Ethical Dilemma

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Ethical Dilemma: A Case study of Tyco International

Introduction

Ethical dilemma is a situation where an organization or individual is facing a number of events, which requires the organization leadership to make a choice on the either events, and none of the events is ethically sound (Arjoon, 2005). This means that the choice the organization leadership makes on the either events will lead the organization to violate the ethical conduct every organization is obligated to follow. The type of the decision the organization leadership makes will justify the ethical issues involved. In this such situations, no decision is morally ethical and either choices will lead to a violation in ethical standards (Arjoon, 2005). In this case, the companies are to abide by societal norms such as codes of law or religious teachings. Therefore, in this case, societal and personal ethical guidelines cannot provide any satisfactory outcome for the company’s leaders.

Businesses face ethical and moral dilemmas in various aspect of business operations. However, how leaders approach these ethical and moral dilemmas determine how best they handle the conflicting situations (McWilliams & Nahavandi, 2006). Company leadership usually try to provide practice scenarios in order to maneuver through these ethical and moral dilemmas. The best approach in tackling ethical and moral dilemmas is by being prepared through sharpening the ethical skills, which can elevate the business performance and lead the market using the skills gained. One major factor that leads to ethical dilemmas in business is profits and results. Companies can turn a blind eye on ethical breaches if workers provide results on unethical conducts. This is largely because of the general mentality of most business entrepreneurs, “the end justifies the means” mentality. Therefore, ethical dilemmas usually arise when people feel pressured to do immoral things to impresses their superiors. Ethical dilemmas can also arise when an employee cannot point out their co-worker or superior’s bad behavior (McWilliams & Nahavandi, 2006).

Ethical challenges in Tyco International

In order to understand the ethical challenges faced by Tyco International, it is important to go through the company’s history and its progress in business. This is will help in understanding the reason for the management’s decision, which led to ethical challenges for the company.

Tyco Company was formed in 1960 by Arthur Rosenberg located in Waltham, Massachusetts (McWilliams & Nahavandi, 2006)The company underwent various transformation in its organizational structure where there was a division into three business segments, which consisted of fire protection, electronic and packaging services. The company further broadened its business by incorporating services such as electrical and electronic components, healthcare and specialty products, fire and security services in 1990. In 2002, Tyco international started to acquire companies such as ADT, CIT Group and Raychem (McWilliams & Nahavandi, 2006). This strategy was to broaden their business scope and strengthen their position in the market.

In 1992, an ambitious person known as Kozlowski became the chief executive officer of the company as he rose from being the company’s chief financial officer (McWilliams & Nahavandi, 2006). Kozlowski was good financial officer who had a good experience in managing the company’s financial records over the past decade. During his period as a chief executive officer, Kozlowski used various techniques in accomplishing a successful merger that lead to the acquisition of a number of companies. Kozlowski’s influence in the organization was well known as he picked up his own crony as company’s board of directors. Kozlowski influenced further escalated as he was even given the power to choose the firm’s corporate governance system (McWilliams & Nahavandi, 2006).

In 1999, the company experienced a stock split with one of its subsidiary companies which led to the wide spread of rumors regarding Tyco’s accounting habits (Arjoon, 2005). The company was being accused of financial fraud as the company was producing irregular financial accounting records. The company’s leadership aggressively denied the claim as the company demonstrated that its leadership is acting in accordance with the ethical and moral grounds the law expects. The estimation for the company in the market was a round $30 billion as profits. The company was also using its financial position in order to intimidate and buy off several companies in the market. The purchase of the several companies contributed towards the growth of profit of Tyco international.

In the year 2002, the company was facing controversy with its board of director as the board decided to launch an investigation to the conduct of the management and their involvement in the unethical financial fraud as claimed by outside sources (McWilliams & Nahavandi, 2006). After the investigation, the Tyco’s management team including Kozlowski were taken to court in relation to financial fraud. They were also forced to resign and dragged to court to hear the charges. Kozlowski and his financial officer were accused of using over $170 million on fraudulent activities in order to offset individual deals done by the company. The management also sold over $430 million in stock options in order to serve their interest in the company (McWilliams & Nahavandi, 2006).

The financial accusation on Kozlowski and his management team in relation to fraud extends to embezzlement of Tyco’s funds for their own private use and which leads conflict of interest (Arjoon, 2005). According to Kozlowski and his team, the embezzlement of funds was for the benefit of the company rather than for their own interest. The benefits Tyco international enjoys now is because of the funds used by the management in the persuasion of the companies merged and acquired. Kozlowski and his team had to find a solution in the growth of Tyco international and the merger and acquisition the company undertook demonstrate the urgencies of the funds and justifies the actions of Kozlowski and his team.

However, this scandal led to the drastic reduction of shares value and caused panic among the workers. Despite the ethical dilemma, Kozlowski and his team were asked for their resignation due to the ethical violation they undertook without considering the consequence. However, despite their exit from management, Kozlowski and his team manage to set a record in the company by elevating the financial performance of the firm in the market (Arjoon, 2005).

The dilemma of the actions of Kozlowski and his team was that they were either to improve the performance of the firm in the industry through acquisition or let the company face collapse. The acquisition and merger process also had to options and dire consequence, which either way would contribute to the exit of Kozlowski and his team or failure of the company. Tyco international did not have any advantage to negotiate a deal with the target companies set for acquisition and merger (Arjoon, 2005). This forced Kozlowski and his team to consider using its funds to serve their own interest and win the merger and the acquisition process. This led to the exit of Kozlowski and his team as they faced the consequence of their actions because of ethical violation. As a leader, Kozlowski was faced with various decision in which he had to be responsible for during and after the choice was made. There was no way out of trouble for Kozlowski as both actions could have led to his exit in the company’s management position.

Analysis of Facts

According to Andrew Ross Sorkin, the ethical and moral dilemma faced in Tyco international resulted into conflict of interest within the company’s structure (Sorkin, 2011). Kozlowski and his team engagement in unethical issue conflicted with their position in the company, which contributed to their exit from the management of the company. Based on Andrew’s analysis, they were willing to compromise the relationship with the shareholders for the sake of their own interest (Sorkin, 2011). In order to accomplish their selfless ambitions, the managed to compromise the position of the firm in the market through fraud and compromise the interest of the shareholders and stakeholders in the market. Therefore, the actions of Kozlowski is considered unethical based on the financial accounting standard board rules and regulations

Andrew further assessed the actions of Kozlowski and his team was a breach of principle of ends through fraudulent activities (Sorkin, 2011). The principle of ends suggest that companies are not to exploit others in order to achieve their own objective. In this case, Kozlowski and his team had exploited the interest of the shareholders and the image of the firm to fulfill their ambition in the industry. The ethical violation meant that Kozlowski had exploited the rights of the employees by forcing them to violet their own ethical principles to commit fraud against the accounting rules and regulations. Therefore, the actions of Kozlowski and his team were unethical and should not have been used to exploit others in return (Sorkin, 2011).

Andrew further insist that the board of director were also to blame for the fraudulent activities of Kozlowski and his team because they might have sanctioned the process (Sorkin, 2011). Therefore, there was a breach of duty by the board and Kozlowski, because of their role in the company of engaging in business through moral conducts and ethical standards. The principle of duty implies that every person has his or her own responsibility to act as a human being (Sorkin, 2011). The board of directors, Kozlowski and management team had a duty to manage the company well by used unethical process in order to achieve success. In this case, they failed to perform their duty in the company, which contributed towards the fraudulent activities of the company.

Based on Andrew’s analysis, Tyco international is unethical behavior was influenced by the corporate culture at that time (Sorkin, 2011). In businesses, companies use the same corporate culture in order to gain competitive advantage in the market. The use of funds to persuade mergers and acquisition to other companies is very common. At that time, corporate culture played a critical role in the unsustainability of the company’s performance in the market. Tyco international’s corporate culture was more focused on improving their financial performance in the market, which meant even to violate a rule of law or compromise the ethical standards of an institution. Corporate culture influenced the attitude of the employees leading to unethical corporate culture. During Kozlowski’s period, Tyco international’s business operations did not emphasize on ethical corporate culture and therefore gaining personal interest in the expense of the company’s financial position was the norm of Tyco international (Sorkin, 2011).

According to Andrew’s understanding, corporate culture gave Kozlowski and his team an opportunity to exploit the employees by using their position in the company to influence decision (Sorkin, 2011). The employees felt obligated to do what they were told because they were juniors and since many people were, involve. However, Tyco’s unethical corporate culture could not sustain the company. The company was considered corrupt because of the unethical actions of Kozlowski and his team, not realizing the situation they were and the decision they had to make for the sake of the company’s future progress.

According to Lee Ann Obringer, accounting fraud was the main ethical issue Tyco faced during the 2002 scandal period. Tyco international had caused tensions between the company’s auditors, accountants and executives who had a duty to the shareholders and stakeholders of the company. Lee insists that because of the ethical dilemma Kozlowski and his team faced, people could not understand why they had to compromise the quality of the financial reporting of the company for their own interest in the company (Obringer, 2015).

Because of the Kozlowski and his team’s actions, Tyco international had failed to give true financial picture for several years. Based on analysis of Lee, the company’s management were further accused of falsifying business records in order to conceal a great deal of amount without the approval of the shareholders (Obringer, 2015). In order to gain an advantage over the merging companies to persuade their shareholders for the acquisition process, Tyco international had used its funds to sponsor the accusation which was not approved by the board and engaged in financial gimmicky to manipulate earnings.

The actions of Kozlowski and his team violated the principles of utilitarianism which suggest that people should in a way that ensures greatest happiness to other people affected by their actions (Obringer, 2015). Kozlowski and his team failed to consider how their actions would affect the shareholders and the company’s reputation in the industry. prospects such as attracting major investors into the company’s investment programs is now an issue because investors are unable or unwilling to invest in a company that is charged with fraud. In addition, due to the company’s ethical challenge, the management could not compare their financial performance with other companies do not provide the true financial picture.

According to Lee, Tyco international violated the principle of rights, which involves the right because of a particular roles and special relationship (Obringer, 2015). This means that other accounting users such as creditors, government and shareholders had been deprived the right know the true financial figures of the company’s financial statements. Therefore, any action that violated the human rights was considered unethical despite the ethical dilemma the company’s management team were faced. The management team who were involved in the accounting section of the company violated their fiduciary duty. This is because they failed to provide they failed to provide accurate information on the company’s financial performance and failed to act based on the interest of the shareholders and stakeholders (Obringer, 2015).

In order to appeal the creditors and other investors, the company was perceived as deceptive because they tried to overstate their earnings to appeal statement that is more favorable in order to attract more investments prospects (Arjoon, 2005). However, the company took some necessary step in order to reduce the severity of the damage done to the company’s reputation and financial position in the firm. The actions taken include applying a more conservative accounting approach rather the previous aggressive accounting approach, the board of directors were replaced with a new board and applying an enhanced corporate governance practice (Arjoon, 2005). The actions taken into account by the new corporate board was to increase good effects to the company and improve ethical conducts of the company in the future.

Lee further suggest that the only reason why Tyco international failed to protect the actions of Kozlowski and his team was because of the negative publicity the company was likely to face throughout the process (Obringer, 2015). The actions of Kozlowski and his team his team were considered unethical despite their intention of boosting the company’s performance in the market. According to the company’s statement on the issue, the company could not compromise its reputation to protect the interest of Kozlowski and his team.

Tyco international actions

Tyco international took major step in improving the company’s organizational structure to avoid future ethical dilemmas. In order to respond to the ethical issues brought about by actions of Kozlowski and his team, the new management acted by re-electing a new board of directors and assigned an independent individual as the chair of the board. This is to avoid future conflict of interest brought about by ethical dilemmas (McWilliams & Nahavandi, 2006). The new management team also cultivated a new corporate culture by setting a strict code of conduct within their business scope. This was to explain the ethical standards that should be followed by the company’s employees, board of directors and shareholders. The aim of this move is to promote ethical and moral conduct through decision-making process and among the employees of the company. According to Andrew Ross Sorkin, when employees follow the code of conduct set forward by the company, they are likely to avoid situations that might lead them to ethical dilemmas (Sorkin, 2011).

Tyco international went as far as organizing seminars and training in order for the employees to learn various techniques of dealing with ethical dilemma situations to avoid conflict of interest that might jeopardize the interest of the company in the public (Arjoon, 2005). The company also encourages whistleblowing culture to improve the conduct of employees. Whistleblowing will help the company raise concerns towards the individual who is involved in wrongdoing and take necessary actions to avoid ethical dilemmas. As part of promoting whistleblowing culture within the company, the management have also set necessary rules that protects whistleblower from discrimination or unnecessary termination. This enables the whistleblower to point out concerns within the company without any fear of termination or boycott (Arjoon, 2005).

The management also made an effort in reorganizing its structure of command to ensure that the leaders promote ethical conducts and act as role model to the employees of the company. This is necessary because leadership plays an important role in shaping the corporate culture of Tyco international (Arjoon, 2005). When there is a right tone set at the top of the company’s leadership, employees tend to enumerate the actions of their leaders, hence promoting a positive culture within the firm. This means that a leader who is honest and responsible is more likely to help promote and transfer the same morals and values to the subordinates while at work. Therefore, this was a crucial component for the management during the recruitment process of the new management team. The team focused on the ability and personality of the new leadership of the company who were more concerned about ethical views (Arjoon, 2005).

Conclusion

In business, every company must face ethical dilemmas that can lead to ethical issues in the future. However, what is important is how the company approaches the ethical challenges and the type of decision is made will define the future of the company. In relation to the ethical dilemma faced by Tyco international, the company was face with ethical challenges including fraud, conflict of interest and fund embezzlement. The outcome of all the ethical challenges Tyco international faced were unethical and promoted a negative corporate culture. The ethical issues also breached other ethical theories, which is well discussed in this paper. However, the company should ensure proper management of every aspect of the organization and following the ethical good of conduct can help improve the image and the conducts of the employees in the future.

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