ETHICS IN TODAY'S BUSINESS WORLD

Lynn Fountain, CGMA, CRMA, MBA
www.lynnfountain.net
fountainlynn1@gmail.com

Ethics - Agenda

• Introduction
• Ethics 101 and the psychology behind ethics
• Recent corporate scandals and the COSO 2013 link
• Methods for evaluating ethical culture - benefits and challenges
Introduction

• Ethics permeates every aspect of business.
• It occupying a significant spot in today's professional curriculum.
• With all the awareness, why do significant ethical dilemmas continue to impact our daily lives?
• Do professionals need to become FBI profilers to understand/assess the ethical environment of businesses?
• Could there be an APP for Ethics?

Introduction

• Most ethics courses lecture on the concepts.
• People feel they understand the concepts.... the problem is executing the concepts when needed.
• To truly understand ethics, you must understand the psychology behind the concept.
Crisis In Business Ethics

• Can we continue to live like this??????
• The Ethics resource center conducts the National Business Ethics Survey (NBES) comprising about 3000 employees.
  • 2014 survey found 45% of respondents reported observing at least one type of misconduct.
  • 65% of respondents indicated they reported misconduct to their managers.
• Survey’s show ethical concerns rate 50%-80% in a variety of industries.

ETHICS 101
Definition of Ethics

- Ethics also known as moral philosophy, addresses questions about:
  - Morality
  - Concepts such as good and evil
  - Right and wrong
  - Virtue and vice
  - Justice and crime

Understanding Ethics

- To establish sound corporate ethics, we must understand the psychological aspects impacting various cultures.
- Barriers must be translated to workable processes for employees to understand.
Business Ethics

• Organizations must recognize the variables at play in their cultures.
• Ethical requirements must not be blindly dictated.
• Guidelines must apply to everyone.
• Communication methods may need to be adapted to meet cultural differences.
• What types of issues impact ethics?

Understanding Ethics

• Corporate governance needs to go beyond adherence to rules and demonstrate ethics, integrity, honesty, and transparency.
• Morality and ethics cannot be legislated into existence.

RULES!
1. You SHALL!
2. You WILL!
3. You MUST!
Why is Ethics Important

- Contributes to employee commitment.
- Contributes to investor loyalty.
- Contributes to customer satisfaction.
- Contributes to corporate efficiency and profits.
- What else?
- Do your agree?

Ethics in the Future

- A 2011 Jr. Achievement Teen Ethics Survey provides insight into the future workforce:
  - 79% of surveyed teens said they didn’t feel prepared to make ethical decisions when entering the workforce.
  - 38% said it may be necessary to cheat, steal, lie or behave violently to succeed.
  - The results make us question: as adults, will these students make the right choice?
  - Are you worried yet?
Ethics in the Past and In the Future

- Business is more complicated and competition to succeed is intense.
  - Gray areas surrounding decisions have expanded.
  - Leaders torn between company profits and doing the right thing.
  - Also torn between doing what is right for the company long-term and what is good for their careers in the short-term.
- Could there be an App for Ethics?
Ethical Theories

Meta Ethics

- Normative ethics
- Applied Ethics

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<thead>
<tr>
<th>Meta Ethics</th>
<th>Normative ethics</th>
<th>Applied Ethics</th>
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<tbody>
<tr>
<td>Virtue Theories</td>
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<td>Normative Principles</td>
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<td>Consequentialist Theories</td>
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<td>Other issues</td>
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<td>Duty Theories</td>
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Meta-Ethics

- Study of the origin or meaning of ethics.
- Meta-ethics seeks to understand the nature of how we make ethical evaluations.
- Meta-ethics addresses questions:
  - “How can we tell right from wrong or good from bad?”
Meta-Ethics in Business

• How does your organization determines right from wrong?
• Is it the opinion of one/ more individuals or based in some fact, rule or law the organization is required to follow?
• Assume your organization is developing a code of conduct.
  • Who determines right versus wrong?
  • If ethical policies are developed solely by one or a few individuals, the organization is advocating to the personal ethics of that individual.

Normative Ethics

• Study of ethical action or how people should act.
• Theory ties to enabling organizations to understand how individuals within the culture will exhibit ethical behavior.
• Normative ethics examines standards for how individuals determine what actions are right or wrong.
• Three types of normative ethical concepts.
Normative Ethics – Virtue Ethics

• Advocated by Aristotle.
• Focuses on the inherent character of an individual rather than on any specific actions.
• Outcome of the action and the determination of whether it was “ethical” may be based on the perception of the character of the individual rather than the act committed.

Normative Ethics - Deontology

• Concept argues decisions should be made considering factors such as a person’s duties as well as the rights of others.
• Whether the action is ethical is based on whether the action was indeed the responsibility of the person who performed the action.
Normative Ethics - Consequentialism

• Argues that morality of action is contingent on action’s outcome.
• Allows for exceptions to the rule when warranted by the outcome.
• Individuals using this theory may come to different conclusions based on what they consider most valuable.

What Branch of Normative Ethics Apply?

• Contemplate your organization.
• Considering the previous definitions, can you identify which category of ethics your organization follows?
  • Virtue Ethics?
  • Deontology Ethics?
  • Consequentialism Ethics?
Applied Ethics

- The examination, from a moral standpoint, of issues that are matters of moral judgment.
- How can individuals take moral knowledge and put it into everyday practice?
  - Example: What does the organization do to educate and instill the ethical principles within the organization.

ETHICS HISTORY AND LINK TO COSO
### Ethics over the Past Decade

#### 2000 - 2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>2000</td>
<td>12/28/00 Enron stock sold &gt; $84</td>
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<tr>
<td></td>
<td>SEC alleges Enron false filings</td>
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<td>Oct: SEC initiates Enron investigation</td>
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<td></td>
<td>Sept 911 Terrorist Attacks</td>
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<td></td>
<td>Enron files bankruptcy</td>
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<td>Enron 3rd Qtr loss of $618M</td>
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<td></td>
<td>Congress Indicts AA for obstructing justice for shredding incident</td>
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<td></td>
<td>AA convicted on charges &amp; begins to fall apart</td>
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<tr>
<td></td>
<td>Tyco/WorldCom Scandal</td>
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<tr>
<td></td>
<td>SOX passed 12/28/00</td>
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<tr>
<td>2001</td>
<td>Rite Aid restates $1.6B in earnings</td>
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<tr>
<td>2002</td>
<td>HCA paid $1.7B to settle fraud over 9 yrs of investigations</td>
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<tr>
<td>2003</td>
<td>Freddie Mac misstated earnings for years to smooth qtrly fluctuations and meet Wall Street Expectations</td>
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<tr>
<td>2004-2006</td>
<td>'04 First year of SOX</td>
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<td>2007</td>
<td>'05 Tyco Convictions</td>
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<td></td>
<td>'06 Housing bubble/ high defaults on ARM's in late</td>
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<td></td>
<td>New Century/ Bear Stern bankruptcies</td>
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<td>Fannie Mae reports $3.5B losses for 4th Qtr 07 (3X expected)</td>
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<td>$945B financial crisis loss</td>
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<td>Fannie May/ Freddie Mac</td>
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<td>Madoff Scam</td>
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### Ethics over the Past Decade

#### 2009-2011 - 2015

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<tr>
<th>Year</th>
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<tr>
<td>2009-2011</td>
<td>WAMU Exec's WAMU appear before Congress on Ethics issues</td>
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<td>2012</td>
<td>BP Disaster/BP CEO Resigns</td>
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<td></td>
<td>Merck pays $950M for charges alleging market of unapproved Vioxx drug</td>
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<td>2013</td>
<td>Goldman Sach pays $10M for bail for charges of insider trading</td>
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<td>Olympus Scandal</td>
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<td>Wal-Mart -- Mexico scandal.</td>
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<td>Chesapeake CEO scandal.</td>
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<td>Traders at Barclays submit false LIBOR figures.</td>
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<td>Best Buy corporate governance scandals.</td>
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<td>Harvard University investigating 125 undergrads in massive cheating scandal.</td>
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<td>2014</td>
<td>Edward Snowden NSA security leaks</td>
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<td>Obama Creation and Corporate conscience</td>
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<td>GlaxoSmithKline bribery scandal</td>
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<td></td>
<td>Lance Armstrong</td>
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<td>UNC Fires Top Ethics Professor</td>
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<td>For fake classes allowing 3,100 athletes to earn artificially high grades from 1993 to 2011.</td>
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<td>2014 Report found more than 63 Senators enriched themselves through their positions</td>
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<td>Hillary email scandal</td>
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<td>2015</td>
<td>Toshiba CEO resigns</td>
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<td>Due to overstated operating profits by a total of 151.8 billion yen ($1.22 billion) since 2008.</td>
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<td>Brazilian state controlled oil giant Petrobras' accuse former executives of bribery and money laundering. Managers illegally “diverted” billions from Petrobras' accounts for their activities.</td>
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<td>Accounting-director-turned-government witness sentenced for faking the financial records of the defunct soft drink maker Le-Nature's.</td>
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Ethics and The New COSO

• May 2013 – COSO Released the update to it’s internal control framework.
• Update replaced 1992 COSO Framework.
• Update provided 17 principles that support the 5 COSO attributes. (Along with 77 Points of Focus)
• Five principles specifically support the Control Environment Principle.
  • This attribute is most directly related to Ethics and Tone at the Top.

Control Environment Principles

• Consider how each principle supports ethics.
  1. Demonstrate commitment to integrity and ethical values.
  2. Ensure that board exercises oversight responsibility.
  3. Establish structures, reporting lines, authorities and responsibilities.
  4. Demonstrate commitment to a competent workforce.
  5. Hold people accountable.
Affecting Ethics

- Individual personalities, dynamics, pressures.
- Multi-cultural beliefs/values.
- Baby boomers vs. new generation.
- Organizational culture/history.
- Organizational morals/values.
- Economic pressures.
- Corporate earnings/budget.
- Organizational response to past issues.
- Federal and state changing regulations.

Dissecting Ethics

- Ethical code must uphold the expectations/standards of the organization.
- Everyone is responsible
- Tone at the top is expected
- Honesty is the best policy
- Integrity is a must
- Corporate responsibility must be present
- Silence is not acceptable
Everyone is Responsible

• What drives our internal sense of “moral code” comprises many factors.
• What is rationale to one person may seem less rational to another.
• Ethical behavior starts at the top but....
• It is an imperative for everyone in the organization.

What Can Organizations Do?

• Recognize link between morality and ethics.
  • Understand what/who impacted views of ethics.
  • Ensure ability to translate to personal lives.
• If not acceptable in personal life, it may be difficult to accept it an organizational setting.
Tone at the Top is Essential

- Simply talking about “tone” will not ensure appropriate actions.
- If questions exist on the appropriate path, individuals may rationalize alternatives.
- Not everyone has the same morality/opinion.

What Can Organizations Do?

- No single set of rules.
- Tone starts with how each organization defines ethical conduct.
  - When virtues are stated: “honesty, respect, trust, professionalism”; can instances be cited?
  - Does definition of ethical conduct “depend” on outcome?
  - Recognize tone can be impacted by generational differences and beliefs.
- Make ethical conduct/behavior part of performance measures.
- Ensure leaders cascade information through the organization.
- Information should be collaborative not dictatorial.
Honesty is the Best Policy

• Refers to a facet of moral character.
• Denotes positive attributes such as integrity, truthfulness, straightforwardness along with the absence of lying, cheating or theft.
• How does the organization embrace honesty?
• Are employees conditioned to act with caution when speaking?

What Can Organizations Do?

• Recognize that ethics deals with moral issues.
• Most people’s level of morality may reach different tolerances.
• When you are faced with an ethical dilemma, ask whether you are looking at the situation honestly and transparently regardless of who is involved.
Integrity is a Measure of Ethics

• Doing the right thing when nobody’s watching.
• Executives who made unethical business choices in private, while modeling a different public persona create dilemmas.
  • Stakeholders ask “Whom can I trust?”
  • If employees see executives acting irresponsibly, it is appears they have been given “permission” to do the same.

Corporate Social Responsiblity

• Concepts have hit the radar.
• Goes beyond environmental initiatives community support and being a good neighbor.
• Corporations are held accountable by the government, and by the public.
Silence is not Acceptable

• Silence can occur due to the fear of retribution.
• Only way to advance the elimination of business scandals is to erase the concern that silence is golden.
• Many employees observe questionable activity, yet they turn a blind eye because of the fear of retribution.

Silence is Not Acceptable

• Ensure your employees know the appropriate outlet for surfacing concerns or questions.
• Companies list “respect” as one of their various core values.
  • Does respect extend to all levels of the organization?
  • Whatever your perception, how would others in the organization answer this question?
Summary Actions

• Consider and understand the psychology behind ethics.
• Know your work environment and culture.
• Understand variances in social norms.
• Establish corporate expectations and uphold those expectations.
• Realize not everything is black and white.
• Remember – Silence can be a sign of acceptance.
• Or….go build an App!