

**Business Values and Ethics**

**SBS MBA / MSc**

**Assignment - DXB 2020**

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UNIT TITLE / CODE: Business Values and Ethics MGT 525

NAME (in Full): Alina Shidlovskaya

## GENERAL INSTRUCTIONS

* All assignments are to be submitted **14th May 2020** on to [examinationboard@atmsedu.org](mailto:examinationboard@atmsedu.org) and cc to [azrafatima@atmsedu.org,](mailto:afatima@atmsedu.org) [assignmentsubmission2019@gmail.com](mailto:assignmentsubmission2019@gmail.com)
* If assignment is not submitted on date, will follow with penalty of 10% deduction of marks for every day.
* Similarity between students’ work is strictly not accepted, any student found with similar work will be graded Zero and fail for the course. However, Plagiarism is an academic offence and will not be tolerated under SBS
* Assignment once submitted to exam board is final for marking.
* Total 100 marks

## GUIDELINES FOR ASSIGNMENT

1. If assignment is Question & Answer based then.
   * Introduction is needed for each question.
   * Question has to be answered based on the mark allotted for each question with references if any idea or information is taken from other source.
2. If assignment is case based then,
   * Executive summary
   * Table of content
   * Body of assignment (questions related to case need to be answered)
   * Conclusion / Recommendation if any
   * References (in-text + citation) to be used.

## Total Marks / 100

**Business Values and Ethics**

**UNIT CODE:** MGT 525

**UNIT NAME:** Business Values and Ethics

**LECTURER NAME:** Sampath Sreedharran

**SUBMISSION DATE:** 14.05.2020

**STUDENT NAME:** Alina Shidlovskaya

**STUDENT ID:** SBSMBA20022865

**Table of Contents**

**Case Scenario I**

Question a) ……………………………………………………………………… 1

Question b) ……………………………………………………………………… 2

**Case Scenario II**

Question a) ……………………………………………………………………… 3

Question b) ……………………………………………………………………… 3

Question c) ……………………………………………………………………… 3

Question d) ……………………………………………………………………… 4

Question e) ……………………………………………………………………… 4

Question f) ……………………………………………………………………… 4

**Case Scenario III**

Question a) ………………………………………………………………………. 5

Question b) ………………………………………………………………………. 6

Question c) ………………………………………………………………………. 6

Question d) ………………………………………………………………………. 6

Question e) ………………………………………………………………………. 6

Question f) ………………………………………………………………………. 7

Question g) ………………………………………………………………………. 7

**Case Scenario IV**

Question a) ………………………………………………………………………. 8

Question b) ………………………………………………………………………. 9

Question c) ………………………………………………………………………. 9

**Case Scenario V**

Question a) ………………………………………………………………………. 11

Question b) ………………………………………………………………………. 12

**References**………………………………………………………………………...14

**Case Scenario I**

In summary of this scenario there is a business that was running for many years and over the years had gained a good corporate image in the market. However, over the last two years, this business started passing through crisis and suffering from heavy losses, and the business is about to close down. In the meantime, the opportunity arose to participate in an auction held by one big corporate house. The owner of the business decided to take part in that auction, seeing it as the last option to save the business. Many other companies have also participated in the bid. Before the result of the auction was declared, the owner found the closed envelope of the competitor’s bid during the lunch break.

If we analyse and look closely into this case, we're already able to tell that the owner of this business was able to gain a 'corporate image' in the market, which means that not only the company's performance was well but also its reputation and manner. A good corporate image cannot be obtained through a bad reputation, and therefore we can conclude that the owner of the business was following corporate standards and business ethics. Business ethics is the application of ethical behaviour in a business context. Acting ethically in business means more than simply obeying the laws and regulations, it also means being honest, competing fairly, not harming others, and declining your own interests above those of your company and its workers. ([www.lardbucket.org](http://www.lardbucket.org), 2012)

**Question a) Will you be ethical in this situation? If yes, why? And if no, why?**

The answer to this question can be both yes and no, it all depends on personal views and perception of this case. In my opinion the answer should be yes, I would be ethical in that situation. As already stated above, the owner of this business gained a corporate image acting ethically in the business therefore we can assume that owner adopts ethical behaviour. In terms of ethical backbone, the owner shouldn’t open the envelope to check the competitor’s bid. Acting ethically in the business also means competing fairly. Of course, one can say that the owner could sneak into the envelope to see the competitor’s bid while no one was around and no one would even know that he checked the envelope. It is the owner's personal choice to open the envelope or not, such situation depends on the morals and values of a person, which are individual and this will not have an impact on others. The scenario also underlines that many companies participated in the bid, which means that the owner and the competitor are not the only ones participating, but there are other companies too. Regardless of the competitor's bid, other companies may also have chances to win the bid as the results are not declared yet. Our actions in the business world are highly influenced by our moral character. Since the owner of the business had already built a very good 'corporate image’ and reputation of his business then he should be ethical in this situation and not disclose the competitor's bid, he must be honest to himself and compete fairly.

**Question b) If you be ethical, how you will survive your business.**

There are many ways to save the business, and participating in an auction bid is not the only way. For example, the owner could attract some potential investors that could help him financially, since his business was already running for many years. Another example could be a way through mergers or acquisitions with other companies of doing the same business. Lastly, the least preferred but possible way could be gaining financial help from the banks, in the form of business loans or credits, that could also have given another chance for this business to work again.

**Case Scenario II: Discrimination in the workplace**

The current case scenario talks about a discrimination in the workplace, which is a major area of ethical concern in any organization. A woman called Marian, who is a top graduate in Humanities from Loyola Institution, and she was hired by a major corporation in a management position. She has also finished the management training program offered by her organization, and she was the top in her group. The performance of her position is above the norm.

She is the only female manager, with a few other women in the area, that's why she feels isolated. One night at a company's party she heard a conversation between her two male co-workers and their supervisor. They were complaining about her lack of qualifications and her unpleasant personality. They cursed affirmative action regulations for making the hiring of Marian necessary.

This case scenario underlines for us affirmative action policy, in which an individual's colour, race, sex, religion, ethnicity is taken into account to increase opportunities provided to an underrepresented part of society. This policy focuses on demographics that historically had low representation in positions of leadership, professional roles and academics. ([www.investopedia.com](http://www.investopedia.com), 2019) Basically, it was developed to eliminate discrimination, and it is a way to promote equal opportunity across various segments of society. Affirmative action regulations are varied from country to country, it could be based on ethnicity, gender, minority groups, origin, colour etc. In some countries, affirmative action may be required by law, as the most prevalent form of hiring for improving employment or educational opportunities of minority groups, and specifically women. This is the current situation here, as the co-workers of Marian assumed that affirmative action was taken into consideration for hiring her. Marian was given a preference in job hiring, promotion to a managerial position and training program because she is a woman. It is obvious that this organization implements the affirmative action policy in their hiring process.

This case is also an example of discrimination in the workplace related to gender, where we can see that male co-workers aren't happy that Marian as a woman was hired in the position of a manager, that had provoked the male co-workers to make inappropriate remarks about Marian's qualifications and personality, despite the fact that she was a top graduate. It is apparent that the male co-workers think that Marian shouldn't be given a managerial position because she is a female, or she comes from a specific ethnic origin, or because of her religion, age, colour etc.

**Question a) Should Marian quit?**

Marian should not quit, as there is no solid reason for her to quit. This situation happened during a company party, not an official meeting, and Marian accidentally overheard the conversation of her co-workers, that was their private conversation about her. The company has not sent any official letter or memo either, commenting on Marian’s qualifications, evaluation or personality, in fact, Marian is an exemplary worker because she is the top among the group and performs above the norm in her position.

**Question b) Are her co-workers correct in their evaluation?**

From the objective point of view, the co-workers are not correct in their evaluation of Marian’s qualifications because they feel that affirmative action has given Marian the opportunity to be hired for a management position. Whereas the case scenario says that Marian graduated from Loyola Institution as a top student, she finished the management training program and was the top in the group, and even the performance of her work is above the norm, which makes us conclude that Marian is a fully qualified worker.

**Question c) Should Marian confront the co-workers?**

Marian could confront her co-workers but only if they were speaking directly or in front of her, otherwise she shouldn’t confront them. Marian accidentally heard the conversation of her co-workers, that discussion was informal because it happened during the company party. In any organization, people will always have personal and informal conversations and talks, because every person has his/her own opinion, and people judge based on their personal and individual point of view. Marian should just ignore this situation because her colleagues were having their personal discussion.

**Question d) Should Marian file a discrimination suit?**

Marian could file a discrimination suit if her boss or the management in her organization had conveyed something official in writing such as circular, letter or email indicating anything related to discrimination such as her personality, origin, religion, colour, ethnicity etc. If something was presented to her in the formal way of writing then she could have filed a discrimination suit because it is against the business ethics, code of conduct and law. In this case, Marian does not have to file a discrimination suit, because what she overheard was only a conversation of her co-workers, and it means that that it is their way of conduct in an unofficial atmosphere. The co-workers did not pass on their conversation about Marian in a direct or official way. This is something that was ‘off the record’ and was not intended to be official. Employees in every organization will have talks, chats, rumours, and informal discussions because this is human nature and something that cannot be changed.

**Question e) Should Marian go to the supervisor?**

Marian can go and share with her supervisor about this situation if she wants to, but it will not make a difference because we cannot change anybody’s personal opinion. The supervisor can only listen to and advise her to continue working without paying attention to the personal conversations of the co-workers. People are free to talk about whatever they want to and share their personal views, especially in an after-hours environment. The best way for Marian is to ignore that awkward situation and move on, she is already performing at her best within the organization and her co-workers are feeling jealous and cannot digest Marian's success.

**Question f) What else could Marian do?**

Marian should stay confident in her abilities at work, forget about this situation and move on. Even though her co-workers were unfair in their judgement and criticism about her evaluation, Marian should not respond emotionally to such a situation. She just needs to understand that unfair criticism can happen to anybody, in any organization and people can and will always have personal and private conversations, which cannot be avoided because each person has his own views and opinions. What had happened is not right, and it was an informal company gathering, so Marian should ignore and continue working as the organization is aware of her top qualifications and performance.

**Case Scenario III: Employee Absence**

This case talks about employee absence, and particularly about absenteeism. An employee called Joan was warned many times about her absences in both ways, verbal and written. The written warning said that 'further violations will result in disciplinary actions', including suspension or discharge. However, even after a written warning was issued, Joan again called to say she will skip work because her babysitter called sick and Joan had to stay home taking care of her young child. The supervisor of Joan, Sylvia, informed her that she exceeded the allowed number of absences, and warned her that if she did not report to work then she could be suspended. Eventually, Joan did not report for her shift so Sylvia suspended her for 15 days. In a company hearing, Joan was arguing that it was not her fault that the babysitter had cancelled, and was protesting that she had no choice but to stay home. Sylvia noted that Joan had not made a good faith effort to find another babysitter, nor she tried to swap shifts with co-workers and that the lack of a babysitter was not a justifiable excuse for being absent.

Every employee that joins the organization signs an agreement or an employment contract that consists of particular clauses according to governing employment or labour law. There is a clause about leave (and/or absence days), such as annual leave, sick leave, emergency leave, pilgrimage leave, or maternity. This clause is made clear to employees prior to the commencement date, and every employee is fully aware of the rules and regulations when they are signing the employment contract. Occasionally every employee is unable to come to work for specific reasons. It is also apparent that employees are not always absent for legitimate reasons. In some cases, the excuses are not genuine and without supportive evidence, and if the leave days are taken frequently, this is something called ‘excessive absenteeism'.

Absenteeism is an employee's intentional or habitual absence from work. While employers expect workers to miss a certain number of workdays each year, excessive absences can equate to decreased productivity and can have a major effect on company finances, morale and other factors. ([www.forbes.com](http://www.forbes.com), 2013) This is the case here with Joan, where ‘childcare’ is the cause of her absenteeism. Employees may be forced to miss work and stay home in order to take care of a child, when circumstances change, for example a child is sick or the babysitter is unable to attend, etc. Certain personal issues are unavoidable such as health issues or emergencies, but when an employee is absent excessively without genuine reasons, this becomes unacceptable to the organizations. Therefore, organizations issue official written warnings and take disciplinary actions.

**Question a) Was the suspension fair?**

The suspension of Joan was definitely fair without a doubt. Every organization has rules and regulations related to attendance, leave days, and working hours that each employee must adhere to. Prior to Joan’s suspension from work, the company had conveyed several warnings, and not only verbal but written too, and she was informed by her supervisor too, that she had exceeded the permitted number of absences, which was the last warning before her suspension. Despite all that, Joan again did not report to work. Therefore, the suspension of Joan was strictly fair because she had ignored many warnings.

**Question b) Did Sylvia act responsibly?**

From a business point of view, Sylvia definitely acted responsibly in this situation. Sylvia is a supervisor of this company, apart from Joan, there are other team members too, and the absence of Joan could be the cause of the overall lack of performance of the team, and possibly have an effect on the total productivity of the company. Above Sylvia, there is the top management that she has to report to, and as a supervisor she is responsible for the outcome of the team. In general, people are employed for achieving the goals and objectives of the organization, so they need to be responsible for their actions and take their work seriously.

**Question c) Should Joan be fired?**

If Joan should be fired or not, it is up to her company’s decision. There are many reasons that companies fire employees, but most employers will not fire an employee without a cause. One of the causes of termination is 'taking too much time off', that in Joan's case is the excessive absenteeism. The company can consider this as a cause for getting Joan fired. However, many employers have a policy in place, which details the disciplinary actions that may be taken prior to an employee being fired. Joan was given a suspension of 15 days as a disciplinary action, which means that if after this Joan did not improve in her attendance then it would lead to the final step, which is the termination. From the organization’s point of view, if there is excessive absenteeism of an employee, then that employee eventually needs to be fired. The organization cannot continue to be indulgent to the personal problems of the employee, because in the end, the goal of any organization is to achieve targets and objectives.

**Question d) Should the babysitter be fired?**

The termination of the babysitter is up to Joan’s decision. This has no relation to the context here, and we don’t know anything about the babysitter. If Joan feels that the babysitter is not reliable and irresponsible, then she can proceed to the dismissal.

**Question e) Was Sylvia fair in her actions?**

Sylvia was fair in her actions. Joan was warned several times about her excessive absenteeism, first in verbal form, and then in writing. Even prior to the suspension of Joan, Sylvia was fair enough reminding her verbally again that the allowed number of absences had already exceeded the limit. Nevertheless, Joan ignored the last warning and was suspended from work. As a supervisor, Sylvia could inform HR and top management asking to terminate Joan, but instead, Joan has only gone for suspension.

During a company meeting, Sylvia pointed out to Joan that she did not make an effort to find an alternative babysitter nor she tried swapping shifts with a co-worker. The company cannot keep on going with personal issues of employees, and Joan could have informed in advance her supervisor directly or the company about her 'childcare' problem so that she was able to swap shifts with the co-workers beforehand or find another alternative solution.

**Question f) Is there ever a solution for working mothers?**

There are many solutions for working mothers and hiring a ‘babysitter’ is not the only option, because there are nurseries, schools, day-care centres, part-time helpers and full-time house nannies. Another option for working mothers can be help from grandparents, close relatives, friends or neighbours. The case scenario says that Joan has a ‘young child’, and it is not a new-born baby or a toddler, which means that childcare wasn’t that problematic, as we see Joan was working on a rotation basis in her organization. Taking care of smaller babies is tougher because they still require their mothers more frequently, but in Joan's situation, I think it could be easy to find another reliable babysitter through an agency or hire a part time/full-time live-in/live-out nanny.

**Question g) Should working fathers take turns staying home?**

Working fathers could also take turns staying at home, but it is not the best option because that depends on the nature and scope of their work, if the physical presence is not required then maybe work could be done from home, then the father could help taking care of the child. In the long term, it is not the best solution. For both working parents, it is better to find outside help.

**Case Scenario IV**

Sandoz Ltd. Sandoz, before its merger with Ciba-Geigy to form Novartis, was a Swiss multinational pharmaceutical company. Sandoz became a division of the Novartis Group back in 2003, when Novartis united all of its generic businesses under a single global brand with a long and well-known history, Sandoz ([www.sandoz.com](http://www.sandoz.com), no date)This case discusses the ethics of Sandoz back at the time when its subsidiary, Sandoz Nutrition Corporation, launched its Optifast 70 program in 1976. This was a 6-months liquid meal-replacement weight program typically designed for people with at least 30% or 50 pounds above their ideal weight. A lot of debate It was available via doctors, hospitals and medical clinics with liquid diet products that could be purchased only by prescription. Sales grew slowly until end of 1988, when Oprah Winfrey endorsed the program on her TV show after she successfully completed the program. Sandoz straight away received more than 200,000 phone inquiries, which certainly resulted in a big sales growth, considering it forecasted a 25-30% sales increase during the first six weeks after Oprah’s announcement. Despite Sandoz’ ads and claims that the program is clinically safe and effective, and that it allows you to control your weight for the rest of your life, several studies proved that dieters typically regained weight and that liquid diets in general caused side effects including headaches, nausea and others. Oprah herself regained 17 pounds during the first year after her program completion and weight loss.

Did Sandoz violate ethical norms or principles when their program was endorsed by a celebrity and their sales soared? Sandoz’ Optifast 70 program, as well as other programs, replaced meals with liquid diet products. Are liquid diet products ethical products? And finally, did Sandoz exhibited a moral responsibility when it developed its promotional messages for the customers.

**Question a) Were any ethical norms or principles violated by Sandoz?**

What are ethical principles? They are universal standards of right and wrong stipulating the kind of behaviour to engage or not engage in, by a company or person. These principles constitute a guide not only to help make decisions, but also to set criteria allowing others to judge those decisions.

There is no one set of business ethical principles; they vary from one author to another, and from one organization to another. However, there seems to be some common and exceptional ethical norms, and those are care/harm and fairness/cheating ([www.userlike.com](http://www.userlike.com), 2019). Did Sandoz care about its customers and potential customers and were they fair to them? Or did they cheat them and harm them? As far as reaching out to their potential customers and increasing sales, Sandoz in my opinion did not violate ethical norms. It was a celebrity, Oprah Winfrey, who tried their Optifast 70 program in 1988 and after successfully losing 67 pounds, personally endorsed the program via her TV talk show. She was neither asked by Sandoz to endorse them, nor she got paid by them. This endorsement reached millions of viewers and within hours generated more than 200,000 phone inquiries. In turn it resulted in increased sales, as Sandoz reported a sales increase forecast of 25-30% during the first six weeks following the announcement. Perhaps Sandoz were very smart reaching out to Oprah with their Optifast 70 program, foreseeing an opportunity of free endorsement if the program proved successful. Or it could have been that Oprah reached out to Sandoz for their program. On either case, there was no harm and cheating done, and Sandoz were ethical in their outreach to those who ultimately became their customers. Now did Sandoz violate any ethical principles in their marketing strategies and ads around their Optifast 70 program? This will be answered in question c.

**Question b) Are liquid diet products ethical products?**

Ethical products are products that are ethically produced and do not harm the environment and society. Typically, such products would need to be fair-trade goods meaning that the people who produce them are treated fairly and are not child labour. ([www.thebrandingjournal.com](http://www.thebrandingjournal.com), 2018)

The exponential growth in the liquid meals industry has led to the emergence of several companies around the world, with leaders including Rosa Foods Inc., Huel Limited, Abbott and Nestle (agtech.careers, no date) But are the liquid diet products those companies produce safe or harmful to its consumers?

Several health and well-being online publishers like WebMD, MedlinePlus, Healthline, Medical News Today (MNT), Verywell Health and others often issue articles on the pros and cons of liquid diets. WebMD states is it possible to lose a lot of weight when substituting all or some of your solid meals with liquid ones, as the latter gives you a better control of your calories. However, it recommends talking to a Doctor and to a registered Dietitian to safely get on a liquid diet ([www.webmd.com](http://www.webmd.com), no date). The U.S. Food and Drug Administration (FDA) recognizes liquid dietary supplements and has guides on how to distinguish them from beverages, however it does not regulate dietary supplements before they are marketed unless the product contains a new ingredient. The FDA also suggests consultation with a health care professional before using any dietary supplement including liquid diets ([www.fda.gov](http://www.fda.gov), 2015)

On the other hand, WebMD asserts the likeliness of weight regain after going off the liquid diet. It also warns of side effects when missing out on essential nutrients like fatigue, dizziness, hair loss, gallstones and heart damage. ([www.webmd.com](http://www.webmd.com), no date). Oprah regained 17 pounds during the first year after completion of the Optifast 70 program. The University of Pennsylvania studies reported the likeliness of weight rebounds after undertaking quick weight loss programs, while the University of Michigan studies showed most of the dieters, as many as 90%, regained weight within five years after losing it, in addition to having side effects.

As a conclusion, liquid diet products in general seem to be ethical products in the US market. They are produced by well-known companies, discussed by health and well-being specialists and professionals, have a guidance document by the FDA, and consumed by millions of Americans. Most importantly, they are safe if they are consumed properly and with the advice and monitoring of doctors and/or dietitians, in order to avoid or limit weight rebound and minimize side effects. But are the weight loss/meal replacement programs that use liquid diets ethical?

**Question c) What moral responsibility might Sandoz have considered when developing its promotion messages for the customers?** I do not believe Sandoz considered moral responsibility and were ethical when they have developed its promotional brochure and ad claims mentioned in the case.

There are well defined principles in ethical advertising that govern ways of communication between the seller and the buyer. An ethical ad is one that does not make fake or false claims, does not lie and is within decency limits ([www.managementstudyguide.com](http://www.managementstudyguide.com), no date) The Federal Trade Commission (FTC) charged the marketers of Optifast 70 program (along with Ultrafast and Medifast) of making deceptive and unproven advertising claims around its safety and long-term effectiveness. Optifast’s claim in its ad that “the one that’s clinically proven safe and effective”, was found to misrepresent the program as being either unqualifiedly safe or free of serious health risks, when it was supposed to reduce health risks under physician supervision. The other claim in the ad that “you can call the Optifast program today, and have all you need to control your weight for the rest of your life” was not substantiated. It is worthwhile noting though that the FTC does not assert in its complaints that the Optifast 70 program is unsafe but, rather, that the ad claims were deceiving in terms of not disclosing either the associated health risks or the need for physician monitoring to reduce these risks ([www.quackwatch.org](http://www.quackwatch.org), 2006).

Today, Sandoz seems more ethical and morally responsible in the advertisement and messaging of its Optifast program. It states that its program is “a medically-supervised weight management program that closely monitors and assesses progress towards better health and emotional well-being”. It then goes to disclose that active patients could maintain part (and not all) of their weight loss after few years from starting the program ([www.optifast.com](http://www.optifast.com), no date).

**Case Scenario V**

This case scenario is about Enron's scandal that took place in 2001. An energy giant that was ruling the world at the time, along with the famous Arthur Andersen LLP, has been involved in fraudulent accounting and auditing. Sherron Watkins who was an employee of Enron questioned the company's accounting practices in a letter to its CEO. In 2001 Enron had filed for bankruptcy and in early 2002 the US Justice Department began criminal investigations. That same year, Arthur Andersen LLP was convicted by the lower and appellate courts for obstruction of justice. This is the firm that worked hand in glove with Enron and cooked its accounting books, had to close their offices and business having 85,000 of a strong workforce, and doing no other business other than having to attend to over a hundred of civil suits.

The Enron scandal is one of the most famous examples of accounting fraud and of greed gone wrong. This scandal also destroyed the accounting firm Arthur Andersen LLP, which handled Enron's books. Accounting fraud is a manipulation of financial statements, to create a false appearance of corporate financial health. It involves employees, accountants, or the organization misleading investors and shareholders. ([www.investopedia.com](http://www.investopedia.com), 2020) Enron used mark-to-market accounting practice schemes, that were designed to hide the losses and make the company appear more profitable than it really was.

Another important point to be considered in this case scenario is the accounting practice. A firm's accounting practice refers to the method by which its accounting policies are implemented and adhered to on a routine basis. On a deeper level, to remain competitive while adhering to specific standards of business conduct, accounting practices will implement accounting systems. Accounting practices and attached systems generate financial reports that can be used internally by management or externally by stakeholders, investors, creditors, or tax authorities. In organizations, an accounting practice's culture usually sets individual standards, behaviours, and attitudes. These ways of doing business can emerge into good and bad norms in aggregate, which can eventually lead to accounting scandals at their worst. ([www.investopedia.com](http://www.investopedia.com), 2018)

The Arthur Andersen/Enron scandal is a great example of accounting failures, and this incident even required the FASB (The Financial Accounting Standards Board) and SEC (Securities and Exchange Commission) as well as other regulatory organizations to consider new rules to improve financial reporting. Enron and Arthur Andersen LLP had improperly categorized hundreds of millions of dollars as increases in shareholders' equity, by misrepresenting and falsifying the true value of the corporation. Arthur Andersen LLP also did not follow the generally accepted accounting principles (GAAP) when it considered Enron's dealings, and this helped Enron to conceal some of its losses. As a result of this accounting fraud with Enron, Arthur Andersen LLP had generated around $25m of non-audit fee income on top of the $25m audit income.

Apart from accounting failures, Arthur Andersen LLP was accused of shredding thousands of Enron’s documents and indicted on obstruction of justice charges. The company was found guilty and was placed on probation for 5 years, as well as required to pay a fine of $500,000 ([www.hg.org](http://www.hg.org), no date)

**Question a) What do you think can be the outcomes of an accounting fraud to the society and business at large?**

Fraud can have a significant impact on business and society at large. The most common type is accounting fraud, fraudulent financial reporting by management, whereby misleading financial information is disseminated to stakeholders, investors, and the public.

The outcome of fraudulent activities to the society at large can have a negative economic impact because of sustained losses. Fraud is expensive in so many ways. It leads to an increase in unemployment, job loss, decimates retirement benefits, ruins the reputation of people, and inflicts mental anguish. ([www.fraud-magazine.com](http://www.fraud-magazine.com), 2015) As Enron went bankrupt, its employees lost their jobs and retirement savings, because they invested their money in Enron's stocks.

Arthur Andersen LLP was complicit in the deceit. The effect of fraud on a company's culture and morale can be shattering. Any association with a company that has perpetrated or suffered fraud can be troubling and embarrassing for the people who work there because it ruins their reputation too. Even if employees leave the company, they may carry an association with a fraudulent company into their next place of employment, even if they were not involved with the fraud at all. Organizations that articulate greed and lack of ethical behaviour are damaging to society as a whole.

A powerful business can disintegrate overnight, and this could be the reason for fraudulent activities. Fraud is highly publicized, and the impact of fraud can affect the current and future profits of the business, its reputation, as well as lead to criminal charges and eventually loss or bankruptcy. Arthur Andersen LLP was a worldwide professional services firm in the accounting and consulting industry with billions of dollars in revenue. Because of activities related to Enron and the U.S. government's obstruction of justice indictment in 2002, the firm's reputation suffered greatly and it basically went out of business thereafter. ([www.smallbusiness.chron.com](http://www.smallbusiness.chron.com), no date)

**Question b) Why do you think that the history of accounting fraud repeats itself, such as so many frauds which we have heard after Enron scandal?**

There are many accounting frauds that happened in the past, and there are a few stories in current days too. For example, fraud was discovered recently at UAE’s NMC Health. There have been instances of “fraudulent behaviour” at NMC Health, the company has said in a statement on London Stock Exchange. This was confirmed after an investigation ordered by the hospital operator's independent Board of Directors.  According to a banking source who is closely associated with the company, "There is ample evidence now in the public domain that the board of NMC Health has made a remarkable recovery upholding the morality of business ethics around corporate governance and disclosures." ([www.gulfnews.com](http://www.gulfnews.com), 2020)

The history of accounting fraud repeats itself because of human behaviour, which is unpredictable. There is right and wrong, and if there was no ‘wrong’ then the world would be perfect. People never learn from history because one generation replaces the other and ethical practices are slowly getting faded away, greed, arrogance, a wish for wanting more and better is present in every person because these are individual characteristics and something that cannot be changed.

All humans tend to have greed and selfishness. In some organizations, business practices are based on the principle that the advantage of one employee or competitor can result only from the disadvantage of the other. Business practices that express greed and lack of social responsibility poison society as a whole. Organizations establish policies such as code of conduct, code of ethics and social responsibility, and so on, but despite all this, it is a human nature that can do wrong. People are inherent to do mistakes. It is very common that a conflict of interest may arise within the organization. Both companies, Enron and Arthur Andersen LLP had put their revenues and earnings above all else, the means by which those earnings were generated did not matter. Enron’s board of directors allowed a conflict of interest, their judgement was severely clouded by the fees they received as directors, which eventually led to too many employees lose their jobs, and had all their retirement monies invested in Enron, and after Enron’s bankruptcy all the retirement savings were lost too. ([www.fraud-magazine.com](http://www.fraud-magazine.com), 2007) The owners of both companies cared about the profits only. The way decisions are made is very important for any organization, because wrong and unethical decisions, or decisions that have been implemented badly, have a substantial impact on people’s lives, as well as the reputation of the organization.

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