CHAPTER 1

AN OVERVIEW OF ETHICS

QUOTE

This above all: to thine own self be true, and it must follow, as the night the day, thou canst not then be false to any man.

—Polonius, a character in *Hamlet*, discussing the importance of integrity with his son, Laertes

Jacek Dudzinski/Shutterstock.com

ORGANIZATIONS BEHAVING BADLY

Ever get upset trying to make sense of all the miscellaneous charges that appear each month on your cell phone bill? Well, it turns out you—and millions of other consumers—may have cause for concern.

In October 2014, the Federal Communications Commission (FCC) announced a $105 million settlement with AT&T Mobility in a case related to the practice of "cramming," in which unauthorized, recurring third-party charges are added to consumers' cell phone bills for "premium" subscriptions such as ring tones, wallpaper, and horoscope text messaging services. Often, consumers were duped into signing up for these services without understanding that they would result in ongoing charges, up to $9.99 per month. In addition to allowing third-party companies to place charges on its customers' accounts without their knowledge, AT&T Mobility lumped together several miscellaneous charges on its bills, making it difficult for customers to detect the unauthorized charges. When customers complained, AT&T Mobility would typically only refund a portion of the cramming charges.[1]

A year later, the FCC fined AT&T Mobility $100 million for misleading customers about its "unlimited" mobile data plans. The FCC alleged that the carrier slowed down the data speeds for customers with such plans after they had used a certain amount of data, a practice called throttling, meaning that these customers were being billed for services they were not receiving in full.[2]

AT&T Mobility is not the only mobile carrier to be fined by the FCC for issues related to their billing practices. In late 2014, T-Mobile USA was fined $90 million for cramming customer phone bills with unauthorized charges for years and then ignoring complaints and requests for refunds.[3] The FCC also fined Verizon $90 million and Sprint $68 million in 2015 for billing customers for third-party texting services without their consent.[4]

The people who developed, implemented, and supported the practice of cramming customer phone bills were once new hires—likely full of ambition and a desire to do well in their jobs. What might cause employees to support and implement a practice, such as cramming, that appears unethical and possibly illegal? What happened to their desire to do well that they did not object to and stop this unfair billing practice? Do you feel pressured to commit such practices in your current place of employment?

LEARNING OBJECTIVES

As you read this chapter, consider the following questions:

1. What is ethics?
2. What trends have increased the likelihood of an unethical behavior?
3. What is corporate social responsibility, and why is fostering good business ethics important?
4. What measures can organizations take to improve their business ethics?
5. How can you include ethical considerations in your decision making?
6. What trends have increased the risk that information technology will be used in an unethical manner?

WHAT IS ETHICS?

Ethics is a code of behavior that is defined by the group to which an individual belongs. Ethical behavior conforms to generally accepted norms, which may change over time to meet the evolving needs of the society or a group of people who share similar laws, traditions, and values that provide structure to enable them to live in an organized manner. Ethics help members of a group understand their roles and responsibilities so they can work together to achieve mutual benefits such as security, access to resources, and the pursuit of life goals.

Morals are the personal principles upon which an individual bases his or her decisions about what is right and what is wrong. They are core beliefs formed and adhered to by an individual. For example, many of us have a core belief that all people should be treated with respect and this belief governs our actions toward others. Your moral principles are statements of what you believe to be rules of right conduct. As a child, you may have been taught not to lie, cheat, or steal. As an adult facing more complex decisions, you often reflect on your moral principles when you consider what to do in different situations: Is it okay to lie to protect someone's feelings? Should you intervene with a coworker who seems to have a chemical dependency problem? Is it acceptable to exaggerate your work experience on a résumé? Can you cut corners on a project to meet a tight deadline?

As children grow, they learn complicated tasks—such as walking, talking, swimming, riding a bike, and writing the alphabet—that they perform out of habit for the rest of their lives. People also develop habits that make it easier for them to choose between good and bad. A **virtue** is a habit that inclines people to do what is acceptable, and a **vice** is a habit of unacceptable behavior. Fairness, generosity, and loyalty are examples of virtues, while vanity, greed, envy, and anger are considered vices. People's virtues and vices help define their personal value system—the complex scheme of moral values by which they live.

Although nearly everyone would agree that certain behaviors—such as lying and cheating—are wrong, opinions about what constitutes right and wrong behaviors can vary dramatically. For example, attitudes toward **software piracy**—a form of copyright infringement that involves making copies of software or enabling others to access software to which they are not entitled—range from strong opposition to acceptance of the practice as a standard approach to conducting business. According to the Business Software Alliance (BSA), the global rate of software piracy stands at around 42 percent. The piracy rate is nearly 80 percent across the continent of Africa, where many consumers simply cannot afford software licenses and pirated copies are readily available at cut-rate prices.[5]

Individual views of what behavior is moral may be impacted by a person's age, cultural group, ethnic background, religion, life experiences, education, and gender along with many other factors. There is widespread agreement on the immorality of murder, theft, and arson, but other behaviors that are accepted in one culture might be unacceptable in another. Even within the same society, people can have strong disagreements over important moral issues. In the United States, for example, issues such as abortion, stem cell research, the death penalty, same-sex marriage, marijuana usage, and gun control are continuously debated, and people on both sides of these debates feel that their arguments are on solid moral ground. The reality is that the world has many systems of beliefs about what is right and wrong, each with many proponents.

Life is complex, and on occasion, you will encounter a situation in which the ethics of the group to which you belong are in conflict with your morals, as highlighted in the following two examples:

- The ethics of the law profession demand that defense attorneys defend an accused client to the best of their ability, even if they know that the client is guilty of the most heinous and morally objectionable crime one could imagine.
- The ethical standards of the medical profession do not allow a doctor to euthanize a patient, even at the patient's request. However, the doctor may personally believe that the patient has a right, based on the doctor's own morals.

Figure 1-1 illustrates the relationship between ethics and morals and identifies some of the many factors that help define them.

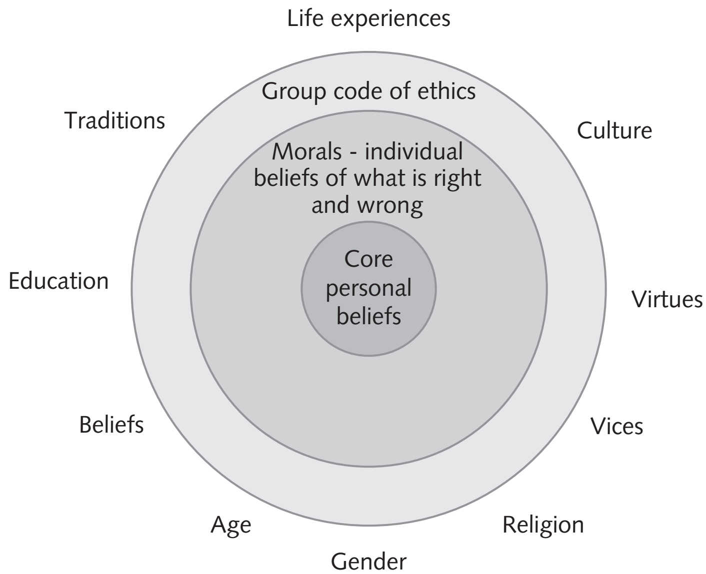

FIGURE 1-1 The relationship between ethics and morals

The Importance of Integrity

A person who acts with **integrity** acts in accordance with a personal code of principles. One approach to acting with integrity is to extend to all people the same respect and consideration that you expect to receive from them. Unfortunately, consistency can be difficult to achieve, particularly when you are in a situation that conflicts with your moral standards. For example, you might believe it is important to do as your employer requests while also believing that you should be fairly compensated for your work. Thus, if your employer insists that, due to budget constraints, you do not report the overtime hours that you have worked, a moral conflict arises. You can do as your employer requests or you can insist on being fairly compensated, but you cannot do both. In this situation, you may be forced to compromise one of your principles and act with an apparent lack of integrity.

Another form of inconsistency emerges if you apply moral standards differently according to the situation or people involved. If you are consistent and act with integrity, you apply the same moral standards in all situations. For example, you might consider it morally acceptable to tell a little white lie to spare a friend some pain or embarrassment, but would you lie to a work colleague or customer about a business issue to avoid unpleasantness? Clearly, many ethical dilemmas are not as simple as right versus wrong but involve choices between right versus right. As an example, for some people it is "right" to protect the Alaskan wildlife from being spoiled and also "right" to find new sources of oil to maintain U.S. oil reserves, but how do they balance these two concerns?

The Difference Between Morals, Ethics, and Laws

Law is a system of rules that tells us what we can and cannot do. Laws are enforced by a set of institutions (the police, courts, law-making bodies). Violation of a law can result in censure, fines, and/or imprisonment. Laws in the United States are made by the various local, state, and federal legislatures. Sometimes the laws of these various jurisdictions are in conflict, creating confusion and uncertainty. In addition, laws are not static; new laws are constantly being introduced and existing laws repealed or modified. As a result, the precise meaning of a particular law may be different in the future from what it is today.

Legal acts are acts that conform to the law. Moral acts conform to what an individual believes to be the right thing to do. Laws can proclaim an act as legal, although many people may consider the act immoral—for example, abortion. Laws may also proclaim an act as illegal, although many people may consider the act moral—for example, using marijuana to relieve stress and nausea for people undergoing chemotherapy treatment for cancer.

Laws raise important and complex issues concerning equality, fairness, and justice, but do not provide a complete guide to ethical behavior. Just because an activity is defined as legal does not mean that it is ethical (see Figure 1-2). As a result, practitioners in many professions subscribe to a code of ethics that states the principles and core values that are essential to their work and, therefore, govern their behavior. The code can become a reference point for helping an individual determine what is legal and what is ethical; however, an individual will also be guided by his or her set of morals.

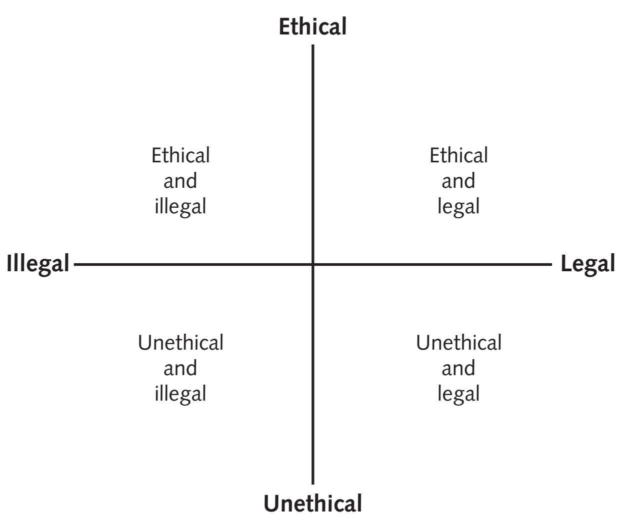

FIGURE 1-2 Legal versus ethical

CRITICAL THINKING EXERCISE: LEGAL VERSUS ETHICAL

Give an example of an action that fits in each of the four quadrants of the legal versus ethical chart shown in Figure 1-2—ethical and legal, ethical and illegal, unethical and illegal, and unethical and legal.

The remainder of this chapter provides an introduction to ethics in the business world. It discusses the importance of ethics in business, outlines what businesses can do to improve their ethics, advises on creating an ethical work environment, and suggests a model for ethical decision making. The chapter concludes with a discussion of ethics as it relates to information technology (IT).

ETHICS IN THE BUSINESS WORLD

Ethics has risen to the top of the business agenda because the risks associated with inappropriate behavior have increased, both in their likelihood and in their potential negative impact. We have seen the collapse and/or bailout of financial institutions such as Bank of America, CitiGroup, Countrywide Financial, Fannie Mae, Freddie Mac, Lehman Brothers, and American International Group (AIG) due to unwise and/or unethical decision making regarding the approval of mortgages, loans, and lines of credit to unqualified individuals and organizations. We have also witnessed numerous corporate officers and senior managers sentenced to prison terms for their unethical behavior, including former investment broker Bernard Madoff, who bilked his clients out of an estimated $65 billion, and Stewart Parnell, former CEO of Peanut Corporation of America, who was sentenced to 28 years in prison for knowingly shipping contaminated food product, resulting in a salmonella outbreak that killed nine people and sickened more than 700.[6,7] Clearly, unethical behavior in the business world can lead to serious negative consequences for both organizations and individuals.

Several trends have increased the likelihood of unethical behavior. First, for many organizations, greater globalization has created a much more complex work environment that spans diverse cultures and societies, making it more difficult to apply principles and codes of ethics consistently. Numerous U.S. companies have moved operations to developing countries, where employees or contractors work in conditions that would not be acceptable in the most developed parts of the world. For example, it was reported in 2016 that employees of the Pegatron factory in China, where the Apple iPhone is produced, are often forced to work excessive amounts of overtime—up to 90 overtime hours per month—while their overall wages have been cut from $1.85 to $1.60 per hour.[8]

Second, in today's challenging and uncertain economic climate, many organizations are finding it more difficult to maintain revenue and profits. Some organizations are sorely tempted to resort to unethical behavior to maintain profits. Tesco, Britain's largest supermarket chain, admitted its first half-year of profits for 2013 were overstated by $400 million.[9] Fiat Chrysler Automobiles admitted its U.S. auto sales were overstated by hundreds of cars each month starting as far back as 2011.[10]

Employees, shareholders, and regulatory agencies are increasingly sensitive to violations of accounting standards, failures to disclose substantial changes in business conditions, nonconformance with required health and safety practices, and production of unsafe or substandard products. Such heightened vigilance raises the risk of financial loss for businesses that do not foster ethical practices or that run afoul of required standards. There is also a risk of criminal and civil lawsuits resulting in fines and/or incarceration for individuals.

A classic example of the many risks associated with unethical decision making can be found in the Enron accounting scandal. In 2000, Enron—a Texas-based energy company—employed over 22,000 people, and it reported an annual revenue of $101 billion. However, in 2001, it was revealed that much of Enron's revenue was the result of deals with limited partnerships, which it controlled. In addition, as a result of actions taken contrary to generally accepted accounting practices (GAAP), many of Enron's debts and losses were not reported in its financial statements. As the accounting scandal unfolded, Enron shares dropped from $90 per share to less than $1 per share, and the company was forced to file for bankruptcy.[11] The Enron case was notorious, but many other corporate scandals have occurred in spite of safeguards enacted as a result of the Enron debacle. Here are just a few examples of lapses in business ethics by employees in IT organizations:

- Volkswagen has admitted that 11 million of its vehicles were equipped with software that was used to cheat on emissions tests. The company is now contending with the fallout.
- Toshiba, the Japanese industrial giant whose diversified products and services include information technology and communications equipment and systems, disclosed that it overstated its earnings over a seven-year period by more than $1.2 billion.
- Amazon has the second highest employee turnover rate of companies in the Fortune 500 and has been criticized by some for creating a high pressure work environment in which bosses' expectations were almost impossible to satisfy and jobs were threatened if illness or other personal issues encroached on work.[12]

It is not unusual for powerful, highly successful individuals to fail to act in morally appropriate ways, as these examples illustrate. Such people are often aggressive in striving for what they want and are used to having privileged access to information, people, and other resources. Furthermore, their success often inflates their belief that they have the ability and the right to manipulate the outcome of any situation. The moral corruption of people in power, which is often facilitated by a tendency for people to look the other way when their leaders act inappropriately has been given the name **Bathsheba syndrome**—a reference to the biblical story of King David, who became corrupted by his power and success.[13] According to the story, David became obsessed with Bathsheba, the wife of one of his generals, and eventually ordered her husband on a mission of certain death so that he could marry Bathsheba.

Even lower-level employees and ordinary individuals can find themselves in the middle of ethical dilemmas, as these examples illustrate:

- Edward Snowden, working as a Dell contractor at the National Security Agency (NSA), copied thousands of classified and unclassified documents that revealed details about the capabilities and scope of operations of the NSA and other foreign intelligence agencies. The documents were then handed over to reporters who published many of the disclosures in the *Guardian* and *Washington Post* newspapers. Snowden felt he acted as a patriot in exposing the behavior of the NSA, which he thought was overreaching and counter to the U.S. Constitution. Some consider him a whistle-blower and a hero, while others see him as a traitor.

- Mark Lillie, a former Takata Corporation engineer, warned the company of the potential deadly consequences of using the propellant ammonium nitrate to inflate its airbags. The use of ammonium nitrate enabled Takata to earn a greater profit than other designs, however, it also resulted in devices that can deploy with too much force, causing them to rupture and shoot metal fragments at motorists. Unfortunately, Lillie was unable to convince management at Takata to choose an alternative design. He eventually left the firm in disagreement over this fatal manufacturing decision. In the United States, at least 10 deaths and more than 100 injuries have been attributed to the flawed devices, and over 100 million cars with Takata inflators have been recalled worldwide.[14,15]

This is just a small sample of the incidents that have led to an increased focus on business ethics within many IT organizations. Table 1-1 identifies the most commonly observed types of misconduct in the workplace.

TABLE 1-1 Most common forms of employee misconduct

Type of employee misconduct	Percentage of surveyed employees observing this behavior in the workplace
Misuse of company time	33
Abusive behavior	21
Lying to employees	20
Company resource abuse	20
Violating company Internet use policies	16
Discrimination	15
Conflicts of interest	15
Inappropriate social networking	14
Health or safety violations	13
Lying to outside stakeholders	12
Stealing	12
Falsifying time reports or hours worked	12

Source: Ethics Resource Center, "2011 National Business Ethics Survey: Workplace Ethics in Transition," © 2011, https://s3.amazonaws.com/berkley-center/120101NationalBusinessEthicsSurvey2011WorkplaceEthicsinTransition.pdf.

According to the 2013 National Business Ethics Survey, it is managers—those expected to act as role models and enforce discipline—who are responsible for 60 percent of workplace misconduct, as shown in Figure 1-3.[16]

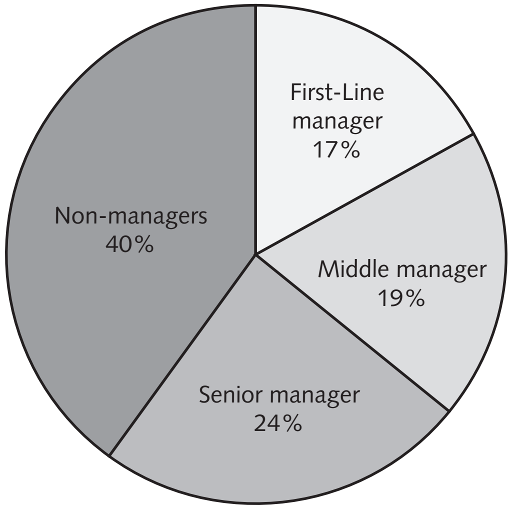

FIGURE 1-3 Who is responsible for instances of misconduct

Source: Ethics Resource Center, "2011 National Business Ethics Survey: Workplace Ethics in Transition," ©2011, https://s3.amazonaws.com/berkley-center/120101NationalBusinessEthicsSurvey2011WorkplaceEthicsinTransition.pdf.

CRITICAL THINKING EXERCISE: CUT TESTING SHORT

You are a new hire at a large software firm and have been working overtime for the last two months trying to complete the final testing of a new software release for the firm's flagship product, which is used by thousands of organizations worldwide. Unfortunately, the software has many bugs and testing has taken weeks longer than expected. This afternoon your boss stopped by and asked you to "sign off" on the completion of your portion of the testing. He explains that the project has gone over budget and is in danger of missing the committed release date for customers. When you object because you feel the software is still buggy, he says not to worry, whatever bugs remain will be fixed in the next release of the software. What do you do?

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR) is the concept that an organization should act ethically by taking responsibility for the impact of its actions on its shareholders, consumers, employees, community, environment, and suppliers (see Figure 1-4). An organization's approach to CSR can encompass a wide variety of tactics—from donating a portion of net profit to charity to implementing more sustainable business operations or encouraging employee education through tuition reimbursement. Setting CSR goals encourages an organization to achieve higher moral and ethical standards.

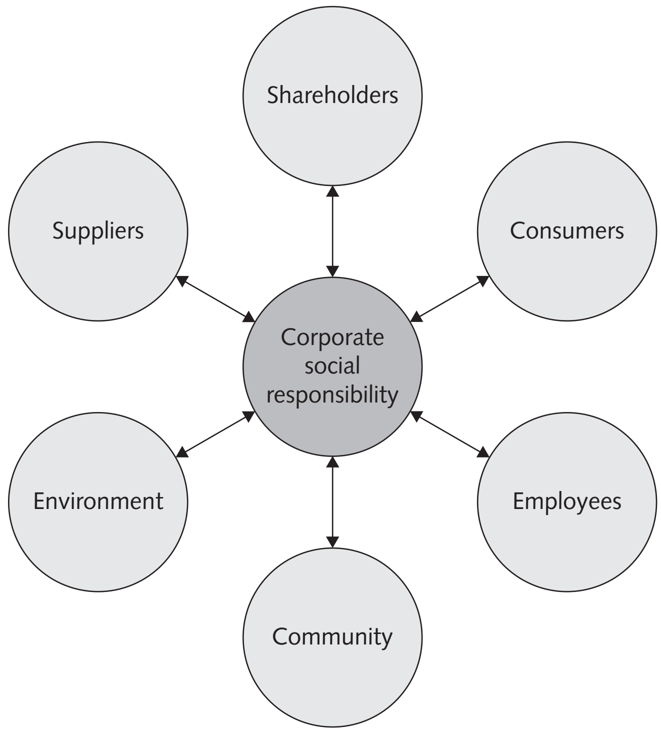

FIGURE 1-4 An organization's program CSR affects its shareholders, consumers, employees, community, environment, and suppliers

Supply chain sustainability is a component of CSR that focuses on developing and maintaining a supply chain that meets the needs of the present without compromising the ability of future generations to meet their needs. Supply chain sustainability takes into account issues such as fair labor practices, energy and resource conservation, human rights, and community responsibility. Many IT equipment manufacturers have made supply chain sustainability a priority, in part, because they must adhere to various European Union directives and regulations—including the Restriction of Hazardous Substances Directive, the Waste Electrical and Electronic Equipment Directive, and the Registration, Evaluation, Authorization, and Restriction of Chemicals (REACH) Regulation—to be permitted to sell their products in the European Union countries. In many cases, meeting supply chain sustainability goals can also lead to lower costs. For example, in fiscal year 2015, Dell launched its closed-loop plastics supply chain and by year end had recycled 2.2 million pounds of those plastics back into new Dell products. In addition, its global takeback program has made Dell the world's largest technology recycler, collecting more than 1.4 billion pounds of e-waste since 2007.[17]

Each organization must decide if CSR is a priority and, if so, what its specific CSR goals are. The pursuit of some CSR goals can lead to increased profits, making it easy for senior company management and stakeholders to support the organization's goals in this arena. However, if striving to meet a specific CSR goal leads to a decrease in profits, senior management may be challenged to modify or drop that CSR goal entirely. For example, most U.S. auto manufacturers have introduced models that run on clean, renewable electric power as part of a corporate responsibility goal of helping to end U.S. dependence on oil. However, Americans have been slow to embrace electric cars, and many manufacturers have had to offer low-interest financing, cash discounts, sales bonuses, and subsidized leases to get the autos off the sales floor. Manufacturers and dealers are struggling to increase profits on the sale of these electric cars, and senior management at the automakers must consider how long they can continue with their current strategies.

Many organizations define a wide range of corporate responsibility areas that are important to them, their customers, and their community. In order for a CSR program to be effective, a senior executive should be placed in charge of corporate responsibility results for each area, with strategic initiatives defined, staffed, and well-funded. Key indicators of progress in these areas should be defined and the results tracked and reported to measure progress.

Table 1-2 shows a summary of the 2015 corporate responsibility report for Intel. An example of one strategic initiative at Intel is its diversity and inclusion initiative launched in early 2015 whose goal is to achieve full representation of women and underrepresented minorities in Intel's workforce by 2020.

TABLE 1-2 Intel Corporate Responsibility Report for 2015

Key performance area	Key performance indicator	2015 value
Financial results and economic impact	Net revenue	$55.4B
	Net income	$11.4B
	Provision for taxes	$2.8B
	Research and development spending	$12.1B
	Capital investments	$7.3B
	Customer survey "Delighted" score	87%
Environmental sustainability	Greenhouse gas emissions (millions of metric tons of CO_2)	2.00
	Energy usage (billions of kWh)	6.4
	Total water withdrawn (billions of gallons)	9.0
	Hazardous waste generated (thousands of tons)/% to landfill	61.6/2
	Nonhazardous waste generated (thousands of tons)/% recycled	80.8/82
Our people	Employees at year end (thousands)	107.3
	Women in global workforce (percent)	25%
	Women on our board of directors at year-end (percent)	18%
	Investment in training (millions of dollars)	$278
	Safety (recordable rate/days away case rate)	0.58/0.11
	Organizational Health Survey scores—"Proud to Work for Intel"	84% (2014)
Social impact	Employee volunteerism rate	41%
	Worldwide charitable giving (dollars in millions)	$90.3
	Charitable giving as a percentage of pre-tax net income	0.6%
Supply chain responsibility	Supplier audits (third-party and Intel-led audits)	121

Source: "2015 Corporate Responsibility Report," Intel, http://csrreportbuilder.intel.com/PDFfiles/CSR-2015_Executive-Summary.pdf, accessed August 10, 2016.

CRITICAL THINKING EXERCISE: ORACLE CSR PROGRAM

Oracle Corporation, a multinational computer technology company with headquarters in Redwood City, California, offers a comprehensive and fully integrated set of cloud applications, platform services, and engineered systems. Oracle has 132,000 employees and more than 420,000 customers, and its software is deployed in more than 145 countries. For fiscal year 2016, the company's total revenue was $37.0 billion, with net income of $8.9 billion. Oracle has set corporate social responsibility goals in the areas of sustainability, education, giving, and volunteering. Develop two goals for each of these areas that you feel would be reasonable for Oracle to achieve. Download the 2016 Oracle Corporate Citizenship Report at *https://www.oracle.com/corporate/citizenship/index.html*. After reviewing the report, comment on the difference between the goals you identified and Oracle's actual programs.

WHY FOSTERING CORPORATE SOCIAL RESPONSIBILITY AND GOOD BUSINESS ETHICS IS IMPORTANT?

Organizations have at least five good reasons to pursue CSR goals and to promote a work environment in which employees are encouraged to act ethically when making business decisions:

- Gaining the goodwill of the community
- Creating an organization that operates consistently
- Fostering good business practices
- Protecting the organization and its employees from legal action
- Avoiding unfavorable publicity

Gaining the Goodwill of the Community

Although organizations exist primarily to earn profits or provide services to customers, they also have some fundamental responsibilities to society. As discussed in the previous section, companies often declare these responsibilities in specific CSR goals.

All successful organizations, including technology firms, recognize that they must attract and maintain loyal customers. Philanthropy is one way in which an organization can demonstrate its values in action and make a positive connection with its stakeholders. (A **stakeholder** is someone who stands to gain or lose, depending on how a particular situation is resolved.) As a result, many organizations initiate or support socially responsible activities, which may include making contributions to charitable organizations and nonprofit institutions, providing benefits for employees in excess of any legal requirements, and devoting organizational resources to initiatives that are more socially desirable than profitable. Here are a few examples of some of the CSR activities supported by major IT organizations:

- Dell Inc. has several initiatives aimed at reducing the amount of natural resources it takes to create and ship its products, cutting the amount of energy it takes its customers to use its products, and curbing the effects its products have on people and the planet.[18]
- Google agreed to invest more than $1.5 billion in renewable energy projects, such as large-scale wind farms and rooftop solar panels.[19]
- IBM created a program to train transitioning service members to become certified as advanced data analysts. The company also launched the P-TECH program to help students from low-income families finish high school and obtain associate degrees. Several graduates of the program have taken entry-level jobs at IBM while continuing to work toward a four-year degree.[20]
- Microsoft made $922 million in technology donations to more than 120,000 nonprofit organizations globally, and its employees contributed $117 million to 20,000 nonprofits through the company's corporate giving program.[21]
- Oracle delivered nearly $5 billion in resources (with a focus on computer science education) to help 2.2 million students in 100 countries become college-and-career ready.[22]
- SAP pledged over $1 billion toward immediate relief efforts, long-term education, and integration projects to assist refugees, and it initiated a program to provide internship opportunities for more than 100 refugees as well as humanitarian assistance.[23]

The goodwill that CSR activities generate can make it easier for corporations to conduct their business. For example, a company known for treating its employees well will find it easier to compete for the top job candidates. On the other hand, businesses that are not socially responsible run the risk of alienating their customer base. A recent study of more than 10,000 shoppers in 10 different countries revealed that more than 90 percent are likely to switch to brands that support a socially responsible cause, given similar price and quality. In addition, 90 percent of the shoppers surveyed would boycott a company if they learned that the firm engaged in socially irresponsible business practices. Indeed, 55 percent of the respondents had already done so in the previous year.[24]

Creating an Organization That Operates Consistently

Organizations develop and abide by values to create an organizational culture and to define a consistent approach for dealing with the needs of their stakeholders—shareholders, employees, customers, suppliers, and the community. Such a consistency ensures that employees know what is expected of them and can employ the organization's values to help them in their decision making. Consistency also means that shareholders, customers, suppliers, and the community know what they can expect of the organization—that it will behave in the future much as it has in the past. It is especially important for multinational or global organizations to present a consistent face to their shareholders, customers, and suppliers, no matter where those stakeholders live or operate their business. Although each company's value system is different, many share the following values:

- Operate with honesty and integrity, staying true to organizational principles
- Operate according to standards of ethical conduct, in words and action
- Treat colleagues, customers, and consumers with respect
- Strive to be the best at what matters most to the organization
- Value diversity
- Make decisions based on facts and principles

Fostering Good Business Practices

In many cases, good ethics can mean good business and improved profits. Companies that produce safe and effective products avoid costly recalls and lawsuits. (The recall of the weight loss drug Fen-Phen cost its maker, Wyeth-Ayerst Laboratories, almost $14 billion in awards to victims, many of whom developed serious health problems as a result of taking the drug.[25]) Companies that provide excellent service retain their customers instead of losing them to competitors. Companies that develop and maintain strong employee relations enjoy lower turnover rates and better employee morale. Suppliers and other business partners often place a priority on working with companies that operate in a fair and ethical manner. All these factors tend to increase revenue and profits while decreasing expenses. As a result, ethical companies tend to be more profitable over the long term than unethical companies.

On the other hand, bad ethics can lead to bad business results. Bad ethics can have a negative impact on employees, many of whom may develop negative attitudes if they perceive a difference between their own values and those stated or implied by an organization's actions. In such an environment, employees may suppress their tendency to act in a manner that seems ethical to them and instead act in a manner that will protect them against anticipated punishment. When such a discrepancy between employee and organizational ethics occurs, it destroys employee commitment to organizational goals and objectives, creates low morale, fosters poor performance, erodes employee involvement in organizational improvement initiatives, and builds indifference to the organization's needs.

Protecting the Organization and Its Employees from Legal Action

In a 1909 ruling (*United States v. New York Central & Hudson River Railroad Co*.), the U.S. Supreme Court established that an employer can be held responsible for the acts of its employees even if the employees act in a manner contrary to corporate policy and their employer's directions.[26] The principle established is called *respondeat superior*, or "let the master answer."

When it was uncovered that employees of Wells Fargo Bank opened over 2 million bogus credit card accounts not authorized by its customers, the bank was fined over $185 million and ordered to pay customers full restitution for any fees or charges they may have incurred. The practice began at least as early as 2011 and was an attempt by thousands of bank employees to achieve their sales targets for cross-selling and be rewarded with higher sales bonuses.[27] Cross-selling is the practice of selling multiple products to the existing customers—savings account, checking account, auto loan, mortgage, credit card, etc. Cross-selling to existing customers is cheaper than locating and selling to brand new customers. It also tends to lock existing customers into your bank.

A coalition of several legal organizations, including the Association of Corporate Counsel, the U.S. Chamber of Commerce, the National Association of Manufacturers, the National Association of Criminal Defense Lawyers, and the New York State Association of Criminal Defense Lawyers, argues that organizations should "be able to escape criminal liability if they have acted as responsible corporate citizens, making strong efforts to prevent and detect misconduct in the workplace."[28] One way to do this is to establish effective ethics and compliance programs. However, some people argue that officers of companies should not be given light sentences if their ethics programs fail to deter criminal activity within their firms.

Avoiding Unfavorable Publicity

The public reputation of a company strongly influences the value of its stock, how consumers regard its products and services, the degree of oversight it receives from government agencies, and the amount of support and cooperation it receives from its business partners. Thus, many organizations are motivated to build a strong ethics program to avoid negative publicity. If an organization is perceived as operating ethically, customers, business partners, shareholders, consumer advocates, financial institutions, and regulatory bodies will usually regard it more favorably.

Prominent ad buyers and marketers are angry with Facebook after finding out that the world's largest online social network service greatly exaggerated the average viewing time of video ads on its platform. This is a key metric used by advertisers in deciding how much to spend on Facebook video versus other video services such as YouTube, Twitter, and TV networks. It turns out that Facebook was not including views of three seconds or less in calculating its average view time, resulting in overestimating viewing time by 60 to 80 percent.[29] Some advertising industry analysts believe that the new viewing time results and bad publicity associated with the incident will be impactful in the future placement of tens of billions of advertising dollars.

CRITICAL THINKING EXERCISE: REGULATING CSR SPENDING

Section 135 of the India Companies Act of 2013 requires companies with net worth, revenue, or net profit above certain established thresholds to spend at least 2 percent of their average net profit of the preceding three years on CSR activities. The act has had a major impact in increasing spending on CSR activities in India. Four of the country's top IT service firms—Tata Consultancy Services Ltd., Wipro Ltd, Infosys Ltd., and Tech Mahindra Ltd.—spent about $96 million on CSR activities within India during the first year this rule was in effect. That is 4.7 times the amount they spent on CSR initiatives the previous year, when the rule was not yet in effect. Collectively, these four firms generate over $35 billion in annual revenue.

The companies' CSR activities include efforts to eradicate hunger, poverty, and disease; promote education, gender equality, and women's empowerment; reduce child mortality; improve healthcare and sanitation; and provide safe drinking water.[30]

Does mandated CSR spending by all organizations within a particular country or market reduce the benefits an individual organization can expect to gain from its CSR programs? Do you think the United States should pass a law similar to Section 135 of the India Companies Act? Why or why not? If so, should the amount required for CSR spending be higher than two percent of average net profit?

HOW ORGANIZATIONS CAN IMPROVE THEIR ETHICS

Research by the Ethics Resource Center (ERC) found that 86 percent of the employees in companies with a well-implemented ethics and compliance program are likely to perceive a strong ethical culture within the company, while less than 25 percent of employees in companies with little to no program are likely to perceive a culture that promotes integrity in the workplace. A well-implemented ethics and compliance program and a strong ethical culture can, in turn, lead to less pressure on employees to misbehave and a decrease in observed misconduct. It also creates an environment in which employees are more comfortable reporting instances of misconduct, partly because there is less fear of potential retaliation by management against reporters (for example, reduced hours, transfer to less desirable jobs, and delays in promotions). See Figure 1-5.[31]

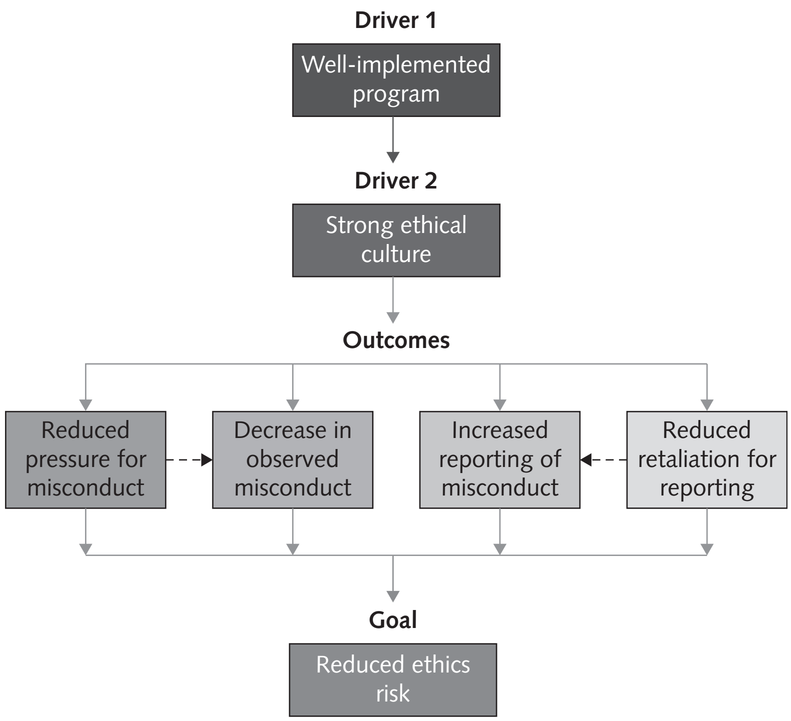

FIGURE 1-5 Reducing the risk of unethical behavior

Source: Ethics Resource Center, "2011 National Business Ethics Survey: Workplace Ethics in Transition," © 2011, https://s3.amazonaws.com/berkley-center/120101NationalBusinessEthicsSurvey2011WorkplaceEthicsinTransition.pdf.

The Ethics Resource Center has defined the following characteristics of a successful ethics program:

- Employees are willing to seek advice about ethics-related issues.
- Employees feel prepared to handle situations that could lead to misconduct.

- Employees are rewarded for ethical behavior.
- The organization does not reward success obtained through questionable means.
- Employees feel positively about their company.

The 2013 National Business Ethics Survey found evidence of continuing improvement in ethics in the workplace, as summarized in Table 1-3. The survey results indicate that fewer employees witnessed misconduct on the job, but when they did, they were more willing to report it. They also show that there is a decrease in the percentage of employees who felt pressure to commit an unethical act and who feel their organization has a weak ethics culture.

In addition to reporting on some positive trends in workplace ethics, however, the survey also highlighted some areas of concern. For instance, about 21 percent of those who reported misconduct stated that they suffered from some sort of retribution from their supervisor or negative reaction from their coworkers; that amounts to an estimated 6.2 million American workers who have faced a backlash for reporting misconduct.[32]

TABLE 1-3 Conclusions from the 2013 National Business Ethics Survey

Finding	2007 Survey results	2009 Survey results	2011 Survey results	2013 Survey results
Percentage of employees who said they witnessed a violation of the law or ethics standards on the job	56	49	45	41
Percentage of employees who said they reported misconduct when they saw it	58	63	65	63
Percentage of employees who felt pressure to commit an ethics violation	10	8	13	9
Percentage of employees who say their business has a weak ethics culture	39	35	42	36

Source: Ethics and Compliance Initiative, "National Business Ethics Survey 2013," www.ethics.org/eci/research/eci-research/nbes/nbes-reports/nbes-2013.

The risk of unethical behavior is increasing, so improving business ethics is becoming more important for all companies. The following sections explain some of the actions corporations can take to improve business ethics.

Appoint a Corporate Ethics Officer

A **corporate ethics officer** (also called a **corporate compliance officer**) provides an organization with vision and leadership in the area of business conduct. This individual "aligns the practices of a workplace with the stated ethics and beliefs of that workplace, holding people accountable to ethical standards."[33]

Organizations send a clear message to employees about the importance of ethics and compliance in their decision about who will be in charge of the effort and to whom that individual will report. Ideally, the corporate ethics officer should be a well-respected, senior-level manager who reports directly to the CEO. Ethics officers come from diverse backgrounds, such as legal staff, human resources, finance, auditing, security, or line operations.

Not surprisingly, a rapid increase in the appointment of corporate ethics officers typically follows the revelation of a major business scandal. The first flurry of appointments in the United States began following a series of defense-contracting scandals during the administration of Ronald Reagan in the late 1980s—when firms used bribes to gain inside information that they could use to improve their contract bids. A second spike in appointments came in the early 1990s, following new federal sentencing guidelines that stated that "companies with effective compliance and ethics programs could receive preferential treatment during prosecutions for white-collar crimes."[34] A third surge followed the myriad accounting scandals of the early 2000s. Yet another increase in appointments followed in the aftermath of the mortgage loan scandals uncovered beginning in 2008.

The ethics officer position has its critics. Many are concerned that if one person is appointed head of ethics, others in the organization may think they have no responsibility in this area. On the other hand, Odell Guyton—a long-time director of compliance at Microsoft—feels a point person for ethics is necessary, otherwise, "how are you going to make sure it's being done, when people have other core responsibilities? That doesn't mean it's on the shoulders of the compliance person alone."[35]

Typically, the ethics officer tries to establish an environment that encourages ethical decision making through the actions described in this chapter. Specific responsibilities include the following:

- Responsibility for compliance—that is, ensuring that ethical procedures are put into place and consistently adhered to throughout the organization
- Responsibility for creating and maintaining the ethics culture envisioned by the highest level of corporate authority
- Responsibility for being a key knowledge and contact person on issues relating to corporate ethics and principles[36]

Of course, simply naming a corporate ethics officer does not automatically improve an organization's ethics; hard work and effort are required to establish and provide ongoing support for an organizational ethics program.

Require the Board of Directors to Set and Model High Ethical Standards

The board of directors is responsible for the careful and responsible management of an organization. In a for-profit organization, the board's primary objective is to oversee the organization's business activities and management for the benefit of all stakeholders, including shareholders, employees, customers, suppliers, and the community. In a nonprofit organization, the board reports to a different set of stakeholders—in particular, the local community that the nonprofit serves.

A board of directors fulfills some of its responsibilities directly and assigns others to various committees. The board is not normally responsible for day-to-day management and operations; these responsibilities are delegated to the organization's management team. However, the board is responsible for supervising the management team.

Board members are expected to conduct themselves according to the highest standards for personal and professional integrity while setting the standard for company-wide ethical conduct and ensuring compliance with laws and regulations. Employees will "get the message" if board members set an example of high-level ethical behavior. If they don't set a good example, employees will get that message as well. Importantly, board members must create an environment in which employees feel they can seek advice about appropriate business conduct, raise issues, and report misconduct through appropriate channels.

The board of directors must set an example of high-level ethical behavior and may need intervention in order to stop unethical behavior, as illustrated by a recent ethics scandal at the Wounded Warrior Project (WWP), a charity and veterans service nonprofit. In 2016, the CEO and COO of WWP were fired by the organization's board of directors over allegations by many current and former employees regarding ineffective and wasteful spending of the more than $372 million the organization received in 2015. The nonprofit spent over 40 percent of its funds on overhead—including luxurious employee retreats and first-class airfare, while creating programs for veterans that were effective for marketing purposes but often failed to address the real needs of veterans.[37] Several months after the scandal became public, the WWP board of directors hired a new CEO who ultimately fired more than half of the nonprofit's executives, closed several offices, and redirected millions of dollars in spending to programs, including those that provide mental healthcare services, which more directly serve veterans.[38]

Establish a Corporate Code of Ethics

A **code of ethics** is a statement that highlights an organization's key ethical issues and identifies the overarching values and principles that are important to the organization and its decision making. Codes of ethics frequently include a set of formal, written statements about the purpose of an organization, its values, and the principles that should guide its employees' actions. An organization's code of ethics applies to its directors, officers, and employees, and it should focus employees on areas of ethical risk relating to their role in the organization, offer guidance to help them recognize and deal with ethical issues, and provide mechanisms for reporting unethical conduct and fostering a culture of honesty and accountability within the organization. An effective code of ethics helps ensure that employees abide by the law, follow necessary regulations, and behave in an ethical manner.

A code of ethics cannot gain company-wide acceptance unless it is developed with employee participation and fully endorsed by the organization's leadership. It must also be easily accessible by employees, shareholders, business partners, and the public. The code of ethics must continually be applied to a company's decision making and emphasized as an important part of its culture. Breaches in the code of ethics must be identified and dealt with appropriately so the code's relevance is not undermined.

Each year, *Corporate Responsibility* magazine rates publicly held U.S. companies, using a statistical analysis of corporate ethical performance in several categories. (For 2016, the categories were environment, climate change, human rights, employee relations, corporate governance, philanthropy and community support, and financial performance.) Intel Corporation, the world's largest chip maker, has been ranked in the top 25 every year since the list began in 2000, and was ranked second in 2016.[39] As such, Intel is recognized as one of the most ethical companies in the IT industry. A summary of Intel's code of ethics is provided below.

Intel's Code of Conduct

Intel's Code of Conduct (see Figure 1-6) applies to all employees and sets expectations for Intel Corporation and its subsidiaries as well as its nonemployee members of the Board of Directors regarding their Intel-related activities. The Code of Conduct also applies to independent contractors, consultants, suppliers, and others who do business with Intel. Each employee is responsible for reading, understanding, and following the Code. Employees who violate the Code are subject to discipline, up to and including termination of employment. Anyone who violates the law may also be subject to civil and criminal penalties.

Intel Code of Conduct Principles

The code affirms Intel's five principles of conduct:

1. Conduct business with honesty and integrity.
2. Follow the letter and spirit of the law.
3. Treat each other fairly.
4. Act in the best interests of Intel and avoid conflicts of interest.
5. Protect the company's assets and reputation

FIGURE 1-6 Intel Code of Conduct Principles

Source: "Intel Code of Conduct," Intel, http://www.intel.com/content/dam/www/public/us/en/documents/corporate-information/policy-code-conduct-corporate-information.pdf, accessed August 10, 2016.

Conduct Social Audits

An increasing number of organizations conduct regular social audits of their policies and practices. In a **social audit**, an organization reviews how well it is meeting its ethical and social responsibility goals and communicates its new goals for the upcoming year. This information is shared with employees, shareholders, investors, market analysts, customers, suppliers, government agencies, and the communities in which the organization operates.

In an ongoing effort to engrain socially responsible business behavior into all business activities, key Dell suppliers undergo a review of their social and environmental progress on a quarterly basis. These reviews include audit performance data, assessment of policy compliance and specific implementation plans for suppliers' own programs for compliance, and environmental stewardship.[40]

Require Employees to Take Ethics Training

The ancient Greek philosophers believed that personal convictions about right and wrong behavior could be improved through education. Today, most psychologists agree with them. Lawrence Kohlberg, the late Harvard psychologist, found that many factors stimulate a person's moral development, but one of the most crucial is education. Other researchers have repeatedly supported the idea that people can continue their moral development through further education, such as working through case studies and examining contemporary issues.

Thus, an organization's code of ethics must be promoted and continually communicated within the organization, from the top to the bottom. Organizations can do this by showing the employees examples of how to apply the code of ethics in real life. One approach is through a comprehensive ethics education program that encourages employees to act responsibly and ethically. Such programs are often presented in small workshop formats in which employees apply the organization's code of ethics to hypothetical but realistic case studies. Employees may also be given examples of recent company decisions based on principles from the code of ethics.

A critical goal of such training is to increase the percentage of employees who report incidents of misconduct; thus, employees must be shown effective ways of reporting such incidents. In addition, they must be reassured that such feedback will be acted on and that they will not be subjected to retaliation.

In its 2013 National Business Ethics Survey, the Ethics Resource Center reported that 81 percent of the surveyed organizations provide ethics training.[41] At IBM, for example, employees around the world take part in the firm's online Business Conduct Guidelines course and certification. This training is available in two dozen languages and presents real-world scenarios that employees may face when conducting business. In addition, senior IBM business leaders sponsor integrity summits that emphasize the role of leaders in creating an ethical culture. The summits also help IBM employees to identify key compliance risks along with specific actions that can mitigate these risks. In addition, IBM provides online ethics and integrity training to almost 20,000 employees of IBM's partners and suppliers around the world.[42]

Formal ethics training not only makes employees more aware of a company's code of ethics and how to apply it but also demonstrates that the company intends to operate in an ethical manner. The existence of formal training programs can also reduce a company's liability in the event of legal action.

Include Ethical Criteria in Employee Appraisals

Managers can help employees to meet performance expectations by monitoring employee behavior and providing feedback; increasingly, managers are including ethical conduct as part of an employee's performance appraisal. Those that do so base a portion of their employees' performance evaluations on treating others fairly and with respect; operating effectively in a multicultural environment; accepting personal accountability for meeting business needs; continually developing others and themselves; and operating openly and honestly with suppliers, customers, and other employees. These factors are considered along with the more traditional criteria used in performance appraisals, such as an employee's overall contribution to moving the business ahead, successful completion of projects and tasks, and maintenance of good customer relations. In a recent survey, about two-thirds of organizations reported that they include ethical conduct as a performance measure in employee evaluations.[43]

Create an Ethical Work Environment

Most employees want to perform their jobs successfully and ethically, but good employees sometimes make bad ethical choices. Employees in highly competitive workplaces often feel pressure from aggressive competitors, cutthroat suppliers, unrealistic budgets, unforgiving quotas, tight deadlines, and bonus incentives. Employees may also be encouraged to do "whatever it takes" to get the job done. In such environments, some employees may feel pressure to engage in unethical conduct to meet management's expectations, especially if the organization has no corporate code of ethics and no strong examples of senior management practicing ethical behavior.

The most important influence on how employees act is their perception of their immediate boss's expectations. If the boss sets the expectation that compliance failures and ethical lapses will not be tolerated, then employees will be less likely to fail.

The following list includes several examples of how managerial behavior can encourage unethical employee behavior:

- A manager sets and holds people accountable to meet "stretch" goals, quotas, and budgets, causing employees to think, "My boss wants results, not excuses, so I have to cut corners to meet the goals my boss has set."
- A manager fails to provide a corporate code of ethics and operating principles to make decisions, so employees think, "Because the company has not established any guidelines, I don't think my conduct is really wrong or illegal."
- A manager fails to act in an ethical manner and instead sets a poor example for others to follow, so employees think, "I have seen other successful people take unethical actions and not suffer negative repercussions."
- Managers fail to hold people accountable for unethical actions, so employees think, "No one will ever know the difference, and if they do, so what?"
- Managers put a three-inch-thick binder entitled "Corporate Business Ethics, Policies, and Procedures" on the desks of new employees and tell them to "read it when you have time and sign the attached form that says you read and understand the corporate policy." Employees think, "This is overwhelming. Can't they just give me the essentials? I can never absorb all this."

Table 1-4 provides a manager's checklist for establishing an ethical workplace. The preferred answer to each question is *yes*.

Employees must have a knowledgeable resource with whom they can discuss perceived unethical practices. For example, Intel expects employees to report suspected violations of its code of conduct to a manager, the Legal or Internal Audit Departments, or a business unit's legal counsel. Employees can also report violations anonymously through an internal website dedicated to ethics. Senior management at Intel has made it clear that any employee can report suspected violations of corporate business principles without fear of reprisal or retaliation.

TABLE 1-4 Manager's checklist for establishing an ethical work environment

Question	Yes	No
Does your organization have a code of ethics?		
Do employees know how and to whom to report any infractions of the code of ethics?		
Do employees feel that they can report violations of the code of ethics safely and without fear of retaliation?		
Do employees feel that action will be taken against those who violate the code of ethics?		
Do senior managers set an example by communicating the code of ethics and using it in their own decision making?		
Do managers evaluate and provide feedback to employees on how they operate with respect to the values and principles in the code of ethics?		
Are employees aware of sanctions for breaching the code of ethics?		
Do employees use the code of ethics in their decision making?		

CRITICAL THINKING EXERCISE: HOW DOES YOUR EMPLOYER RATE?

Audit your most recent place of employment using the checklist in Table 1-4. Assign one point for each "yes" answer. What is your employer's score? What changes would you like to see made within your organization to improve that score?

INCLUDING ETHICAL CONSIDERATIONS IN DECISION MAKING

We are all faced with difficult decisions in our work and in our personal life. Most of us have developed a decision-making process that we execute automatically, without thinking about the steps we go through. For many of us, the process generally follows the steps outlined in Figure 1-7.

The following sections discuss this decision-making process further and point out where and how ethical considerations need to be brought into the process.

Develop Problem Statement

A **problem statement** is a clear, concise description of the issue that needs to be addressed. A good problem statement answers the following questions: What do people observe that causes them to think there is a problem? Who is directly affected by the problem? Is anyone else affected? How often does the problem occur? What is the impact of the problem? How serious is the problem?

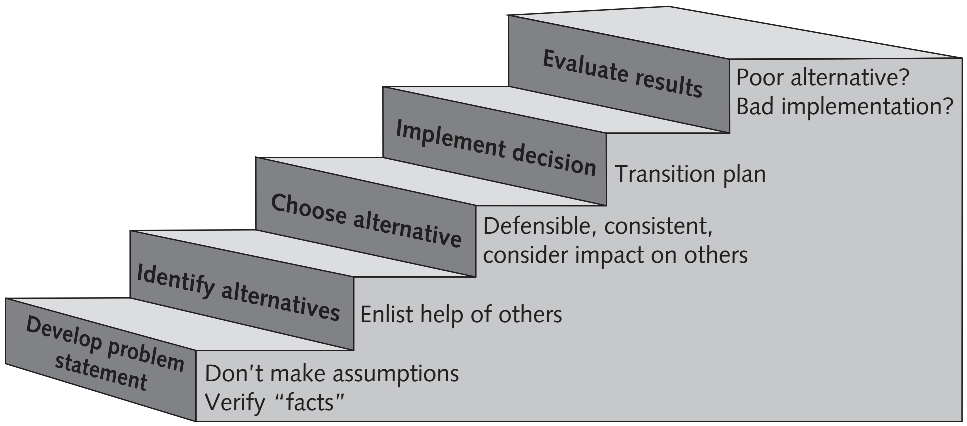

FIGURE 1-7 A five-step ethical decision-making process

Development of a problem statement is the most critical step in the decision-making process. Without a clear statement of the problem or the decision to be made, it is useless to proceed. If the problem is stated incorrectly, the chances of solving the real problem are greatly diminished. The following list includes one example of a good problem statement as well as two examples of poor problem statements:

- Good problem statement: Our product supply organization is continually running out of stock of finished products, creating an out-of-stock situation on over 15 percent of our customer orders, resulting in over $300,000 in lost sales per month.
- Poor problem statement: We need to implement a new inventory control system. (This is a possible solution, not a problem statement. Pursuing this course of action will surely be expensive and time consuming and, may or may not, solve the underlying problem.)
- Poor problem statement: We need to install cameras and monitoring equipment to put an end to theft of finished product in the warehouse. (Again, this is a possible solution, not a problem statement. And are there sufficient facts to support the hypothesis of theft in the warehouse?)

You must gather and analyze facts to develop a good problem statement. Seek information and opinions from a variety of people to broaden your frame of reference. During this process, you must be extremely careful not to make assumptions about the situation and carefully check key facts for validity. Simple situations can sometimes turn into complex controversies because no one takes the time to gather and analyze the real facts.

Identify Alternatives

During this stage of decision making, it is ideal to enlist the help of others, including stakeholders, to identify several alternative solutions to the problem. Brainstorming with others will increase your chances of identifying a broad range of alternatives and determining the best solution. On the other hand, there may be times when it is inappropriate to involve others in solving a problem that you are not at liberty to discuss. In providing participants information about the problem to be solved, offer just the facts, without your opinion, so you don't influence others to accept your solution.

During any brainstorming process, try not to be critical of ideas, as any negative criticism will tend to shut down the discussion, and the flow of ideas will dry up. Simply write down the ideas as they are suggested and ask questions only to gain a clearer understanding of the proposed solution.

Choose Alternative

Once a set of alternatives has been identified, the group must evaluate them based on numerous criteria, such as effectiveness of addressing the issue, the extent of risk associated with each alternative, cost, and time to implement. An alternative that sounds attractive but that is not feasible will not help solve the problem.

As part of the evaluation process, weigh various laws, guidelines, and principles that may apply. You certainly do not want to violate a law that can lead to a fine or imprisonment for yourself or others. Do any corporate policies or guidelines apply? Does the organizational code of ethics offer guidance? Do any of your own morals apply?

Consider the likely consequences of each alternative from several perspectives: What is the impact on you, your organization, other stakeholders (including your suppliers and customers), and the environment? Does this alternative do less harm than other alternatives?

The alternative selected should be ethically and legally defensible to a collection of your coworkers, peers, and your profession's governing body of ethics; be consistent with the organization's policies and code of ethics; take into account the impact on others; and, of course, provide a good solution to the problem.

Implement the Decision

Once an alternative is selected, it should be implemented in an efficient, effective, and timely manner. This is often much easier said than done, because people tend to resist change. In fact, the bigger the change, the greater is the resistance to it. Communication is the key to helping people accept a change. It is imperative that someone whom the stakeholders trust and respect answer the following questions:

- Why are we doing this?
- What is wrong with the current way we do things?
- What are the benefits of the new way for you?

A transition plan must be defined to explain to people how they will move from the old way of doing things to the new way. It is essential that the transition be seen as relatively easy and pain free. It may be necessary to train the people affected, provide incentives for making the change in a successful fashion, and modify the reward system to encourage new behaviors consistent with the change.

Evaluate the Results

After the solution to the problem has been implemented, monitor the results to see if the desired effect was achieved and observe its impact on the organization and the various stakeholders. Were the success criteria fully met? Were there any unintended consequences? This evaluation may indicate that further refinements are needed. If so, return to the problem development step, refine the problem statement as necessary, and work through the process again.

On the other hand, the proper alternative may have been selected, but it was implemented in a poor fashion so the desired results were not achieved. This may require redoing some of the implementation steps.

CRITICAL THINKING EXERCISE: AN OVERWHELMED EMPLOYEE

You are the customer support manager for a small software manufacturer. The newest addition to your 10-person team is Elliot, a recent college computer science graduate. She is a little overwhelmed by the volume of calls, but is learning quickly and doing her best to keep up. Today, over lunch, one of the other members of your team informed you that she overheard a phone conversation in which it sounded like Elliot was talking with a headhunter and expressing unhappiness with her current situation. You're shocked and alarmed. You had no idea she was unhappy, and your team desperately needs her help to handle the onslaught of calls generated by the newest release of software. If you're going to lose her, you'll need to find a replacement quickly. Should you confront Elliot and demand to know her intentions? Should you avoid any confrontation and simply begin seeking her replacement? Is some other action appropriate? Follow the five-step process for ethical decision making to decide what your next steps should be.

ETHICS IN INFORMATION TECHNOLOGY

The growth of the Internet and social networks; the ability to capture, store, and analyze vast amounts of personal data; and a greater reliance on information systems in all aspects of life have increased the risk that information technology will be used unethically. In the midst of the many IT breakthroughs in recent years, the importance of ethics and human values has been underemphasized—with a range of consequences. Here are some examples that raise public concern about the ethical use of information technology:

- Governments around the world have implemented various systems that enable the surveillance of their citizens and are struggling to achieve the proper balance between privacy and security.
- Many employees have their email and Internet access monitored while at work, as employers struggle to balance their need to manage important company assets and work time with employees' desire for privacy and self-direction.
- Millions of people have downloaded music and movies at no charge and in apparent violation of copyright laws at tremendous expense to the owners of those copyrights.
- Organizations contact millions of people worldwide through unsolicited email and text messages in an extremely low cost, but intrusive marketing approach.

- Hackers break into databases of financial and retail institutions to steal customer information and then use it to commit identity theft—opening new accounts and charging purchases to unsuspecting victims.
- Students around the world have been caught downloading material from the web and plagiarizing content for their term papers.
- Websites plant cookies or spyware on visitors' hard drives to track their online purchases and activities.

This book is based on two fundamental tenets. First, the general public needs to develop a better understanding of the critical importance of ethics as it applies to IT; currently, too much emphasis is placed on technical issues. IT has a profound effect on society, and IT professionals and end users need to recognize this fact when they implement technology and formulate policies that will have legal ramifications and affect the well-being of millions of consumers.

The second tenet on which this book is based is that important business-technology decisions with strong ethical implications are too often left to the technical experts to decide (for example, what data to gather about customers, where to store it, how to use it, and what level of security to employ to protect it). General business managers must assume greater responsibility for such decisions, but to do so they must be able to make broad-minded, objective decisions based on technical savvy, business know-how, and high ethical standards. They must also try to create a working environment in which ethical dilemmas can be discussed openly, objectively, and constructively.

Thus, the goals of this text are to educate people about the tremendous impact of ethical issues in the successful and secure use of information technology; to motivate people to recognize these issues when making business decisions; and to provide tools, approaches, and useful insights for making ethical decisions.

CRITICAL THINKING EXERCISE: CIO SURPRISES CFO

You are the Chief Financial Officer (CFO) of a midsized manufacturing firm with annual revenue exceeding $100 million. You have heard nothing but positive comments about the new Chief Information Officer (CIO) you hired three months ago. As you listen to her outline what needs to be done to improve the firm's computer security, you are impressed with her energy, enthusiasm, and presentation skills. However, your jaw drops when she states that the total cost of the proposed computer security improvements will be $250,000. This seems like a lot of money for security, given that your firm has had no major incident. Several other items in the budget will either have to be dropped or trimmed back to accommodate such an expenditure. In addition, the $250,000 is above your spending authorization and will require approval by the CEO. This will require you to defend the expenditure, and you are not sure how to do this. As you look around the conference room, you can see that other members of your staff are just as surprised as you. What serious mistake has the CIO made and how could this have been avoided?

Summary

What is ethics?

- Ethics is a code of behavior that is defined by the group to which an individual belongs.
- Morals are the personal principles upon which an individual bases his or her decisions about what is right and what is wrong.
- A person who acts with integrity acts in accordance with a personal code of principles.
- Law is a system of rules that tells us what we can and cannot do. Laws are enforced by a set of institutions (the police, courts, and law-making bodies).
- A code of ethics states the principles and core values that are essential to one's work.
- Just because an activity is defined as legal does not mean that it is ethical.

What trends have increased the likelihood of an unethical behavior?

- Globalization has created a much more complex work environment, making it more difficult to apply principles and codes of ethics consistently.
- Organizations may be tempted to resort to unethical behavior to maintain profits in today's more challenging and uncertain economic climate.
- It is not unusual for powerful, highly successful individuals to fail to act in morally appropriate ways as such people are often aggressive in striving for what they want and are used to having privileged access to information, people, and other resources. Furthermore, their success often inflates their belief that they have the ability and the right to manipulate the outcome of any situation.

What is corporate social responsibility, and why is fostering good business ethics important?

- Corporate social responsibility is the concept that an organization should act ethically by taking responsibility for the impact of its actions on its shareholders, consumers, employees, community, environment, and suppliers.
- Supply chain sustainability is a component of CSR that focuses on developing and maintaining a supply chain that meets the needs of the present without compromising the ability of future generations to meet their needs.
- Each organization must decide if CSR is a priority, and if so, what its specific CSR goals are.
- Organizations have five good reasons for pursuing CSR goals and promoting a work environment in which they encourage employees to act ethically: (1) to gain the goodwill of the community, (2) to create an organization that operates consistently, (3) to foster good business practices, (4) to protect the organization and its employees from legal action, and (5) to avoid unfavorable publicity.

What measures can organizations take to improve their business ethics?

- An organization can take several actions to improve its business ethics including: appointing a corporate ethics officer, requiring its board of directors to set and model high ethical standards, establish a corporate code of ethics, conduct social audits, require employees to take ethics training, include ethical criteria in employee appraisals, and create an ethical work environment.

How can you include ethical considerations in your decision making?

- Often, people employ a simple decision-making model that includes these steps: (1) define the problem, (2) identify alternatives, (3) choose an alternative, (4) implement the decision, and (5) monitor the results.
- You can incorporate ethical considerations into decision making by identifying and involving the stakeholders; weighing various laws, guidelines, and principles—including the organization's code of ethics—that may apply; and considering the impact of the decision on you, your organization, stakeholders, your customers and suppliers, and the environment.

What trends have increased the risk that information technology will be used in an unethical manner?

- The growth of the Internet and social networks; the ability to capture, store, and analyze vast amounts of personal data; and a greater reliance on information systems in all aspects of life have increased the risk that information technology will be used unethically.
- In the midst of the many IT breakthroughs in recent years, the importance of ethics and human values has been underemphasized—with a range of consequences.

Key Terms

Bathsheba syndrome
code of ethics
corporate compliance officer
corporate ethics officer
corporate social responsibility (CSR)
ethics
integrity
law
morals
problem statement
social audit
software piracy
supply chain sustainability
stakeholder
vice
virtue

Self-Assessment Questions

What is ethics?

1. The term ______________ describes the standards or codes of behavior expected of an individual by a group to which the individual belongs.
   a. morals
   b. ethics
   c. virtues
   d. integrity