



# Lecture 2

## Business Ethics

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# Least Corrupt Countries

Rank	Country	CPI Score*
1	Finland/Denmark/New Zealand	9.4
4	Singapore/Sweden	9.3
6	Iceland	9.2
7	Netherlands/Switzerland	9.0
9	Canada/Norway	8.7
11	Australia	8.6
12	Luxembourg/United Kingdom	8.4
14	Hong Kong	8.3
15	Austria	8.1
16	Germany	7.8
17	Ireland/Japan	7.5
19	France	7.3
20	United States	7.2

\*CPI score relates to perceptions of the degree of corruption as seen by businesspeople and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).

Source: "Transparency International 2007 Corruption Perception Index," Transparency International, [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2007](http://www.transparency.org/policy_research/surveys_indices/cpi/2007) (accessed April 4, 2008).

## What is business ethics

- ➡ ***Business Ethics*** – principles and standards that determine acceptable conduct in business



- *Business Case for Business Ethics*
- This Publication illuminates the positive relationship between ethical leadership and profits.
- In other words, unethical leadership may lead to financial loss or even bankruptcy.



## Sources of Unethical Behavior in Organizations

1. Overly aggressive financial or business objectives
2. Conflict of interest
3. Abusive & intimidating behavior
4. Fairness & honesty
5. Communications
6. Business relationships

# Business Ethics & Social Responsibility

1960s	1970s	1980s	1990s	2000s
<ul style="list-style-type: none"> <li>• Environmental issues</li> <li>• Civil rights issues</li> <li>• Increased employee-employer tension</li> <li>• Honesty</li> <li>• Changing work ethic</li> <li>• Rising drug use</li> </ul>	<ul style="list-style-type: none"> <li>• Employee militancy</li> <li>• Human rights issues</li> <li>• Covering up rather than correcting issues</li> <li>• Discrimination</li> <li>• Harassment</li> </ul>	<ul style="list-style-type: none"> <li>• Bribes and illegal contracting practices</li> <li>• Influence peddling</li> <li>• Deceptive advertising</li> <li>• Financial fraud (e.g., savings and loan scandal)</li> <li>• Transparency issues</li> </ul>	<ul style="list-style-type: none"> <li>• Sweatshops and unsafe working conditions in third-world countries</li> <li>• Rising corporate liability for personal damages (e.g., cigarette companies)</li> <li>• Financial mismanagement and fraud</li> </ul>	<ul style="list-style-type: none"> <li>• Employee benefits</li> <li>• Privacy issues</li> <li>• Financial mismanagement</li> <li>• Intellectual property theft</li> <li>• Responsible consumption</li> <li>• The role of business in promoting sustainable development</li> </ul>

Source: Adapted from "Business Ethics Timeline," Copyright © 2003, *Ethics Resource Center* (n.d.), [www.ethics.org](http://www.ethics.org), updated 2008. Used with permission.

➤ A Timeline of Ethical and Socially Responsible Concerns

# 1. Overly aggressive financial or business objectives

## Corporate Accounting Scandals

There is a long list but to name a few of them.

- ➡ Enron Scandal (2001)
- ➡ WorldCom Scandal (2002)
- ➡ Tyco Scandal (2002)
- ➡ HealthSouth Scandal (2003)
- ➡ Lehman Brothers Scandal (2008)
- ➡ Bernie Madoff Scandal (2008)



## Enron Scandal (2001)

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- Company: Houston-based commodities, energy and service corporation
- What happened: Shareholders lost \$74 billion, thousands of employees and investors lost their retirement accounts, and many employees lost their jobs.
- Main players: CEO Jeff Skilling and former CEO Ken Lay.
- How they did it: Kept huge debts off balance sheets.
- How they got caught: Turned in by internal whistleblower Sherron Watkins; high stock prices fueled external suspicions.
- Penalties: Lay died before serving time; Skilling got 24 years in prison. The company filed for bankruptcy. Arthur Andersen was found guilty of fudging Enron's accounts.
- Fun fact: Fortune Magazine named Enron "America's Most Innovative Company" 6 years in a row prior to the scandal.

# Business Ethics & Social Responsibility



- Exec who allegedly made \$270M off Enron to pay SEC \$31.5M
- <https://youtu.be/Mi2O1bH8pvw>

# WorldCom Scandal (2002)

- Company: Telecommunications company; now MCI, Inc.
- What happened: Inflated assets by as much as \$11 billion, leading to 30,000 lost jobs and \$180 billion in losses for investors.
- Main player: CEO Bernie Ebbers
- How he did it: Underreported line costs by capitalizing rather than expensing and inflated revenues with fake accounting entries.
- How he got caught: WorldCom's internal auditing department uncovered \$3.8 billion of fraud.
- Penalties: CFO was fired, controller resigned, and the company filed for bankruptcy. Ebbers sentenced to 25 years for fraud, conspiracy and filing false documents with regulators.
- Fun fact: Within weeks of the scandal, Congress passed the Sarbanes-Oxley Act, introducing the most sweeping set of new business regulations since the 1930s.

# Tyco Scandal (2002)

- Company: New Jersey-based blue-chip Swiss security systems.
- What happened: CEO and CFO stole \$150 million and inflated company income by \$500 million.
- Main players: CEO Dennis Kozlowski and former CFO Mark Swartz.
- How they did it: Siphoned money through unapproved loans and fraudulent stock sales. Money was smuggled out of company disguised as executive bonuses or benefits.
- How they got caught: SEC and Manhattan D.A. investigations uncovered questionable accounting practices, including large loans made to Kozlowski that were then forgiven.
- Penalties: Kozlowski and Swartz were sentenced to 8-25 years in prison. A class-action lawsuit forced Tyco to pay \$2.92 billion to investors.
- Fun fact: At the height of the scandal Kozlowski threw a \$2 million birthday party for his wife on a Mediterranean island, complete with a Jimmy Buffet performance.

# HealthSouth Scandal (2003)

- Company: Largest publicly traded health care company in the U.S.
- What happened: Earnings numbers were allegedly inflated \$1.4 billion to meet stockholder expectations.
- Main player: CEO Richard Scrushy.
- How he did it: Allegedly told underlings to make up numbers and transactions from 1996-2003.
- How he got caught: Sold \$75 million in stock a day before the company posted a huge loss, triggering SEC suspicions.
- Penalties: Scrushy was acquitted of all 36 counts of accounting fraud, but convicted of bribing the governor of Alabama, leading to a 7-year prison sentence.
- Fun fact: Scrushy now works as a motivational speaker and maintains his innocence.



# Lehman Brothers Scandal (2008)

- Company: Global financial services firm.
- What happened: Hid over \$50 billion in loans disguised as sales.
- Main players: Lehman executives and the company's auditors, Ernst & Young.
- How they did it: Allegedly sold toxic assets to Cayman Island banks with the understanding that they would be bought back eventually. Created the impression Lehman had \$50 billion more cash and \$50 billion less in toxic assets than it really did.
- How they got caught: Went bankrupt.
- Penalties: Forced into the largest bankruptcy in U.S. history. SEC didn't prosecute due to lack of evidence.
- Fun fact: In 2007 Lehman Brothers was ranked the #1 "Most Admired Securities Firm" by Fortune Magazine.

# Bernie Madoff Scandal (2008)

- Company: Bernard L. Madoff Investment Securities LLC was a Wall Street investment firm founded by Madoff.
- What happened: Tricked investors out of \$64.8 billion through the largest Ponzi scheme in history.
- Main players: Bernie Madoff, his accountant, David Frierling, and Frank DiPascalli.
- How they did it: Investors were paid returns out of their own money or that of other investors rather than from profits.
- How they got caught: Madoff told his sons about his scheme and they reported him to the SEC. He was arrested the next day.
- Penalties: 150 years in prison for Madoff + \$170 billion restitution. Prison time for Frierling and DiPascalli.
- Fun fact: Madoff's fraud was revealed just months after the 2008 U.S. financial collapse.

## Bernie Madoff Scandal (2008)



<https://www.youtube.com/watch?v=pc0PLgBppCA>

# Business Ethics & Social Responsibility



- **Laws and regulations encourage businesses to conform to society's standards, values, and attitudes.** Sarbanes-Oxley Act - 2002

# The Role of Ethics in Business

## ► *Unethical and/or Illegal*

- Accounting fraud
- Deceptive advertising
- Unfair competitive practices
- Internet theft



A Venn diagram consisting of two overlapping circles. The left circle is a light reddish-brown color and contains the word "Ethics" in a dark brown, sans-serif font. The right circle is a slightly darker shade of reddish-brown and contains the word "Law" in a dark brown, sans-serif font. The overlapping area in the center is a darker shade of brown.

Ethics

Law



# The Role of Ethics in Business

## ➡ ***Ethical Conduct***

- Builds trust
- Promotes confidence
- Validates relationships

## ➡ ***Learn how to recognize and resolve ethical issues***

# Recognizing Ethical Issues in Business

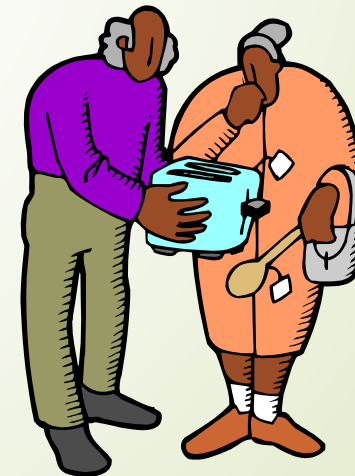
## ► ***Ethical issue*** –

an identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical.

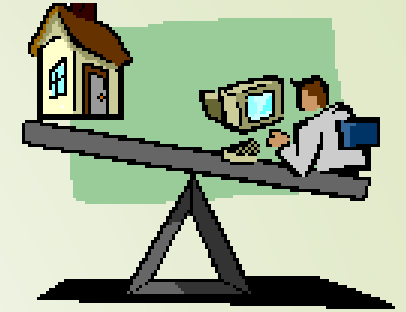
# Recognizing Ethical Issues in Business

➡ ***How to judge the ethics of a situation –***

examine the situation from  
stakeholders' position

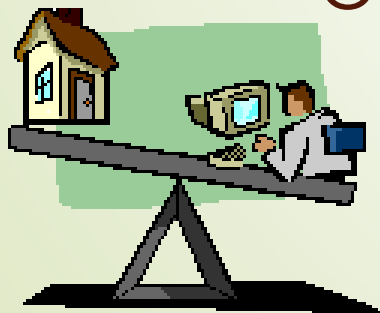


# Sources of Unethical Behavior in Organizations



## 2. *Conflict of interest* –

- the most common ethical issue identified by employees.
- Advance personal interests over others' interests
- Benefit self at the expense of the company



# Recognizing Ethical Issues in Business

Type of Conduct Observed	Employees Observing It
Putting own interests ahead of organization	22%
Abusive behavior	21
Lying to employees	20
Misreporting hours worked	17
Internet abuse	16
Safety violations	15
Lying to stakeholders	14
Discrimination	13
Stealing	11

Source: "National Business Ethics Survey 2007: An Inside View of Private Sector Ethics," *Ethics Resource Center*, <http://www.ethics.org/> (accessed April 4, 2008).


## Types and Incidences of Observed Misconduct

- Many business issues may seem straightforward and easy to resolve on the surface, but are in reality very complex.



### 3. Abusive and intimidating behavior

“Bullies” behavior:

- 
1. Spreading rumors to damage others
  2. Blocking others communication in the workplace
  3. Flaunting status or authority to take advantage of others
  4. Discrediting others ideas and opinions
  5. Use of e-mails to demean others
  6. Failing to communicate or return communication
  7. Insults, yelling, and shouting
  8. Using terminology to discriminate by gender, race, or age
  9. Using eye or body language to hurt others or their reputation
  10. Taking credit for others work or ideas

Source: © O. C. Ferrell, 2008.

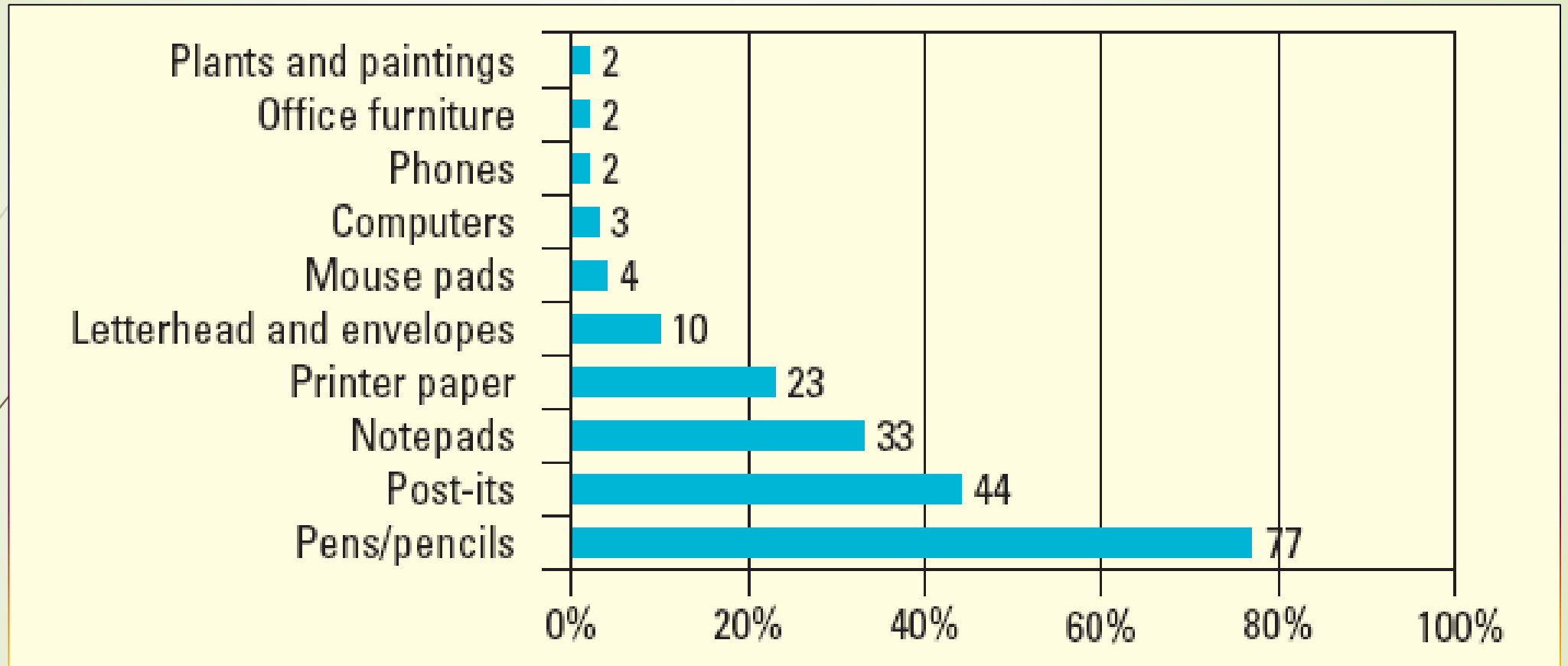
## Sources of Unethical Behavior



### ***4. Fairness & honesty – the heart of business ethics***

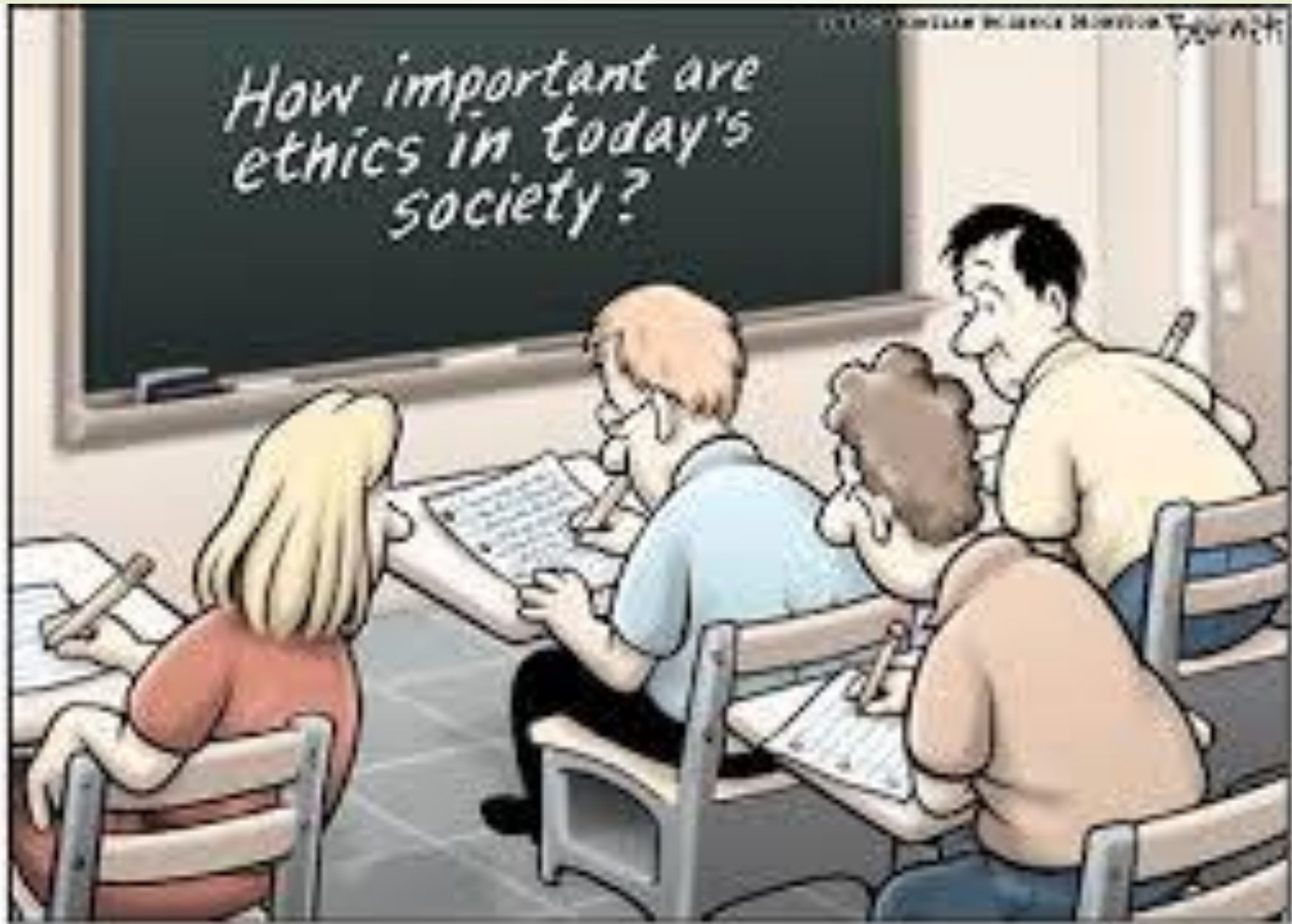
- How employees use resources
- No harm to customers
- Accurate representations
- Disclosure

# Business Ethics



Most Popular Office Supplies Employees Pilfer

Source: "[More Employees Taking Supplies](#)," The News Journal



## Personal Ethics

### Honesty?

- ➡ 25,000 high school students:
  - 62% cheated on exams at least once
  - 35% copied documents from Internet-plagiarism
  - 27% shoplifted
  - 23% cheated to win at sports



# Sources of Unethical Behavior

## 5. Communications

- False/misleading advertising
- Deceptive personal selling tactics
- Product safety and quality
- Unsubstantiated claims
- Product labeling



# Sources of Unethical Behavior

## 6. Business Relationships

- Relationships with customers
- Relationships with suppliers
- Relationships with co-workers



# Making Decisions About Ethical Issues

## Questions to Consider in Determining Whether an Action Is Ethical

Are there any potential legal restrictions or violations that could result from the action?

Does your company have a specific code of ethics or policy on the action?

Is this activity customary in your industry? Are there any industry trade groups that provide guidelines or codes of conduct that address this issue?

Would this activity be accepted by your co-workers? Will your decision or action withstand open discussion with co-workers and managers and survive untarnished?

How does this activity fit with your own beliefs and values?

*Open discussion of ethical issues does not eliminate ethical problems; it does promote trust and learning in an organization.*

# Improving Ethical Behavior in Business

Ethical decisions in an organizations are influenced by three key factors

**Individual  
Standards  
and  
Values**

+

**Managers'  
and  
Co-workers'  
Influence**

+

**Opportunity:  
Codes and  
Compliance  
Requirements**

=

**Ethical/Unethical  
Choices  
in Business**

# Improving Ethical Behavior in Business



## ***Codes of Ethics –***

Formalized rules and standards that describe what a company expects of its employees.





## National Business Ethics Survey (NBES)

- According to the NBES, employees in organizations with written standards of conduct are more likely to report misconduct when they observe it.

# The Relationship between Employers and Employees

What would be an ethical relationship between an employer and employee?



MARTIN, I DISCOVERED  
A DEADLY SAFETY FLAW  
IN OUR PRODUCT. WHO  
SHOULD I INFORM?



NO ONE. THE STOCK  
WOULD PLUNGE AND  
WE'D HAVE MASSIVE  
LAYOFFS. YOUR  
CAREER WOULD BE  
RUINED.



BUT MY NEGLIGENCE  
COULD CAUSE THE  
DEATHS OF A DOZEN  
CUSTOMERS.



THE FIRST  
DOZEN IS  
ALWAYS THE  
HARDEST.



# Codes of Ethics

## Whistleblowing

- The act of an employee exposing an employer's wrongdoing to outsiders, such as the media or government agencies.



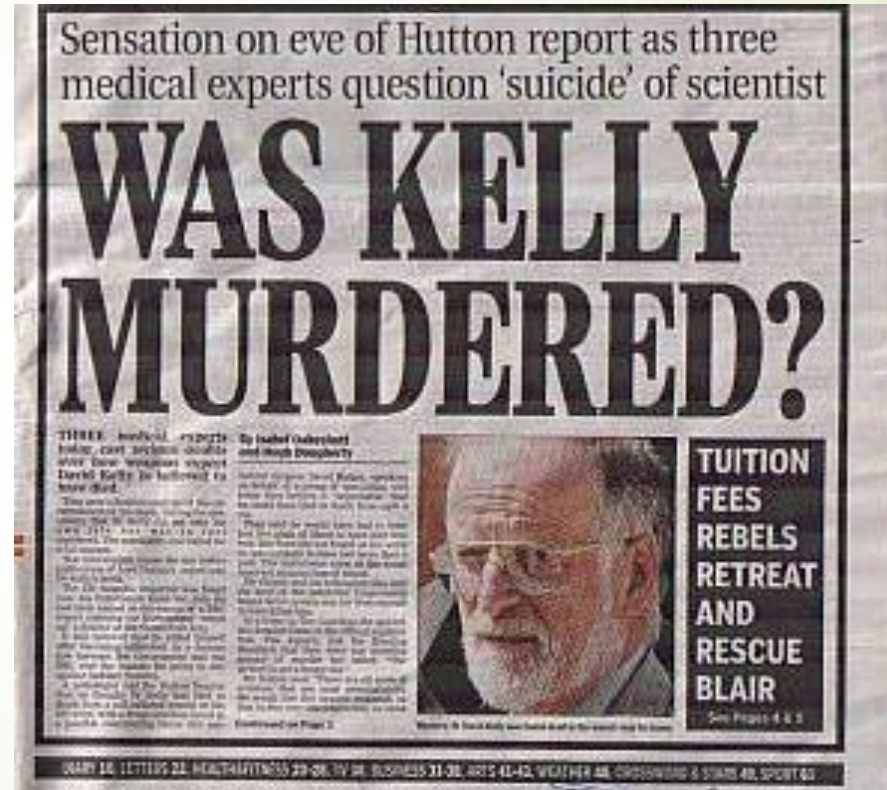
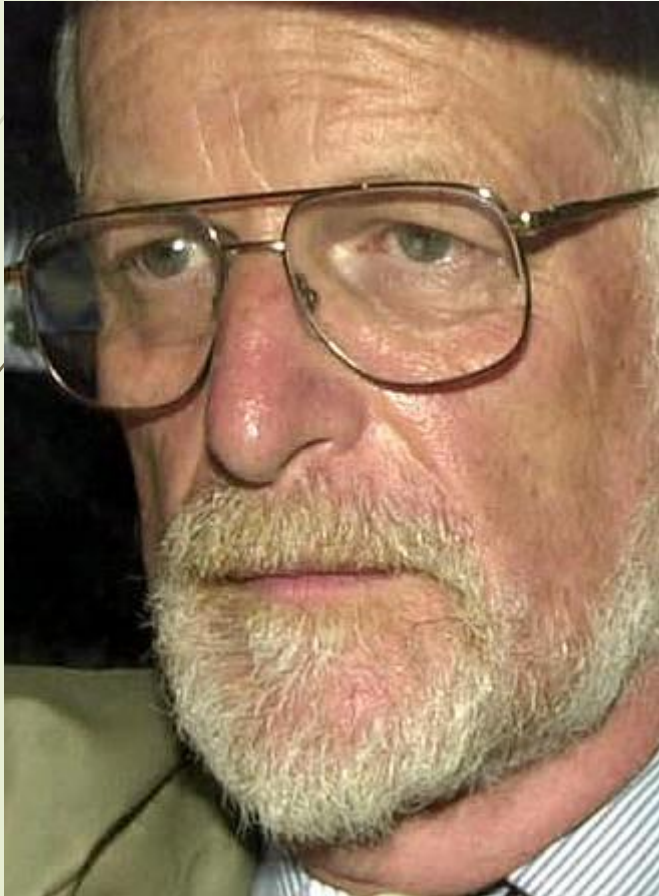


## What are the difficulties faced by whistle-blowers?

- Danger of job loss
- Looked down upon
- Lack of trust in future
- ...
- Or Life threatening



# Case Study- David Kelly



## Case Study-Edward Snowden

- Edward Snowden was nominated as one of the candidates for Person of the year 2013.

<https://www.youtube.com/watch?v=XzGNH5pGcA>

- In the case, whistle blower have faced an extreme level of risk exposure
- So who was chosen by Times to be the Person of the year 2013?



# Cyber-crime and surveillance

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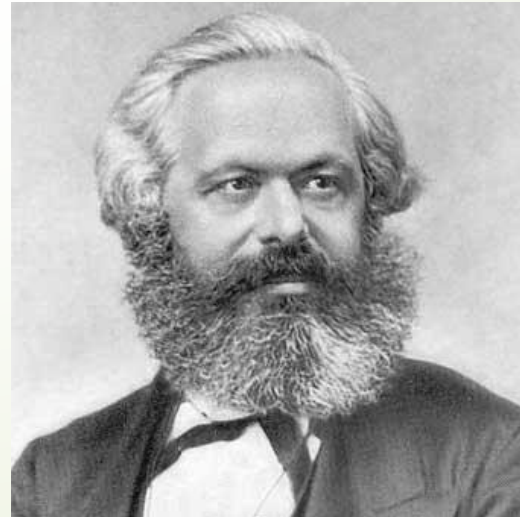
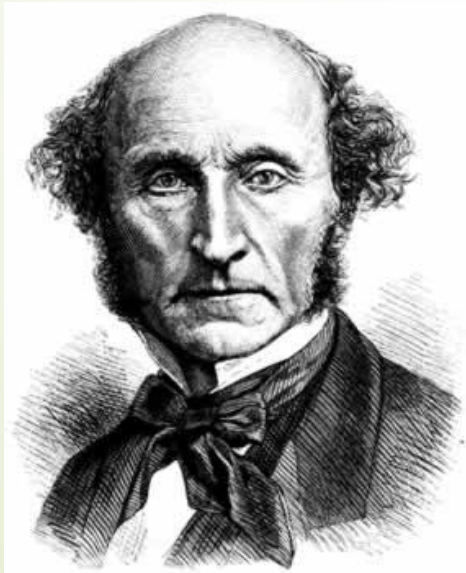
- Governments worry about the loss of control and private citizens worry about an excess of control over their behaviour.
- Private papers used to be in people's houses or place of business, but now they are on computer disks which are lost by government employees. Banks, insurance companies, employers etc now know everything about us and we have little control over how they use the information.
- Surveillance covers many technologies e.g. international ECHELON screens e-mails for key words in the name of national security. This is done without our consent or knowledge – it would seem that information is considered more important than people.





- ID cards are used in many countries, in the armed forces, in schools and universities etc. to allow legitimate access to building and information. As these cards carry more information, they leave us open to identity theft.
- Websites use forms of surveillance to find out about their users e.g. log in info
- There are also subtle methods such as loyalty cards in supermarkets which collect information about our purchases.
- We need to consider whether privacy is of greater value than the needs of the state, national security or business.

- **J. S. Mill** defined liberty as autonomy and considered it to be the most important attribute. He said that the state should not interfere within the private lives of individuals unless it is to protect them from harm.
- In contrast to this, the totalitarian **Marxist** view rejects any private ownership of property, including rights over one's body.





# Good or Bad?

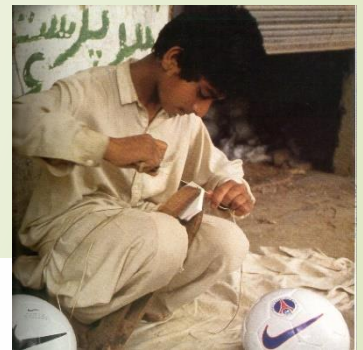
- David Lyon, Professor of Sociology at Queens University, Canada, stresses that surveillance is about social sorting, so that different groups of people can be treated differently; whether as a higher risk/threat or for insurance or simply by postcode so that 'suitable' spam is sent to that address.
- Lyon says that surveillance is about predicting the future, and this means that we do not need to see the use of the new technologies as necessarily evil, but we should not see them as neutral either as they have the most severe consequences for those who are already marginalised society.
- We need to ask whether the utilitarian/capitalist approaches to surveillance are necessarily right – does it make most of us happy because a terrorist might be caught??

# The Relationship between Business and Consumers



Consumers are key stakeholders for the Business

- Consumers now influence business ethics, and have been instrumental in bringing about change: consumers expect businesses to demonstrate ethical responsibility in its widest sense – affecting the treatment of employees, the community, the environment, working conditions etc.
- Some companies have been the focus of the consumer criticism and forced to change their practices, e.g:
  - Nike, Gap and Primark over child labour
  - Shell over Brent Spar and Ogoniland
  - Monsanto over GM food



# The reasons for globalisation

1. Technological change – especially in communications technology (switchboards in India)
2. Transport is faster and cheaper
3. Deregulation – increase in privatisation, so countries now able to own businesses in other countries
4. Removal of capital exchange controls – money can now be moved easily from one country to another
5. Free trade – many trade barriers have been removed; many by grouping such as the EU
6. Consumer tastes have changed – people are now more willing to try foreign products



# Globalization Example: McDonald's



## **How many McDonald's are there worldwide?**

McDonald's operates over 31,000 restaurants worldwide, employing more than 1.5 million people.

## **In how many countries does McDonald's operate?**

McDonald's operates in more than 119 countries on six continents.



# Globalization Example: Pizza Hut



# Business Ethic Challenges brought by Globalization



# Globalisation: Angel or Evil?

Open to  
exploitation



Cheaper products

Jobs for those in  
less developed  
countries

Links between  
countries and  
businesses

## Case Study - Where apple phones have been made

Foxconn Suicide:

- ➡ <https://www.youtube.com/watch?v=MKnX2JWfNSM>
- ➡ 18 employees committed suicide in 2010 in Foxconn Shenzhen
- ➡ Harsh management
- ➡ Production pressure

# Exploitation

**NIKE**  
How 'cool' is exploitation



<https://www.youtube.com/watch?v=e9ZktmrGGMU>



# Globalisation and Unfair Trade

## Free Choice Defence

***“In a typical developing nation, if you’re able to work for an American multinational, you make eight times the average wage. That’s why people are lining up to get these jobs.”***

**- Johan Norberg – In Global Defence of Capitalism**

- The choice isn’t always a free one – there is no real alternative (but not physically forced)
- But, are we powerless to offer other choices?
- The individual has autonomy – are we limiting this?

## Better than Nothing Defence

**“.....because a lousy job is better than none at all.”**

### **- National Centre for Policy Analysis**

- ➡ The question is, what if the alternative is nothing?  
e.g. Junk food is better than no food



Is it a good idea to pull out when a supplier is found to be immoral?

## Legality Defence

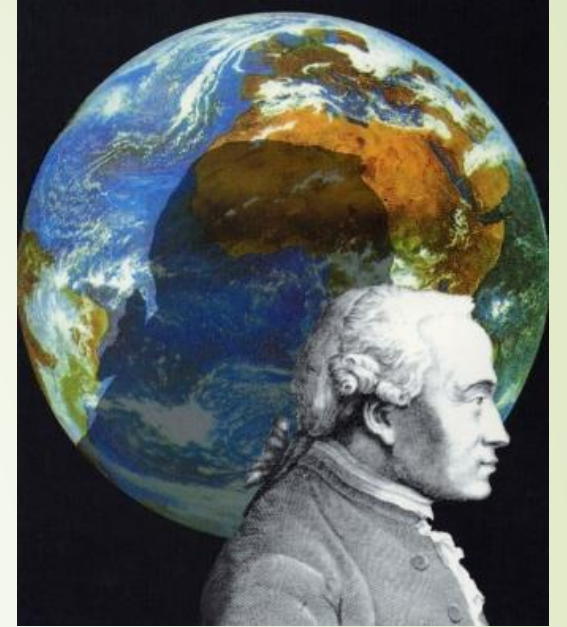
- There is a tendency to comply with regulation and assume that this is enough. Is it?
- Lots of things are legal, but not necessarily ethical  
e.g. Tax evasion Vs Tax avoidance



## Possibility Defence

***“Ought implies can.”***

**- Immanuel Kant**



- One only ought to do what one can do
- It is about having a balance: a company has to work in the world as it is, not as it ideally ought to be



# Business Ethics & Social Responsibility



- ➡ ***Social responsibility***– business's obligation to maximize its positive impact and minimize its negative impact on society