
JAMES F. ALDERSON: WHITE-HAT ACCOUNTANT WITH MORAL COURAGE

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ABSTRACT

The objective of this case study is to increase resolve to have moral courage by studying the whistleblowing experience of James Alderson. After a brief introduction about Alderson, whistleblowing, and moral courage, accounting students read a detailed description of Alderson's experience in "He Blew the Whistle and Health Giants Quaked" (Eichenwald 1998). They then identify essential elements of moral courage, explore how to blow the whistle, and identify character traits that may have contributed to Alderson's success. Accounting students are inspired by Alderson's experience, and report an increased resolve to have moral courage. Instructor notes about the case objective, suggestions for implementation and assessment, and answers to the requirements are available.

INTRODUCTION

White-Hat Accountant

A "white-hat" person connotes a law abiding, honorable character. The origin of the term can be traced to country western movies, where characters who wore white hats were often law abiding heroes who opposed villains who wore black hats. James Alderson is a modern white-hat accountant who challenged a healthcare giant's practice of overcharging the government for healthcare costs. In 2001 Alderson was awarded \$21 million in the Medicare fraud settlement. Alderson said "I won't deny that money provided an incentive, but it was only part of the motivation. What Quorum and HCA were doing was wrong, and it took me 13 years and my career to prove it. Fortunately, I received enough money from the settlement to retire" (Porter 2003: 53). His wife revealed another perspective: "Knowing what I know now and knowing how long it's been, I'm not sure I would have agreed to pursue the case. I don't think that any amount of money is going to take care of what we've been through" (Porter 2003:53).

Whistleblowing

Whistleblowing is dangerous. When a whistleblower exposes misconduct, dishonesty, or illegal activity in an organization, he or she risks damaging reputations and careers. While there are some incentives and legal protections for whistleblowers via the *qui tam* provisions of the False Claims Act, the provisions are not guarantees against all possible harm.

In common law, a *qui tam* writ allows a private individual with knowledge of fraud against the government to join the government in a lawsuit. It was implemented

as part of the False Claims Act of 1863, where the whistleblower may receive 15 to 30 percent of the settlement against the guilty person or company. A whistleblower (aka “relator”) is the person who reveals the misconduct to the government. The Act is also known as the “Lincoln Law” because it was passed during the Civil War when contractors overcharged for mules, rations, and other supplies sold to the Union Army (Doyle 2009). *Qui tam* actions typically are filed under a seal that prohibits the defendant from disclosing facts about the case while information about the case is collected. Since 1986, when *qui tam* provisions in the Act were strengthened, recoveries in *qui tam* cases have exceeded \$18 billion, with relators receiving more than \$2.8 billion in awards (Department of Justice 2010).

Knowing how to blow the whistle can be helpful in resolving ethical concerns. The Institute of Management Accounting (IMA) provides guidance to management accountants who encounter an ethical issue and want to resolve it:

1. Discuss the issue with your immediate supervisor except when it appears that the supervisor is involved. In that case, take it to the next management level.
2. Clarify relevant ethical issues by initiating a confidential discussion with an IMA Ethics Counselor or other impartial advisor.
3. Consult with an attorney as to legal obligations and rights concerning the ethical conflict (IMA 2014).

Similarly, ethics researchers Trevino and Nelson (2014: 140-142) summarize the whistleblowing process in seven steps. If the ethical concern can be resolved at any step, the remaining steps are not necessary.

1. Approach your immediate manager (assuming your manager is not involved in the problem).
2. Discuss the issue with your family.
3. Take it to the next level in your chain of command.
4. Contact your company’s ethics officer or ombudsman.
5. Consider going outside your chain of command.
6. Go outside of the company.
7. Leave the company.

Gentile (2010) observes that properly communicating concerns to your immediate manager is critical to achieving an acceptable resolution. Unfortunately, the IMA code of conduct and Trevino and Nelson do not provide guidance of how to voice concerns to others. Badaracco (2001) suggests that expressing concerns quietly, behind the scenes, without moral outrage, is the most effective kind of moral leadership, and suggests several strategies for quiet leaders to employ:

1. Put off things till tomorrow. Calm down. Look for ways to buy time while considering how to voice your concerns without embarrassing others.
2. Pick your battles. Some issues may not be of sufficient importance to risk your reputation or political capital.
3. Find a compromise. Some ethical issues are not clear right-versus-wrong problems but right-versus-right dilemmas. Try to find an alternative that is morally acceptable (Badaracco 2001: 120-126).

Moral Courage

Moral courage is taking a stand to defend a personal value or principle that is at risk, despite the danger for doing so. Jumping from a cliff with a bungee cord tied to your ankle may require physical courage, but there is not likely any moral principle or value such as honesty or compassion involved. In contrast, when an employee chooses to blow the whistle on a corporation's unsafe or dishonest practices, the principle of safety or honesty is being defended, and the danger is often to one's career. Bungee jumping and whistleblowing both require courage, but the former requires physical courage while the latter requires moral courage.

Moral courage also requires that defending a moral principle involves some personal danger, say to one's career or reputation, and that the person defending the principle is aware of the danger and is willing to endure it. Both of these elements, danger and willingness to endure the danger, can also be present in physical courage (Kidder 2005).

THE REQUIREMENT

Read the description of Alderson's personal experience in "He Blew the Whistle and Health Giants Quaked" (Eichenwald 1998).¹ In a short essay (3 pages, double spaced, one-inch margins) describe the moral courage of Alderson, and what his experience means to you. In particular,

1. Identify one or more principles or values that were being challenged, the personal danger that Alderson faced for defending those principles, and his willingness to endure the danger. Explain your reasoning.² To help you better appreciate the moral issues faced by Alderson, also identify potential harms to other stakeholders, such as US taxpayers, and the employees of the healthcare company.
2. Evaluate the whistleblowing process used by Alderson.
 - a. How closely did it match the steps of whistleblowing recommended by IMA and by Trevino and Nelson?
 - b. Speculate on whether Badaracco's advice about how to blow the whistle could have been used by Alderson.
3. Identify character traits displayed by Alderson that appeared useful in his whistleblowing experience.

¹ The following permalink may be used for those having online access to a public or university library: <http://proquest.umi.com/pqdweb?did=35153834&sid=1&Fmt=3&clientId=1670&RQT=309&VName=PQD>

² In reflecting about this requirement, the following definitions may be useful: "Ethics are standards by which one should act based on values. Values are core beliefs such as duty, honor, and integrity that motivate attitudes and actions. Not all values are ethical values (integrity is; happiness is not). Ethical values relate to what is right and wrong, and thus take precedence over non-ethical values when making ethical decisions" (DOD 2011: 133).

- a. Include a comment about the promise that Mr. Alderson made to himself regarding signing an audit report and its potential influence in his decision to blow the whistle.
- b. Does an intention to be honest in your future professional career ensure ethical behavior?

CONCLUSION

James Alderson showed that a person of relatively meager means and influence can truly make a difference. His actions prompted the largest government investigation of Medicare fraud in history. As such, he has become a moral exemplar to accounting and other professionals who are encouraged and inspired by his experience. Alderson was able to pay off his debts and retire. He and his wife now spend their time between their homes in La Quinta, California and Whitefish Montana. Quorum and HCA spent millions on their defense and eventually agreed to the \$1.7 billion settlement. The scandal laid the ground work for Medicare reimbursement reform, and reduced Medicare fraud an estimated \$10 billion annually (Porter 2003).

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**INSTRUCTOR NOTES TO
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