

# **Integrating Mission-based Values into Accounting Curriculum: Catholic Social Teaching and Introductory Accounting**

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## **Abstract**

This paper presents several reasons why mission-based values, in this case Catholic Social Teaching (CST), should be incorporated into a university business curriculum. The CST tenets include the sanctity of human life; call to family, community, and participation; rights and responsibilities; option for the poor and vulnerable; the dignity of work and rights of workers; solidarity; and care for God's creation. This paper also offers specific examples of incorporating CST into introductory accounting courses covering outsourcing, downsizing, environmental accounting, human resource accounting, stakeholder theory, socially responsible business behavior, and socially responsible investing. Although CST is most applicable for business education in Catholic universities, the basic premises of CST are consistent with the missions of many secular universities as well.

## **Introduction and Background**

In the wake of a number of recent high profile accounting scandals, the need to incorporate ethics education into the accounting curriculum has become apparent. Indeed, a 2009 model curriculum promulgated by the National Association of State Boards of Accountancy (NASBA) will require (if adopted by individual states) a separate class in accounting ethics for accounting majors.<sup>1</sup> But not all the managers and decision

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<sup>1</sup> National Association of State Boards of Accountancy (NASBA), "Uniform Accountancy Act Model Rules," April 4, 2009; Rules 5-1 and 5-2, [http://www.nasba.org/862571B900737CED/F3458557E80CD8CA862575C3005DBD36/\\$file/UA\\_A\\_Model\\_Rules\\_April24\\_2009.pdf](http://www.nasba.org/862571B900737CED/F3458557E80CD8CA862575C3005DBD36/$file/UA_A_Model_Rules_April24_2009.pdf).

makers in the corporate world, including many who influence financial reporting and other managerial decisions (e.g., CEOs, COOs, midlevel managers, etc.), have accounting degrees. However, many of these managers do hold undergraduate or graduate business degrees.

Accounting educators have a unique opportunity to reach these decision makers by incorporating ethics and mission-based values into the required introductory course or courses, as this may be the only formal exposure these managers will have to education in both accounting and values.

Naughton and Bausch assert that the idea of a liberal understanding of management, as contrasted to simply a technical understanding, is essential.<sup>2</sup> Furthermore, they suggest that this approach begin with the first course[s] in the school of management.<sup>3</sup> For most business programs, these are the two accounting principles courses, e.g., financial accounting and managerial accounting.

In addition to these practical reasons for incorporating values into introductory accounting classes, there are some accreditation reasons to do so as well. In 1991, the Association to Advance Collegiate Schools of Business (AACSB) encouraged business schools to focus on mission with the adoption of the “mission-driven” standards.<sup>4</sup> According to their own mission statements, most AACSB-accredited business schools and their universities aim to prepare principled businessmen and women. Recent research suggests that incorporating values-based principled ethics into the curriculum may help to achieve this goal.<sup>5</sup> This would suggest, in turn, that incorporating values-based instruction into introductory accounting classes helps fulfill the mission of the school. This is important for accredited Catholic institutions since, as Naughton and Bausch assert, “A Catholic university could lose accreditation if not Catholic enough . . .”<sup>6</sup>

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<sup>2</sup> Michael J. Naughton and Thomas A. Bausch, “The Integrity of a Catholic Management Education,” *California Management Review* 38, no. 4 (1996): 119.

<sup>3</sup> *Ibid.*, 121.

<sup>4</sup> Interestingly, the 2003 revision of the AACSB standards for accreditation has shifted the focus somewhat from mission to continuous improvement and learning outcomes. However, continuous improvement is not possible unless the goal toward which the school should be moving has been identified by the mission statement.

<sup>5</sup> See for example Brian W. Mayhew and Pamela R. Murphy, “The Impact of Ethics Education on Reporting Behavior,” *Journal of Business Ethics* 86 (2008): 397–416 and D. E. Desplaces, et al., “The Impact of Business Education on Moral Judgment Competence: An Empirical Study,” *Journal of Business Ethics* 74 (2007): 73–87.

<sup>6</sup> Naughton and Bausch, “The Integrity of a Catholic Management Education,” 119.

Yet, while there may be support for incorporating mission-based values into these courses, there is less agreement on how to accomplish it. In recent years, business ethics has focused much more on utilitarianism, an approach with which many accountants are comfortable because of its focus on costs and benefits. However, former Gonzaga University President Robert Spitzer, S.J. argues that this switch to utilitarianism has caused principles-based ethical approaches to gradually lose influence, resulting in a decline in ethical behavior in business. Because of this, incorporating CST as concretely as possible into the business curriculum may be the solution.<sup>7</sup>

The next section includes a brief discussion of relevant Catholic literature, including that on the role of CST in the Catholic university. This is followed by a review of specific tenets of CST and of accompanying suggestions for incorporating these CST tenets into multiple aspects of introductory accounting courses. The section thereafter addresses the literature on socially responsible behavior and socially responsible investing and the implications for introductory accounting courses.

### **Catholic Social Teaching and the University**

Catholic Social Teaching (CST) is a body of doctrine developed by the Catholic Church and relates to matters of economics and social organizations as well as responsibilities of persons and political structures. Specifically, it answers the question of how persons and institutions are called to relate as part of God's creation. Ultimately CST has to do with justice, peace, and human development. CST would be best considered to be general principles that allow some interpretation for actual implementation. Although the primary source documents would be the various Papal and Councilor documents that have been handed down over the past centuries beginning with Pope Leo XIII's 1891 encyclical letter *Rerum novarum*,<sup>8</sup> there is no official list of CST documents; the various documents that comprise CST are a matter of general consensus. Although potentially not a complete list, the U.S. Conference of Catholic

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<sup>7</sup> Robert J. Spitzer, S.J., "The Decline of Traditional Principle-based Instruction," *Catholic Business Journal*, (July 22, 2008).

<sup>8</sup> Pope Leo XIII, *Rerum Novarum*, 1891. ([http://www.vatican.va/holy\\_father/leo\\_xiii/encyclicals/documents/hf\\_l-xiii\\_enc\\_15051891\\_rerum-novarum\\_en.html](http://www.vatican.va/holy_father/leo_xiii/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum_en.html)).

Bishops has identified seven key themes of CST:<sup>9</sup> sanctity of human life and the dignity of the person; call to family, community, and participation; rights and responsibilities; preferential option for the poor and vulnerable; dignity of work and the rights of workers; solidarity; and care for God's creation.

The decision to incorporate such teaching into the life of a university has been spurred by official documents of the Catholic Church as well. In *Ex corde Ecclesiae*, Pope John Paul II exhorts Catholic universities to include a study of “*serious contemporary problems, such as the dignity of human life, the promotion of justice for all, the quality of personal and family life, the protection of the natural environment, the search for peace and political stability, a more equitable distribution of world resources and a new economic and political order that will better serve the human community at the national and international level.*”<sup>10</sup> Additionally, Pope Benedict XVI, in his 2009 Encyclical Letter *Caritas in veritate* discusses the Catholic universities' responsibility to CST. Benedict calls for a “deeper reflection on the meaning of the economy and its goals” and for “broadening the scope of reason and making it capable of knowing and directing the powerful forces (of globalization).”<sup>11</sup>

### **Incorporating CST into Introductory Accounting Classes**

In the years since the issuance of *Ex corde Ecclesiae*, people of various religious backgrounds within the academy have embraced CST. Edwin Epstein, speaking as a non-Catholic, suggests that “at a Catholic institution, Catholic Social Teaching (CST) should be an inextricable element of the education of our students, functioning as an ethical and social policy motif which is incorporated in appropriate contexts throughout this curriculum.”<sup>12</sup> Despite this, David O'Brien's 1999 study found that CST “remains a well-kept secret,” even at Catholic universities.<sup>13</sup>

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<sup>9</sup> U.S. Catholic Bishops, “Sharing Catholic Social Teaching: Challenges and Directions – Reflections of the U.S. Catholic Bishops,” 1998. (<http://www.usccb.org/sdwp/projects/socialteaching/socialteaching.shtml>).

<sup>10</sup> Pope John Paul II, *Ex corde Ecclesiae: On Catholic Universities* (Vatican City: Typis Polyglottis Vaticanis, 1990), sec. 4.

<sup>11</sup> Pope Benedict XVI, *Caritas in Veritate: On Integral Human Development in Charity and in Truth* (Vatican City: Typis Polyglottis Vaticanis, 2009), sec 32 and sec 33.

<sup>12</sup> Edwin Epstein, “Catholic Social Teaching and Education in Business and Economics: A Non-Catholic's Perspective,” *Review of Business* 19(4) (1998): 23-27.

<sup>13</sup> Study reported by the Program in Catholic Social Tradition at the University of Notre Dame <http://www.nd.edu/~cstprog/about.htm>.

And while in recent years, some progress has been made integrating CST into liberal arts curricula, progress has been slower in many of the business schools. This is especially true in the area of accounting.

One possible reason for this is that the study of accounting at the university level is bound by a relatively rigid curriculum that appears, on the surface, to have little intersection with CST. However, as noted above, it is a curriculum that could benefit from an infusion of values, and as the presentation that follows will make clear, it is a curriculum where CST can be readily added. Moreover, integrating CST into accounting classes at Catholic universities would be supportive of those institutions' mission.

Introductory undergraduate accounting classes generally teach students how to use accounting information to make decisions. In financial accounting, these decisions are often associated with evaluating a company's annual report, whether as an investor, creditor, regulator, or otherwise. In managerial accounting, these decisions typically include product costing, outsourcing, performance evaluation, and project evaluation.

As a first step towards integrating CST into these courses, accounting students can be introduced to the fact that, in their business careers, they will be making decisions that will affect their own lives, the lives of others, institutions, and the environment. In short, the decisions they make will have consequences. Without encouraging these students to consider factors outside of maximizing profits as the driving force for decisions in both their professional and personal lives, how is the business education received at a Catholic university different than that at its non-Catholic counterparts?

Integrating CST in a number of accounting / business situations in these first accounting courses may help students to understand early on a variety of factors that principled leaders will consider when making decisions. Within the accounting curriculum, CST on the dignity of work and the rights of the worker, care for the environment, and the preferential option for the poor and vulnerable can provide a lens through which to examine a number of topics that are normally covered in the introductory course(s). Specifically, students need (1) to consider all costs and benefits, not just those traditionally measured in accounting systems, and (2) to recognize that the qualitative factors will sometimes be more important than the quantitative factors in a decision-making process in accounting. The integration of CST would also include the supposition that making more than a satisfactory return to the detriment of persons, institutions, or the environment is not an acceptable goal for the individual

or the institution. By helping students to see the ethical issues involved in business decisions (in ethics jargon, developing ethical perception), the likelihood that they will choose a more ethical path even when such a choice is not the best economic option may be enhanced.

Examples of specific areas in introductory accounting into which CST can be introduced follow. Previous research in accounting education suggests that content must be specified before delivery can be determined.<sup>14</sup> Consequently, in each case, the content—CST—is discussed first, followed by the delivery (i.e., the way the content can be incorporated into introductory accounting).

### *The Dignity of Work and the Rights of the Worker*

CST on the dignity of work is derived from the general teaching on human dignity. As expressed by the U.S. Catholic Bishops, “If the dignity of work is to be protected, then the basic rights of workers must be respected—the right to productive work, to decent and fair wages, to organize and join unions, to private property, and to economic initiative.”<sup>15</sup> The role of work and the worker in society are prominent topics of discussion in modern CST. The Second Vatican Council affirmed the mutual interdependence between people and people’s need to participate in society.<sup>16</sup> For many, this participation takes the form of work. In their landmark statement on the U.S. economy, the U.S. Catholic Bishops were explicit on the role of work in society:

All work has a threefold moral significance. First, it is a principal way that people exercise the distinctive human capacity for self-expression and self-realization. Second, it is the ordinary way for human beings to fulfill their material needs. Finally, work enables people to contribute to the well-being of the larger community. Work is not only for one’s self. It is for one’s family, for the nation, and indeed for the benefit of the entire human family. These three moral concerns should be visible in the work of all, no matter what their role in the economy.<sup>17</sup>

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<sup>14</sup> Dawn Massey and Joan Van Hise, “Creating a custom-published textbook to facilitate curriculum change,” *Advances in Accounting Education: Teaching and Curriculum Innovations* (5) (2003): 243-261.

<sup>15</sup> U.S. Catholic Bishops, “Sharing Catholic Social Teaching,” 14.

<sup>16</sup> Pope Paul VI, *Gaudium et Spes: Pastoral Constitution on the Church in the Modern World* (Vatican City, Typis Polyglottis Vaticanis, 1965), sec. 23.

<sup>17</sup> U.S. Catholic Bishops, “Economic Justice for All: A Pastoral Letter on Catholic Social Teaching and the U.S. Economy,” 1985, 97-98. ([http://www.usccb.org/jphd/economiclife/pdf/economic\\_justice\\_for\\_all.pdf](http://www.usccb.org/jphd/economiclife/pdf/economic_justice_for_all.pdf)).

CST has not, however, explicitly outlined the correct form of social order to support human dignity.<sup>18</sup> Rather, it is up to the individual society to determine what is proper, using the guideline from *Mater et magistra*: “the dignity of the human person, realized in community with others, is the criterion against which all aspects of economic life must be measured.”<sup>19</sup>

**Applications in managerial accounting.** Questions on the dignity of work have interesting implications for the business world. Is it up to the business community to determine the best way to ensure the dignity of work or is this a question for the greater society within which our business institutions operate? In the current global business model, which society should determine what is “proper?” Is there one globally accepted approach to ensuring the rights of the worker? While these theoretical questions are difficult to discuss in an accounting class, practical applications in the areas of outsourcing, downsizing, or participatory budgeting are much easier to incorporate into the class.

*Outsourcing.* Make or buy decisions are included in most every introductory managerial accounting text. Generally, students are taught to compare the costs of producing the product internally to the costs of buying component parts, or perhaps the whole product, externally. With a nod to the increased emphasis on globalization in business school curricula, many texts expand the discussion to include consideration of outsourcing labor-intensive production to third world countries. When judged strictly on quantitative grounds, this often appears, at first blush, to be the best choice. However, the simplistic analysis included at the introductory level usually fails to consider the wide variety of qualitative factors—especially the dignity of work and the rights of the worker—associated with the decision.

One easy situation with which to familiarize the students in this area is that of Nike’s production in Indonesia. Students can easily access information on Nike’s Indonesian production policies on the Internet.<sup>20</sup> With this information, they can attempt to measure, or at the very least enumerate, all the costs and benefits associated with Nike’s production

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<sup>18</sup> Charles Curran, “A Century of Catholic Social Teaching,” *Theology Today* 48 (1991).

<sup>19</sup> Pope John XXIII, *Mater et Magistra* (Vatican City, Typis Polyglottis Vaticanis, 1961), sec. 63.

<sup>20</sup> *Educating for Justice*, at [www.educatingforjustice.org](http://www.educatingforjustice.org), is devoted to educating students about Nike’s sweatshops in Indonesia.

in Indonesia, paying particular attention to the qualitative factors. CST on the dignity of the worker can be explicitly considered as a qualitative factor when evaluating Nike's outsourcing policy. The "costs" associated with bad publicity should also be considered. When all of this information is laid out before them, students usually come to look at global outsourcing in a different light.

There may also be an opportunity to make the experience more relevant for the class if there is a student-run organization on campus that regulates the labor policies of the garments sold in the campus bookstore. The leaders of that group can be invited to class to share their perspectives on the outsourcing of labor. In some universities, this group may also have been involved with decisions to outsource menial labor jobs on campus such as grounds keeping and custodial services.<sup>21</sup>

A discussion of worker issues such as outsourcing would be incomplete without considering the working conditions under which employees do their jobs, either as part of the company itself or with the outsourced firm. CST asserts that workers are not simply inputs of production to be considered in the same way that, for example, materials may be. Workers are inherently of value due to their being human. When workers are subjected to working (and perhaps living) conditions that exploit them, they are being treated as simple inputs of production. Unless CST is explicitly included in the equation, managers seeking to maximize economic benefits will almost certainly make decisions that exploit their workers.

One of the essential principles for accounting students to consider in a discussion of working conditions is the treatment of others: treat others the way that you would like to be treated. This particular principle would fall under the CST tenet described by the U.S. Bishops as solidarity—that ultimately, we all belong to one human family. We have an obligation to further the lives and wellbeing not only of ourselves and our own families, but of all people of the world.

*Downsizing.* "Downsizing" has become a popular corporate buzzword. Downsizing is generally discussed within an accounting framework in terms of dropping a product line or division. The accounting texts suggest

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<sup>21</sup> A combined group of students and faculty at one Jesuit university formed "Justice for Janitors" to protest the outsourcing of custodial services to a contractor who did not pay the workers a living wage. The group's protests led the university to adopt a code of ethics for dealing with outsourcing labor, a policy that had its first application in the hiring of a new service to employ the existing janitors.

that such decisions should be made by comparing the contribution margin that would be lost by dropping the product line or division to the reduction in fixed costs that would occur with that action. Any additional costs associated with the action should also be factored into the decision. Adding qualitative factors to the decision process and more thoroughly analyzing additional costs can greatly affect the final decision. For example, while the severance payments to discharged workers are sometimes considered, the possibility of higher future property taxes for the company as a result of depressed local residential property values are generally overlooked. Similarly, the qualitative impact on the workers and the community are often ignored. Introducing CST on the dignity of work and rights of the worker, and on the environment brings this qualitative impact into focus. Again, students can identify the associated costs and benefits, even if they cannot yet measure them. When viewed through this CST lens, justifying downsizing on economic grounds often becomes difficult.

*Participatory budgeting.* The dignity of work and rights of the worker may also be incorporated into the study of budgeting techniques, especially participatory budgeting. Traditionally, budgets have been developed and imposed from above. Participatory budgeting suggests a bottom up approach in which worker input figures prominently in developing the budget. Texts generally suggest several benefits associated with participatory budgeting, including more realistic budgets and, most importantly, higher morale among the workers and greater commitment to achieving the budget. Benefits of this nature are commonly associated with the “pop psychology” movement of the 1970s. However, the lens through which these “soft” benefits of participatory budgeting techniques are viewed can easily be changed from pop psychology to CST. From this perspective, participatory budgeting is almost always considered a superior technique to traditional budgeting.

### **Applications in financial accounting.**

*Human resource accounting.* As students progress through the balance sheet over the course of the semester, they are often amazed at the number of “assets” that are never recorded. These unrecorded assets include internally developed patents, trademarks, and research and development as well as the value of the company’s employees. Employees are not recorded on the balance sheet for two reasons: (1) it would be difficult to objectively quantify the value of an employee; and (2) a company cannot own a human being, and assets are, by definition,

owned. The balance sheets of professional sports franchises provide a significant exception to this practice, as they are permitted to record as assets the value of their contracts with their players. In this case, not the individual, but the contract, is recorded as an asset.

The discussion of professional sports contracts is a useful springboard to a discussion on human dignity and treating employees as assets of the company; the link to professional sports teams generally garners student interest. While students agree that people cannot be recorded as assets since they cannot be owned, they are troubled that businesses do not properly value the contributions of their employees. While a full discussion of human resource accounting is beyond the level of an introductory accounting course, instructors can refer interested students to journal articles on the topic.

### *Care for the Environment*

In his message for the celebration of the World Peace Day in 1990, Pope John Paul II focused attention on the threat to peace caused by “a lack of due respect for nature.”<sup>22</sup> His message outlined certain elements of the ecologic crisis that make the situation a moral crisis as well. Chief among these are the “indiscriminate application of advances in science and technology” and the “lack of respect for life.”<sup>23</sup> In his 2008 World Peace Day message, Pope Benedict XVI noted, “We need to care for the environment: it has been entrusted to men and women to be protected and cultivated with responsible freedom, with the good of all as a constant guiding criterion.”<sup>24</sup>

The focus on stewardship of creation has been affirmed by U.S. Catholic bishops as well. In a statement on the environment, the Florida bishops enumerate the many environmental problems caused by human action: damage to the ozone, the greenhouse effect, acid rain, nuclear accidents, etc.<sup>25</sup> In their statement, they tie the call to be stewards of the earth to various other imperatives of CST: “There is need to

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<sup>22</sup> Pope John Paul II, *Peace with God the Creator; Peace with all of creation* (Vatican City, Typis Polyglottis Vaticanis, 1990), sec. 6-7.

<sup>23</sup> Ibid.

<sup>24</sup> Pope Benedict XVI, *The Human Family, A Community of Peace* (Vatican City, Typis Polyglottis Vaticanis, 2008), sec. 7.

<sup>25</sup> Catholic Bishops of Florida, “Companions in Creation,” 1991. (<http://www.flacathconf/Publications/Statements/1991/creationstatement.pdf>).

employ human intelligence and inventiveness in order to secure a balance between ecological concerns and the need for employment, just wages, decent living conditions, [and] economic advancement.”<sup>26</sup> More recently, the U.S. Conference of Bishops has also supported the focus on ecologic responsibility.<sup>27</sup> They suggest that care for the environment is not only a popular trend for Catholics, but also “a requirement of our faith.”<sup>28</sup>

**Applications in managerial accounting.** An often-overlooked component of product costing is the environmental cost associated with the product. Environmental costs are properly classified as prevention, detection, and failure costs.<sup>29</sup> While prevention costs, such as using higher cost inputs in production, may seem significant when considered alone, these costs pale in comparison to failure costs. Thus, if environmental costs are fully considered, an environmentally responsible policy that is consistent with CST’s suggestions for the stewardship of the earth’s resources is the economic choice as well.

While most of today’s students are familiar with and supportive of common “green” tactics (e.g., recycling, using green cleaners and reusable canvas bags, etc.), few have analyzed the extensive costs associated with a major environmental failure. An easy situation with which to familiarize the students in this area is that of Exxon Valdez. While today’s traditional undergraduate students were born after Valdez, they can easily access information on the spill from the Internet. In class, the students can work in groups to list the failure costs associated with the Valdez disaster. The exercise becomes more interesting to the students when they realize that everything—food, shelter, waste, etc.—had to be both flown in and out of the spill site. As before, they can enumerate the costs, even if they cannot measure them. Finally, students can discuss the ramifications of both individual (the captain of the ship was under the influence of alcohol at the time of the spill) and corporate choices (Exxon did not require double hulls on its tankers), and how they fit into a CST approach to business.

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<sup>26</sup> Ibid.

<sup>27</sup> U.S. Catholic Bishops, “Sharing Catholic Social Teaching,” 14.

<sup>28</sup> Ibid.

<sup>29</sup> Don R. Hansen, et al., *Cost Management: Accounting and Control* (Mason, OH: Thomson South-Western, 2009).

*Option for the Poor and Vulnerable*

In their 2003 statement on political responsibility, the U.S. Catholic Bishops strongly affirm the option for the poor and vulnerable. This statement reads, in part: “The Church calls on all of us to embrace this preferential option for the poor and vulnerable, to embody it in our lives, and to work to have it shape public policies and priorities. A fundamental measure of our society is how we care for and stand with the poor and vulnerable.”<sup>30</sup>

**Applications in introductory accounting.** Although it is true that this important theme of CST may not be directly addressed, the stakeholder theory concept, which can be included in introductory accounting, helps students expand their definition of a firm and recognize the various constituencies that will be affected by their decisions. If students become accustomed to looking beyond the owners’ interests, it is more likely that they will consider not only the poor and the outcast of their communities, but perhaps also the lower paid employees of their institutions. Ultimately, one of the goals of integrating CST in accounting courses is to provide students with the tools necessary to make principle-based decisions and to expand beyond profit maximization as the only criterion to consider when making decisions.

**Socially responsible behavior.** Socially responsible behavior (often labeled Corporate Social Responsibility) is a “concept whereby organisations [sic] take responsibility for their impact on society and the environment.”<sup>31</sup> While socially responsible behavior (SRB) may not be an explicit tenet of Catholic Social Teaching, the principles detailed above—treating workers with dignity and caring for the environment—are clearly included within the broader concept of SRB.

Most literature addressing SRB falls into one of two categories: economic impact; and management strategies. The first of these seems a better fit for accounting and is discussed here.

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<sup>30</sup> U.S. Catholic Bishops, “Faithful Citizenship: A Catholic Call to Political Responsibility,” (2003) (<http://www.usccb.org/faithfulcitizenship/bishopStatement.html>. Accessed November 20, 2010).

<sup>31</sup> Australian Academy of Science, “NOVA: Cleaner production—A Solution to Pollution?”, <http://www.science.org.au/nova/034/034glo.htm>.

Studies on the efficacy of SRB often report contradictory results. One reason could be the lack of general agreement across these studies on what constitutes SRB. Despite this confusion, evidence of the beneficial results of SRB has emerged over the last decade. A 2000 survey by MORI (one of the United Kingdom's largest research agencies) found that "70% of European Consumers say that a company's commitment to social responsibility is important when buying a product or service, and 1 in 5 would be very willing to pay more for products that are socially and environmentally responsible."<sup>32</sup> For purposes of the survey, SRB activities were construed as those that go beyond a simple focus on the bottom line, such as "protecting the environment, looking after their employees, being ethical in their trading and being involved in the local community around which they operate."<sup>33</sup> Similarly, in a 2006 study, 76% of American consumers surveyed indicated that a company's treatment of its employees would affect their decisions to buy from those companies.<sup>34</sup>

While consumer sentiment suggests that SRB can be financially beneficial, Gunther cautions that "no one has yet been able to demonstrate conclusively that corporate social responsibility boosts shareholder value, though the evidence that it helps is intriguing."<sup>35</sup> Gunther further suggests that rewards associated with such behavior include greater success in recruiting and retaining employees and in attracting loyal customers.<sup>36</sup>

*Applications in financial accounting.* Students often come into accounting classes with an "everyone else is doing it" attitude and point out that most "get away with it" as well. Darring has suggested that it is necessary to emphasize both historical and spiritual connections for the students in teaching CST.<sup>37</sup> CST provides the spiritual dimension, and a review of the literature discussed immediately above can provide the historical dimension. While the history of SRB companies may be

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<sup>32</sup> CSR Europe, "1 in 5 Consumers Would Pay More for Products that Are Socially and Environmentally Responsible," (Press release, November 9, 2000) [http://www.csreurope.org/press\\_releases.php?action=show\\_press\\_release&press\\_id=15](http://www.csreurope.org/press_releases.php?action=show_press_release&press_id=15).

<sup>33</sup> Ibid.

<sup>34</sup> Fleishman and Hillard, "Americans' Definition of the Socially Responsible Company Runs Counter to Established Beliefs; National Consumers League, Fleishman-Hillard examine public attitudes and perceptions of corporate social responsibility," *CSR Wire* (May 31, 2006).

<sup>35</sup> Marc Gunther, "Tree Huggers, Soy Lovers, and Profits," *Fortune* 147(13) (2003): 98.

<sup>36</sup> Ibid.

<sup>37</sup> Gerald Darring, "Teaching Catholic social justice principles," <http://www.silk.net/RelEd/justiceprinciples.htm>.

somewhat mixed, the history of a number of firms at the other end of the SRB spectrum (those that have been associated with accounting scandals) is much clearer. Few of these companies are still in existence; in contrast, companies that have been identified as ethical and responsible in their financial disclosures continue to exist and to flourish.

Exposing students to the triple bottom line is another way to connect CST and SRB with financial accounting. Rather than simply concentrating on the “bottom line” (i.e., profit) as most introductory accounting texts do, instructors can easily integrate examples of companies (and countries) that do not limit their financial disclosures to the basic financial statements. The triple bottom line consists of disclosures relating to people, planet, and profit. The people line pertains to the firm’s business practices towards labor and the community; the planet line refers to sustainable business practices; and the profit line is the economic value created by the organization after deducting the cost of all its inputs, including its cost of capital.

The triple bottom line approach leads to a different, but arguably more realistic, profit assessment of a firm than the traditional accounting definition of profit. Additionally, from a CST perspective, the triple bottom line does a better job of evaluating firms’ treatment of their workers (dignity of work) and of the environment (care for the environment). By including the triple bottom line in the first accounting course, students are made aware early in their business studies that profitability is not as simple as a traditional approach makes it seem. The earlier the students are exposed to these concepts, the greater the chance that this way of thinking will become natural for them.

**Socially responsible investing.** Socially responsible investing (SRI), another economic focus in the literature on social responsibility, also provides opportunities for discussions of CST. Traditionally, such investing has been done by using selection screens: screening out those investment prospects that do not meet a set of selected criteria. For example, by using this technique, investment portfolios have been developed to screen out companies that did business with the apartheid government of South Africa or supported the tobacco industry. In 1980, screened SRI funds called the Ave Maria Funds were developed to invest in firms that “do not violate core teachings of the Catholic Church.”<sup>38</sup>

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<sup>38</sup> Ave Maria Mutual Funds, <http://www.avemariafund.com/home.htm>.

As with SRB, research of late suggests that SRI is as—or more—profitable than traditional investing approaches. The Domini 400 Social Index was created in May 1990 to provide a screened alternative to the S&P 500. From its inception through early 1998, the Domini Index has outperformed the S&P 500. However, since the market did not experience a bear market period during that time, it may be inaccurate to generalize from these results.

Recently, new techniques have emerged for selecting investments in SRI funds. In 2003, Professional Trader Eric Troseth reported that “several” SRI funds have outperformed broad market indices over the previous three years.<sup>39</sup> He suggests that this is a result of a new method of stock selection for the SRI funds which now applies more sophisticated selection techniques than simply screening out environmentally unfriendly companies or those with poor labor relations histories.<sup>40</sup>

There is also some good news about the returns earned by traditionally screened funds. Early studies on screened SRI usually showed that the SRI portfolios outperformed their competitors.<sup>41</sup> However the results were not as positive when later research models included the role of risk in returns from screened SRI funds. For example, Statman and Naber both found that the returns earned on a screened portfolio were not significantly different from those earned by a market portfolio—if one adjusted for the differing risk associated with the two portfolios.<sup>42</sup> Recently, however, Edwards and Samant have evaluated SRI funds using a new risk measurement technique, the Modigliani-Modigliani (M squared) risk-adjusted performance measure. Their results suggest that SRI funds compare favorably with regular investment funds when the M squared model is used as the basis for risk adjustment.<sup>43</sup>

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<sup>39</sup> Eric Troseth, “From SRI Funds, A More Sophisticated Tack,” *Christian Science Monitor* (April 7, 2003): 17.

<sup>40</sup> Ibid.

<sup>41</sup> See Sally Hamilton and Meir Statman, “Doing Well While Doing Good? The Investment Performance of Socially Responsible Mutual Funds,” *Financial Analysts Journal* 49(6) (1993): 62-66; J. David Diltz, “Does Social Screening Affect Portfolio Performance?” *The Journal of Investing* 4(1) (1995): 64-69; and John B. Guerard, “Is There a Cost to Being Socially Responsible in Investing?” *The Journal of Investing* 6(2) (1997): 11.

<sup>42</sup> Meir Statman, “Socially Responsible Mutual Funds,” *Financial Analysts Journal* 56(3) (2000): 30-39; and Mary Naber, “Catholic Investing: The Effects of Screens on Financial Returns,” *The Journal of Investing* 10(4) (2001): 58-65.

<sup>43</sup> Ed Edwards and Ajay Samant, “Investing with a Conscience: An Evaluation of the Risk-Adjusted Performance of Socially Responsible Mutual Funds,” *Mid-America Journal of Business* 18(1) (2003): 51-60.

Taken together then, the research on SRI is promising in that it suggests that screened portfolios compare well with unscreened portfolios when properly accounting for risk. In addition, new techniques in portfolio selection promise the opportunity for SRI portfolios to earn even higher returns than non-SRI investments.

While screened investing is still prominent (the Ave Maria Growth Fund alone reported more than \$112 million dollars in assets in January 2010),<sup>44</sup> more recent SRI has focused on shareholder activism. The work done by the Dominican Order in the United States under the investment leadership of Sister Patricia Daly provides one notable example. The Dominicans have pooled their investments to amass sufficient shareholder votes to affect company policy on several occasions.<sup>45</sup> They have brought attention to both workers' rights and environmental issues through this "shareholder activism."

*Applications in financial accounting.* The financial accounting curriculum includes a study of the equity section of the balance sheet and a list of stockholder rights and responsibilities. Prominent among these rights is the right to vote your shares. Most students dismiss this right as being of little value. However, this right can be tied to SRI in all of its forms. Students who are knowledgeable about SRI may choose to invest in SRI funds in the future. Another possible impact may be students' influence on the investment policies of their future employers or their own investment funds—either to screen out companies with policies that are not consistent with CST or to consciously invest in those companies to engage in shareholder activism. Finally, a discussion of SRI within the context of an accounting class often leads to a discussion of the university's investment policy—which may not follow SRI principles.

## Conclusion

Although introductory accounting classes must cover a large amount of technical material within the confines of the semester, there is an opportunity to introduce CST concepts into material that is presented. The decision to include a CST-based approach to accounting seems reasonable both for supporting mission and for practical and accreditation

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<sup>44</sup> Ave Maria Growth Fund, <http://finance.yahoo.com/q?s=AVEGX>.

<sup>45</sup> The Sierra Club also attempted a similar a strategy by asking members who owned shares of a particular company to vote them as a block.

reasons. Importantly, there is nothing in CST that opposes an individual helping a firm to become financially successful, especially when the firm's product or service is providing people with something necessary to survive and to thrive. In fact, CST, as noted in the discussion regarding the dignity of work, would assert that being a manager or any other worker is a vocation in itself. The difference is that CST would also assert that profit maximization is not the sole criterion for evaluating the performance of either the individual or of the firm.

It is also important to note that, even though a job may be a vocation, how one does in that position is not the most important consideration when evaluating a person's worth in accordance with CST. Other factors such as life away from work, one's personal life, one's family life, and one's life in community and in the world are also essential in assessing the successes and failures of professional and personal lives. In assessing Catholic universities' business programs, these are ultimately the most important criteria to consider—and perhaps the reason why Catholic universities should enhance the CST component in their introductory accounting courses.

