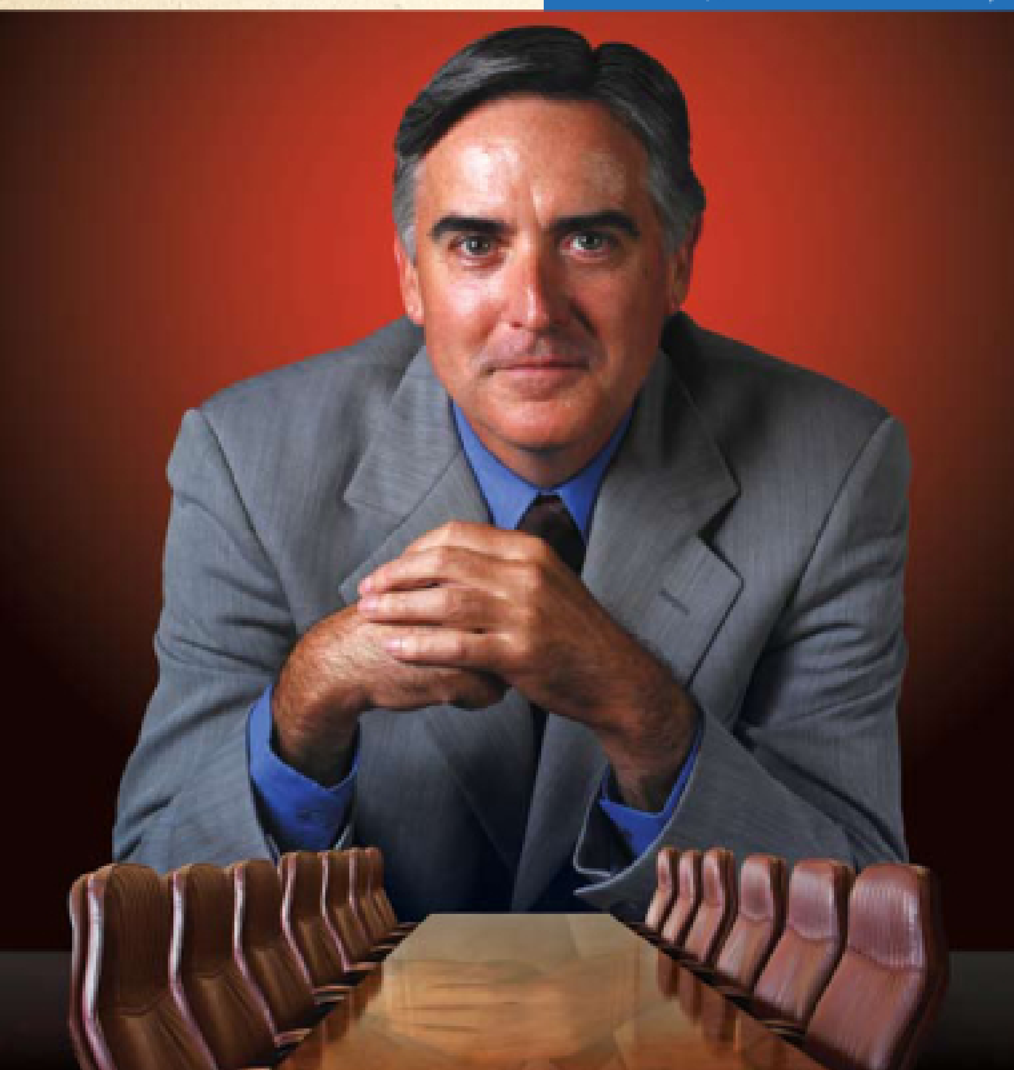
CONFLICTS, MORAL HAZARDS AND BOARDROOM BIAS.

Every new set of rules and regulations has the potential to trigger unintended consequences. For James Hunton, Bentley College Professor of Accountancy, the Sarbanes-Oxley regulations are no exception. Hunton studies the behavior of key players in the financial market. Lately, his focus has been on the unintended consequences of new laws designed to prevent future accounting scandals.

Jim Hunton, Professor of Accountancy **Q+A**



Professor James Hunton is the Darald and Juliet Libby Professor of Accounting at Bentley College, and Research Professor, Accounting and Information Management at Universiteit Maastricht, The Netherlands. His most recent psychology-based experiments have focused on conflicts of interest in various business situations.

SARBANES-OXLEY REQUIRES THE AUDIT COMMITTEES OF CORPORATE BOARDS TO BE INDEPENDENT OF MANAGEMENT. WILL THIS REDUCE FRAUD?
Theoretically, yes. However, Sarbanes-Oxley has created a shortage of qualified audit committee members. The result is more "busy directors," or directors who serve on two or more boards. While "busy directors" carry valuable industry knowledge, they also face potential conflicts that pit their professional obligations against their personal interests.

YOUR EXPERIMENTS PLACE ACTUAL AUDIT COMMITTEE MEMBERS INTO CONFLICT OF INTEREST SITUATIONS. HOW DO THEY RESPOND? We found that "busy directors" are less likely than their non-busy counterparts to reveal or investigate problems that signal weak corporate governance at the board level. They worry more about negative personal consequences and this biases their decisions.

ARE THEY AWARE OF THEIR BIAS?
My research suggests that bias of this nature operates at a subconscious level. Most directors truly believe they are making socially responsible decisions. These are ethical individuals, but like most of us, good people can make bad decisions under certain circumstances.

IS THERE A SOLUTION?
First, awareness and training for directors. Second, limits on the number of "busy directors" who can serve on corporate boards. Third, periodic independent review of board decisions.

MORE *Professor Hunton discusses his work at* **www.bentley.edu/research.**

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