# ETHICS

Presented by Ms. Vu Thi Viet Hang (M.Ed)

# Why talk about ethics?

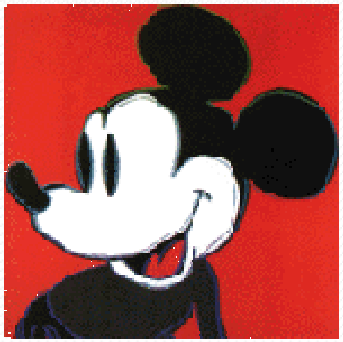
**Why talk about ethics? In the aftermath of major corporate failures and questionable accounting practices, American Accounting Association President G. Peter Wilson said that in the classroom, educators need to increasingly emphasize the value of integrity, what has long been a mainstay of accountants' reputation**

**In a recent Wall Street Journal article, Psychology professor Steven Davis says that cheating by high school students has increased from about 20 percent in the 1940's to 75 percent today.**

**"Students say cheating in high school is for grades, cheating in college is for a career."**

If students lack ethics in high school and college, then there should be little surprise that they lack ethics in their careers. Greed and over-reaching ambition often end in disastrous personal consequences. Convicted inside trader, Dennis Levine, in a Fortune magazine article wrote:

"I have painful memories of Sarah learning to walk in a prison visiting room, and of Adam pleading with a guard who wouldn't let him bring in a Mickey Mouse coloring book."



**Many institutions of higher education have instituted policies regarding ethics education. For example, the Faculty Handbook of the Mays Business School at Texas A&M University includes the following statement:**

**"Therefore, faculty and staff have a responsibility for creating an academic environment that promotes honest academic inquiry and teaches students ethical behavior in the process."**

**Educational Institutions have established ethics codes for their students, e.g. the U.S. Air Force Academy:**

**"We Will Not Lie, Steal Or Cheat, Nor Tolerate Among Us Anyone Who Does"**

**-- Which do you think is the harder part: Line 1 or Line 2? Why?**

# Managers care about ethics

Managers have a practical need to know how to deal with unethical behavior:

- Downsizing has increased numbers of direct reports per manager
- Workers may be less loyal to organization and more prone to unethical behavior
- Workers may believe unethical behavior helps the company financially
- It's more difficult to communicate expectations of ethical conduct than in the past

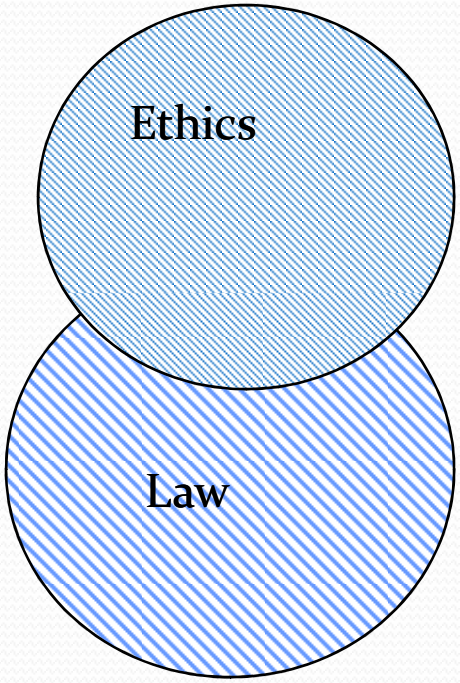
# DOING GOOD = Ethics?

- **Enron** =
  - $4 billion in debt = creative accounting
- **World Com**
  - $11 Billion – falsified financial statements
- **Martha Stewart** = insider trading
- **Parmalat**
  - Fail to account for E8 billion ($10 Billion USD)
- **Pharmorx**
  - $500 million = creative accounting

# Why Bother Teaching Ethics?

- Bad apples are encouraged by bad barrels
- Good character isn't always enough
- Adults develop moral judgment into their 30s
- Conduct is influenced by environment

# Relationship between Ethics and the Law



# Test Your Cynicism Quotient

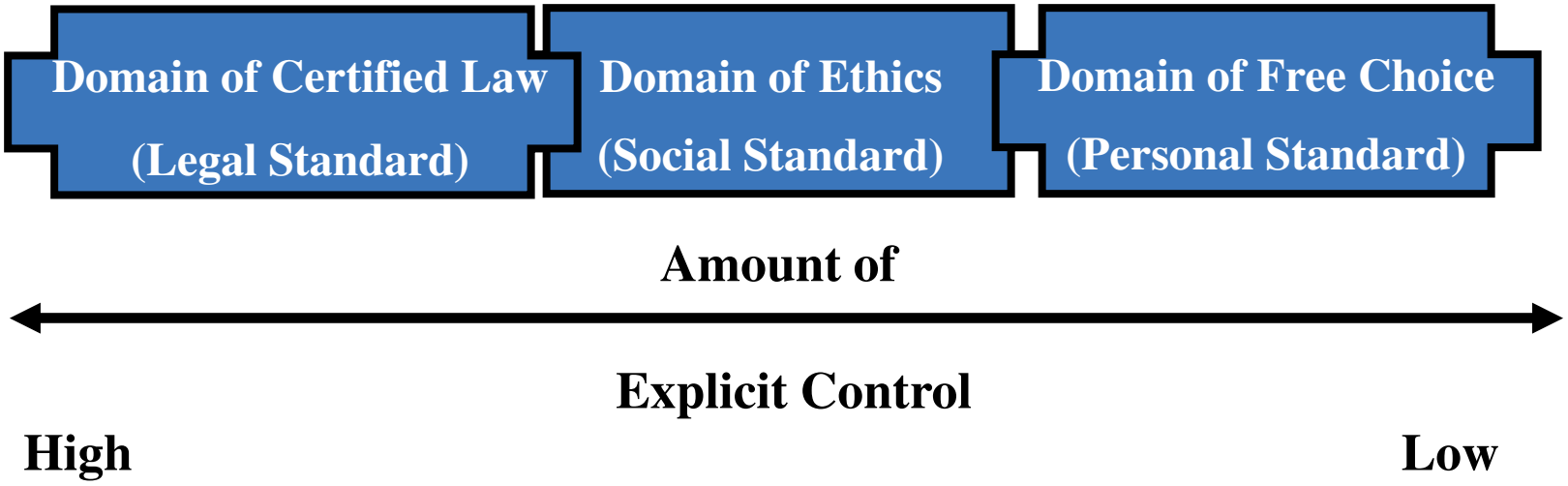
1 = Strongly Disagree  5 = Strongly Agree

- Financial gain is all that counts in business.
- Ethical standards must be compromised in business practice.
- The more financially successful the business person, the more unethical the behavior.
- Moral values are irrelevant in business.
- The business world has its own rules.
- Business persons care only about making profit.
- Business is like a game one plays to win.
- In business, people will do anything to further their own interest.
- Competition forces business managers to resort to shady practices
- The profit motive pressures managers to compromise their ethical concerns.

# What is managerial ethics?

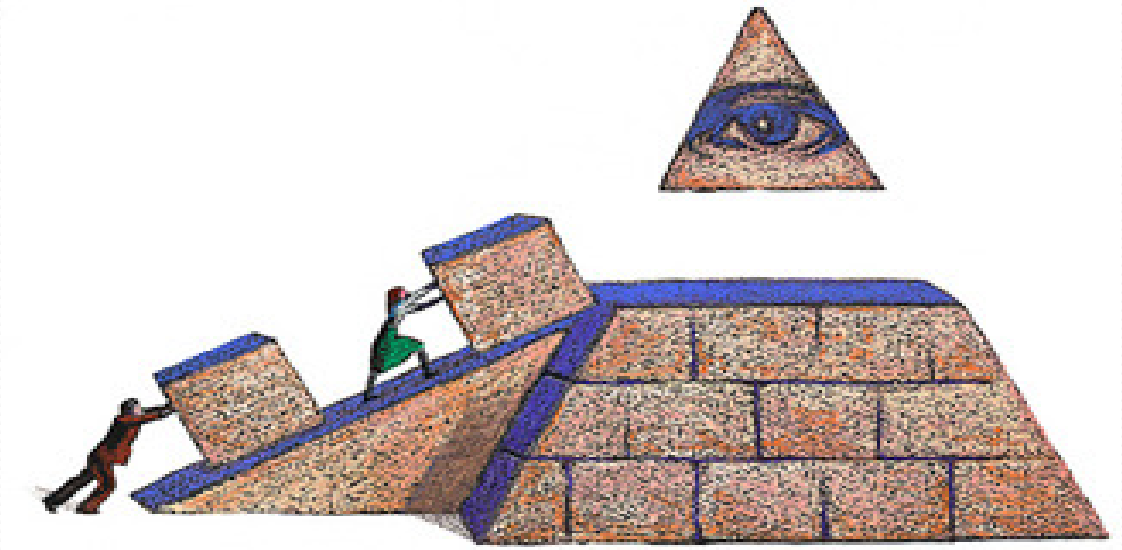
- The code of moral principles and values that govern the behaviors of a person or group with respect to what is right or wrong.
- Ethical Dilemma
  - A situation that arises when all alternative choices or behaviors have been deemed undesirable
  - Potentially negative ethical consequences, making it difficult to distinguish right from wrong.

# Three Domains of Human Action



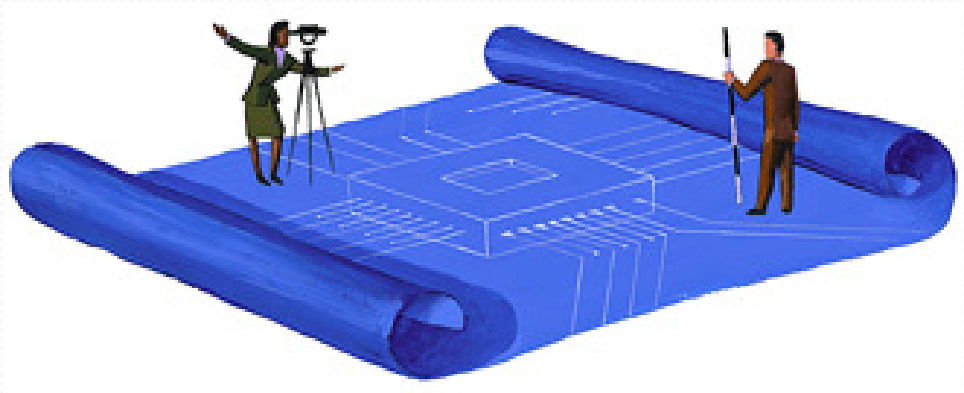
# Criteria For Ethical Decision Making

- <u>Most ethical dilemmas involve</u> a conflict between needs of the part & whole
  - The individual versus the organization
  - The organization versus society as a whole



# Prescriptive Approaches

- Focus on *consequences* (consequentialist theories)
- Focus on *duties, obligations, principles* (deontological theories)
- Focus on *integrity* (virtue ethics)



# Consequentialism

- No objective right or wrong, good or evil. The person defines these
- Cost-benefit analysis
- Identify alternative actions and consequences to stakeholders
- Best decision yields greatest net benefits *to society*
- Worst decision yields greatest net harms *to society*

# Utilitarian Approach

- ☑ Utilitarianism - best known consequentialist theory
- ☑ Moral behavior produces the greatest good for the greatest number
- ☑ Decision maker is expected to consider the effect of each decision alternative on all parties and select the one that optimizes satisfaction for the greatest number of people.
- ☑ Critics fear a "Big Brother" approach and ask if the common good is squeezing the life out of the individual

# The Cost to Society of Dying in a Pinto (in 1971 dollars) equals…

**$200,725**

The benefit and cost of an $11 safety improvement would have been:

benefit = $49.5 million
cost = $137 million

# Focus on Duties, Obligations, Principles (Deontological Theories)

- Decisions based upon abstract universal principles: honesty, promise-keeping, fairness, rights, justice, respect
- Focus on doing what's "right" (consistent with these principles) rather than doing what will maximize societal welfare (as in utilitarianism)

# Individualism Approach

- Acts are moral when they promote the individual's best long-term interests, which ultimately leads to the greater good
- Individual self-direction paramount
- Individualism is believed to lead to honesty & integrity since that works best in the long run

# Moral-Rights Approach

People have fundamental rights and liberties that cannot be taken away by an individual's decision.

An ethically correct decision is one that best maintains the rights of those affected by it.

An ethical decision is one that avoids interfering with the fundamental rights of others

# Six moral rights

The right of free consent: individuals are to be treated only as they knowingly and freely consent to be treated

The right to privacy: Individuals can choose to do as they please away from work and have control information about their private life

The right of freedom of conscience: Individuals may refrain from carrying out any order that violates their moral or religious norms.

# Six moral rights

The right of free speech: Individuals may criticize truthfully the ethics or legality of actions of others

The right to due process: Individuals have a right to an impartial hearing and fair treatment

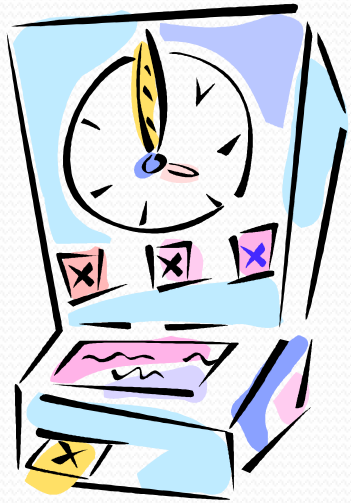
The right to life and safety: Individuals have a right to live without endangerment or violation of their health and safety.

# Justice Approach

- Moral Decisions must be based on standards of equity, fairness, impartiality

<u>Three types of Justice Approaches:</u>

1. Distributive Justice
2. Procedural Justice
3. Interactive Justice



# Distributive Justice

- Different treatment of people should not be based on arbitrary characteristics
- In case of substantive differences, people should be treated differently in proportion to the differences among them

# Procedural Justice

- Procedural justice requires that rules be administered fairly
- Rules should be clearly stated and be consistently and impartially enforced

# Interactive Justice

- The degree to which people are treated with respect and dignity

# Focus on Integrity

## (Virtue Ethics)

- Focus on integrity of moral actor rather than the act
  - Considers character, motivations, intentions
  - Character defined by one's community
    - Need to identify relevant community
    - Disclosure rule

# Factors Affecting Ethical Choices

- The Manager
- Levels or stages of moral development
  - Pre-conventional
  - Conventional
  - Post-conventional
- The Organization

# Kohlberg's Stages of Moral Development

**Preconventional Level**

Stage 1: Punishment and Obedience

Stage 2: Instrumental Exchange

**Conventional Level**

Stage 3: Good Boy — Nice Girl

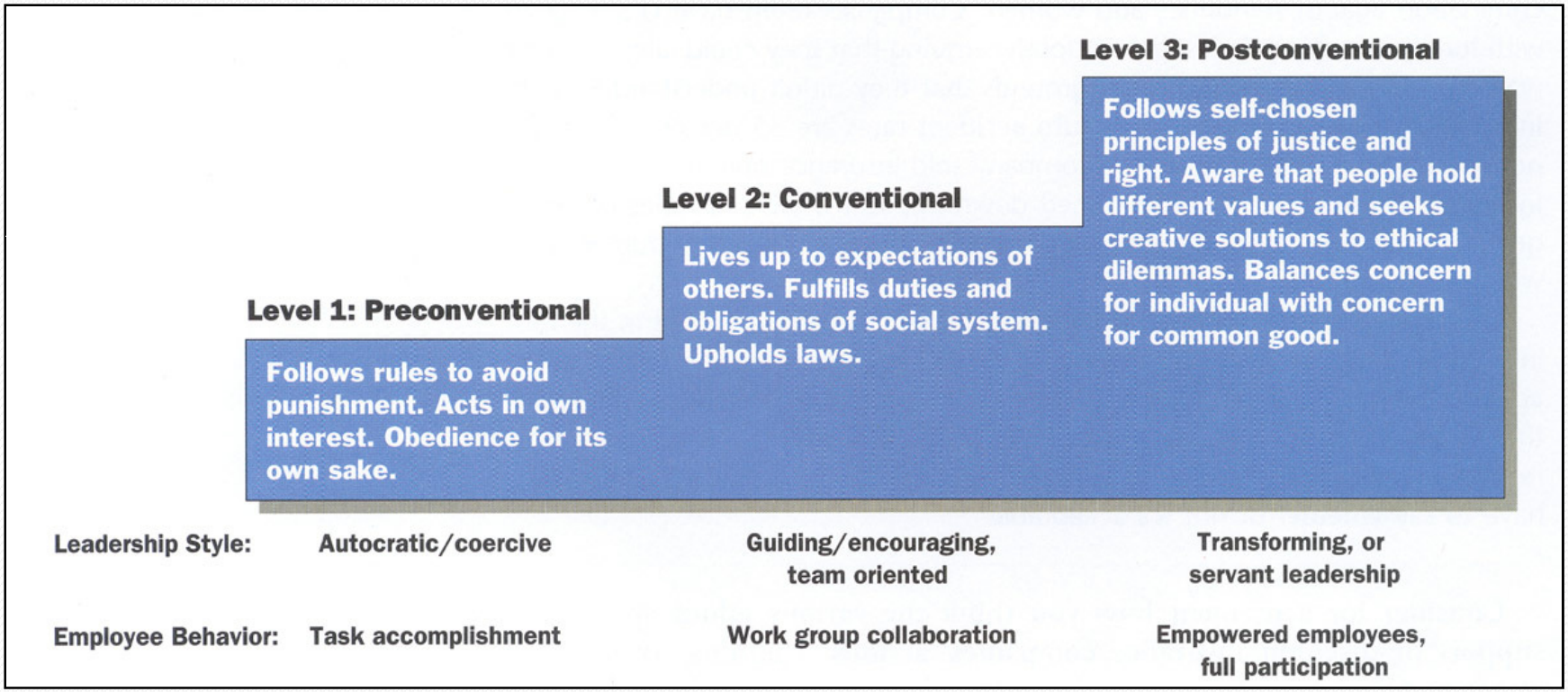
Stage 4: Law and Order

**Post Conventional Level**

Stage 5: Legal Contract

Stage 6: Universal Principle

# Levels of Personal Moral Development



# The Organization

- Rarely can ethical or unethical corporate actions be attributed solely to the personal values of a single manager
- Values adopted within the organization are highly important
- Most people believe their duty is to fulfill obligations and expectations of others

# Corporate Social Responsibility

- Organization's obligation to make decisions and take actions that will enhance the welfare and interests of society and organization
- Being a good corporate citizen
- Difficulty in understanding – issues can be ambiguous with respect to right and wrong

# Organizational Stakeholders

- Any group within or outside the organization that has a stake in the organization's performance
- Each stakeholder
  - Has a different criterion of responsiveness
  - Has a different interest in the company
- Monsanto

# Shareholder Model: Friedman

- Managers cannot act effectively as moral agents for shareholders
- Time, money, and attention diverted to social causes undermine market efficiency

# Stakeholder Model of Corporate Social Responsibility

# Total Corporate Social Responsibility

Total Corporate Social Responsibility


Exhibit 5.7

# The Ethical Organization

## The Three Pillars of an Ethical Organization

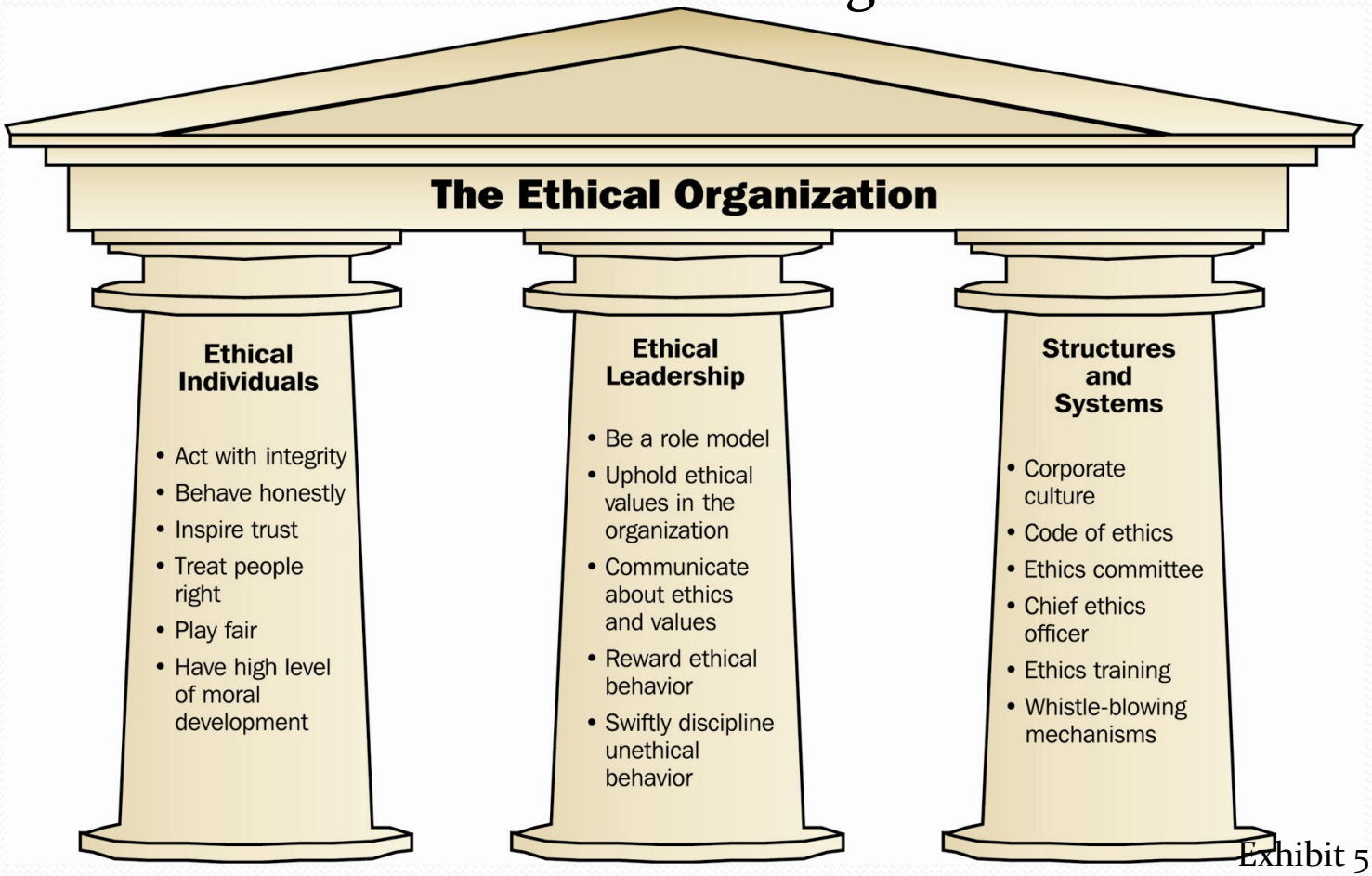



Exhibit 5.9

# Managing Company Ethics Through:

- ☆ Ethical individuals; are honest, have integrity, they strive for a high level of moral development
- ☆ Ethical leadership; provides the necessary actions, are committed to ethical values and helps others to embody those values
- ☆ Organizational structure, embodies a code of ethics, and methods to implement ethical behavior

# Ethics and Consumers

- Conflicts of Interest
  - Enron
  - Marsh & McLennan
- Product Safety
  - Johnson & Johnson
  - A.H. Robins
- Advertising
  - Pharmaceutical industry

# Ethics and other stakeholders

- Ethics and shareholders
  - Salomon Brothers
- Ethics and the community
  - Union Carbide
  - Exxon

# Ethics and Employees

- Employee Safety
  - Johns Manville
  - McWane, Inc.
- Employee Downsizings
  - Scott Paper
  - Lincoln Electric

# Organizational Structures and Systems

- Code of ethics
- Ethical structure
  - Ethics committee
  - Chief ethics offices
  - Ethics training
- Whistle-blowing

# Consumer Rights

| | |
|---|---|
| ***To be safe*** | ***To be heard*** |
| ***To choose*** | ***To be informed*** |

# Due Care Theory

- Design
- Materials
- Production
- Quality control
- Packaging, labels, warnings
- Notification

# Advertising

As a bottler of natural spring water, your advertising department has recently launched a campaign that emphasizes the purity of your product. The industry is highly competitive, and your organization has been badly hurt by a lengthy strike of unionized employees. The strike seriously disrupted production and distribution, and it caused your company to lose significant revenues and market share. Now that the strike is over, your company will have to struggle to recoup lost customers, and pay for the increased wages and benefits called for in the new union contract. The company's financial situation is precarious to say the least.

You and the entire senior management team have high hopes for the new ad campaign, and initial consumer response has been positive. You are shocked then, when your head of operations reports to you that an angry worker has sabotaged one of your bottling plants. The worker introduced a chemical into one of the machines, which in turn contaminated 120,000 bottles of the spring water. Fortunately, the chemical is present in extremely minute amounts - no consumer could possibly suffer harm unless they drank in excess of 10 gallons of the water per day over a long period of time. Since the machine has already been sterilized, any risk of long-term exposure has been virtually eliminated. But, of course, the claims made by your new ad campaign could not be more false.

List all of the stakeholders involved in this situation. Do any stakeholder groups have more to gain or lose than others? Develop a strategy for dealing with the contamination. How much does a company's financial situation determine how ethical dilemmas are handled?

# HR Issues

- Discrimination
- Harassment -- sexual and otherwise

# Harassment

Your profession has been traditionally a male-dominated one and Marcia is the only woman in your department. Whenever Sam -- your senior engineer-- holds staff meetings, he and the other males in the department compliment Marcia profusely. They say things like, "It's hard for us to concentrate with a gorgeous woman like you in the room," or "you've got to stop batting your eyelashes at us or the temperature in this room will trigger the air conditioning." They compliment her apparel, her figure, her legs, and her manner of speaking. Although flattering, their remarks make her feel uncomfortable. She has mentioned her discomfort to you on several occasions, and you've told Sam and the others to cut it out. They just laughed and told you that Marcia was too sensitive. You think that while Marcia was being sensitive, she did have justification for being upset about her co-workers' remarks.

# Hiring and work assignments

You're planning to hire a new sales manager and one of the leading candidates is really homely. You are concerned about how your customers – and even his colleagues -- would react to him. The specific job he's applying for requires extensive customer contact and his appearance is frankly disconcerting. On the other hand, his credentials are excellent and he's certainly qualified for the job.

# Performance management

You were recently promoted to manager of a department with five professionals and two clerical staff. One of the professionals, Joe, is a nice guy, but he simply hasn't been able to match the performance of the others in the department. When he tells you he has been interviewing for another job in a different part of your company, you pull his personnel file and see that your predecessor had rated Joe's performance as "good to excellent." You frankly disagree. Joe has asked you for a recommendation. Based on the written appraisals, you could give him a good one -- but your personal observation is at odds with the written evaluations. Joe's prospective manager -- your peer in another department -- asks for your opinion. What do you say?

# Terminations

You're a manager in a large commercial bank. You discover that Patricia, a loan officer who reports to you, has forged an approval signature on a customer loan, which requires signatures from two loan officers. When you confront Pat with the forgery, she apologizes profusely and says that her husband has been very ill. The day she forged the signature, he was going into surgery and she just didn't have time to find another loan officer to sign the authorization for the loan. Pat has been with your bank for 15 years and has a spotless record.

# Discipline

Steven is a salesman who reports to you, the regional director of sales for an office supply company. He has a great track record and has consistently surpassed his sales targets, but he has one terrible flaw: he's not on time for anything. He's late for both for meetings with you and for lunches with clients, and the problem extends to his paperwork. His expense reports, sales reports -- everything is handed in a week late. As his manager, you've counseled him about his tardiness and he has improved. Now instead of being 15 minutes late for a meeting, he's only five minutes late. And instead of submitting his expenses a week late, they're only two days late. His lateness seems minor in view of his achievements, but it's driving you and his co-workers crazy.

# Managing a diverse workforce

After two years of sales calls and persuasion, a large, multi-national petroleum company -- Big Oil Ltd. -- decides to sign with your employer, Secure Bank. Since Big Oil is headquartered in Saudi Arabia and most of the meetings with the client have been in the Middle East, Secure Bank's senior executive in charge of oil and oil products companies -- Julie -- has not attended. Although the Secure Bank employees who have met with the company have told the Big Oil executives that the lead on their account will be a woman, the news must not have registered, perhaps because of language difficulties. Today the Big Oil reps are in Chicago to sign on the dotted line and meet with Secure Bank's senior managers, and of course, they've met with Julie. A member of the original Secure Bank sales team calls you to say that Big Oil's senior team member has told him he does not want Julie to work on their account, period. Because of cultural issues, Big Oil execs are uncomfortable dealing with women from any country. As Julie's manager, what do you do?

# Managing a diverse workforce

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# Managing up and across

As an operations professional, you need to be able to interact effectively with many internal customers – from corporate managers to field representatives. One of your peers is Jessica, who is a talented operations professional, but who is downright rude to her internal customers. Her attitude is so bad that people around your company ask specifically to deal with you instead of Jessica. You've heard many tales about her sarcasm and her unwillingness to deliver anything other than the absolute minimum to other employees. You've thought about talking to Bruce, the manager to whom both you and Jessica report – but you and everyone else knows that they're dating. In the meantime, your workload is increasing because of Jessica's reputation. How do you handle Jessica and Bruce?

# Conflicts of Interest

- Overt bribes and kickbacks
- Subtle bribes
- Influence
- Privileged information
- Insider trading

# Conflict of Interest

Your daughter is applying to a prestigious university. Since admission to the school is difficult, your daughter has planned the process carefully. She has consistently achieved high marks, taken preparatory courses for entrance exams, and has participated in various extracurricular activities. When you tell one of your best customers about her activities, he offers to write her a letter of recommendation. He's an alumnus of the school and is one of its most active fund raisers. Although he's a customer, you also regularly play golf together and your families have socialized together on occasion.

# Customer Confidence Issues

- Confidentiality
- Product Safety
- Truth in advertising
- Special fiduciary responsibilities

# Confidentiality

You work for a consulting company in Atlanta. Your team has recently completed an analysis of Big Co. including sales projections for the next five years. You're working late one night when you receive a call from an executive vice president at Big Co. in Los Angeles, who asks you to immediately fax her a summary of your team's report. When you locate the report, you discover that your team leader has stamped "For internal use only" on the report cover. Your team leader is on a hiking vacation and you know it would be impossible to locate him. Big Co. has a long-standing relationship with your company and has paid substantial fees for your company's services.

# Product Safety

You're the head of marketing for a small pharmaceutical company that has just discovered a very promising drug for the treatment of Alzheimer's disease. You have spent months designing a marketing campaign which contains printed materials and medication sample kits for distribution to almost every family physician and gerontologist in the country. As the materials are being loaded into cartons for delivery to your company's representatives, your assistant tells you that she has noticed a typographical error in the literature that could mislead physicians and their patients. In the section that discusses side effects, diarrhea and gastrointestinal problems are listed as having a probability of 2 percent. It should have read 20 percent. This error appears on virtually every piece of the literature and kits, and ads containing the mistake are already on press in several consumer magazines.

# Fiduciary responsibility

For 12 years, you've been the financial advisor for an elderly man in his late 70s who is an active investor of his own portfolio and for a trust which will benefit his two children. In the last few months, you've noticed a subtle, yet marked change in his behavior. He has become increasingly forgetful, has become uncharacteristically argumentative, and seems to have difficulty understanding some very basic aspects of his transactions. He has asked you to invest a sizable portion of his portfolio and the trust in what you consider to be a very risky bond offering. You are frank about your misgivings. He blasts you and says that if you don't buy the bonds, he'll take his business elsewhere.

# Use of Corporate Resources

- Use of corporate reputation
- Corporate financial resources
- Providing honest information

# Use of corporate resources

You've been working very long hours on a special project for the chairman of your company. Your company policy states that employees who work more than 12 hours in one day may be driven home by a company car at company expense. Policy also states that employees who work longer than two hours past the regular end of their day can receive a meal delivered to the office at company expense. You and your colleagues who are also working on the project are arriving at the office at 8:00 a.m. and order dinner at 7:00 p.m.; then you enjoy dinner and conversation for an hour and are driven home by company cars. Is this OK?