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# **SMALL THINGS AND FIRST THINGS – A PEDAGOGICAL TOOL FOR ACCOUNTING STUDENTS**

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## **ABSTRACT**

Experiences early in life or career can shape character and set patterns of behavior. Just as making poor choices in “small things and first things” can adversely affect one’s character and lead to more egregious behavior, making correct choices can positively build the character of a person (Cheffers and Pakaluk 2007). This pedagogical tool provides two examples, one negative and one positive, to help students remember their own character-building experiences. WorldCom accountant Betty Vinson initially resisted an order to make a relatively minor inappropriate journal entry but caved to management pressure. This set her on a slippery path of accounting fraud leading to jail time for herself and others, and bankruptcy for WorldCom. Students also read the self-reported personal experience of Richard Edgley, a young man who stole three towels from a hotel. When his father discovered the incident, the young man felt ashamed and returned the towels. The incident helped define the young man’s character and set a pattern of honest behavior in his business career. After reading Edgley’s story, students write about an example from their own life that had a similar positive influence. Remembering such experiences may empower students to better manage the strength of their own characters with increased resolve to be true to lessons learned early in life or career. Teaching notes are provided for instructors.

## **I. INTRODUCTION**

Many of us have had one or more experiences early in life involving a minor act of dishonesty that was discovered and corrected by a caring parent. Consider this example. A child steals a piece of candy from a grocery store. After coming home, the child’s mother learns about the theft and takes the child back to the store to pay for the candy and apologize to the owner. The incident is a powerful lesson to the child that helps create the value of honesty in the child’s character.

Some of us can remember incidents like this and consider it one of many defining moments that shaped our character. Unfortunately, if the child’s petty theft is not discovered, or if the mother does not use the incident as an opportunity to teach the child about honesty, then this initial experience of the child may encourage other

similar or more egregious incidents that could also define the child's character, but this time for the worse. As Aristotle said, "We are what we repeatedly do." The experiences we have early in life or career, especially in first things and small things, define us.

Regarding the applicability of the small-things first-things accountants, Cheffers and Pakaluk (2007) observe that:

Character is formed by and tested in small things and first things. Newly hired accountants need to be especially careful in their first assignments. In small things, there should be a complete intolerance of dishonesty, misrepresentation, or action under conflict of interest in a firm as regards to what a practitioner does even outside of an engagement in such 'small matters' as the use of expense accounts, claiming of tax exemptions and deductions, and practices of billing. ... The right approach to 'first things' would involve an initial conservatism in decisions and an uncompromising attitude when encountering the first instance of fraud, no matter how small or apparently insignificant (Cheffers and Pakaluk 2007: 227).

## **1. BETTY VINSON AND THE SLIPPERY SLOPE**

Pulliam's fascinating report on the role of accountants in WorldCom's failure revealed how minor accounting indiscretions escalated into major business fraud (Pulliam 2003). WorldCom's Director of Management Reporting, Betty Vinson, was pressured by her supervisors to "cook the books." At first, Betty objected to an order to use a reserve account for an unintended purpose. She raised the issue to her immediate supervisor, Buford Yates. The supervisor agreed with her, and they, along with another concerned accountant, Troy Normand, raised the issue to WorldCom Controller David Meyers. Myers and CFO Scott Sullivan assured them that the questionable journal entry would only be needed once to save the company from imminent disaster.

Betty discussed quitting with her husband, but eventually decided to comply with the request. As her family's primary breadwinner, she was concerned that quitting would jeopardize her family's well-being. Unfortunately, the "one-time" request to "cook the books" escalated to include more egregious accounting violations, totaling to an estimated \$3.8 billion in fraudulent accounting entries. Her supervisors were found guilty of securities fraud and sentenced to long jail terms. WorldCom declared bankruptcy. Losses to shareholders, employers, and other stakeholders were estimated at \$11 billion. For her role in the fraud, Vinson received a five-month jail term, followed by five months of house arrest. U.S. District Court Judge Barbara S. Jones considered Vinson to be among the "least culpable members

of the conspiracy at WorldCom,” and observed that “it’s possible that this conspiracy might have been nipped in the bud if Vinson refused to carry out her superiors’ orders” (McClam 2005).

Vinson’s relatively small accounting infraction led to more serious infractions that culminated into what was then the largest bankruptcy in U.S. history. Once she agreed to make the improper journal entries, it was easier for her dishonest superiors to require them and even more egregious ones again, and it was more difficult for her to refuse the orders. WorldCom Controller Meyers told the engagement partner at KPMG “the capitalization was wrong, but that it was difficult to stop once it started” (McClam 2005).

Betty Vinson did not wake up one morning committed to a life of securities fraud. She was known as a hard-working professional accountant committed to her company’s success. Noted psychologist Phillip Zimbardo showed in his famous experiments that “good people can be induced, seduced, and initiated into behaving in evil ways (Zimbardo 2007: 211). Similarly, Gino and Bazerman (2005: 4) indicate that “unethical behavior occurs when people lower the bar over time through small changes in the ethicality of behavior.”

The incremental fall into unethical behavior is sometimes described as the “slippery slope” or the “boiling- frog syndrome” (Prentice 2007: 19). If a frog is placed in a container of boiling water, it will immediately jump out. If a frog is placed in a container of cool water that is only gradually heated to a higher temperature, the frog will not recognize the risk and will be slowly cooked to death. Bazerman and Tenbrunsel (2011) explain that while not literally true, the boiling frog analogy illustrates how minor infractions can lead to major infractions “as long as each violation is only incrementally more serious than the preceding one” (p. 64). Similarly, Bazerman and Gino (2007) report that “unethical behavior is often not the result of deliberate fraudulent acts by bad people; instead, it can happen as a consequence of a gradual decline of ethical standards by individuals in an organization over time” (p. 60).

## **2. WE ARE WHAT WE REPEATEDLY DO**

Just as making poor choices in small matters early in one’s life or career can escalate into serious problems later, correct choices made early in life or career can positively shape a person’s character, and may prevent mistakes like those made by Betty Vinson and some of her accounting colleagues at WorldCom.

Aristotle taught that there are two kinds of virtues: intellectual virtues, and virtues of character. Intellectual virtues (e.g., knowledge, objectivity, perspective) are

traits that enable a person to think correctly about what should be done. Virtues of character (e.g., courage, moderation, justice) enable a person to carry out what he or she knows is right.

Both kinds of virtues are needed by accountants and can be learned. Intellectual virtues can be learned in the classroom; virtues of character are best learned by practice in relatively minor actions early in one's life or career. Aristotle's famous statement in *Nicomachean Ethics*, "We are what we repeatedly do," relates to how virtues of character are learned. Well-known accountants Arthur Andersen and George Oliver May reported positive experiences of not caving to the pressure from powerful clients to render unjustified favorable opinions early in their careers. Their stories of correct choices made early in their careers inspired newly hired accountants to develop similar habits of honesty and a culture of honesty in the accounting firms where the stories were told and retold (Cheffers and Pakaluk 2007).

## II. THE ASSIGNMENT

Read the following excerpts from "Three Towels and a 25-Cent Newspaper" by Richard Edgley,<sup>1</sup> and write a two-page essay describing the importance of the small-things, first-things concept, with specific examples from the article and your personal life.

I [want to] make a personal confession. I do this as an introduction to a subject that has weighed heavily on my mind for some time. In 1955, after my freshman year of college, I spent the summer working at the newly opened Jackson Lake Lodge, located in Moran, Wyoming. My mode of transportation was a 14-year-old 1941 Hudson automobile that should have received its burial 10 years earlier. Among the car's other identifying traits, the floorboards had rusted so badly that, if not for a piece of plywood, I could have literally dragged my feet on the highway. The positive is that unlike most 14-year-old cars in this time period, it used no oil—lots of water in the radiator, but no oil. I could never figure out where the water went and why the oil continually got thinner and thinner and clearer and clearer.

In preparation for the 185-mile drive home at the end of the summer, I took the car to the only mechanic in Moran. After a quick analysis, the mechanic explained that the engine block was cracked and was leaking water into the oil.

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<sup>1</sup> Excerpts from Richard C. Edgley. 2006. Three towels and a 25-cent newspaper. © By Intellectual Reserve, Inc. *Ensign* (Nov): 72–74. Used with permission. Accessed on 29 Jun 2012 at <<<http://www.lds.org/ensign/2006/11/three-towels-and-a-25-cent-newspaper?lang=eng>>>

That explained the water and oil mystery. I wondered if I could get the water to leak into the gas tank; I would get better gasoline mileage.

Now the confession: after the miracle of arriving home, my father came out and happily greeted me. After a hug and a few pleasantries, he looked into the backseat of the car and saw three Jackson Lake Lodge towels—the kind you cannot buy. With a disappointed look he merely said, “I expected more of you.” I hadn’t thought that what I had done was all that wrong. To me these towels were but a symbol of a full summer’s work at a luxury hotel, a rite of passage. Nevertheless, by taking them I felt I had lost the trust and confidence of my father, and I was devastated.

The following weekend I adjusted the plywood floorboard in my car, filled the radiator with water, and began the 370-mile round trip back to Jackson Lake Lodge to return three towels. My father never asked why I was returning to the lodge, and I never explained. It just didn’t need to be said. This was an expensive and painful lesson on honesty that has stayed with me throughout my life.

Sadly, some of the greatest missing values in today’s world are honesty and integrity. In the past few years an increasing number of business leaders have been exposed for dishonesty and other forms of bad behavior. As a result, tens of thousands of loyal, long-term employees have lost their livelihoods and pensions. For some this has resulted in loss of homes, change of education and other life plans. We read and hear of widespread cheating in our schools, with more concern about receiving a grade or degree than learning and preparation. We hear of students who have cheated their way through medical school and are now performing complicated procedures on their patients. The elderly and others are victims of scam artists, often resulting in the loss of homes or life savings. Always this dishonesty and lack of integrity are based on greed, arrogance, and disrespect.

Some 30 years ago, while working in the corporate world, some business associates and I were passing through O’Hare Airport in Chicago, Illinois. One of these men had just sold his company for tens of millions of dollars—in other words, he was not poor.

As we were passing a newspaper vending machine, this individual put a quarter in the machine, opened the door to the stack of papers inside the machine, and began dispensing unpaid-for newspapers to each of us. When he handed me a newspaper, I put a quarter in the machine and, trying not to offend but to make a point, jokingly said, “Jim, for 25 cents I can maintain my integrity.” ... You see, I remembered well the experience of three towels and a broken-down 1941

Hudson. A few minutes later we passed the same newspaper vending machine. I noticed that Jim had broken away from our group and was stuffing quarters in the vending machine. I tell you this incident not to portray myself as an unusual example of honesty, but only to emphasize the lessons of three towels and a 25-cent newspaper.

There will never be honesty in the business world, in the schools, in the home, or anyplace else until there is honesty in the heart.

Important and lasting lessons are often taught through simple examples—perhaps as simple as three towels or a 25-cent newspaper. I wonder how the world would be if simple lessons of honesty were taught in the home at an early age, simple lessons such as “Love your neighbor as yourself” and “Do unto others as you would have others do unto you”. I wonder where thousands of displaced employees would be today with their lost pensions if some businesspeople in high places had early experiences of three towels or a 25-cent newspaper.

Honesty should be among the most fundamental values that govern our everyday living.