

The Ethical Dilemma at Northlake

Our story opens with an irate Jim McIntosh confronting his manager of corporate reporting: "I thought we had an understanding on this issue, Frank. Tina tells me that you are threatening to go public with your stupid statements about the report. For Pete's sake, Frank, wake up and smell the coffee! You're about to damage all the important things in your life: your career, your friendships, and your company!"

Frank sat quietly in the overstuffed sofa in his V.P.'s expansive office. He thought that the pale green report laying on the desk looked innocent enough but it certainly had provided the basis for some serious turmoil. Jim stood by his desk trembling with rage. His face was bright red and mottled with anger. Frank had often seen Jim upset, but never in a temper such as this.

"I'm sorry, Jim," Frank replied softly, "I know how much this means to you, but I don't think that I have a choice in this matter. I can't sit idle while you and that twit from financial analysis allow this report to go forward. You both know that these numbers have no foundation in fact."

The report, entitled, "Endangered Species: The Pulp and Paper Industry in the Upper Peninsula," laid out the industry's response to the new government proposals to put effluent controls on the discharge of waste water from pulp and paper mills in environmentally sensitive regions of the province. One section of the report detailed the financial consequences of the emission controls as determined by each of the five pulp and paper companies operating in the region. Amalgamated Forest Products had taken the industry lead in developing the report, and the company president, Jean Letourneau, was scheduled to testify before a legislative sub-committee next week, giving the industry perspective on the proposed legislation.

Amalgamated had three major mills, located in some of the more remote locations in the province. The firm had been facing difficult financial times due to the recession, and this had caused substantial hardship in the three small communities where the mills were located. Corporate offices were located in Northlake, a town of approximately 10,000 people.

The section of the report dealing with the dollar impact to Amalgamated Forest Products of installing the emission control equipment had been prepared by Tina Pacquette. Tina, a long-term employee of the firm, had risen through the accounting department to become the manager of financial analysis. While Tina and Frank were at equal levels in the organizational structure, their working relationship had not been particularly cordial. In Frank's opinion, Tina's work was barely adequate, but then, no one asked for his opinion. "Well, Frank, your pig-headedness has really caused a problem for all of us! Wait Here! I'll get Jean Letourneau, and we'll see what he thinks about your efforts!" Jim exited the office and slammed the door.

As he waited in the silence of his boss's beautifully decorated office, Frank looked back over his 10 years with Amalgamated Forest Products. Just like his father before him, Frank

started with the firm after completing high school and his first job was as a yard man culling out damaged logs before processing. That's when Frank severely damaged his right leg on the job. He had been celebrating the birth of his son the night before and he was unable to keep his footing with the dexterity required. Surgery saved the leg and he was extremely grateful that the company had brought him inside to the accounting office. An accounting clerk's salary was low compared to being a yard helper, but in a short time his natural talent for analysis brought him to the attention of the vice-president, finance. Within two years, Jim McIntosh had arranged for him to go to university, complete his CMA designation after graduation, and then return to Amalgamated. The financial support provided by the firm had been adequate but not lavish by any means, and Frank had done well in his studies. He was the gold medalist for his province on the CMA examinations, and he had returned to Northlake in triumph. With three young children and a proud wife, Frank had been appointed to a new position in corporate reporting. After a year of having Jim as his mentor, he rose to the position of manager of corporate reporting.

The office door opened abruptly and Jim entered with the company president. Jean Letourneau was a distinguished man of approximately 60 years of age. He had a long history with Amalgamated and a solid reputation in the pulp and paper industry.

"What's the problem, Frank?" Jean's voice broke into the silence. "Jim tells me that you have a few concerns about the report that we're submitting to the legislative committee."

"Well, Mr. Letourneau, I think we, the company, have some major problems here. The report indicates that we'll have severe financial problems if we're forced into building a lagoon for waste water treatment. In fact, the report says we are likely to be pushed into bankruptcy if the legislation is passed. But we all know these estimates of costs are highly inflated. There's no way that our operating costs would be raised by 30 per cent. I could see our operating costs rising by only 8-10 per cent. That's what the internal report Tina wrote a year ago predicts and there's really been no significant change. Moreover, you have to testify before the legislative committee as to the truthfulness of this report, and there's not a shred of truth in it. The other cost estimates are all high, and the prediction of our product demand is based upon a further deepening of the recession. For our internal purposes, we have been using an estimated increase of 10 per cent in demand."

"Slow down, son," Letourneau's calm voice broke in, "we have to use different figures for different purposes. When we report to our shareholders, we give them numbers that are substantially altered from the internal documents, right? In this case, we have to make those dunderheads in the government see what all this regulation is doing to us. Besides, they know we're going to use the most effective numbers to justify our position."

"But this isn't simply a matter of different figures," Frank sputtered. "These numbers have been totally fabricated. And they don't take into account the damage that we're doing to the Wanawashee River. The same stuff we're dumping was cleaned up by our competition years ago. The aboriginal community downstream is still drinking this garbage. We're going to be subject to a huge lawsuit if they ever trace it to us. Then, where will we be? I've got to worry about my professional obligations as well. If this blows up, you could go to jail, and I could get my designation revoked."

"We'll cross that bridge when we come to it," Jim McIntosh interjected. "You've got to remember what's at stake here. Northlake's totally dependent on the mill for its economic survival. As the mill goes, so goes the town. It's your buddies you'd be threatening to put out of work, Frank. This legislation may not bankrupt us, but it will certainly put a squeeze on profits. If profits are gone, no more reinvestment by Chicago. Head office is putting lots of pressure on us to improve the bottom line since the takeover last year. They're talking about cutting all of that new production line equipment we requested."

"The bottom line is this, Frank," Letourneau spoke softly. "You're an important part of our team, we've invested a lot in you. Jim was talking about working you into a new role: V.P.-controller. We'd hate to let you go because of this small issue. However, we need to have everybody working on the same goal. Besides, Jim tells me this isn't even your responsibility. If you hadn't picked up the copy of the report on Tina's desk, we wouldn't have even involved you. Now take the rest of the day off, go home to Cheryl and the kids, and take out that new speed boat of yours. Think the problem through, and I'm sure you'll see the long-term benefit of what we're doing. This pollution problem is a 'Northern problem' that we can resolve here, not in some fancy legislature in the south. Besides, we've had the problem for as far back as I can remember. So a few extra years certainly won't hurt."

If you were Frank, what would you do?

Reference:

<http://accounting.uwaterloo.ca/ethics/cases.htm>

Center for Accounting Ethics