accomplishments. She truly felt that NAI was the type of firm that could provide her with a fulfilling career experience even if she remained an employee until her retirement. She remembered how Larry Horton had emphasized that he wanted the IPO to increase the organizational commitment of all NAI employees. But now she felt conflicted. Nina was uncomfortable with the direction in which Larry Horton and Harry Fontana were moving with the company. She thought of what she had been taught regarding employee commitment in an organizational behavior class during her MBA program. Nina remembered that employers sought to increase employee commitment and that there was considerable research supporting the notion that employees with high levels of commitment were more loyal, more productive, and had much lower turnover. She also remembered that the concept of employee commitment was multidimensional.
Employees have multiple reasons to be committed to an organization and the antecedents of employee commitment are very different. Nina thought of the three forms of organizational commitment discussed in her organizational behavior class [Meyer and Allen, 1991]. Affective commitment was the form preferred by employers because it reflected the fact that the employee was emotionally attached to the organization. Affective commitment typically resulted in both a psychological and emotional attachment to the job. As a result, employees with affective commitment were the highest performers, typically operating in a manner that was both efficient and effective. Employees who displayed affective commitment were energized and wanted to perform at the highest level because they felt a sense of belonging with their employer. Continuance commitment also instilled a strong bond between employees and the organization. However, this bond was based more on the employee’s fear of losing his/her job as opposed to any psychological or emotional attachment. Continuance commitment was generally founded upon the need for continued employment. Employees with high continuance commitment tended to stay at a job because they perceive a high cost to leaving. This was particularly the case if the employee was forced to surrender some benefit like stock options, medical insurance or retirement savings if they left the organization. By contrast, the third level of commitment, normative, resulted from an employee either believing in the cause pursued by the organization or an employee feeling that they owed a debt to the firm. Employees with a normative commitment lacked the emotional attachment of employees with affective commitment and the fear of loss perceived by employees with continuance commitment. Employees with a normative commitment were more likely to leave an organization than their counterparts with either affective or continuance commitments.

Nina certainly felt committed to NAI on all of these levels. The promotions, raises, stock options and benefits she had received had generated a level of affective commitment in Nina. The need to support her family, continue to provide medical benefits for her ailing son and ultimately realize the windfall profits from exercising her stock options resulted in Nina having a high level of continuance commitment as well. She also had developed a significant level of normative commitment based on a belief that she owed NAI a debt for paying for her MBA and CPA as well as for providing multiple promotions and a rewarding career path during her decade as an employee. Nonetheless Nina recognized that her social responsibilities—most notably the responsibility to obey all accounting rules—conflicted with the multiple levels of commitment that she had developed toward NAI. As she prepared to meet with her attorney she realized that her long-term commitment to NAI might not be compatible with her moral responsibilities. She wondered how she could possibly balance her personal obligations to herself and her children with her duties to her employer and to her profession.
CONCLUDING COMMENTS

The determination of a course of action in any ethical situation is always difficult. An individual may feel the strain of multiple competing forces pulling him/her in various directions. The proper course of action for an individual in such a situation is based on a number of considerations. In this case, Nina Nguyen must consider her ethical obligations as a Certified Public Accountant, her commitment to her employer of ten years and, her obligations to her family. This case study has a variety of applications including, helping students identify and consider such constituencies before a final course of action is selected.

INSTRUCTIONS FOR ACCOUNTING STUDENTS

After breaking into two or more groups complete the following (additional research is needed).

1) **For each individual:** Create a list of the issues Nina Nguyen must consider regarding her employment at NAI. Be sure to consider her legal and ethical responsibilities as a Certified Public Accountant, her commitment to her employer of ten years and the potential impact on her career and her family if she refuses to assist Harry Fontana in recording cash received in advance of work being performed as revenue in the 2007 financial statements of NAI and failing to write-off the uncollectible Macro Strategy Inc. accounts receivable in a timely manner.

2) **As a group:** Review each consideration that has been listed by each individual group member. Develop a list of action items Nina should consider taking to address her dilemma.

3) **For each individual:** Create your own personal ranking of Nina Nguyen’s possible courses of action

4) **As a group:** Review individual rankings of possible courses of action to understand better what actions fellow group members would recommend.

INSTRUCTIONS FOR MANAGEMENT STUDENTS (including organizational behavior, leadership and Human Resources students)

After breaking into two or more groups complete the following (additional research is needed).

1) **For each individual:** Create a list of affective, continuance and normative commitment items (see Figure 4) or events that you think may be relevant to Nina Nguyen’s employment at NAI. Search the Internet for some examples of factors or antecedents that cause the different types of employee commitment.

2) **As a group:** Review each individual list of affective, continuance and normative commitment items and develop a group composite that includes ideas from the individual lists. Explain how they relate to her situation and indicate when they occurred during Nina’s employment at NAI. Does it appear that Nina’s organizational commitment has change on one or more levels? Discuss how these items are a factor in her ethical dilemma.

3) **For each individual:** Create a broad list of stakeholders for NAI.

4) **As a group:** Review each individual list of stakeholders and develop a group composite that includes ideas from the individual lists. Explain what responsibility the firm has to these constituencies and how they might achieve a balance between them. Explain how the actions of NAI senior management and possibly Nina’s actions would affect each of the identified stakeholders if NAI proceeds with the suggestions of senior management. Discuss how these are a factor in Nina’s ethical dilemma.

5) **For each individual:** Review the diagram describing the different levels of social responsibility (Figure 4). Examine the listing of stakeholders created earlier and compare them to Figure 3. With this in mind review the case and create a list of at least five possible actions (or events that did happen) that might fit into the multidimensional view of corporate social responsibility in Figure 3.

6) **As a group:** Review the individual analysis for each of the group members and discuss. Examine five or more of the possible actions (or events that did happen) of NAI (throughout the case) related to corporate social responsibility and discuss what levels they fit into in Figure 3. How are Nina’s views different from those proposed by Milton Friedman (Figure 1)?
INSTRUCTIONS FOR PSYCHOLOGY STUDENTS

1) As a group: Students will break into groups of 3. Separately, students will spend two minutes identifying as many ethical and professional dilemmas as possible that Nina if facing. Groups will then convene and pick the top 3 answers of each individual. Students will share and discuss their top 9 ethical and professional dilemmas with the entire class.

2) As an individual: Students will record in their journal, reflecting thoughts and feelings, regarding the topic of social responsibility. Instructor will then engage the class with a discussion regarding social responsibility and how the topic relates to psychology. Students will be encouraged to share their journaling.

3) As a group: Students will engage in a jigsawing exercise. The class will be separated into groups of three. Students within each group will pick a number: 1, 2, or 3. All of the 1’s in the class will convene and discuss the effects of employee commitment on an employee of 2 years or less. The 2’s will discuss the effects of employee commitment on an employee of 7-8 years. The 3’s will discuss the effects of employee commitment on an employee of 15 years. The original groups will reconvene and share their various findings with their original group.

4) As an individual: Students will re-read the case study. As they are reading the study, they are to identify as many psychological issues currently facing Nina as possible. The class will convene and discuss the pertinent issues facing Nina. Finally, students will problem-solve through Nina’s situations. Outcomes will be discussed.

APPENDIX A - DEFINITION OF TERMS AND ACRONYMS

- **Cafeteria Plan** – The Cafeteria is a type of employee benefit plan offered in the United States pursuant to Section 125 of the Internal Revenue Code. The name originates from plans that allowed employees to choose between different types of benefits as in a cafeteria.
- **CEO** – Chief Executive Officer
- **CFO** – Chief Financial Officer
- **CPA** – Certified Public Accountant
- **Employee Commitment** – Employees are concerned with the future of the company and are willing to invest the discretionary effort. Employees are committed and feel a strong emotional bond to their organization/employer.
- **IPO** – Initial Public Offering
- **Revenue Recognition Principle** – Indicates that revenues should be recognized when earned. Specifically when a service is completed or title to goods is transferred.
- **Social Responsibility** – An ethical or ideological theory that an entity whether it is a government, corporation, organization or individual has a responsibility to society.
- **Stakeholder** – An individual with a legitimate interest in a given situation, action or enterprise.

REFERENCES


