Are Businesses that Withhold Overpayments Morally Correct?

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Business ethics is a code of moral principles and values that seek to govern the behaviors of right or wrong. Most business organizations have customer overpayments on their financial books. Although some organizations and financial managers support an immediate refund and/or reimbursement to the customer for all overpayments, others do not reimburse the customer unless the customer submits a claim with backup documentation. According to an article 16 years ago in Financial Executive (1998), an "audit of a major engineering and construction firm turned up a scant one tenth of a percent error rate in its accounts payable processing; the mistakes still equaled $100,000 that could be returned to the company's coffers" (p. 1). Today's numbers reveal significantly more in overpayments. Apparently, these types of errors are not unusual throughout the business community. Both sides of this issue will be analyzed based on the Rotary International Four-Way Test. Should every effort be made by all business organizations and financial managers to reimburse any overpayments?

INTRODUCTION

Every business organization has customer overpayments on their financial books. Although, some organizations and financial managers support an immediate refund and/or reimbursement to the customer for all overpayments, others do not reimburse the customer unless the customer submits a claim with backup documentation. According to an article in Financial Executive (1998), an "audit of a major engineering and construction firm turned up a scant .1 percent error rate in its accounts payable processing, the mistakes still equaled $100,000 that could be returned to the company's coffers" (p. 1). Apparently, these types of errors are not unusual throughout the business community. Both sides of this issue will be analyzed based on the "Rotary International Four-Way Test" depicted in *Business Ethics How to Design and Manage Ethical Organizations* (Collins, 2012, p. 146). In our opinion, every effort should be made by all business organizations and financial managers to reimburse any overpayments.

ARGUMENT AGAINST REFUNDS

Many business and financial managers believe that the refund of overpayments is not necessary for the following reasons:

- It is not our responsibility to be the accounting department for our customers and/or suppliers.
- We are not required to report overpayments.
- In most cases, the overpayment is not material and or significant in terms of the overall balance.

All businesses experience discrepancies in the amount paid by customers compared to what is owed. The recipient business often believe they are not feel responsible for the customers and or/suppliers accounting. Although overpayments are refunded when the customer requests a refund, with the proper documentation, recipient businesses do not have the time and/or resources to be the payees' accounting department.

According to Colin Barrett (2004) of *Traffic World:*

> "After all, isn't it the responsibility of the payer to look after its own finances? Why should I, the payee, have to take on that responsibility and the extra effort and expense it requires to make the refunds on my own initiative?" (p. 38)

Based on the Rotary International's Four-Way Test, if businesses were required to essentially absorb the cost of doing another stakeholders accounting, it would not be "Fair to all concerned" (Collins, 2012, p. 146). Although some might suggest that failing to refund overpayments is a moral issue, there is no legal obligation for a business to report customer overpayments. The only required obligation from business is to refund any overpayments that are requested from a customer with the proper supporting documentation. Barrett (2004) also states,

> "Be that as it may, there's no legal obligation---under either common law or commerce law for anyone to draw a payer's attention to an overpayment." (p. 38)

Additionally, according to Rotary International's Four-Way Test, it would not be BENEFICIAL to the company to absorb the costs associated with monitoring and refunding overpayments. One vital piece of information is that the company did not cause the overpayment. If the organization billed the customer at the agreed upon price and provided the goods and/or services per the contract, then that organization's obligation to the customer has been fulfilled.

One important auditing concept encompasses the materiality or significance of a transaction, discrepancy or amount in the accounting system. Based on this concept, in many cases, an overpayment is not material and or significant in terms of the overall balance. According to Paula DeJohn (1999) of *Hospital Materials Management,*

> "It is more trouble to fix a 13-cent error than to just get on with it." (p.11)

Since materiality is typically a judgment call, it is not unusual for both management and auditors to disagree on the materiality of a particular transaction. According to Johnstone, Gramling, and Rittenburg (2013),

> "Further, a dollar amount that may be significant to one person may not be significant to another." (p. 268)

Although the company makes every effort to build GOODWILL with all stakeholders, if management and the external auditors review and determine that a particular transaction is not material, then the objective has been accomplished. This is evidenced for all stakeholders by a positive confirmation on the annual audited financial statements.

ARGUMENT IN SUPPORT OF REFUND

Based on the Rotary International Four-Way Test framework, all stakeholders in any business transaction should strive to do what is "FAIR to all concerned." Hence, it is the responsibility of all stakeholders to conduct business in good faith. Although most stakeholders do not expect another stakeholder to be their accounting department, they do expect to be refunded for any overpayments.

Typically, in a business transaction, the buyer expects to receive goods that meet their specifications at an agreed upon price. Conversely, the seller expects to be paid for their goods and/or services at an agreed upon price in a timely manner. For example, both the buyer and seller agree upon a particular sum for certain goods. If the payer receives more goods than ordered, the payee would expect those goods to be returned or to be paid for. Similarly, if the payer receives more funds than stipulated in the contract, the payee would expect the payer to refund the overpayment. According to an article by Fred Heppner (n.d.),

> "In terms of public relations, it's a practice builder to let people know the account is overpaid and they have money coming back because you've caught it early – before they find out" (p. 1).
>
> Thus, it is not a question regarding one stakeholder being the accounting department for another but, "Is it FAIR to all concerned?" (Collins, 2012, p. 146)

Although a legal responsibility could exist regarding the refund of customer overpayments, it should not be an issue of legal responsibility to maintain an ethical business relationship. The Rotary International Four-Way Test, seeks to learn will the decision we make be "BENEFICIAL to all concerned" (Collins, 2012, p. 146)? The goal of all business stakeholders should be to establish, maintain and cultivate a professional, ethical relationship. This would be difficult to do if one stakeholder focuses on the legality of a transaction rather than the benefit for each stakeholder. It's important to remember that key stakeholders in the process are the organizations employees. General Dynamics Standards of Business Ethics and Conduct (1985) reveal,

> "Invoices must be clear and understandable. Overpayments will be returned promptly upon discovery" (p.11).

This is the type of ethical standard that will facilitate and encourage all stakeholders, including employees, to address each business transaction from a stand point of being BENEFICIAL to all concerned.

An overpayment should not be a question of its materiality or significance. Clearly, the Rotary International Four-Way Test focuses on will my actions and/or decision "build GOODWILL and BETTER FRIENDSHIPS". Most stakeholders would be concerned if another stakeholder is making a decision not to refund overpayments based on the payee's own discretion of the materiality of the amount in question. In this sense, materiality or the significance of a business transaction is measured in terms of the transactions dollar amount. Based on this accounting concept, the key question is: Who determines if an amount is material or not material? Additionally, materiality is subjective and could foster unethical decisions. Jordan Meyers stated in an article in the Houston Chronicle,

> "Regardless of whether the amount is large or small, the money in excess of the amount owed belongs to the payer". (p. 1)

Therefore, to build goodwill, most stakeholders would most likely support that any overpayment should be considered material and refunded as soon as possible.

CONCLUSION

Typically a company has only one opportunity for a good first impression. When this opportunity is missed, it is almost impossible to recapture. Additionally, there is an ethical element to all business relationships. This relationship also includes business transactions that are directly related to customer overpayments. Customer overpayments are a much larger problem than most businesses are aware of or unwilling to admit. As stated in a Financial Executive (1998) article,

> “One expert predicts that, nationwide, the annual losses may top $10 billion” (p. 1) in vendor overpayments.

Obviously, these types of losses attributed to overpayments are both material and significant. Additionally, it is the responsibility of all stakeholders to return any overpayment because every buyer is a seller at some point. So, all stakeholders could be harmed financially if another stakeholder does not return an overpayment. Although many would agree that the first principle in “Rotary International Four-Way Test” is not applicable to the discussion of refunding customer overpayments, the author would counter by proposing the other three principles are connected to the first principle. Without TRUTH, there is no fairness and benefit to all concerned nor goodwill. According to Darrell Thompson (n.d.), “There is a timelessness in truth that is unchangeable. Truth cannot exist without justice” (p.1). Based on the information presented, returning customer overpayments is FAIR and BENEFICIAL to all concerned and will build GOODWILL. Simply put, if it is the TRUTH, justice will not be questioned but served for all concerned.

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