The Necessity for a New Kind of Accounting: Conscious Accounting

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Conscious capitalism is about creating businesses that are concerned with all stakeholders and do not simply focus on maximizing profits for shareholders. It is also about compassion and making the United States and the entire world a better place. Conscious capitalists want to provide employees with meaningful work at fair wages. Organization leaders who follow its principles have to be people of integrity and motivated by a higher purpose than greed and have a desire to serve the public. This paper posits that accountants and auditors must become the conscience of the organization and therefore have an obligation to ensure an ethical tone at the top and have to practice conscious accounting. This paper shows how accountants can provide firms with a competitive edge and create sustainable, flourishing businesses with a higher purpose.

INTRODUCTION

In order to succeed, the organization of today has to be willing to change the way it conducts business not only by being innovative, resilient, and quick to adapt to changing conditions, but most importantly, by acting in a socially responsible manner. In the Information Age / Knowledge Economy, a firm needs accountants and auditors that understand the value of the triple bottom line (TBL)—people, profits, planet (Friedman & Lewis, 2015). The accountant of today has to be concerned with ensuring that a firm is sustainable. Short term thinking can destroy a firm. In fact, Wartzman (2013) offers two compelling arguments why the objective of maximizing shareholder value may finally be coming to an end.

> First, there are graduate students, many of whom are passionate about changing the world—and not just getting rich. The trouble is that all too many business and law schools undermine this spirit by teaching traditional classes that reinforce a short-term mindset. As Cornell law professor Lynn Stout, one of those at the Claremont gathering, has made abundantly clear, by the time these students hit the job market, they've come to falsely believe that the primary purpose of the corporation is to "maximize shareholder value."…
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> The second group where there's dissonance can actually be found in the executive suite. Yeah, sure, some people will always be greedy and manipulate short-term financial results because it's in their narrow self-interest. But to be cynical is to miss a major

opportunity: Most people go into business because they're eager to offer a product or service that provides customers—and, by extension, society as a whole—something of value. They hate the pressure, from Wall Street and elsewhere, to focus on short-term financial metrics.

It is now quite obvious to almost everyone except some avaricious executives that greed does not pay and indeed can destroy a healthy company. Greed may work in the short term, but can result in a disaster in the long term. This is what *The Economist* had to say about greed before the Great Recession of 2008:

> Morally, also, there is a world of difference between greed and self-interest. The first, even if it were not self-defeating, would still be a gross perversion of the second. Failing to see this distinction, and thus concluding without further thought that private enterprise is tainted, is a kind of ethical stupidity. Greed is ugly (The Economist, 2005).

Greed caused many CEOs to find creative ways (including the use of irregular accounting and even fraud) to boost short-term earnings at the expense of long-term value creation. The simplest way to accomplish this was to take on huge amounts of risk "in search of easy profits that would lead to a higher stock price" (Nocera, 2012).

The assumption that what worked in the past will continue to work in the future is a good way to destroy a healthy organization (Raphan and Friedman, 2014; Friedman & Lewis , 2014). A number of formerly prominent American companies - AOL, Blockbuster, Blackberry, Dell, Digital Equipment, General Motors, Kodak, MySpace, Radio Shack, Sears, Toys "R" Us, Yahoo, to name just a few -have either lost a great deal of their luster or have disappeared. Competitive conditions are very different today thanks to the Internet and globalization. If one examines Friedman & Friedman's (2015) technology timeline, it becomes very apparent that the number of innovations today is staggering and more than at "any time in human history." This exponentially increasing rate of change does not bode well for short-term focused organizations that are slow to respond to changes. Friedman & Friedman (2015) conclude:

> It is hoped that by examining the above timeline, it will become obvious that the job of corporate leaders today is to foster creativity. It should not come as a surprise that the average life of a public firm is about 10 years.

Vijay Govindarajan, professor of business and author, believes that successful companies tend to fall into three traps that make them obsolete:

> First is the physical trap, in which big investments in old systems or equipment prevent the pursuit of fresher, more relevant investments. There's a psychological trap, in which company leaders fixate on what made them successful and fail to notice when something new is displacing it. Then there's the strategic trap, when a company focuses purely on the marketplace of today and fails to anticipate the future. Some unlucky companies manage a trifecta and fall into all three traps (Newman, 2010).

CONSCIOUS CAPITALISM

A number of CEOs feel the ideal way to grow a company is to understand that business is about considerably more than just maximizing shareholder value and making profits. Executives have to run their companies understanding that business has a higher purpose. The credo of conscious capitalists is at their website (http://www.consciouscapitalism.org/).

> We believe that business is good because it creates value, it is ethical because it is based on voluntary exchange, it is noble because it can elevate our existence and it is heroic

> because it lifts people out of poverty and creates prosperity. Free enterprise capitalism is the most powerful system for social cooperation and human progress ever conceived. It is one of the most compelling ideas we humans have ever had. But we can aspire to even more.
>
> Conscious Capitalism is a way of thinking about capitalism and business that better reflects where we are in the human journey, the state of our world today, and the innate potential of business to make a positive impact on the world. Conscious businesses are galvanized by higher purposes that serve, align, and integrate the interests of all their major stakeholders. Their higher state of consciousness makes visible to them the interdependencies that exist across all stakeholders, allowing them to discover and harvest synergies from situations that otherwise seem replete with trade-offs. They have conscious leaders who are driven by service to the company's purpose, all the people the business touches and the planet we all share together. Conscious businesses have trusting, authentic, innovative and caring cultures that make working there a source of both personal growth and professional fulfillment. They endeavor to create financial, intellectual, social, cultural, emotional, spiritual, physical and ecological wealth for all their stakeholders.
>
> Conscious businesses will help evolve our world so that billions of people can flourish, leading lives infused with passion, purpose, love and creativity; a world of freedom, harmony, prosperity and compassion.

The Great Recession of 2008 has shown us what happens when capitalism becomes predatory. The CEOs who are joining the Conscious Capitalism organization want to use capitalism to "elevate humanity" by serving all stakeholders, not just shareholders. They want to use capitalism to improve the world. Mackey & Sisodia (2013) note that the term "capitalism" was coined by Karl Marx, an individual who was extremely critical of it. Marx believed that capitalism could only result in a nightmare for most of the world. Greedy capitalists would be using cheap labor working for subsistence wages to enrich themselves. Actually, capitalism has done more to reduce poverty than any economic system the world has known.

> After tens of millennia in which 85-90% of human beings lived on less than a dollar a day in today's terms, worldwide per capita incomes have <u>increased</u> nearly fifteen-fold in constant dollars. Today, about 16% of the world's population lives on less than a dollar a day. Adjusting for quality and affordability, it is estimated that the average American is 100 times better off today than 200 years ago. Average life expectancy has climbed from <u>about 30</u> to <u>over 67</u> years in that time span, and human population has risen from one billion in 1820 to over seven billion today (Mackey & Sisodia, 2013).

Businesses run by conscious capitalists create caring cultures where there is concern for all stakeholders. Employees feel that they are engaged in meaningful work and have a sense of professional fulfillment (Mackey & Sisodia, 2013). There is evidence that the investment returns to brands run on conscious capitalistic principles have been 1025% over the past 10 years vs. 122% for the S&P 500 (King & Fromm, 2013). Lewis (2014) provides examples of firms that are practicing conscious capitalism.

One advantage of being a conscious capitalist is that consumers are willing to spend more for products or services made by socially responsible companies (King & Fromm, 2013). A 2013 Cone Communications study dealing with corporate social responsibility found that more than 90% of consumers in ten countries would boycott companies that behaved in a socially irresponsible manner. More than 50% of consumers claimed to have avoided buying products from companies because of what they felt was "bad corporate behavior" (O'Donnell, 2013). Moreover, organizations that are seen as socially responsible find it easier to attract and retain engaged employees than those that are not perceived this way. Having engaged employees will ultimately have positive effects on net income and growth (Gross and Holland, 2011).

Alperovitz & Hanna (2015) assert that minorities and young people are very skeptical about capitalism. Pope Francis has also attacked capitalism and referred to unfettered capitalism as the "dung of the devil" (Reuters, 2015). It is time for people to understand that conscious capitalism is the only way for a company or country to prosper. Nothing good can come from a "greed is good" approach to capitalism.

CONSCIOUS ACCOUNTING

Tamayo de-Guzman (2012) asserts that:

> Today's professional accountants are less involved in traditional accounting functions and are more concerned with leadership and management. Today's accountants are leaders in their field providing key support to senior management and are directly involved in many important decisions.

The authors agree and feel that the accounting profession has to be in the vanguard in encouraging firms to be part of the conscious capitalism movement. It is not only the business environment that has changed; the discipline of accounting has transformed itself from its traditional "bean counter" image. In the post Sarbanes-Oxley world, accounting is more than just the "language of business"; it is the "conscience of an organization." According to The Institute of Internal Auditors (IIA):

> Serving as the conscience of an organization is one facet of the internal auditor's function. A strong sense of ethics is required to fulfill this responsibility. Like any skill or ability, a strong sense of ethics requires training and understanding (Putra, 2010).

Examination of the COSO 2013 *Internal Control – Integrated Framework* (2013) makes it apparent that the role of the accounting and auditing profession is not what it used to be. Today, accountants and auditors have an obligation to ensure an ethical tone at the top. Moreover, they have a responsibility to all stakeholders including customers, employees, and society, not just management, investors, and creditors. In particular, they have an obligation to ensure that a company does not engage in risky behavior that jeopardizes the long-term health of the organization. In the knowledge economy, accountants have to be able to see the big picture and provide guidance that will enable an organization to thrive. The Institute of Internal Auditors (2012) has the following to say about the crucial need for auditors to create a corporate culture where ethical decisions are made:

> What rationalization does a company make to justify a corporate culture where ethics are ignored? In recent years, greed, fraud, and a lack of ethical conduct have led to the collapse of many organizations. A variety of internal and external pressures can lead companies down the wrong path. And once the first misstep is taken, it's a slippery slope to hurting stakeholders, the community, and your reputation.

Accountants and auditors that provide firms with healthy, ethical recommendations that give them a competitive edge will be of great value.

It is now quite obvious how accounting and auditing irregularities contributed to the last decade's' debacles at Enron, Lehman Brothers (the largest bankruptcy in history), Washington Mutual, WorldCom, and others. More recently, accounting scandals have occurred at international institutions such as Britain's Tesco, the largest supermarket chain in the world; Japan's Olympus Corporation; and the Vatican's Institute for Works of Religion, also known as the Vatican Bank (Pullella, 2014; Infinit Accounting, 2014). The SEC filed 99 accounting-fraud investigations (a 46% increase from the previous year) in the fiscal year that ended September 30, 2014. This year, they started more than 100 investigations (Eaglesham & Rapoport, 2015). Recently, the president of Toshiba as well as several executives resigned over a $1.2 billion accounting scandal involving overstating profits over a 7-year period. A company statement said: "There has been inappropriate accounting going on for a long time, and we deeply apologize for causing this serious trouble for shareholders and other stakeholders." It seems that "Toshiba had a corporate culture in which management decisions could not be challenged" (Ito, 2015).

Let us examine areas where conscious accounting can make a difference.

COMPENSATION OF CEOS AND EMPLOYEES

According to a Watson Wyatt survey, approximately 90% of institutional investors believe that top executives are *dramatically* overpaid (Watson Wyatt, 2006:3). Warren Buffet asserted that "the ability of corporations to rein in skyrocketing CEO pay is the 'acid test' of corporate governance reform" (Heritage Institute, 2007). Buffett stated:

> Too often, executive compensation in the U.S. is ridiculously out of line with performance. Getting fired can produce a particularly bountiful payday for a CEO. Indeed, he can "earn" more in that single day, while cleaning out his desk, than an American worker earns in a lifetime of cleaning toilets. Forget the old maxim about nothing succeeding like success: Today, in the executive suite, the all-too-prevalent rule is that nothing succeeds like failure (Heritage Institute, 2007).

That was before the Great Recession of 2008; Excessive compensation of CEOs is a problem that has gotten worse. A study conducted by Alyssa Davis and Lawrence Mishel at the Economic Policy Institute found that the CEO to average worker ratio was 295.9 in 2013 (it was 20 in 1965) (Morgenson, 2015). A different 2013 study showed that CEOs earn approximately 331 times as much as the average worker; and the CEO-to-minimum-wage worker pay ratio was an outrageous 774:1 (Dill, 2014). Accountants and auditors should encourage companies to work to reduce the CEO to average worker salary ratio. This would send a strong message to employees that a company cares about employees. In fact, Mark Bertolini, CEO of Aetna, following a near-death experience, gave thousands of the lowest paid workers at Aetna a 33% raise; and the minimum wage went from $12 to $16 an hour (Gelles, 2015). Often, paying a fair wage to workers does not add to costs since it results in reduced turnover and more productive and engaged employees (Friedman & Lewis, 2015). It is not easy to antagonize millions of people and make it to the list of "America's Most Hated Companies" (Hess & McIntyre, 2015). Several companies that have made the list, such as McDonald's and Wal-Mart, are there partly because they pay low wages to employees (McDonald's and Wal-Mart).

Employee distrust of management is quite prevalent among American workers; this also may have a great deal to do with how poorly workers are being compensated relative to top management. Accountants who are concerned about the long-term health of a company have an obligation to warn management that this kind of negative image can ultimately destroy a company. Organizations that are seen as having no soul will find it difficult to attract the most creative and engaged employees. There is hope that the new rule of the Securities and Exchange Commission requiring public disclosure of the ratio of CEO pay to median pay of employees will finally rein in the runaway, excessive pay of CEOs (Delamaide, 2015).

Delamaide (2015) avers:

> The noxious practice of "aligning" executive compensation with shareholder interests as measured by the stock price — the standard promoted by former General Electric CEO Jack Welch and his ilk — has subordinated every other interest of the company to juicing the stock price.

> Some of the smarter companies in this country are shifting away from a narrow view of shareholder value in favor of a more comprehensive view of sustainable value that embraces other stakeholders in a company besides the investors — employees, customers, suppliers, communities and society as a whole (Delamaide, 2015).

It also suggests that the only person responsible for the success of the organization is the CEO, an assumption that is ridiculous. In any case, CEO pay that has run amok is not sustainable or good for the long-term health or image of a company.

ENSURING THAT EMPLOYEES ARE ENGAGED

The second biggest problem facing business is "retention and engagement" (Bersin, 2015). There is a great deal of evidence that "being interested in a task is essential to being good at it" (O'Keefe, 2014). Employees that are engaged see their jobs as more than a way to make a living; they are passionate, enthusiastic, energetic, creative, and care about the organizations for which they work (Gross & Holland, 2011). Because they are emotionally committed to their organizations, they will do everything possible to enhance its reputation. This is why there is a strong relationship between performing meaningful work and employee engagement (Bersin, 2015). One survey found that 80% of respondents aged 13-25 want to work for a socially responsible firm that "cares about how it impacts and contributes to society" (Meister, 2012).

The Gallup organization has been measuring employee engagement since 2000 and its research shows that approximately 70% of American workers are disengaged (Harter & Adkins, 2015). There is quite a bit of evidence that employee engagement can provide a company with a huge competitive advantage. It is therefore important for accountants to be aware of this key metric and encourage CEOs to increase the percentage of employees who are engaged (Christian, Garza & Slaughter, 2011; Crim & Seijts, 2006). Among American workers, "job satisfaction is at its lowest level – 45 percent – since record-keeping began over two decades ago" (Barker, 2014).

It is not that difficult to increase employee engagement. Much of employee disengagement has to do with poor management and leadership. The following is just one example of what managers do wrong:

> Gallup researchers have studied human behavior and strengths for decades and discovered that building employees' <u>strengths</u> is a far more effective approach than a fixation on weaknesses. A strengths-based culture is one in which employees learn their roles more quickly, produce more and significantly better work, stay with their company longer, and are more engaged. In the current study, a vast majority (67%) of employees who strongly agree that their manager focuses on their strengths or positive characteristics are engaged, compared with just 31% of the employees who indicate strongly that their manager focuses on their weaknesses (Harter & Adkins, 2015).

A simple way to improve employee engagement is to communicate in a positive, honest manner with employees. According to the American Psychological Association's 2014 Work and Well-Being Survey, only 50% of American workers feel that their "employer is open and upfront with them" (APA, 2014). Only 47% of respondents indicated that they were satisfied with employee recognition practices (APA, 2014). It is important for employees to feel valued by employers since those who do feel appreciated are more likely to be in good psychological health, more likely to be engaged in their jobs, and less likely to feel stressed than those who do not feel valued (APA, 2014). There is evidence that the more autonomy workers have, the happier they are with their jobs (Barker, 2014). Old-style autocratic leaders that micromanage employees harm the productivity as well as the happiness of employees.

Thomas (2009) feels that employee engagement is influenced by the following four intrinsic rewards:

> **Sense of meaningfulness.** This reward involves the meaningfulness or importance of the purpose you are trying to fulfill. You feel that you have an opportunity to accomplish something of real value—something that matters in the larger scheme of things. You feel that you are on a path that is worth your time and energy, giving you a strong sense of purpose or direction.
> **Sense of choice.** You feel free to choose how to accomplish your work—to use your best judgment to select those work activities that make the most sense to you and to perform them in ways that seem appropriate. You feel ownership of your work, believe in the approach you are taking, and feel responsible for making it work.
> **Sense of competence.** You feel that you are handling your work activities well—that your performance of these activities meets or exceeds your personal standards, and that you are doing good, high-quality work. You feel a sense of satisfaction, pride, or even artistry in how well you handle these activities.
> **Sense of progress.** You are encouraged that your efforts are really accomplishing something. You feel that your work is on track and moving in the right direction. You see convincing signs that things are working out, giving you confidence in the choices you have made and confidence in the future.

It should be noted that management engagement and employee engagement are related. Management and leadership engagement was at 40.4% in June 2015, which means that the majority, about 60%, were not engaged (Adkins, 2015):

> Gallup research shows that a manager's engagement -- or lack thereof -- affects his or her employees' engagement, creating a "cascade effect." Essentially, employees' engagement is directly influenced by their managers' engagement -- whose engagement is directly influenced by their managers' engagement. Although managers represent the most engaged workgroup in the U.S., nearly 60% of this group is not engaged or is actively disengaged. Managers' lack of engagement may be at least somewhat responsible for their employees' same lack of engagement. If the nation's employers can continue to raise the levels of engagement among their leaders and managers, they finally may be able to accelerate their overall levels of employee engagement (Adkins, 2015).

A company that wants managers and employees engaged has to be mission-driven. The mission should indicate that the organization has a powerful sense of purpose and it should be defined in terms of all stakeholders, not just shareholders. Bersin (2015) avers that "'mission-driven companies have 30 percent higher levels of innovation and 40 percent higher levels of retention and tend to be first or second in their market segment. Another way of improving productivity and engagement is by providing workers with profit sharing and/or stock ownership. Southwest Airlines did just that, by giving its workers $355 million of its $1 billion in corporate profits (Blasi, Freeman & Kruse, 2015).

Crim & Seijts (2006) stress that "Leaders should actively try to identify the level of engagement in their organization, find the reasons behind the lack of full engagement, strive to eliminate those reasons, and implement behavioral strategies that will facilitate full engagement." We feel that accountants and auditors must also be concerned with this key metric since there is a strong correlation between employee engagement and customer satisfaction, productivity, creativity, reduced turnover, and profits (Bersin, 2015, Sorenson, 2013; Gross and Holland, 2011; Thottam, 2005). All these are important for the long-term health of an organization.

CONCERN FOR QUALITY

Executives often make the mistake of believing that higher quality results in higher cost. This comes from short-term thinking and not looking at the big picture. Ross (2008) describes three different opinions held by managers involved in quality.

> **Higher quality means higher cost:** Quality attributes such as performance and features cost more in terms of labor, material, design, and other costly resources. The additional benefits from improved quality do not compensate for the additional expenses.
> **The cost of improving quality is less than the resultant savings:** Deming promoted this view, which is still widely accepted in Japan. The savings result from less rework, scrap, and other direct expenses related to defects. This paved the way of continuous process improvement among Japanese firms.
> **Quality costs are those incurred in excess of those that would have been incurred if product were built or service performed exactly right the first time**: This view is held by adherents of the TQM philosophy. Costs include not only those that are direct, but also those resulting from lost customers, lost market share, and many hidden costs and foregone opportunities not identified by modern cost accounting systems.

In many cases, skimping on quality results in lower short-term costs but increases costs in the long run. The benefits of spending a little more when a product is manufactured can save a company a great deal of money when it comes to product returns and warranties. Moreover, there is a hidden expense in producing a low-quality product that does not last long. The image of the brand (and related products) may be adversely affected. Several companies on the list of "America's Most Hated Companies" are there because of shoddy products and/or shoddy service (Spirit Airways, Sprint, Comcast, General Motors) (Hess & McIntyre, 2015). The standard of Six Sigma (3.4 defects per million opportunities, DPMO) is often used to represent high quality. Firms operating at Six Sigma quality levels usually spend less than 5% of revenues on fixing problems; those operating at Three or Four Sigma quality levels -- DPMOs of 66,807 and 6,210 resp.-- spend somewhere between 25% and 40% of revenues repairing problems (Bentley & Davis, 2010:4)

CONCERN FOR THE ENVIRONMENT

Firms that are concerned not only about profit but about the environment as well have a greater likelihood of surviving in the long run. The future does not look promising for companies that are indifferent to the planet (Slaper & Hall, 2011). Friedman & Lewis (2015) feel that:

> Accountants have an important role to play in measuring the social, environmental, and financial impact of various business decisions. Possessing the tools and the ability to facilitate crucial adjustments in direction, accountants' decisions will determine whether a corporation is sustainable … By understanding the importance of the triple bottom line, accountants and auditors can increase their value to a firm and have a more important role to play as consultants.

Encouraging a business to engage in sustainable practices such as using solar panels or building factories that have LEED green building certification may seem costly in the short run but can pay for themselves in the long run. Accountants have the tools to make these decisions. As Sneirson (2011) observes: "sustainable business practices tend to pay for themselves and frequently turn a profit."

A CEO who does not expect to be around for more than a few years may be antagonistic to changes that can hurt short-term profitability. Executives that are overly concerned with meeting short-term profit goals may miss the big picture. Take the problem of water shortages in the west. A fast-food restaurant chain selling inexpensive hamburgers may not recognize the seriousness of the situation. It takes 1,847 gallons of water to produce one pound of beef [it takes 222 gallons of water to produce a pound of pasta, 46 gallons of water to produce a pound of sweet potatoes, and 518 gallons of water to produce a pound of chicken] (Boehrer, 2014). As long as water is subsidized, the water costs may not be a consideration. A forward-thinking accountant might ask management to consider alternative strategies if the price of water were to, say, quadruple. Another issue that should be addressed before it becomes a huge problem is use of plastic water bottles. Americans use billions of these bottles each year. If companies used recycled materials in making the bottles, it would reduce the amount of plastic pollution and use of fossil fuels.

Accountants are now being used by the Federal Bureau of Reclamation to ensure that cities and farms around the Colorado River are not taking more than their fair share (Lustgarten, 2015). Water has become a huge problem in states such as California and Arizona. Even with respect to the amount of water being tallied there have been problems in getting an accurate count. Double counting results from the fact that surface water and groundwater are often interconnected (Lustgarten, 2015).

PROMOTING LEADERSHIP AND ORGANIZATIONAL INTEGRITY

The Committee of Sponsoring Organizations (COSO, 2013) highlighted the importance of leaders setting a "tone at the top" by establishing integrity as the very first principle of internal controls (COSO, 2013). The expression "tone at the top" refers to the fact that the leadership of an organization creates the "tone of an ethical – or unethical – atmosphere in the workplace" (Malley, 2013). If the executives and auditors at the top of the hierarchy are concerned about integrity and ethics, their moral imperative will work its way down to all employees. Organizations that do not have a moral compass are destined to find themselves in serious trouble as we saw during the Great Recession of 2008. Lennick and Kiel (2011) state:

> The integrity crises of the first decade of the 21st century have been devastating. But they have not yet convinced enough leaders of the importance of morally intelligent leadership. How many wake-up calls do leaders need to get the message that their ultimate success depends on moral leadership? Will leaders get another chance to do the right thing? Given the precarious nature of today's global economy, we fear that this wake-up call to choose integrity over greed might very well be our last … how can any leader afford to ignore the call to put moral values at the center of what they do? (Lennick and Kiel, 2011:xxxii)

Gentry (2013) believes that integrity is the most important character strength (closely followed by bravery) in predicting performance of top-level executives. It certainly seems that many leaders do not feel that integrity is of great importance in becoming an effective leader. This may be the reason that the number of scandals continues to grow. What seems to matter most to most corporate boards is that the price of the corporate stock should rise. But Doty (2015) cites several studies that demonstrate that companies with integrity are significantly more profitable than those that lack it. Doty (2015) observes:

> Integrity — or lack thereof — remains a critical challenge for companies today. Whether it involves promising a client that our software will work in their setting, adhering to investment guidelines with people's retirement savings, or performing a correct medical procedure, we owe it to our customers, employees, shareholders, and the world at large to be responsible about what we commit to and what we deliver. But integrity isn't easy: It stretches the imagination to envision a world in which businesses deliver on 99.99966 percent of their commitments, as factories do with Six Sigma quality methods. Every day, every leader faces opportunities or even pressure to side step the truth, fudge the numbers, play politics, or pass the buck on hard decisions. In the moment doing the right thing, or doing things right, always seems to cost more (Doty, 2015).

Hess (2013) studied effective CEOs and found that they tended to be servant leaders and cared about all stakeholders.

> These leaders were servants in the best sense of the word. They were people-centric, valued service to others and believed they had a duty of stewardship. Nearly all were humble and passionate operators who were deeply involved in the details of the business. Most had long tenures in their organizations. They had not forgotten what it was like to be a line employee. They believed that every employee should be treated with respect and have the opportunity to do meaningful work. They led by example, lived the "Golden Rule," and understood that good intentions are not enough — behaviors count. These leaders serve the organization and its multiple stakeholders. They are servant leaders (Hess, 2013).

One can learn from Mary Barra, CEO at GM, what needs to be done to change a corporate culture. She started by firing 15 people and then created the "Speaking Up for Safety" program, which has been called "a sort of internal whistleblower protection act" (Geier, 2014). This is a big change from the GM culture described above. Firms that are truly concerned about an ethical tone at the top have to encourage employees to speak up when they observe unethical behavior. These employees have to be assured that no one will retaliate against them for blowing the whistle. Conflicts of interest are responsible for much ethical wrongdoing (Bell, Friedman & Friedman, 2005). Firms that are serious about ethics have to do everything possible to eliminate conflicts of interest whenever possible. Indeed, conflicts of interest played a major role in the Great Recession of 2008 (Biktimirov & Cyr, 2013). New prescription drugs are the number four health risk (along with strokes) and have a 20% chance of harming people. The reason for this has a lot to do with the fact that "commercially funded clinical trials are at least 2.5 times more likely to favor the sponsor's drug than non-commercially funded trials." It seems that drug companies, in their quest to make money, design biased trials that "skew the results." They also "distort the evidence by selective reporting and biased interpretation" (Light, 2014).

Many papers have been written about the problem of auditor independence and conflicts of interest (e.g., Hilton (2010); Moore, Tetlock, Tanlu, & Bazerman, 2006). Rating agencies such as Standard & Poor, which contributed to the Great Recession of 2008, are comparable to auditors insofar as both are required to issue nonbiased reports about companies that pay for their services. The credit-rating agencies were reluctant to provide poor ratings for the sub-prime mortgage-backed securities of clients that were paying for the ratings. Auditors are similarly reluctant to be tough with an important client who can easily switch to another accounting firm.

Ethical organizations should be concerned with stock buybacks. When a company buys their own stock, who benefits? Lazonick (2014) claims that between 2003 and 2012, 449 of the 500 S&P companies spent $2.4 trillion to buy back their stock. The purpose of most buybacks is to enrich executives who hold many shares and stock options. The problem with buybacks is that this money is not being used to enhance the future of the company by making capital investments. It is also a narrow-minded strategy that means fewer jobs for Americans and weakens the entire economy. Capital investment means more employment; the more jobs, the greater the profits for all firms. Everyone gains with a growing and more prosperous middle class. Stock buybacks enrich the few at the top. This is another area where auditors should voice their opinions and give advice. After all, they have to be concerned about what is best for the long-term health of a company.

SUPPORTING AMERICA

A CEO of Exxon was asked by an executive from another firm to consider building additional U.S. refinery capacity for security against possible supply disruptions. His response was, "I'm not a U.S. company and I don't make decisions based on what's good for the U.S" (Gore, 2013). Corporations are also finding creative ways to avoid paying their fair share of taxes. The corporate tax rate in the United

States is 35% but firms take advantage of various deductions and credits and actually pay only about 12.6% (Gelles, 2014). Some of the methods used by corporations to reduce their taxes include inversions (where an American company acquires an overseas company where corporate taxes are low so that it can reincorporate and lower its tax bill); becoming S-corporations to avoid corporate income taxes; and keeping money abroad to avoid paying the taxes (Apple and General Electric each keep more than $100 billion offshore) (Lobosco, 2014). In fact, as much as $2 trillion in earnings of American companies have not been repatriated to the United States in order to avoid paying the taxes (Nocera, 2014).

Only 6% of corporations today (as opposed to 17% in 1980) are traditional corporations that are required to pay the corporate income tax. The Treasury Department did announce new regulations in September 2014 to make it more difficult to reduce taxes through inversions. What seems to have happened is that companies trying to reduce taxes have reversed the process and large foreign companies are now taking over smaller American companies in order to reduce taxes (Yan, 2015).

One can argue that there is nothing wrong with avoiding taxes. However, the authors feel that conscious accounting includes being fair. Using accounting gimmicks to avoid paying a fair share of taxes – and indirectly weakening the United States – is not the way an ethical firm should behave. Corporations that are based in the United States owe something to this country since they make use of the infrastructure. These companies have a moral obligation to share in the tax burden and show some gratitude for what the country has done for their organizations. Although Walmart is not a company known for treating its employees well, it announced that over the next decade it would purchase an additional $250 billion worth of American-made products to help the economy (Lewis, 2014). This will not only help increase employment in the United States, it will also help increase sales in Walmart stores by giving Americans more spending power. Accountants should encourage firms to make similar commitments on the premise that such commitments will ultimately benefit the company as workers will have more money to spend in the national marketplace. It is hoped that Walmart's auditors will use the same reasoning to convince the CEO of Walmart to raise the minimum pay of employees to $16 per hour emulating organizations such as Aetna.

CONCLUSION

Johan Karlstrom, CEO of Skanska, has his company focus on the "five zeros: zero accidents, zero ethical breaches, zero environmental incidents, zero losing projects, and zero defects." He also believes that business is not only about shareholder value but also about making the world a little bit better (Brzezinski, 2014). The authors posit that accountants and auditors have an important role to play in making firms behave in an ethical manner that considers all stakeholders. We refer to this as conscious accounting. The accountants and auditors have an important role to play in the "five zeros" since they are the conscience of the organization. In fact, we believe that there should be at least "eleven zeros": zero accidents, zero ethical breaches, zero conflicts of interest, zero environmental incidents, zero losing projects, zero defects, zero disengaged employees, zero tolerance for excessive compensation for CEOs, zero tolerance for low pay for employees, zero tolerance for workplace bullying and bigotry, and zero tolerance for people living in dire poverty. This paper describes some of the key decisions that they must make in order to ensure the sustainability of their organizations. Sadly, CEOs often have a very short-term perspective and focus more on doing everything possible to maximize their own compensation, even at the expense of the long-term health of their firms. This means that accountants and auditors, the conscience of an organization, have an obligation to make sure that an organization will thrive in the highly competitive knowledge economy by being committed to conscious capitalism and conscious accounting.

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