# IT1218/IT1769
LAW & ETHICS OF IT

Lecture 02 : Business Ethics

2. BUSINESS ETHICS

Overview

- An introduction to Business Ethics

Outline

2.1 Defining Business Ethics
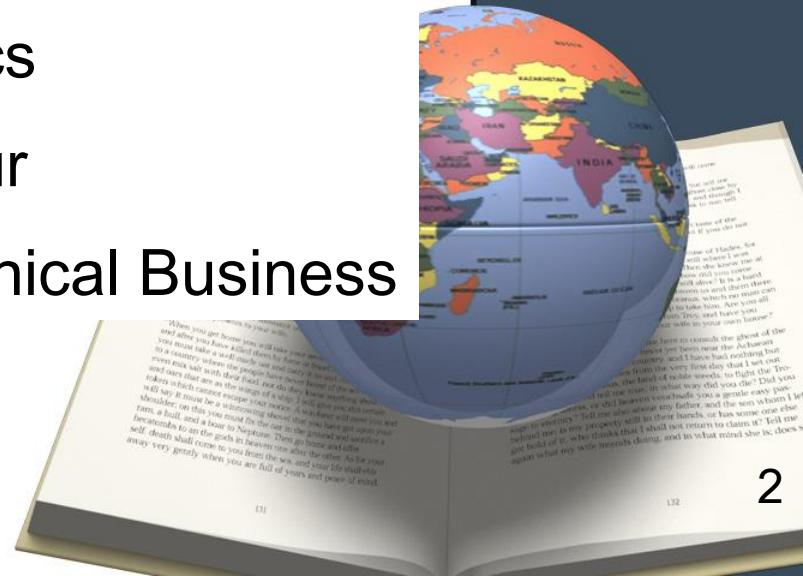
2.2 Who are the Stakeholders?

2.3 An Ethical Crisis

2.4 The History of Business Ethics

2.5 Justifying Unethical Behaviour

2.6 Building and Operating an Ethical Business
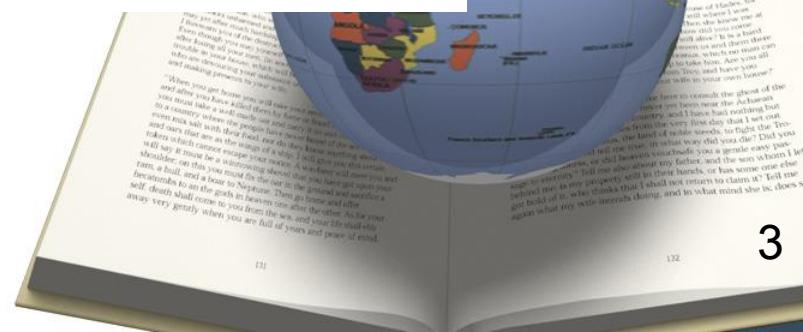
2. BUSINESS ETHICS

Objectives

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

- Explain the term business ethics

- Identify an organisation's stakeholders

- Under the purpose of a Code of Ethics

- Identify an ethical dilemma in a business environment

- Understand how to go about resolving an ethical dilemma in a business environment

2. BUSINESS ETHICS

2.1 Defining Business Ethics

Business Ethics:

- The application of standards of moral behavior to business situations

- There are two ways of applying business ethics:

  Descriptive (Depicted moral opinion, what people think is right)

  Normative (Moral judgement, evaluation 规范, how should people act)

- Ethical behavior should be the same both inside and outside the work experience

2. BUSINESS ETHICS
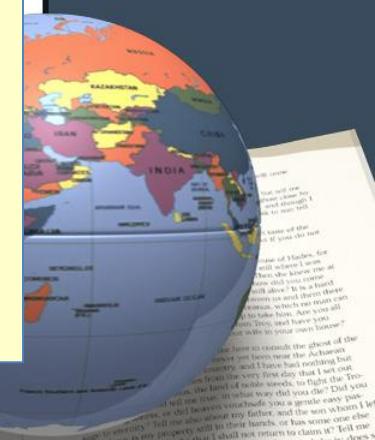
Two distinct perspectives:

- *Descriptive* summation of the customs, attitudes, and rules that are observed within a business.

    - documenting what *is* happening

Descriptive ethics (also known as comparative ethics) is to depict and clarify moral opinions and practices about morality. – What people think is right.

e.g.

- Products or services must be delivered accordingly to the quoted specifications and requirements.

2. BUSINESS ETHICS
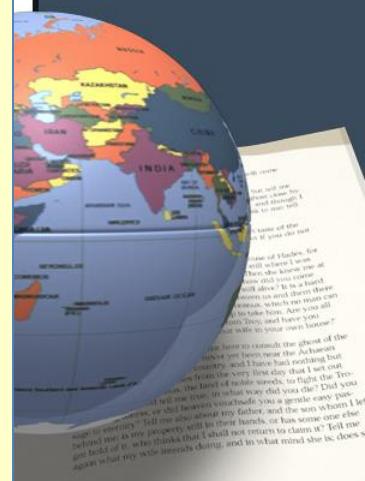
Two distinct perspectives:

- *Normative* (or *Prescriptive*) evaluation of the degree to which the observed customs, attitudes, and rules can be said to be ethical.

    - recommending what should be happening

> **Normative ethics** (also known as Prescriptive ethics) is the study of ethical theories that prescribe how people ought to act.- How should people act.
>
> e.g.
> - Producers should produce good products.
> - When defect products are detected, the producers are liable to recall all defected products and make good on them. Adequate compensation should be rendered.

Case of Study

What is Volkswagen accused of?

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.

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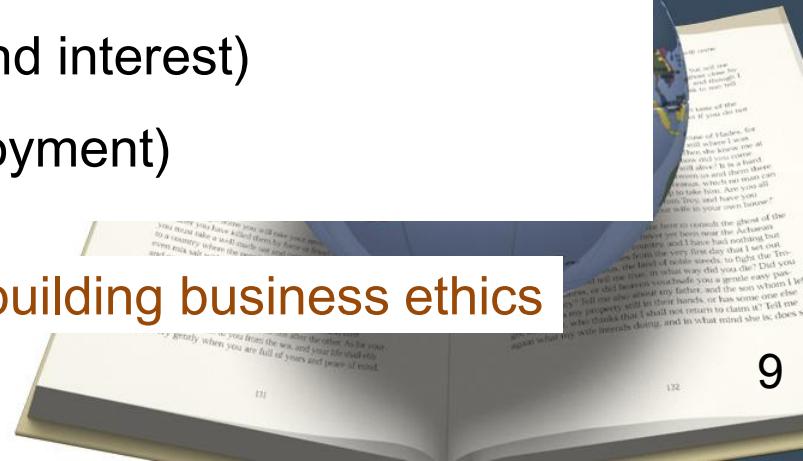
In November, VW said it had found "irregularities" in tests to measure **carbon dioxide emissions levels** that could affect about 800,000 cars in Europe - including petrol vehicles. However, in December it said that following investigations, it had established that this only affected about 36,000 of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

2. Business Ethics

2.2 Who are the stakeholders?

- Stakeholders include anyone with <u>a share or interest</u> in a business enterprise:

  1. Stockholders or Shareholders (e.g. loss of stock value)
  2. Employees (e.g. loss of job, working environment)
  3. Customers (e.g. poor service/product quality)
  4. Suppliers/vendor partners (e.g. delayed payment)
  5. Government (e.g. loss of tax revenue)
  6. Creditors (e.g. loss of principal and interest)
  7. Community (e.g. pollution, employment)

Stakeholders play a major part in building business ethics
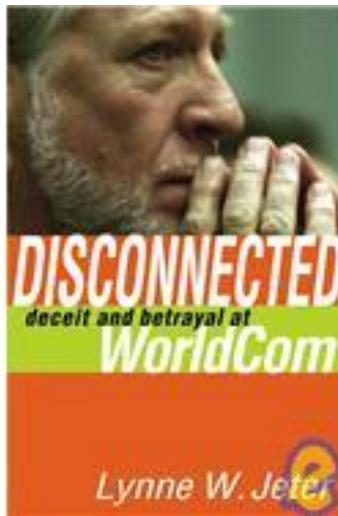
2. BUSINESS ETHICS

2.3 An Ethical Crisis

- Scandals of Enron, WorldCom, Tyco….
 - No ethical policies or procedures in these companies?
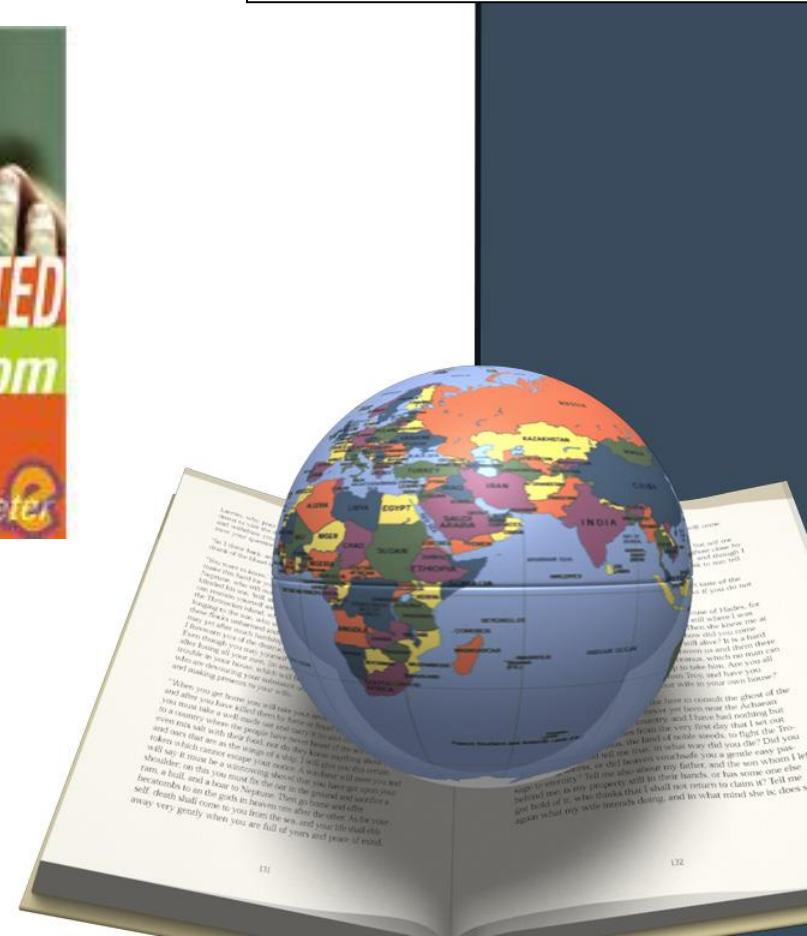
http://www.hermes-press.com/enronindex.htm

2. BUSINESS ETHICS

2.3 An Ethical Crisis

(Gutter oil, a recycled cooking oil)
(地沟油, 餿水油)

2. BUSINESS ETHICS

2.3 An Ethical Crisis

singapore

Woman jailed for forgery and embezzlement of company funds amounting to almost S$450,000

2. Business Ethics

2.3 An Ethical Crisis

U.S. conducting criminal probe focused on Malaysia 1MDB's stolen funds

Reuters Staff

3 MIN READ

KUALA LUMPUR (Reuters) - The U.S. Justice Department is conducting a criminal probe into 1Malaysia Development Berhad (1MDB) and has asked for a stay on its civil lawsuits in connection with $1.7 billion in assets allegedly bought with money stolen from the scandal-hit state fund.

2. BUSINESS ETHICS

2.3 An Ethical Crisis
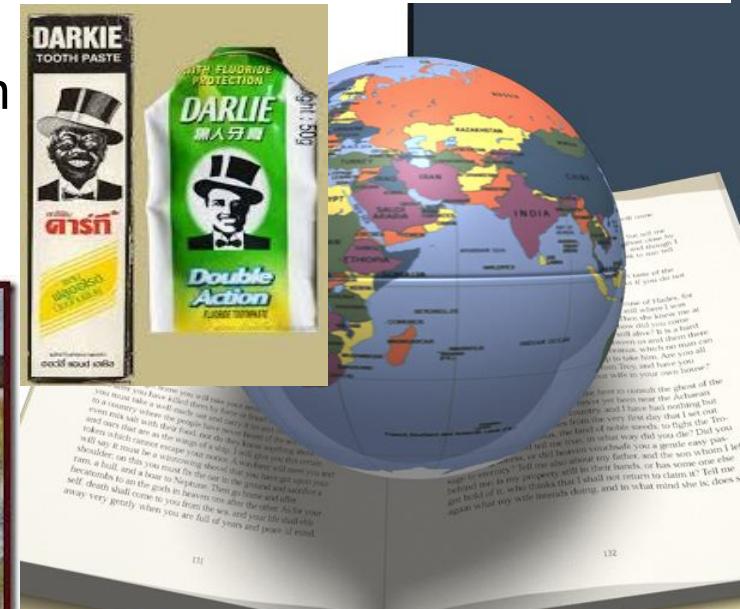
e.g. The Ford Pinto Ethics Scandal

Fuel tank

2. BUSINESS ETHICS

2.3 An Ethical Crisis
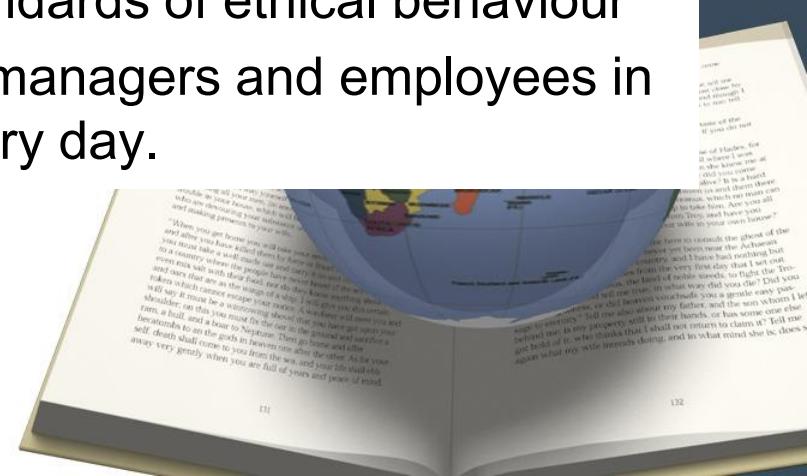
- Hide true state of finances

- Using organisation's funds for personal purposes

- Inaccurate financial reports

- Products rushed to market and recalled due to safety reasons   (e.g. Automobile recalls)

- Race and gender discrimination (e.g. Colgate renamed racist 'Darkie' toothpaste to 'Darlie'. In 1989.)

- Environment contamination

- CEO salary/bonuses unreasonably high

  - While shareholder returns are low

  - Company not performing

2. BUSINESS ETHICS

2.3 An Ethical Crisis

- **Corporate governance**: system by which business corporations are directed and controlled

- **Code of Ethics**: A company's written standards of ethical behaviour that are designed to guide managers and employees in making the decisions and choices they face every day.

    - As a message to organization's stakeholders of the commitment to uphold highest standards of ethical behaviour
    - As an internal document to guide managers and employees in making decisions and choices every day.
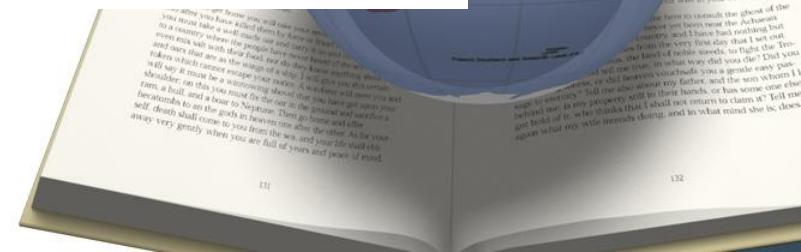
2. BUSINESS ETHICS

2.3 An Ethical Crisis

The Ethics Resource Center (ERC) defines a Code of Ethics as:

"..a central guide to support day-to-day decision making at work. It clarifies the cornerstones of your organization – its mission, values and principles – helping your managers, employees and stakeholders understand how these cornerstones translate into everyday decisions, behaviors and actions. While some may believe codes are designed to limit one's actions, the best codes are actually structured to liberate and empower people to make more effective decisions with greater confidence."

2. BUSINESS ETHICS
2.4 The History of Business Ethics

Decade	Ethical Climate	Major Ethical Dilemmas	Business Ethics Developments
1960s	Social unrest. Antiwar sentiment. Employees have an adversarial relationship with management. Values shift away from loyalty to an employer to loyalty to ideas. Old values are cast aside.	• Environmental issues. • Increased employee–employer tension. • Civil rights issues dominate. • Honesty. • The work ethic changes. • Drug use escalates.	• Companies begin establishing codes of conduct and values statements. • Birth of social responsibility movement. • Corporations address ethics issues through legal or personnel departments.
1970s	Defense contractors and other major industries riddled by scandal. The economy suffers through recession. Unemployment escalates. There are heightened environmental concerns. The public pushes to make businesses accountable for ethical shortcomings.	• Employee militancy (employee versus management mentality). • Human rights issues surface (forced labor, substandard wages, unsafe practices). • Some firms choose to cover rather than correct dilemmas.	• Ethics Resource Center (ERC) founded (1977). • Compliance with laws highlighted. • Federal Corrupt Practices Act passed in 1977. • Values movement begins to move ethics away from compliance orientation to being "values centered."
1980s	The social contract between employers and employees is redefined. Defense contractors are required to conform to stringent rules. Corporations downsize and employees' attitudes about loyalty to the employer are eroded. Health care ethics emphasized.	• Bribes and illegal contracting practices. • Influence peddling. • Deceptive advertising. • Financial fraud (savings and loan scandal). • Transparency issues arise.	• ERC develops the U.S. Code of Ethics for Government Service (1980). • ERC forms first business ethics office at General Dynamics (1985). • Defense Industry Initiative established. • Some companies create ombudsman positions in addition to ethics officer roles. • False Claims Act (government contracting).

2. BUSINESS ETHICS
2.4 The History of Business Ethics

| 1990s	Global expansion brings new ethical challenges. There are major concerns about child labor, facilitation payments (bribes), and environmental issues. The emergence of the Internet challenges cultural borders. What was forbidden becomes common.	• Unsafe work practices in Third World countries. • Increased corporate liability for personal damage (cigarette companies, Dow Chemical, etc.). • Financial mismanagement and fraud.	• Federal Sentencing Guidelines (1991). • Class action lawsuits. • Global Sullivan Principles (1999). • *In re Caremark* (Delaware Chancery Court ruling re board responsibility for ethics). • IGs requiring voluntary disclosure. • ERC establishes international business ethics centers. • Royal Dutch/Shell International begins issuing annual reports on its ethical performance.
2000s		• Cyber crime. • Privacy issues (data mining). • Financial mismanagement. • International corruption. • Loss of privacy—employees versus employers. • Intellectual property theft.	• Business regulations mandate stronger ethical safeguards (Federal Sentencing Guidelines for Organizations; Sarbanes-Oxley Act of 2002). • Anticorruption efforts grow. • Shift to emphasis on corporate social responsibility and integrity management. • Formation of International ethics centers to serve the needs of global business. • OECD Convention on Bribery (1997–2000).
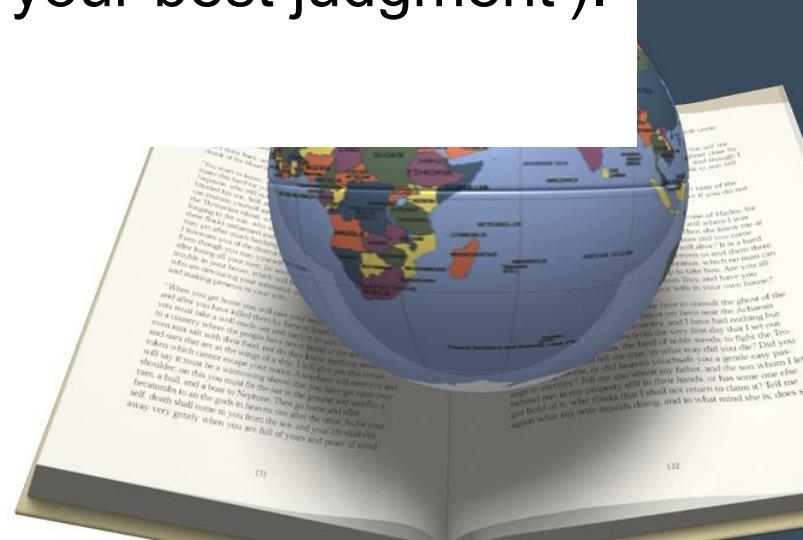
2. BUSINESS ETHICS

2.3 An Ethical Crisis

(Resolving guides for Ethical Crisis)

A series of clichés: (ways of saying)

- Consult the Company Code of Ethics.

- Do what's right for the Organizations Stakeholders.

- Do what's legal.

- Do what you think is best ('use your best judgment').

- Do the right thing.

2. BUSINESS ETHICS

Resolving Ethical Dilemmas / Conflicts

Type of conflicts:

1. Truth versus Loyalty
   - Do you tell the truth or remain loyal to the person or organization that is asking you not to reveal that truth?

2. Short term versus long term
   - Does your decision have a short-term consequence or a longer-term consequence?

3. Justice versus mercy
   - Do you perceive this issue as a question of dispensing Justice or Mercy? (and which one are you more comfortable with?).

4. Individual versus community
   - Will your choice impact one individual or a wider group or community?

2. Business Ethics

Resolving Ethical Dilemmas / Conflicts

Type of conflicts:

1. **Truth versus Loyalty**
   - Do you tell the truth or remain loyal to the person or organization that is asking you not to reveal that truth?

   (e.g. Hide the impending truth from your best colleague / Remain loyal to your superior who swore you to secrecy.

2. **Short term versus long-term**
   - Does your decision have a short-term consequence or a longer-term consequence?

   (e.g. Sales of tainted (with toxic industrial compound) milk powder for high income / Yielding of more deformed / retarded babies through the consumption of tainted milk powder in the community)

2. BUSINESS ETHICS

Resolving Ethical Dilemmas / Conflicts

Type of conflicts:

3. Justice versus mercy
   - Do you perceive this issue as a question of dispensing Justice or Mercy? (and which one are you more comfortable with?).

     (e.g. Forgo reporting of a woman for forgery or embezzlement of company fund to help her husband clearing gambling debts.)

4. Individual versus community
   - Will your choice impact one individual or a wider group or community?

     (e.g. Not disclosing the outbreak of a highly contagious disease among the community so as to protect family's member from harassment)

2. BUSINESS ETHICS

Once you have reached a decision as to the type of conflict you are facing, three resolution principles are available to you:

Three Resolution Principles

- **Ends-based**
  - Which decision would provide the greatest good for the greatest no. of people?
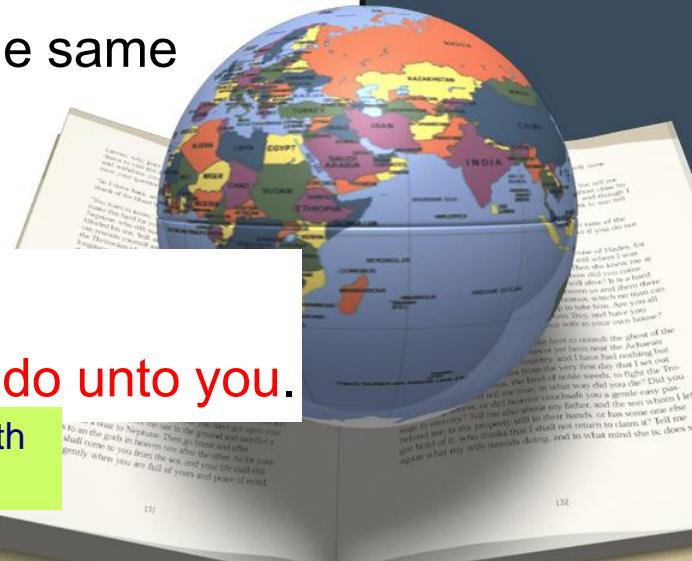
    (e.g. Report outbreak of a highly contagious disease among the community.

- **Rules-based**
  - What would happen if everyone made the same decision as you?

    (e.g. Report the embezzlement of company fund.)

- **The Golden Rule**
 - Do unto others as you would have them do unto you.
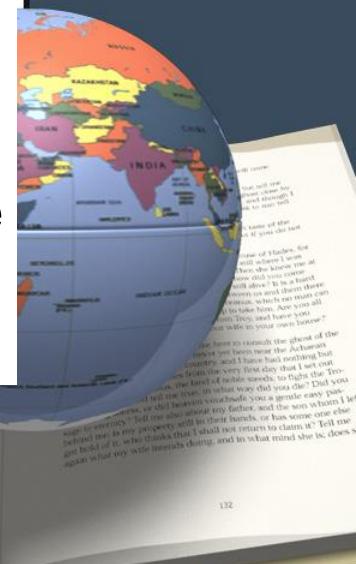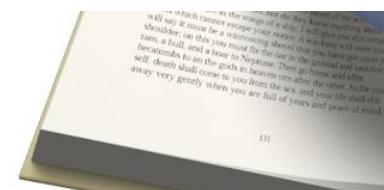
    (e.g. To have professionalism at work, not to entangle with colleagues' work.)

2. BUSINESS ETHICS

2.5 Justifying Unethical Behavior
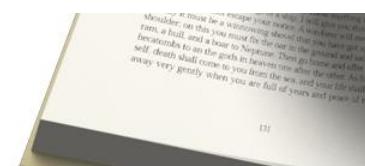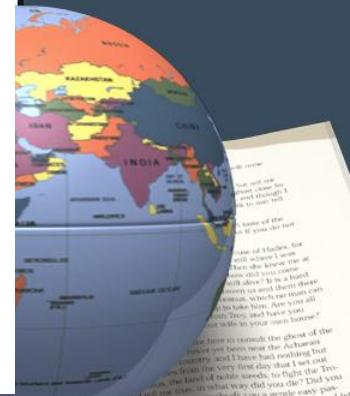
1. A belief that the activity is within reasonable ethical and legal limits – that is, that it is not "really" illegal or immoral.

2. A belief that the activity is in the individual's or the corporation's best interests – that the individual would somehow be expected to undertake the activity.

3. A belief that the activity is "safe" because it will never be found out or publicized; the classic crime-and-punishment issue of discovery.

4. A belief that because the activity helps the company, the company will condone it and even protect the person who engages in it.

2. BUSINESS ETHICS

2.6 Building & Operating an Ethical Business

1. Requires a great deal more than simply doing the right thing (e.g. Correct and make it right, prevent from recurrence)

2. Must devote time to the development of a detailed code of ethics that offers "guidance with traction" (e.g. Periodic review of code of ethics)

3. Offer support to employees when they are faced with an ethical dilemma
   (e.g. Synergy. Responsibility)

4. Creating and maintaining a corporate culture of trust   (e.g. Company mission and Management leadership)

End of Lecture 02

Q&A

- Descriptive and Normative ethics
- Different interests of stakeholders in an organization
- Ethical crisis & Code of ethics
- 4 types of conflict
- 3 resolution principles
- How to justify those unethical behaviour
- How to build / operate an ethical business