

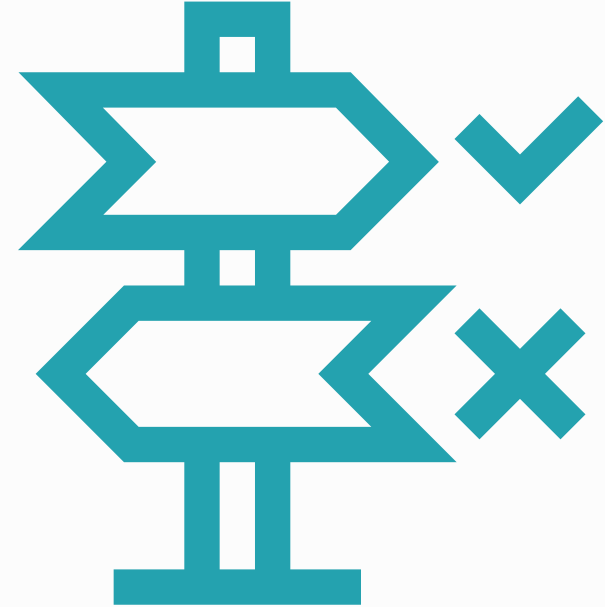


Professional **Ethics**

Course Introduction



Ethics need to be understood, thought about, and embraced.



What to do when you are faced with an ethical dilemma?



How to respond and maintain your own ethical integrity?

Learning Objectives



Explain why ethics matter within an organization



Describe the elements of business ethics



Understanding the ethical culture of an organization



Apply professional ethics and the moral principles of integrity



Apply approaches to ethical decision making



Utilize sources of ethical guidance



Why Ethics Matter

Recent Public Lapses in Ethical Standards

Six companies that have had ethical lapses:

theranos

we work



For each of the organizations listed, research what the ethical lapse was and what the resultant impact was on the company.

- How was the ethical lapse discovered?
- What was the impact of that lapse on the company?

Exercise Answer

theranos

Charismatic but unethical
leaders

- The claims made that the blood tests worked were false.
- Thousands of blood tests were inaccurate and some cost people their lives.
- Whistleblower went to press.
- **Theranos was dissolved in September 2018, and the lawsuits continue.**

we work

Had a valuation of over \$1BN
during startup

- Falsely inflated company value.
- CEO self-dealt in a number of different areas.
- Collapse of IPO.
- **CEO was fired** and the company has been trying to recover its reputation and financial stability.

Exercise Answer



- Two Boeing 737 MAX crashes prompted full Federal Aviation Authority investigation.
- Leaked incriminating documents showed that the MAX was known to be unsafe.
- However, Boeing chose profitability over safety and put a poorly-designed, unsafe airplane into service.
- **Stock price took a sharp decline and may never recover.**



- In 2005, an oil refinery explosion caused one of the principal investigators to write a book ("Failure to Learn") about the lack of safety culture over profits.
- In 2010, Deepwater Horizon offshore oil rig explosion killed 11 workers and destroyed a significant portion of the Gulf Coast.
- **Stock price took a sharp decline. Paid billions in legal costs and fines.**

Exercise Answer



Exercise Answer



- European car manufacturer that wanted to enter the North American market.
- Installed a software chip into cars to cheat emissions tests and advertised cars as “clean diesel.”
- Accidentally discovered by research students trying to replicate tests, and an insider revealed the reason.
- Paid over \$30BN in fines & legal fees, and many of their executives have received jail sentences.



- US retail bank with an aggressive sales culture.
- Defrauded their customers by selling unwanted credit card accounts, opening unauthorized accounts, transferring funds from good accounts to bad/unauthorized accounts, and making unauthorized credit inquiries.
- Complaints to the Consumer Financial Protection Bureau and anonymous tips by employees to journalists helped uncover the fraud.

Exercise Answer



A Measure of the World's Most Ethical Companies

In 2020, **132 companies** in **21 countries** were considered to be the world's most ethical companies.

These companies outperform the large-cap index by 13.5%.

ETHISPHERE
GOOD. SMART. BUSINESS. PROFIT.

FIVE-YEAR ETHICS PREMIUM: 13.5%

Performance of the listed 2020 Honorees as compared to the Large Cap Index from January 2015 to January 2020

● 2020 ETHX
● LARGE CAP INDEX



The Need for an Ethical Workplace

*"Companies that invest in ethics reap an **enormous return**. Better workplace ethics cuts **business risks** by reducing the chance that serious ethics problems will throw companies off course and distract them from their core business."*

Ethics Compliance Initiative CEO, Patricia Harned

- Lawsuits
- Fines
- Penalties
- Jail time
- Company may cease operations
- Stakeholders may lose trust
- Lives may be lost

Maintain Your Own Ethical Integrity

- Prepare to take a stand when needed
- Understand what the ethical culture and climate is in the organization





What Are the Elements of Business Ethics

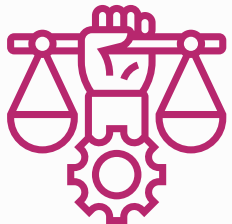
Defining Ethics

Ethics

A system of moral principles accepted by a social group

Moral Principles

The principles of right and wrong that are accepted by an individual or a social group



Different social groups will have **different moral principles**, and the rules of conduct in each social group may be different.

- Religious organizations
- Social groups
- Sporting events

Business Ethics

Business or Corporate Ethics

A set of applied or professional ethics that are relevant to the group

Conduct

The way people act, governed by the business ethics of that organization



The way people respond to moral or ethical problems will be indicative of the ethical principles that the organization has adopted.

Essentially, it will be reflective of the corporate, or ethical, culture of the business.

Business Ethics

As business ethics are applied ethics, there are **particular concepts** that relate to them.



AUTONOMY

Use of Knowledge

- Not to be used to exploit or coerce another to act
- Not to be used for your own personal gain



DOING NO HARM

Take no Action

- Won't steal, abuse, harass, slander, or any other action that could cause harm to another individual or the organization



DOING GOOD

Preventing Harm

- Protecting and defending the rights of others relates to this concept



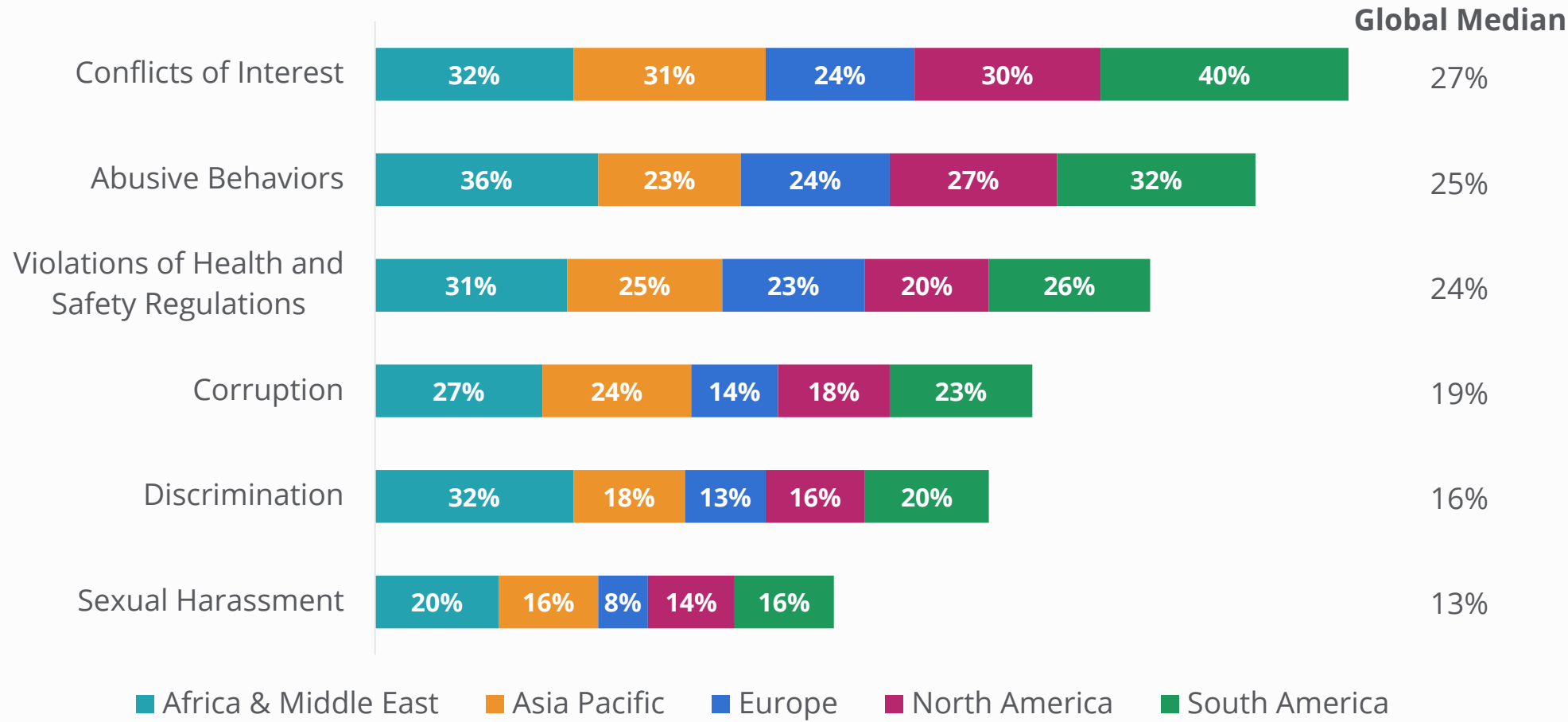
JUSTICE

Being Fair

- Is the action that is being taken right?
- Has or will justice be done?
- Are people being treated fairly?

2019 ECI Global Business Ethics Survey

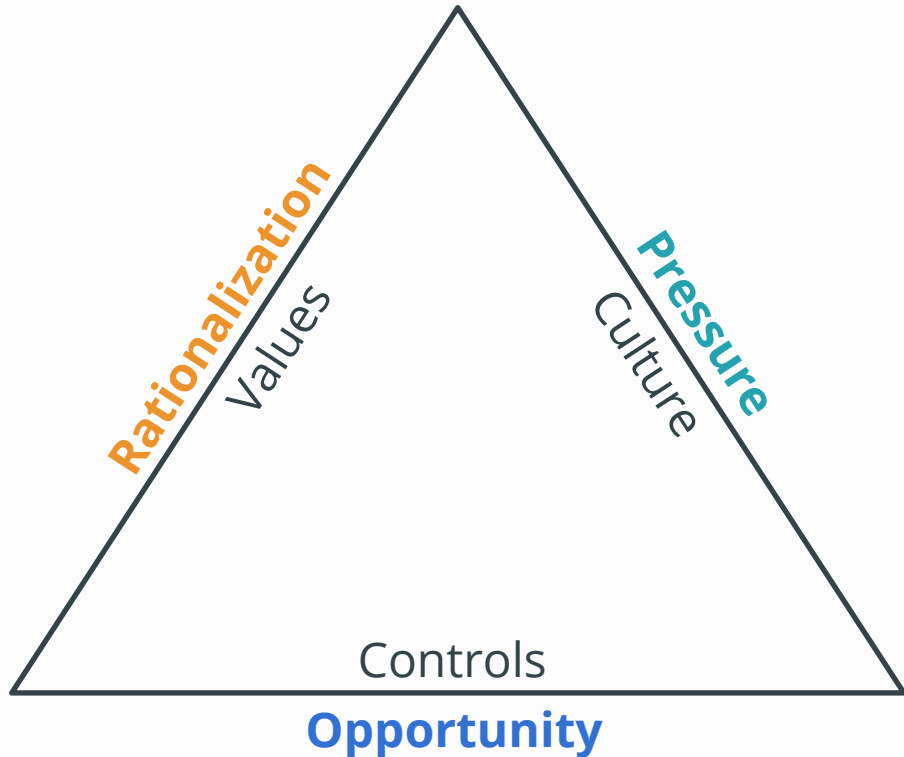
Employees Who Observed Misconduct



Ethics & Compliance Initiative, "Global Ethics Survey®", 2019

Fraud Triangle and Culture

What can cause misconduct to happen?



Opportunity - Is there an opportunity to commit the act?

Opportunities would be managed by having the proper preventive and detective controls.

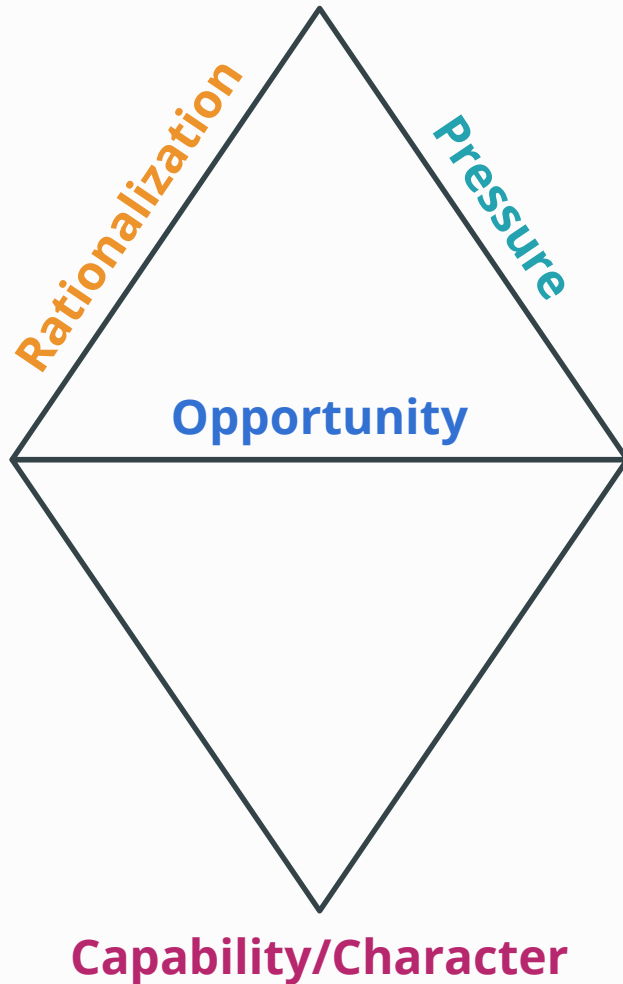
Rationalization - Can the individual rationalize committing the misconduct?

Rationalization is addressed by communicating corporate values and emphasizing those values, one of which should be respect.

Pressure - Is there some external pressure being put on the individual that would encourage that person to take advantage of the opportunity?

Pressure is addressed by having a strong ethical culture in the organization.

Fraud Triangle...or Diamond



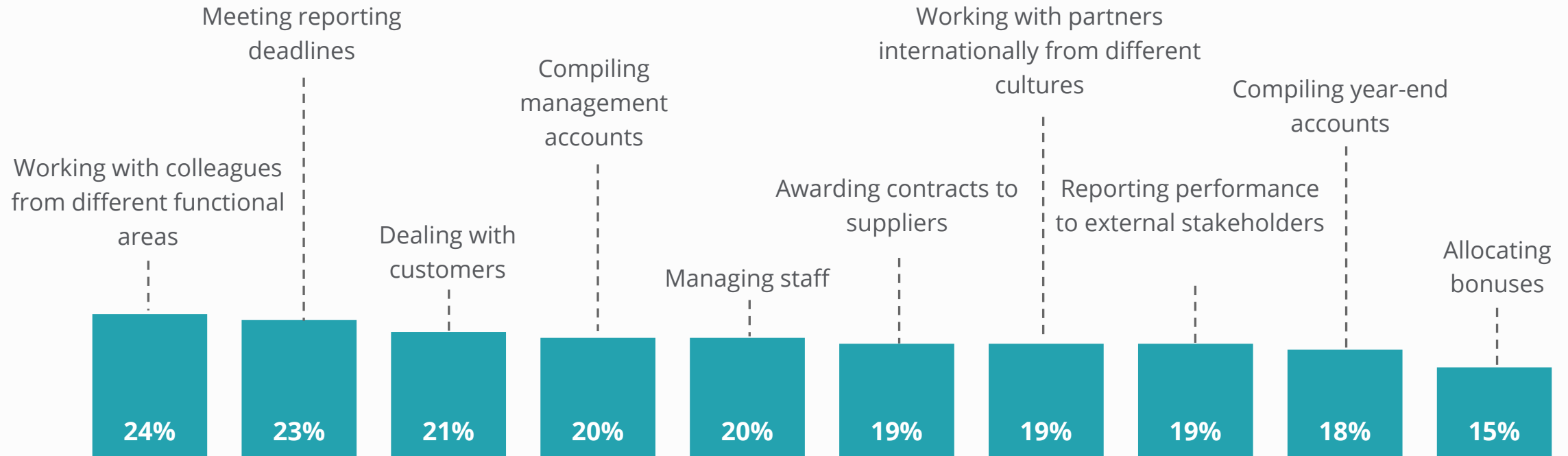
The fraud diamond theory came about in the post-Enron/WorldCom era back in early 2000.

All of the factors that form the triangle can be present, but it takes **capability** for the fraud, or misconduct, to occur.

- Understand your own moral principles
- Understand how you would react when faced with an ethical dilemma
- Reinforce that through training and mindfulness

Fraud Diamond and Culture

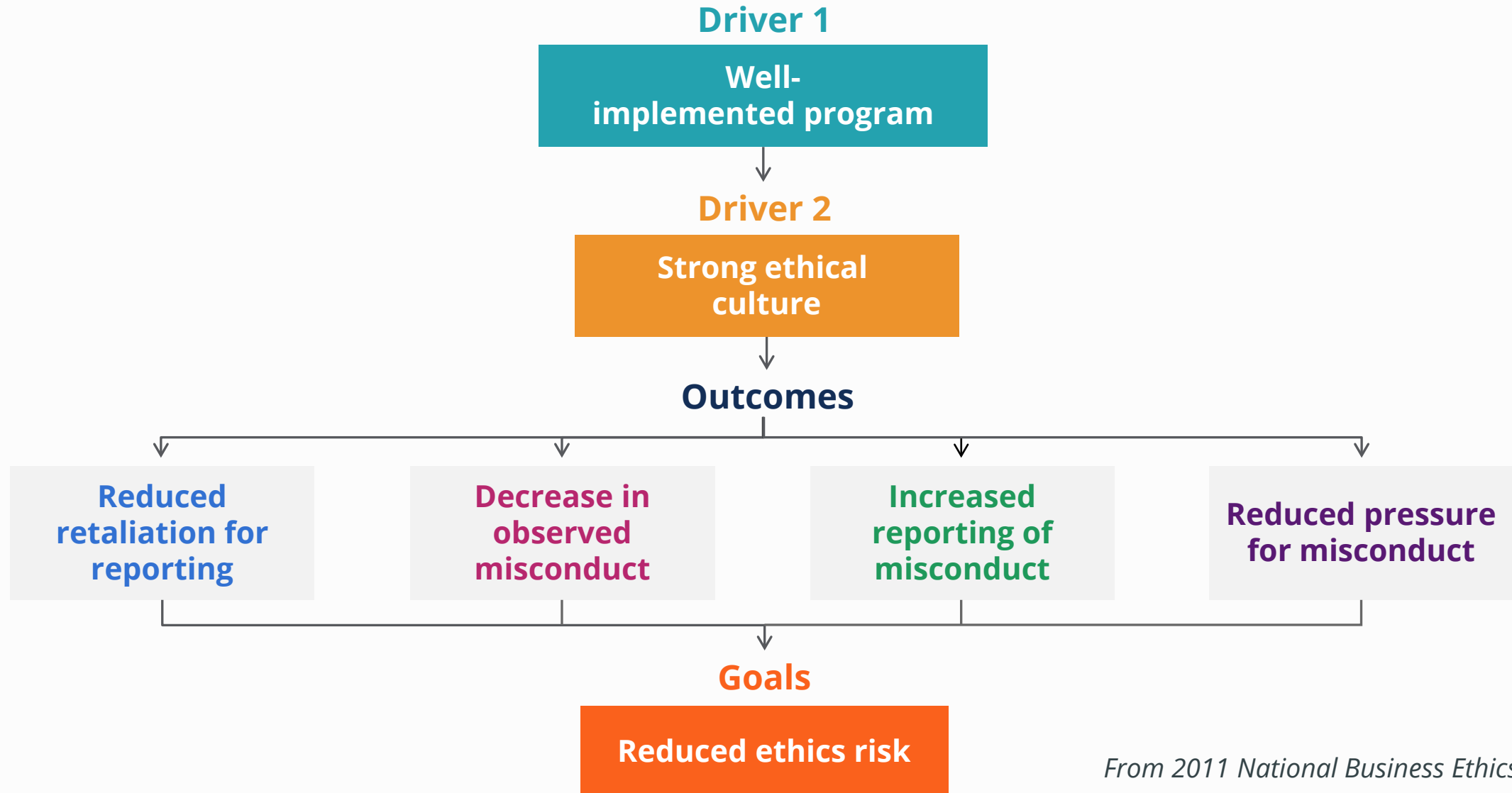
Types of pressures or incentives that can cause someone to compromise ethical business conduct:



CGMA Report. Managing responsible business. 2015

How likely are these situations to result in pressure on you to compromise your organization's / your standards of ethical business conduct?

Reducing Ethics Risk



From 2011 National Business Ethics Survey

Components of Strong Ethics Programs

- **Written** standards for ethical conduct.
- Training on company **standards** of ethical workplace conduct.
- Provision of a **mechanism for reporting** misconduct anonymously.
- Provision of a **mechanism for seeking ethics-related advice** or information.
- Assessment of ethical conduct as part of **employee performance evaluations**.
- **Discipline of employees** who violated the standards of the organization or the law.



Opening a conversation is the first step of awareness.

Code of Conduct & Ethics Policies



Ethical code

An **ethical code** is adopted by an organization in an attempt to assist those in the organization called upon to make a decision to understand the difference between **'right'** and **'wrong'** and to apply this understanding to their decision.



Code of conduct

A **code of conduct** is a set of rules outlining the **responsibilities** of, or proper **practices** for, an individual or organization.

Examples:

- The AICPA has a code of conduct.
- CIMA has a code of ethics.
- Professional engineers have a code of ethics, as do attorneys.
- CFI certification program candidates need to sign the Honor Pledge.

Code of Conduct & Ethics Policies

The topics that a code of conduct typically will cover:



Respect for the Law

Won't knowingly break any laws



Personal Integrity

Act in an ethically responsible way



Confidentiality of Information

Any information you receive must be kept confidential



Conflicts of Interest

Won't take advantage of your employment for a personal benefit



Compliance with the Code

Failure of compliance will result in disciplinary action



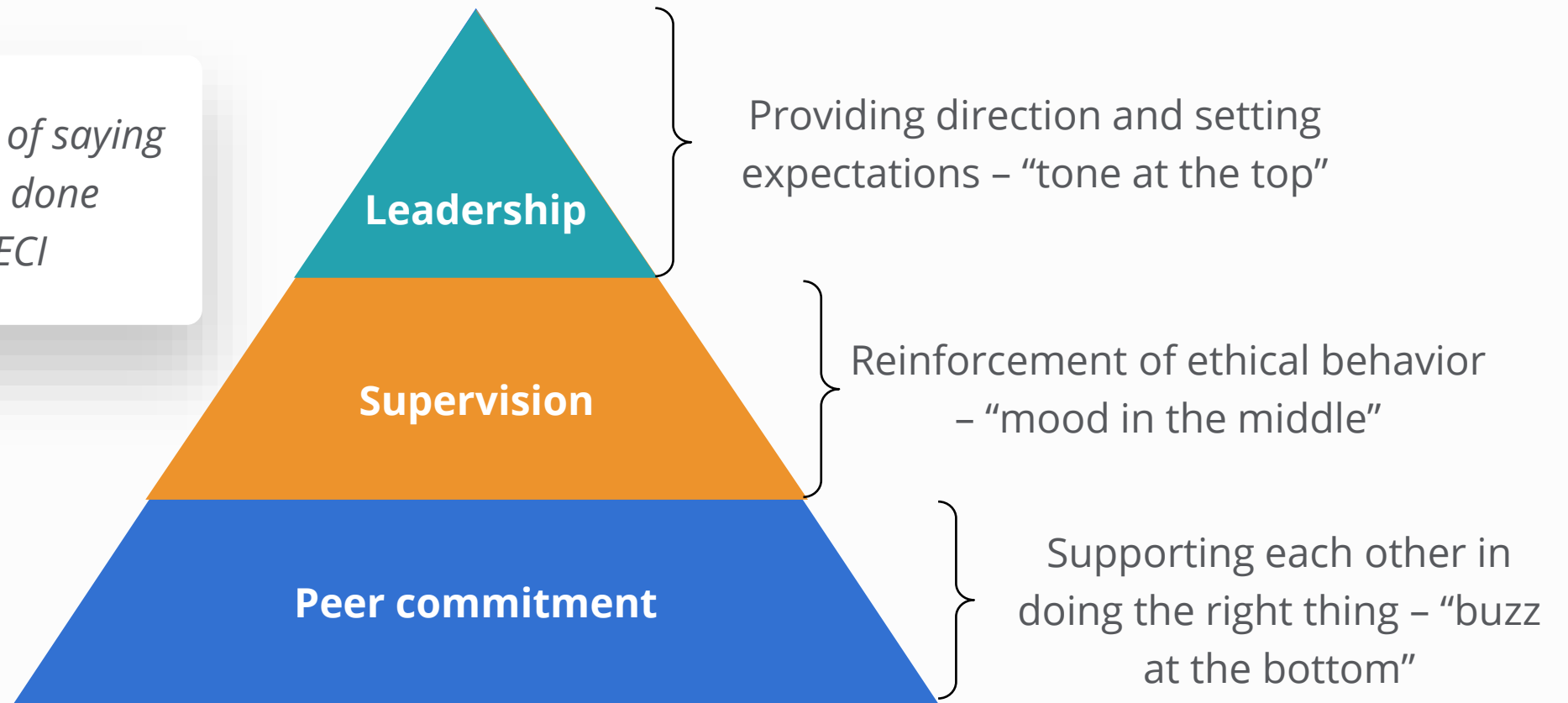
The Ethical Culture of Organizations

What Comprises an Ethical Culture

Can a corporation be unethical?

It's **not the organization** that's unethical. Rather, it's **the people** within the organization that drive its culture.

*Culture is another way of saying
"the way things are done
around here." - ECI*



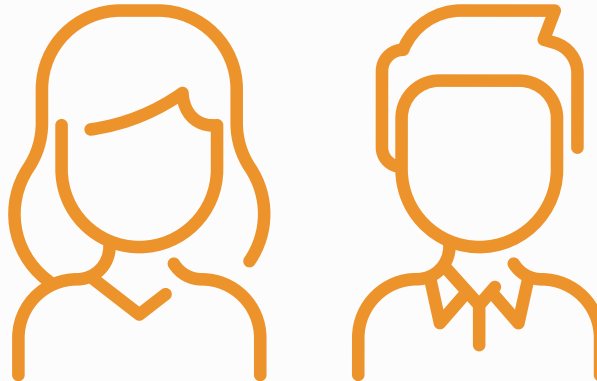
Symptoms of a Weak Ethical Culture

The best way to gain a sense of what the ethical culture is in an organization is to **listen to what people are saying**.

Watch out for **rationalizations**:

This isn't bad! You should have seen...

Everybody does this.



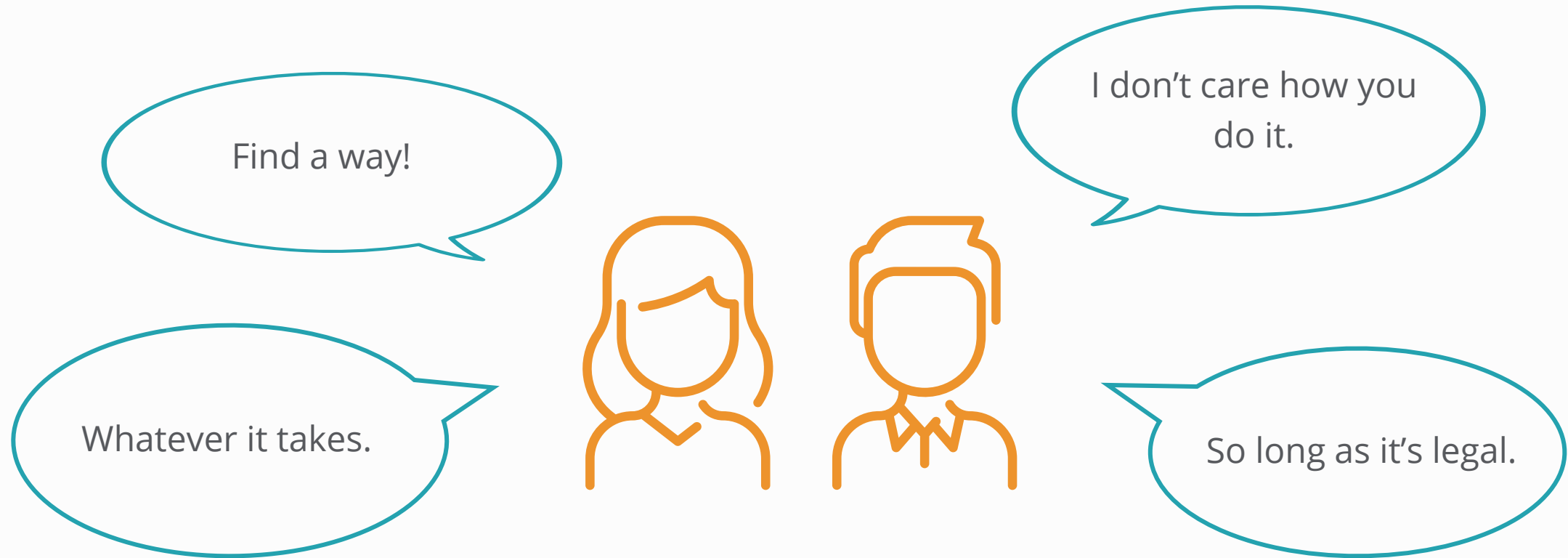
This is the way it has always been done.

It doesn't really hurt anyone.

Symptoms of a Weak Ethical Culture

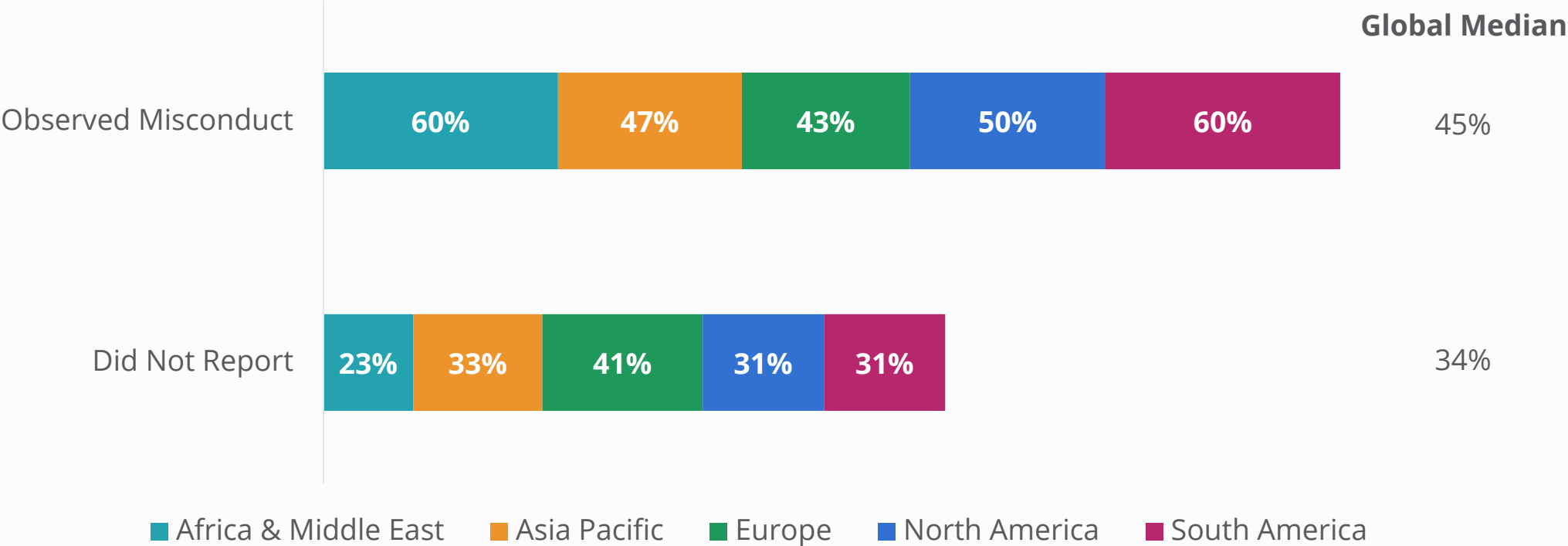
The best way to gain a sense of what the ethical culture is in an organization is to **listen to what people are saying**.

Watch out for **signals**:



2019 ECI Global Business Ethics Survey

An organization with a **weak ethical culture** will tend to have a **greater amount of misconduct** that both occurs and goes unreported compared to others.

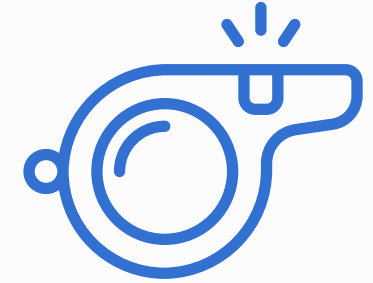


Ethics & Compliance Initiative, "Global Ethics Survey®", 2019

Whistleblowing

Whistleblowing is the act of raising concerns about one or more acts that co-workers, superiors, or others connected to the company are performing that are essentially illegal.

This usually is attributed to fraud, corruption, or a health or safety concern that would threaten the public as a whole.



Who are the whistleblowers?

Company insiders; employees who have a strong moral compass



Who investigates?

Internal audit will be tasked with a preliminary investigation



Who receives the report?

An independent party (e.g., the chair of the audit committee)



How do whistleblowers remain anonymous?

Use a confidential whistleblower hotline

The Whistleblower Dilemma

People may be reluctant to report misconduct. **34% of the observed misconduct went unreported.**



What do you think are the reasons people don't "blow the whistle"?



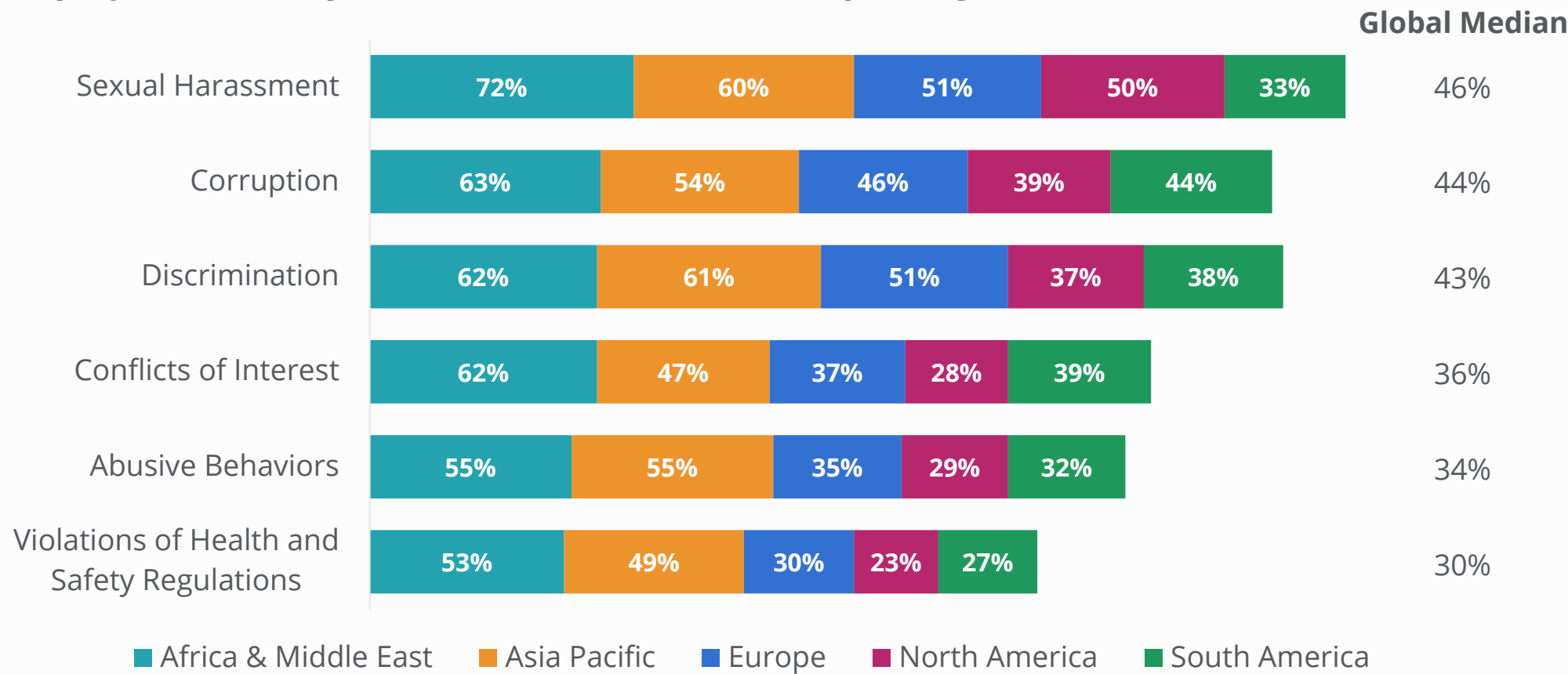
For those who do, what do you believe are the protections in place for them?



Why People Don't Blow the Whistle

One of the most common reasons that employees choose not to report misconduct is **fear of retaliation**.

Employees who experienced retaliation after reporting misconduct:



Ethics & Compliance Initiative, "Global Ethics Survey®", 2019

Why People Don't Blow the Whistle

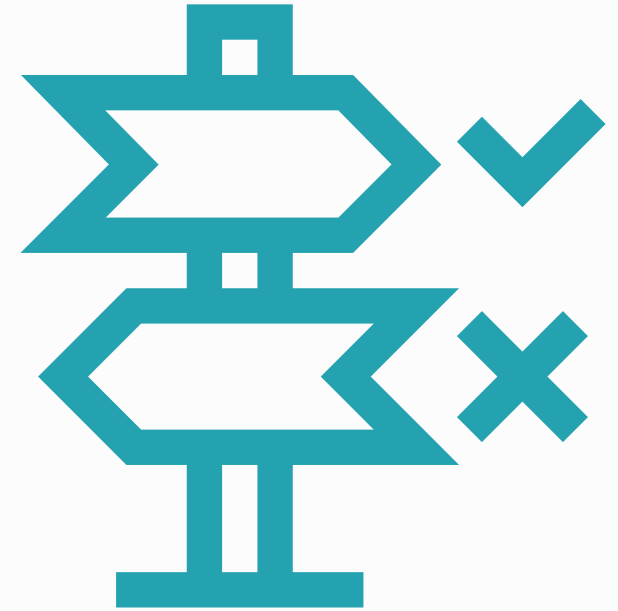
Whistleblowers want anonymity, but rarely have it.

You have to be prepared that if you do blow the whistle, there may be consequences.

- Pay attention to your moral compass.
- Consider what you would do if faced with a similar situation.

Pay attention to the signals

If you believe the company you work for does not have a strong ethical culture, it may be in your best interest to look for a different work environment before you're faced with an ethical dilemma.





Professional Conduct

A Word About Integrity

Professional conduct is a companion concept to workplace ethics but is often associated with professionals.

In all instances, a professional must act with integrity.



Honest and candid



Free from personal gain and advantage



Consider objectivity, independence, and due care



Am I doing what a person of integrity would do?



Have I retained my integrity?

If the answer is not yes, you should either refuse the work or the client and disclose the reason.

Independence and Objectivity

Independence (Relates to Environment)

Freedom from material conflicts of interest that threaten objectivity



Objectivity (Relates to Individual or Team)

A state of mind in which biases do not inappropriately affect assessments, judgments, and decisions

Independence in Fact

Factors that could impair independence include:

- Having close personal or financial ties to the client
- Being paid a commission or a contingent fee

Independence in Appearance

Others perceive that you can make independent decisions.

- Previously worked for the client
- A family member is connected to the client

Actual

Perceived

Example of Impairment:

By accepting gifts from clients, you may feel obliged to make an assessment or decision you otherwise wouldn't have made.

Therefore, independence means the ability to act with objectivity and integrity.

Conflicts of Interest

Independence and **objectivity** relate to client work. **Conflicts of interest** will impair independence and objectivity, but they relate to everyone.

A conflict is a difference between one's private interest and his or her fiduciary responsibilities.



Individual

Conflict between **the employee** and **the organization**.

Examples:

- An employee's supervisor is a family member and has control over his or her job responsibilities, salary, and any promotions that might come up.
- An employee works part time for a competitor.
- An employee receives personal payment for services provided to customers during their time off.

Conflicts of Interest

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A conflict is a difference between one's private interest and his or her fiduciary responsibilities.

Examples:

- A contractor having access to confidential information, allowing them an unfair competitive advantage to future contracts.
- Where a contractor or supplier establishes the requirements of rules surrounding a request for proposal, and then bids on that RFP. They have the opportunity to ensure the requirements will only be a fit for them.



Organization

Conflict between **the organization** and **a third party** (e.g., customer, supplier, contractor).

Conflicts of Interest

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Individual

Conflict between **the employee** and **the organization**.



Organization

Conflict between **the organization** and **a third party** (e.g., customer, supplier, contractor).

There can also be **a relationship between individual and organizational conflicts of interest**.

The Consequences of Conflicts

There are a number of risks that can surface where conflicts of interest arise:



Poor decision making



**Creation of an
inappropriate work
environment**



**Misuse of confidential
information**



**Erosion of corporate
culture**

Areas Where Conflicts Occur

Consider the following areas where conflicts of interest can occur:

- **Direct or indirect** financial interest in an enterprise
- **Loans / guarantees** to or from an enterprise (including officers, directors, principal shareholders)
- **Business, family, and personal relationships**
- Serving as **director or officer** of an enterprise
- **Long-term association**
- **Personal use** of corporate property
- **Corporate opportunities**
- **Gifts and entertainment**



You were involved in an M&A deal and had to conduct due diligence on a company that you had an indirect financial interest in.

- What impact could this have on your ability to make an unbiased report?
- How could others perceive your objectivity if they knew of your financial interest?

Conflicts of interest must be disclosed as soon as they are known.



Approaches to Ethical Decision Making

Ethical Decision-Making Framework

When faced with an ethical dilemma, you will want to apply a framework in deciding the right course of action to take.

01 What are the facts?

02 Available alternatives

03 Laws, regulations, policies, and procedures

04 Stakeholders and consequences

05 Your values and those of the organization

06 Relationships between the stakeholders

07 Link with organization's mission and reputation

08 Possible influences and personal interests

09 Make decision and take action

10 Verification

Ethical Considerations

How can ethical decisions be influenced?

Decision making involving ethical considerations are influenced significantly by the personal characteristics of the decision maker.



Personal values

They serve to evaluate situations and others' behavior.



Level of control

The extent to which one feels control over life events.



Level of moral development

Takes into account one's moral obligations towards others and one's personal self-interest.



Organizational culture and rewards

Includes current practices and policies, beliefs, values, and assumptions that influence daily conduct.

Theories of Ethical Decision Making

There are essentially five basic approaches related to ethical decision making:



**The utilitarian
approach**



**The rights
approach**



**The justice
approach**



**The common
good approach**



**The virtue
approach**

Utilitarian Approach

According to the utilitarian approach, ethical actions are those that provide the greatest balance of good over evil.

- 1 Identify the various courses of action available.
- 2 Ask who will be affected by each action and what benefits or harms will be derived from each.
- 3 Choose the action that will produce the greatest benefits and the least harm.

The utilitarian approach overall assumes that the right action to take is the one that provides the greatest good for the greatest number.



Rights Approach

The rights approach starts with the right to choose freely.

- **The right of privacy** - We have the right to do, believe, and say whatever we choose in our personal lives so long as we do not violate the rights of others.
- **The right to the truth** - We have a right to be told the truth and to be informed about matters that significantly affect our choices.
- **The right not to be injured** - We have the right not to be harmed or injured unless we freely and knowingly do something to deserve punishment or we freely and knowingly choose to risk such injuries.
- **The right to what is agreed** - We have a right to what has been promised by those with whom we have freely entered into a contract or agreement.



Does the action respect the moral rights of everyone?

Justice Approach

The justice approach considers the fairness of an action.

- Does it treat everyone in the same way, or does it show favoritism and discrimination?
- **Favoritism** gives benefits to some people without a justifiable reason for singling them out.
- **Discrimination** imposes burdens on people who are no different from those on whom burdens are not imposed.

Both favoritism and discrimination are **unjust** and **wrong**.



How do you justify the decision that you make?



Is there an alternative decision that will protect the stakeholders from favoritism and/or discrimination?

Common Good Approach

The common good approach assumes a society of individuals whose own good is linked to the good of the community.



Will your decision ensure that the social policies, social systems, institutions, and environments are beneficial to all?



How can the action you wish to take positively impact society?



What good to the community will it bring?



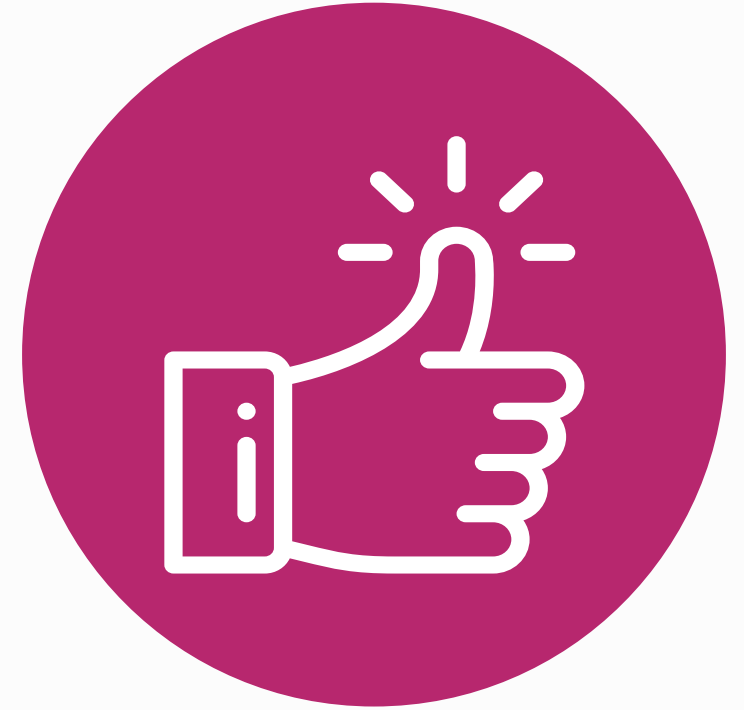
Will it help improve the health or safety of the community?



Will it improve the environment?



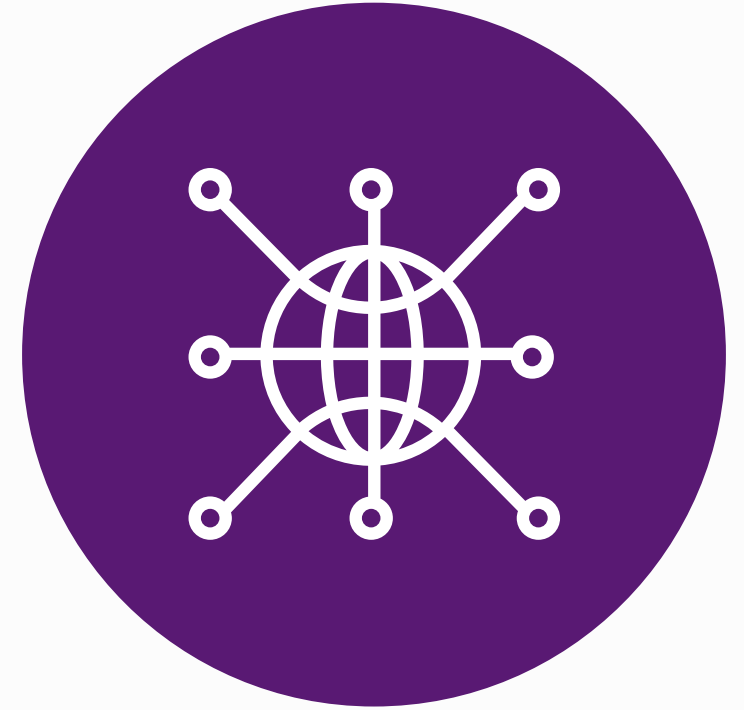
Will it encourage fairness?



Virtue Approach

The virtue approach to ethics assumes that there are certain ideals toward which we should strive.

- Virtues are attitudes or character traits that enable us to be and to act in ways that develop our highest potential.
- Virtues allow us to pursue the ideals we have adopted.
- A person who has developed virtues will be naturally disposed to act in ways consistent with moral principles.



Will the decision you wish to make cast you as a virtuous person?



Will you feel that the decision has helped you promote the person you want to be?



Would others perceive you as virtuous for making that decision?

Obstacles to Ethical Behavior

The decision to act ethically, or unethically, is influenced by a person's surroundings and experiences.

Significant obstacles include:



**Understanding
the Issue**



Competing Goals



**Competing
Stakeholders**



Competing Ethics



**Observed
Behavior**



**Immediate
Gratification**

Making Ethical Decisions

Most decisions made on a daily basis are routine ones.

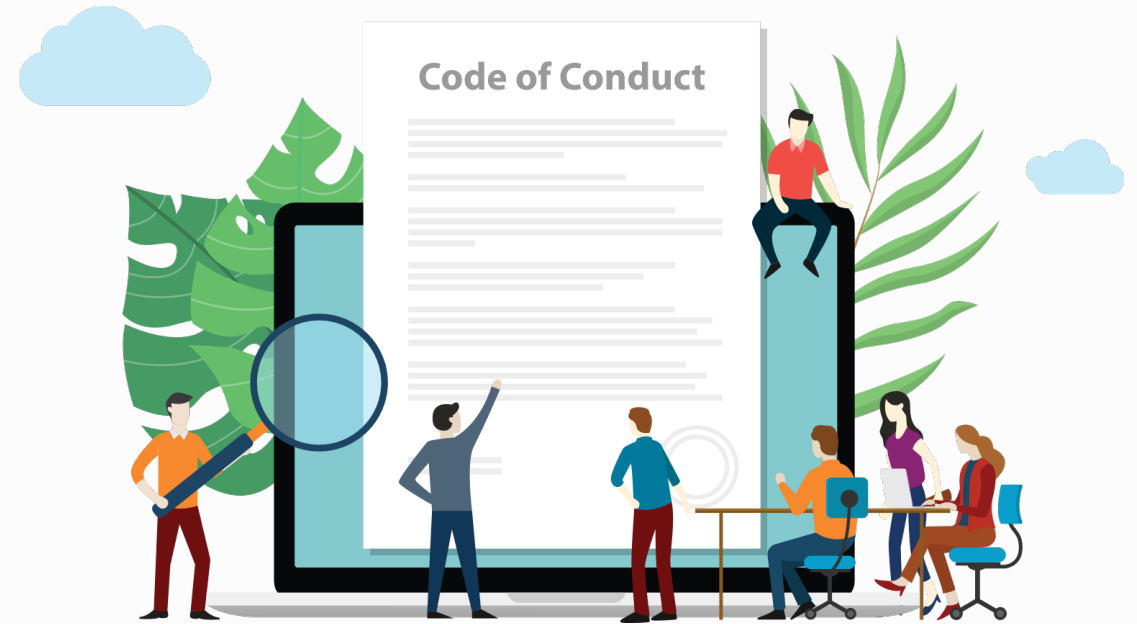


“Analysis frozen into habit.”

When faced with ethical decision making, you want to create that same **habitual way of responding** by:

- Sensitizing yourself to ethical scenarios
- Receiving training
- Talking to others
- Following those who demonstrate ethical leadership

Organizations with a good corporate culture are **willing to question established practices** to ensure that **decisions are made based on ethical considerations.**



Sources of Guidance

Sources of ethical obligation include:

Laws

Professional
standards

Policies,
procedures and
guidelines



Personal conscience – the most morally superior source of ethical obligation.