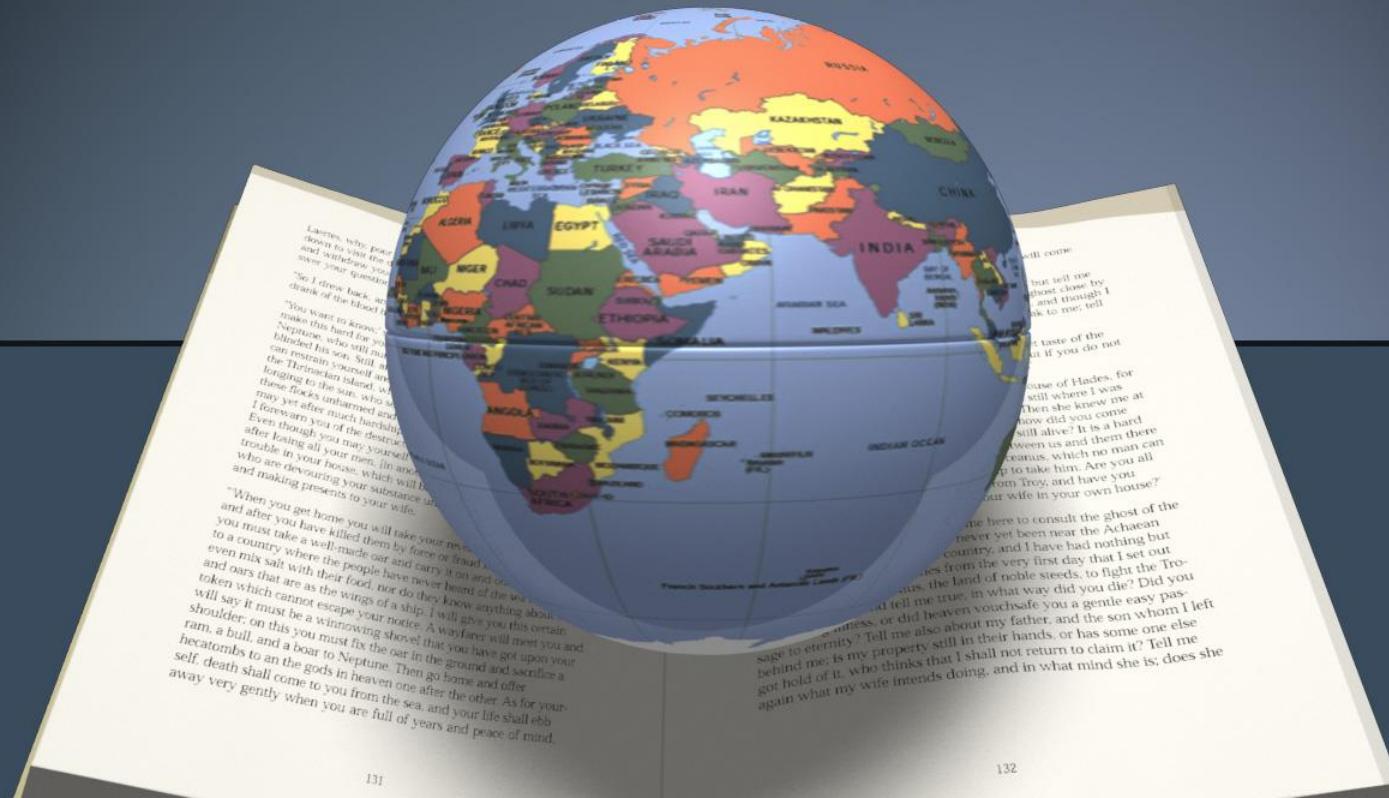


IT1218/IT1769

LAW & ETHICS OF IT

Lecture 03 : Introduction to Organizational Ethics



3. INTRODUCTION TO ORGANIZATIONAL ETHICS

Overview

- An understanding of organizational ethics and the ethical challenges that are present in various departments within an organization.

Outline (Ethical issues in the organizational departments)

- 3.1 Defining organizational ethics
- 3.2 The Ethics of Research and Development (R&D)
- 3.3 Ethics in Manufacturing
- 3.4 Ethics in Marketing
- 3.5 Ethics in Human Resources
- 3.6 Ethics in Finance
- 3.7 Ethical Challenges
- 3.8 So When Does It Start to Go Wrong?

3. INTRODUCTION TO ORGANIZATIONAL ETHICS

Objectives

At the end of this chapter, you should be able to:

- Understand the significance of an organization's ethical culture.
- Understand the ethical challenges facing the following departments: research and development (R&D), manufacturing, marketing, Human Resources and finance.
- Understand the ethical challenges presented by generally accepted accounting principles (GAAP/IFRS/SFRS).
- Recognize potential conflicts of interest within any organizational function.
- Identify the key elements of an organizational ethical culture.

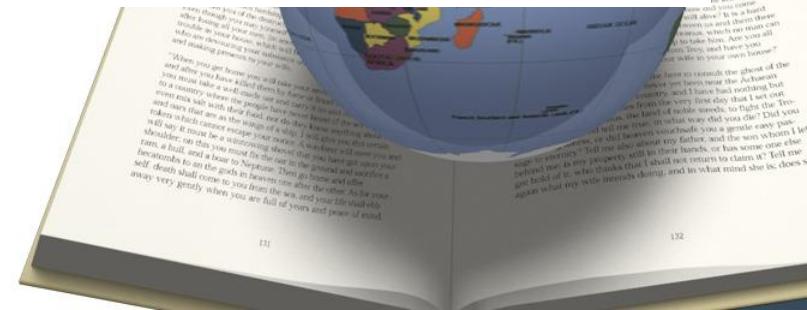


3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.1 Defining Organizational Ethics

Business Ethics separate from General Ethics for 2 reasons:

- Other parties have a vested interest in the ethical performance of an organization
 - In a work environment, you may be placed in a situation where your personal value system may clash with the ethical standards of the organization's operating culture



Case 2

ORGANIZATIONAL ETHICS

What is Volkswagen accused of?

Sep 2015



It's been dubbed the "diesel dupe". In September, **the Environmental Protection Agency (EPA) found** that many VW cars being sold in America had a "defeat device" - or software - in diesel engines that could detect when they were being tested, changing the performance accordingly to improve results. The German car giant has since admitted cheating emissions tests in the US.

Implanted software to under-display the emission rate when tested. Campaign trumpeting its cars' low emissions. The EPA's findings cover 402,000 cars in the US only, including the VW-manufactured Audi A3, and the VW models Jetta, Beetle, Golf and Passat. But VW has admitted that about 11 million cars worldwide, including eight million in Europe, are fitted with the so-called "defeat device".

Deeply dented the integrity of the company

The company has also been accused by the EPA of modifying software on the 3 litre diesel engines fitted to some Porsche and Audi as well as VW models. VW has denied the claims, which affect at least 10,000 vehicles.

In November, VW said it had found "irregularities" in tests to measure **carbon dioxide emissions levels** that could affect about 800,000 cars in Europe - including petrol vehicles. However, in December it said that following investigations, it had established that this only affected about 36,000 of the cars it produces each year.

Case 3

ORGANIZATIONAL ETHICS

Test scandal forces Nissan to halt domestic output

Oct 2017

Nissan is suspending car production for the Japanese market after admitting unauthorised workers were certifying vehicles even after discovery of malpractice at the group in a deepening of the inspection scandal.



Case 4

ORGANIZATIONAL ETHICS



Japan's Kobe Steel says violated statutory standards, losing customers

Oct 2017

Yuka Obayashi, Taiga Uranaka

5 MIN READ



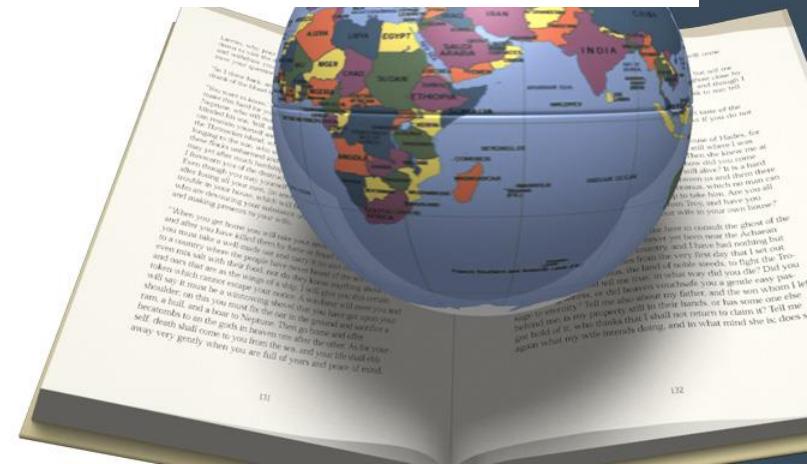
Data falsification (Fabricate fake quality inspection report) to customers

TOKYO (Reuters) - Kobe Steel Ltd (5406.T) sank deeper into crisis on Friday as the embattled company said it had lost some customers to competitors because of widespread data falsification that had extended to its mainstream steel sheet business.

3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.1 Defining Organizational Ethics

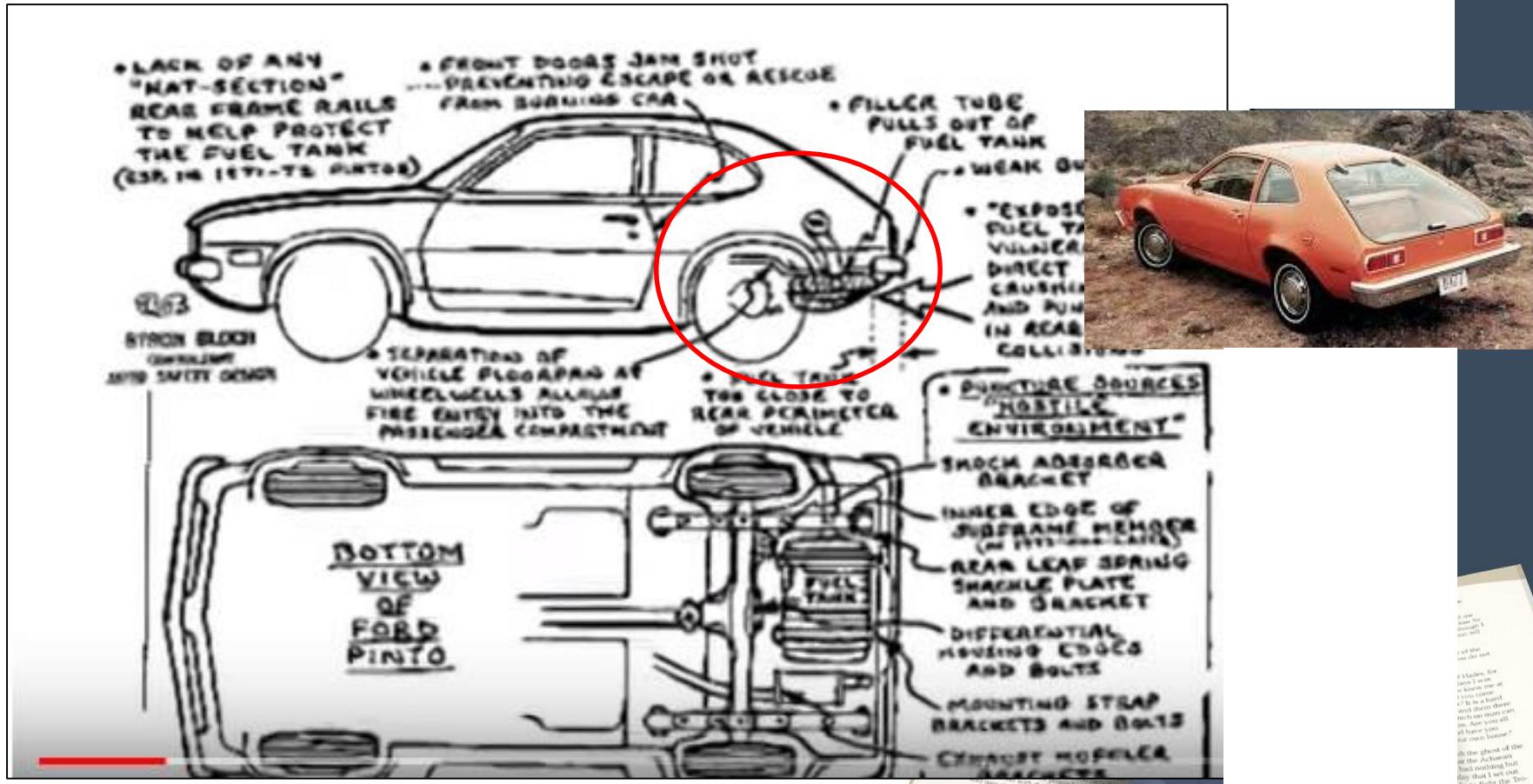
- **Organizational culture** – the **values**, beliefs, and norms that **all the employees** of that organization **share**
- **Value chain** – the **key functional inputs** that an organization provides in the **transformation** of **raw materials** into a **delivered product or service.**



Case 1

ORGANIZATIONAL ETHICS

The Ford Pinto Ethics Scandal >> Safety lapse



- To shorten the design & production time, Ford built the car body straight away while designing the first model.

IT121 Law & It was built with a gas tank placed in the rear of the vehicle. It can rupture in a rear collision and it sprayed gas particles into the passenger compartment, claiming human lives.

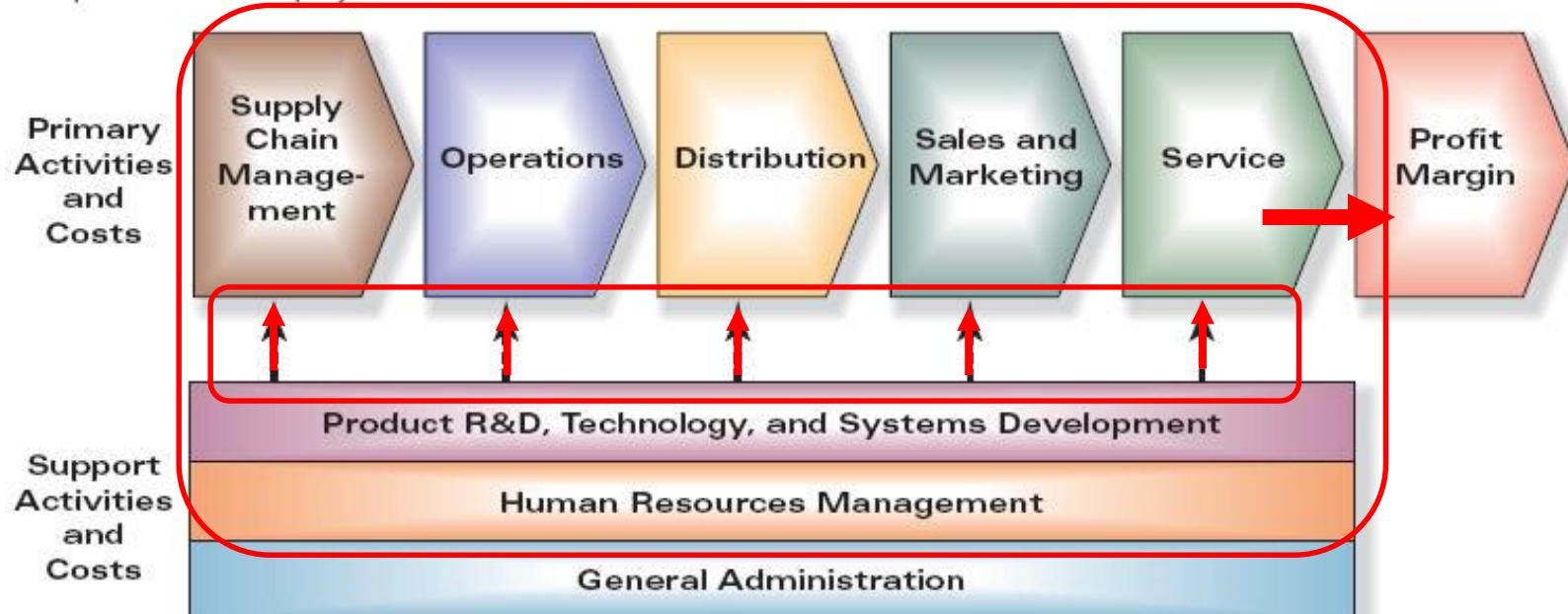
3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.1 Defining Organizational Ethics

Company Value Chain

Figure 3.1

A Representative Company Value Chain¹



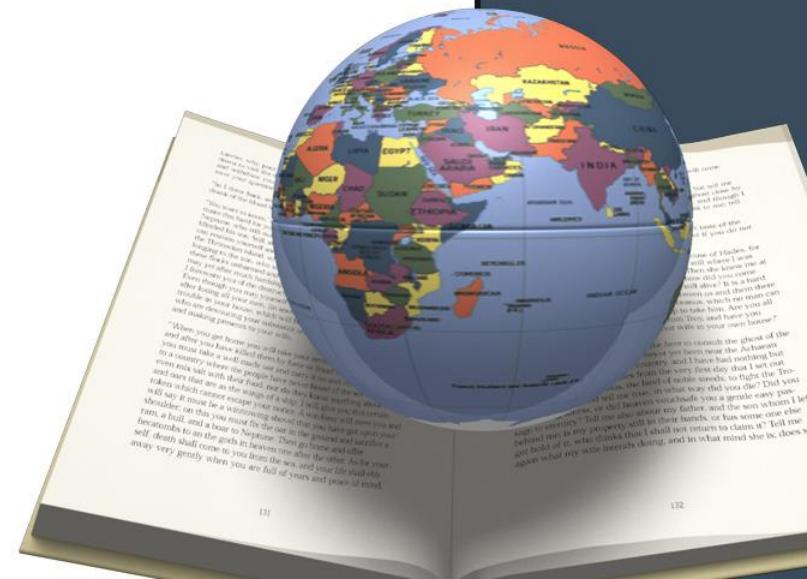
- Value chain – the key functional inputs that an organization provides (e.g. Design) in the transformation of raw materials into a delivered product or service (functionality, profit, performance)

3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.1 Defining Organizational Ethics

Key Functions

- Research & Development
- Manufacturing
- Marketing (and advertising)
- Sales
- Customer service

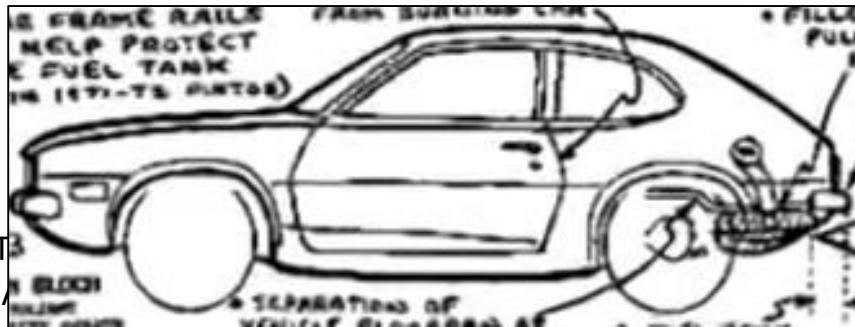


3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.2 Ethics in Research and Development (R & D)

1. Directly involved in **future growth**.
2. Without **new** products to sell, organizations can lose their **customers** to competitors who are offering products that are 'better, faster, cheaper'.
(e.g. Product warranty – 3 years)
3. Critical commitment to **product quality, safety, and reliability**.
(Manufacturing cycle)
4. 'Better, cheaper, faster' mean **compromises** have to be made in functionality or manufacturing in order to meet a targeted cost figure.
('cut-corner' process to save cost)

e.g. The Ford Pinto Ethics Scandal



3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.2 Ethics in R & D

5. Too many **features out** - marketing and advertising have no story to tell - **sales people** will face difficulties in selling against competition.
6. Too few **changes** made - company won't be able to generate a profit.
7. Do we use the best materials available or the second best to save some money? (**optimization**)
8. Do we run a full battery of tests?



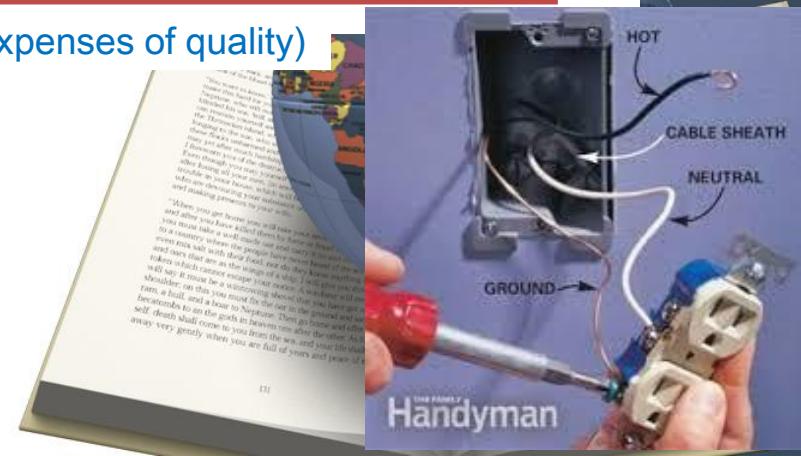
3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.3 Ethics in Manufacturing

(passing the ‘project’ over other department without coordinating with them)

1. Designs being thrown “over the wall” to manufacturing
2. Now it falls to the manufacturing team to actually get the thing built. (Manufacturing team does not have the expertise in design)
3. “Do you want it **built fast**, or do you want it **built right**? ”
4. From an organizational perspective, **you want both !**
5. Compromise - which corners can be cut and by how much.

(Cut corner to save cost but at the expenses of quality)



3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.4 Ethics in Marketing

1. Marketers see themselves as **providing products (or services) to customers** who have already expressed a need for and a desire to purchase those products.
2. Critics of marketing see it as a more manipulative process whereby **unsuspecting customers** are induced to buy products they don't really need and could quite easily live without by 'slick' commercials and advertisements.



3. INTRODUCTION TO ORGANIZATIONAL ETHICS



3.5.1 Ethics in Human Resources(HR)

HR (Human Resource) function involved in the relationship between the company and the employee throughout that employee's contract with the company.

The HR Relationship:

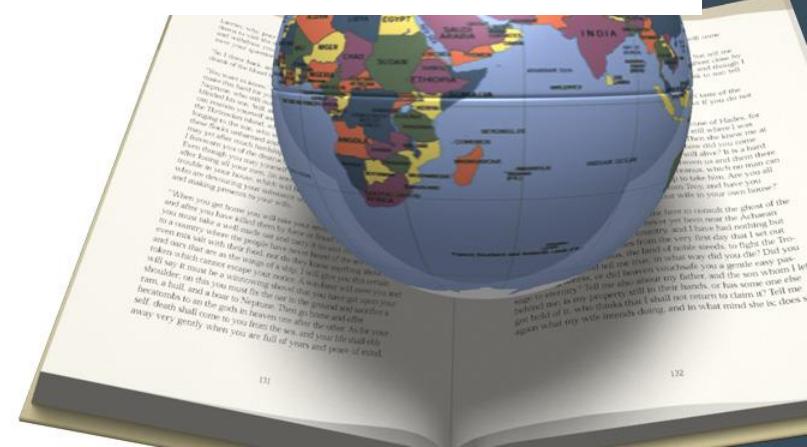
1. The creation of the **job description** for the position.
2. The **recruitment and selection** of the **right candidate for the position**.
3. The **orientation** of the newly hired employee
4. The **efficient management of payroll and benefits** for the (hopefully) happy and productive employee.



3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.5.1 Ethics in Human Resources(HR) - I

5. The documentation of periodic performance reviews.
6. The documentation of disciplinary behavior and remedial training if needed.
7. The creation of a career development program for the employee.
8. Coordination of final paperwork - severance benefits and Exit Interview.

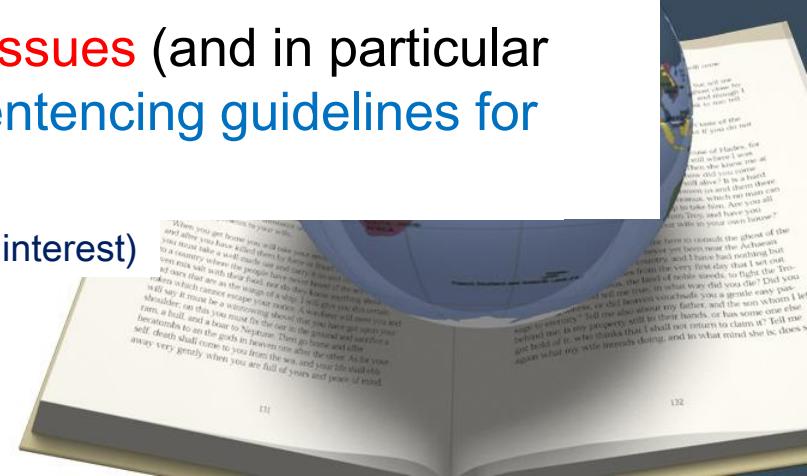


3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.5.2 Ethics in Human Resources(HR) - II

1. HR professionals must help ensure that **ethics** is a top organizational priority.
 2. HR must ensure that the **leadership selection and development processes** include an **ethics component**.
 3. HR is responsible for ensuring that the **right programs and policies** are in place.
 4. HR must stay abreast of **ethics issues** (and in particular the **changing legislations and sentencing guidelines for unethical conduct**).
(e.g. Tasks involved with conflicts of personal interest)

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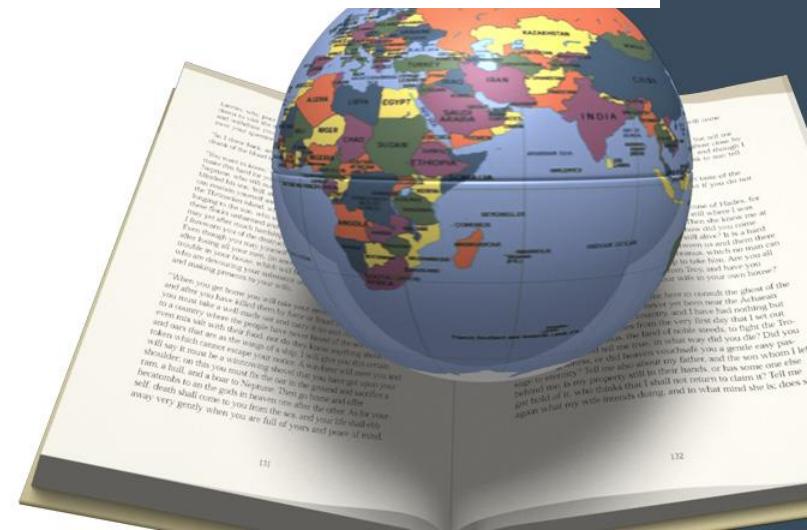


3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.6.1 Ethics in Finance - I

The Finance function of an organization can be divided into three distinct areas:

1. Financial Transactions (Spending, Sales & revenue)
 2. The Accounting Function (Credit and debit, Balance sheet)
 3. The Auditing Function



3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.7 Ethical Challenges

GAAP/ IFRS/ SFRS

- The generally accepted accounting principles that govern the accounting profession – not a set of laws and established legal precedents, but rather a set of standard operating procedures within the profession that are open to interpretation and abuse.
- A set of accurate financial statements that present an organization as **financial stable, operationally efficient, and positioned for strong future growth** can do a great deal to enhance the reputation and goodwill of an organization—are they “clean”?



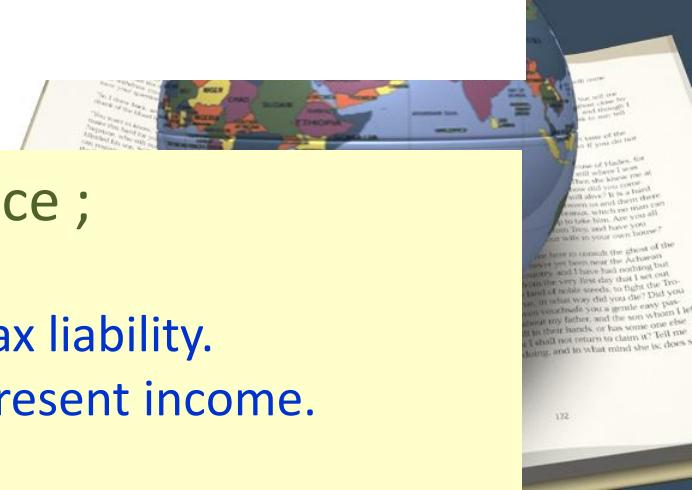
3. INTRODUCTION TO ORGANIZATIONAL ETHICS

**GAAP - Generally Accepted Accounting
Principles** (Creative Bookkeeping Technique)

**SFRS - Singapore Financial Reporting
Standards**

**IFRS - International Financial Reporting
Standards**

Video : What is GAAP?



- Roles of GAAP- To avoid unethical practice ;
 - Under-reporting income, over-valuing assets.
 - Deferring income / expenses to manipulate tax liability.
 - Falsifying accounts - treat future income as present income.
 - Hiding debts

3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.7 Ethical Challenges

1. Creative Bookkeeping Techniques

It is legal to **defer receipts** from one quarter to the next to manage your **tax liability**



Other ethical challenges are **falsifying accounts**, **underreporting income** and **overvaluing assets**

Falsifying accounts/Underreporting income/Overvaluing assets

Three M's of Financial Reporting Fraud

- *Manipulation*, falsification, or alteration of accounting records or supporting documents from which financial statements are prepared.
- *Misrepresentation* in or intentional omission from the financial statements of events, transactions, or other significant information.
- Intentional *misapplication* of accounting principles relating to amounts, classification, manner of presentation, or disclosure.

Source: D.S. Hilzenrath, "Forensic Auditors Find What Companies Try to Hide," The Washington Post, November 23, 2002

(Financial Audit !)

3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.7 Ethical Challenges

2. Conflicts of Interest

A situation where one relationship or obligation places you in direct conflict with **an existing relationship or obligation**

e.g. Selling a product that has the potential to be harmful to the customers. McDonald increased menu choices to include salads and alternatives to French fries and soda – but the Big Mac continues to be one of its best-selling items (more calories still added).

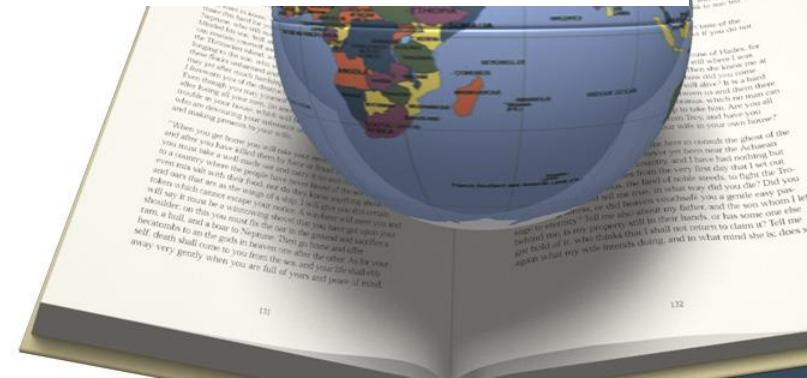
- * Conflicts of interest can arise when an accounting firm has a relationship with their client that is being audited.



3. INTRODUCTION TO ORGANIZATIONAL ETHICS

3.8 So When Does It Start to Go Wrong

1. Employees learn very quickly about “**the rules of the game**” in any work environment, and make the choice to “**go with the flow**” or, if the rules are unacceptable to their personal value systems, to look for employment elsewhere.
2. Where is the pressure or performance expectations come from to make unethical behavior necessary?



End of Lecture 03

Q&A

- The value chain in organization culture.
 - Ethical challenges facing in different departments.
 - Ethical challenge : Understand the ethical challenges presented by generally accepted accounting principles (GAAP/IFRS/SFRS).
 - Potential conflicts of interest within any organizational function.

