Ferrell, Fraedrich, Ferrell, Business Ethics, 5th, Houghton, 2002

A Real-Life Situation*

Joseph Freberg had been with Alcon for eighteen months. He had begun his career right out of college with a firm in the Southeast called Cala Industrial, which specialized in air compressors. Because of his work with Cala, he had been lured away to Alcon, in Omaha, as a sales manager. Joseph's first six months had been hard. Working with salespeople older than he, trying to get a handle on his people's sales territories, and settling into the corporate culture of a new firm took sixteen-hour days, six days a week. During those six months he also bought a house, and his fiancée furnished it. Ellen had stepped right in and decided almost everything, from the color of the rugs to the style of the curtains.

Ellen had taken a brokerage job with Trout Brothers and seemed to be working even more hours than Joseph. But the long days were paying off. Ellen was now starting to handle some large accounts and was being noticed by the "right" crowd in the wealthier Omaha areas.

Costs for the new home had exceeded their anticipated spending limit, and the plans for their wedding seemed to be getting larger and larger. In addition, Ellen was commuting from her apartment to the new home and then to her job, and the commute killed her car. As a result, she decided to lease something that exuded success. "Ellen, don't you think a Mercedes is a little out of our range? What are the payments?" inquired Joseph. "Don't worry. When my clients see me in this — as well as when we start entertaining at the new house once we're married — the payments on the car will seem small compared with the money I'll be making," Ellen mused as she ran her fingers through Joseph's hair and gave him a peck on the cheek. By the time of the wedding and honeymoon, Joseph and Ellen's bank statement looked like a bullfighter's cape — red. "Don't worry, Joseph, everything will turn out okay. You've got a good job. I've got a good job. We're young and have drive. Things will straighten out after a while," said Ellen as she eyed a Rolex in a store window.

After the wedding, things did settle down — to a hectic pace, given their two careers and their two sets of parents two thousand miles in either direction. Joseph had realized that Alcon was a paternal type of organization, with good benefits and tremendous growth potential. He had identified who to be friends with and who to stay away from in the company. His salespeople seemed to tolerate him, sometimes calling him "Little Joe" or "Joey" because of his age, and his salespeople were producing — slowly climbing up the sales ladder to the number-one spot in the company.

While doing some regular checkup work on sales personnel, Joseph found out that Carl had been giving kickbacks to some of his buyers. Carl's sales volume accounted for a substantial amount of the company's existing clientele sales, and he had been a trainer for the company for several years. Carl also happened to be the vice president's son-in-law. Joseph started to check on the other reps more closely and discovered that, although Carl seemed to be the biggest offender, three of his ten people were doing the same thing. The next day Joseph looked up Alcon's policy handbook and found this statement: "Our company stands for doing the right thing at all times and giving our customers the best product for the best prices." There was no specific mention of kickbacks, but everyone knew that kickbacks ultimately reduce fair competition, which eventually leads to reduced quality and increased prices for customers. By talking to a few of the old-timers at Alcon, Joseph learned that there had been sporadic enforcement of the "no kickback" policy. It seemed that when times were good it became unacceptable and when times were bad it slipped into the acceptable range. And then there was his boss, Kathryn, the vice president. Joseph knew that Kathryn had a tendency to shoot the bearer of bad news. He remembered a story he had heard about a sales manager coming in to see Kathryn to explain an error in a bid that one of his salespeople had made. Kathryn called in the entire sales staff

and fired the salesman on the spot. Then, smiling, she told the sales manager: "This was your second mistake, so I hope that you can get a good recommendation from personnel. You have two weeks to find employment elsewhere." From then on, the office staff had a nickname for Kathryn — Jaws.

Trying to solve the problem he was facing, Joseph, at his monthly meeting with Carl, broached the subject of kickbacks. Carl responded, "You've been in this business long enough to know that this happens all the time. I see nothing wrong with this practice if it increases sales. Besides, I take the money out of my commission. You know that right now I'm trying to pay off some big medical bills. I've also gotten tacit clearance from above, but I wouldn't mention that if I were you." Joseph knew that the chain-of-command structure in the company made it very dangerous to go directly to a vice president with this type of information.

As Joseph was pondering whether to do nothing, bring the matter into the open and state that it was wrong and that such practices were against policy, or talk to Kathryn about the situation, his cell phone rang. It was Ellen. "Honey, guess what just happened. Kathryn, your boss, has decided to use me as her new broker. Isn't that fantastic!"

What should Joseph do?

Questions ■ Exercises

1. What are Joseph's ethical problems?
2. Assume you are Joseph and discuss your options.
3. What other information do you feel you need before making your decision?
4. Discuss which business areas the ethical problems are in.

** This case is strictly hypothetical; any resemblance to real persons, companies, or situations is coincidental.*

CHECK YOUR EQ

Check your E.Q., or Ethics Quotient, by completing the following. Assess your performance to evaluate your overall understanding of the chapter material.

1. The principal causes of unethical behavior in an organization are individuals striving to advance their own personal goals. Yes No
2. Key ethical issues in an organization relate to conflicts of interest, honesty and fairness, communications, and technology. Yes No
3. The three key organizational stakeholders are owners, suppliers, and employees. Yes No
4. Investing in socially responsible companies and funds has grown in recent years. Yes No
5. If an activity is approved by most members of an organization and it's also customary in the industry, it is probably ethical. Yes No

ANSWERS 1. No. The principal causes of unethical behavior in an organization are organizational pressures, directives, and objectives. 2. Yes. See pages 30–38 regarding these key ethical issues and their implications for the organization. 3. No. The three key stakeholders are owners, employees, and customers. 4. Yes. Socially responsible investing has increased in recent years, and society has increased its expectations of ethical conduct on the part of businesses, as well as its scrutiny of business practices. 5. Yes. An activity that is generally regarded as ethical and survives open discussion inside and outside the organization is usually acceptable.

A Real-Life Situation*

Twenty-eight-year-old Elaine Hunt, who is married and has one child, has been with United Banc Corp. (UBC) for several years. During that time she has seen it grow from a relatively small to a medium-size company with domestic and international customers. Elaine's husband, Dennis, has been involved in the import-export business.

The situation that precipitated the current problem began six months ago. Elaine had just been promoted to senior financial manager, which put her in charge of ten branch-office loan managers, each of whom had five loan officers who reported to him or her. For the most part, the branch loan officers would go through the numbers of their loan people, as well as sign off on loans under $250,000. But recently this limit had been increased to $500,000. Any loan over this amount and up to $40 million had to be signed off by Elaine. For larger loans, a vice president would have to be involved.

Recently, Graphco, Inc. had requested a $10 million loan, which Elaine had been hesitant to approve. Graphco was a subsidiary of a tobacco firm embroiled in litigation concerning the promotion of its products to children. When reviewing the numbers, Elaine could not find any glaring problems, yet she had decided against the loan even when Graphco had offered to pay an additional interest point. Some at UBC applauded her moral stance while others did not, arguing that it was not a good "financial business decision." The next prospective loan was for a Canadian company that was doing business in Cuba, exporting cigars. Elaine cited the U.S. policy against Cuba as the reason for not approving that loan. "The Helms-Burton Amendment gives us clear guidance as to what we shouldn't be doing with Cuba," she said to others in the company, even though the loan was to a Canadian firm. The third loan application she was unwilling to approve had come from Electrode International, which sought $50 million. The numbers had been marginal, but the sticking point for Elaine was Electrode's unusually high profits during the last two years. During dinner with Dennis, she had learned about a meeting in Zurich during which Electrode and others had allegedly fixed the prices on their products. Because only a handful of companies manufactured these particular products, the price increases were very successful. When Elaine suggested denying the loan on the basis of this information, she was overruled. At the same time, a company in Brazil was asking for an agricultural loan to harvest parts of the rain forest. The Brazilian company was willing to pay almost two points over the going rate for a $40 million loan. Because of her stand on environmental issues, Elaine rejected this application as well. The company obtained the loan from one of UBC's competitors.

Recently, Elaine's husband's decision making had fallen short of his superior's expectations. First, there was the problem of an American firm wanting to export nicotine and caffeine patches to Southeast Asia. With new research showing both these drugs to be more problematic than previously thought, the manufacturing firm had decided to attempt a rapid-penetration marketing strategy — that is, to price the products very low or at cost in order to gain market share and then over time slightly increase the margin. With 2 billion potential customers, a 1 cent markup could result in millions of dollars in profits. Dennis had rejected the deal, and the firm had gone to another company. One person in Dennis's division had said, "Do you realize that you had the perfect product — one that was low cost and both physically and psychologically addictive? You could have serviced that one account for years and would have had enough for early retirement. Are you nuts for turning it down?!"

Soon afterward an area financial bank manager wanted Elaine to sign off on a revolving loan for ABCO. ABCO's debt/equity ratio had increased significantly and did not conform to company regulations; however, Elaine was the one who had written the standards for UBC. Some in the company felt that Elaine was not quite up with the times. For example, several very good bank staff had left in

the past year because they found her regulations too provincial for the global marketplace that was emerging for UBC. As Elaine reviewed ABCO's credit report, she found many danger signals; however, the loan was relatively large, $30 million, and the company had been in a credit sales slump. As she questioned ABCO, Elaine learned that the loan was to develop a new business venture within the People's Republic of China, which rumor had it was also working with the Democratic People's Republic of Korea. The biotech venture was for fetal tissue research and harvesting. Recently, attention had focused on the economic benefits of such tissue in helping a host of ailments. Anticipated global market sales for such products were being estimated at $10 billion for the next decade. ABCO was also willing to go almost two points above the standard interest equation for such a revolving loan. Elaine realized that if she signed off on this sale, it would signal an end to her standards. If she did not and ABCO went to another company for the loan and paid off the debt, she would have made a gross error and everyone in the company would know it.

As she was wrestling with this problem, Dennis's commissions began to slip, putting a crimp in their cash-flow projections. If things did not turn around quickly for Dennis, they could lose their new home, get behind in other payments, and reduce the number of educational options for their child. Elaine had also had a frank discussion with senior management about her loan standards as well as her stand on tobacco, which had lost UBC precious income. The response was, "Elaine, we applaud your moral outrage about such products, but your morals are negatively impacting the bottom line. We can't have that all the time."

Questions ■ Exercises

1. Discuss the advantages and disadvantages of each decision Elaine has made.
2. What are the ethical and legal considerations facing Elaine, Dennis, and UBC?
3. Discuss possible moral philosophies used in this situation.
4. Discuss the implications of each decision Elaine could make.

**This case is strictly hypothetical; any resemblance to real persons, companies, or situations is coincidental.*

CHECK YOUR EQ

Check your E.Q., or Ethics Quotient, by completing the following. Assess your performance to evaluate your overall understanding of the chapter material.

1. Teleology refers to right or acceptable behavior in terms of consequences for the individual.	Yes	No
2. A relativist looks at an ethical situation and considers the individuals and groups involved.	Yes	No
3. A utilitarian is most concerned with the bottom-line benefits.	Yes	No
4. Act deontology requires that a person use equity, fairness, and impartiality in making decisions and evaluating actions.	Yes	No
5. Virtues supporting business transactions include trust, fairness, truthfulness, competitiveness, and focus.	Yes	No

ANSWERS 1. No. That's egoism. 2. Yes. Relativists look at themselves and those around them to determine ethical standards. 3. Yes. Utilitarians look for the greatest good for the greatest number of people and use a cost-benefit approach. 4. Yes. The rules serve only as guidelines, and past experience weighs more heavily than the rules. 5. No. The characteristics include trust, self-control, empathy, fairness, and truthfulness — not competitiveness and focus.

Important Terms for Review

centralized organization
decentralized organization
corporate (organizational) culture
leadership
motivation
relatedness needs
growth needs
reward power
coercive power
legimate power
expert power
referent power
formal group
informal group
group norms

A Real-Life Situation*

Gerard was worried as he sat down in his expensive new chair. What had he gotten himself into? How could things have gone so wrong so fast? It was as if he'd been walking and some truck had blind-sided him. Gerard had been with Trawlers Accounting, a medium-size firm, for several years. His wife, Vicky, had obtained a job in the pharmaceutical industry, and they were just about to have their first child. The doctor had told her that she would need to stop work early because hers was a high-risk pregnancy. So three months before her due date, she asked and received a four-month leave of absence. This was great, but the leave was without pay. Luckily, Gerard had received a promotion and now headed a department.

Some interesting activities were going on in the accounting industry. For example, Gerard's superior had decided that all CPAs would take exams to become registered investment advisers. The rationale for such a new development was simple. The client relationships that the firm had could be used to increase revenues in regard to investment opportunities. Because of the long-term relationships with many firms and individuals, as well as the implicit sense of honesty that CPAs must have in order to do their job, clients understood that a violation of such a trust would be unlikely — or so the argument from Gerard's boss went. Many of the people in Gerard's department didn't like this; however, some who had passed the exams had increased their pay by 15 percent. During lunch, one of Gerard's financial friends engaged him in a heated discussion. "What you're doing, Gerard, is called unfair competition," the friend accused him. "For example, your CPAs have exclusive access to confidential client taxpayer information, which could give you insight into people's financial needs. Besides, you could easily direct clients to mutual funds that you already own in order to keep your own personal investments afloat. Also, if your people start chasing commissions and fees on mutual funds that go bad, your credibility will become suspect and you won't be trusted. Plus, your people will now have to keep abreast of financial, as well as tax and accounting, changes."

When Gerard got to his office, he found that some of his people had been recommending a group of mutual funds that the company had been auditing. Then someone from another of his company's accounting clients, CENA Mutual Funds, telephoned. "What's the idea of having your people suggest PPI Mutual Funds when they are in direct competition with us?" the caller yelled. "We pay you at lot, Gerard, to do our accounting

procedures, and that's how you reward us? I want to know by the end of the day if you are going to continue to push our competitor's product. I don't have to tell you that this will directly affect your department and you. Also, things like this get around the business circles, if you know what I mean." With these words, the caller hung up on Gerard.

Questions ■ Exercises

1. Identify any ethical and legal issues of which Gerard needs to be aware.
2. Discuss the advantages and disadvantages of each decision Gerard has made and could make.
3. Discuss the issue of accounting firms going into the financial services market.
4. Discuss the type of groups that are influencing Gerard.

**This case is strictly hypothetical; any resemblance to real persons, companies, or situations is coincidental.*

CHECK YOUR EQ

Check your E.Q., or Ethics Quotient, by completing the following. Assess your performance to evaluate your overall understanding of the chapter material.

1. Decentralized organizations tend to put the blame for unethical behavior on lower-level personnel.	Yes	No
2. Decentralized organizations give employees extensive decision-making autonomy.	Yes	No
3. Organizational culture provides rules for behaving within the organization.	Yes	No
4. An integrative culture shows high concern for performance and little concern for people.	Yes	No
5. Coercive power works in the same manner as reward power.	Yes	No

ANSWERS 1. No. That's more likely to occur in centralized organizations. 2. Yes. This is known as empowerment. 3. Yes. Values, beliefs, customs, and ceremonies represent what is acceptable and unacceptable in the organization. 4. No. That's an exacting culture. An integrative culture combines high concern for people and production. 5. No. Coercive power is the opposite of reward power. One offers rewards and the other punishment to encourage appropriate behavior.

the organization. A safe work environment, competitive salaries, fulfillment of contractual obligations, work–family programs, stock ownership, and community service all contribute to developing employee commitment to the organization.

Businesses that succeed give consumers the opportunity for feedback. Satisfied customers will return, but dissatisfied ones will continue to damage the firm's reputation. Service fairness — the customer's perception of the degree of justice in a firm's behavior — is a key element in long-term business success.

Corporate citizenship is also positively associated with return on investment, return on assets, and sales growth. Ethics has been found to be particularly important to the development and performance of nations. Societies that promote trust have a more secure economic situation. Indeed, trust-promoting institutions are a key factor distinguishing societies with a high standard of living.

Corporate reputation has an impact on stock price and organizational productivity. Business misconduct can damage a firm's reputation. There is also increasing evidence that developing an effective ethical compliance program not only helps prevent misconduct but also leads to economic productivity.

A Real-Life Situation*

Jacob Franklin, age 25, had graduated with a bachelor of science degree in engineering and had earned his MBA from an Ivy League university. He had taken a job with Richardson Drilling Equipment because of his fiancée, Margurete. Her family had affiliations with the oil industry in Texas and she wanted to be close to her parents. "I was born a Texan and want my children to be Texan as well," she told him when they were dating. Jacob had grown up in Oregon and found the Amarillo, Texas, topography boring.

In his first year with Richardson Drilling, Jacob had been a quick learner. For example, he had learned that at Richardson it was all right to give goods and services to potential clients. When the company was doing business in Mexico, the rule was that 1 percent of the contract would go in an envelope to someone. Jacob had also learned that company policy forbade bribes to government officials. He had learned, too, that since the oil industry was a very competitive place, with many foreign rivals, normal U.S. standards sometimes did not apply. For example, in Brazil, equipment quality varied wildly. In one case, he had inspected some Richardson equipment and discovered that the drilling company had purchased replacement parts from some other supplier, whose parts were substandard. When he warned the drilling foreman, the reply was, "Accidents happen, we pay by the week here."

Six months ago Jacob had taken over the Latin American sales district, which included parts of the United States. He also finally found the time to go through some of the old files that the past sales reps had left. The files revealed that several U.S. clients that had purchased substantial amounts of product years ago had stopped doing so, yet there were no explanatory notes from the old reps. By talking to the clients, Jacob learned about a number of accidents that had occurred almost seven years earlier as the direct result of a failed liner within several Richardson products. "I told the sales rep about this years ago, and the president of your company came to our operations to check it out. There was no explanation offered or assurance that the problem would be fixed," said one

company's engineer. "That's why I haven't been buying from you."

When Jacob mentioned his discovery to Hillary, his boss, she said, "Jacob, thank you for letting me know, but my recommendation is that you remain silent until the seven-year statute of limitations has passed. We're in the process of coming out with a new liner that will solve this problem, and in another one to two years all the troublesome liners will be replaced. Besides, the old liner meets federal standards. If this problem should be discovered by outside sources, and it had better not be, we can always discount the rest of our inventory to oil fields abroad — in Venezuela or Brazil — where regulations are less restrictive."

Jacob knew Hillary's reputation of being fair but firm. Several days later Jacob found out that Margurete, now his wife, was pregnant. Jacob was delighted but also nervous. There would be only his income for a while, as well as another person for whom he would be responsible. Around the same time another oil company had called him about a position in its research department. The personnel manager had said, "Jacob, we've heard good things about you. We want you to think about coming over to our company. We know that it would mean leaving Texas for our Seattle facilities, but we're willing to offer you 25 percent more than what you're getting, plus perks."

When Jacob told Margurete about the offer, the plate she was drying slipped from her hand onto the floor. "Are you seriously thinking about the position?" she stammered. "Well, yes, I was," he answered as he scooped up the broken pieces and put them in the trash. "It would be more money at a better company, with possibly better opportunities for advancement."

Margurete slumped into the hard kitchen chair. With tears welling up, she said, "Jacob, you don't understand. I need to be close to my parents. They're getting older. I'm their only child. I hated the Northwest when I was there, and I've been to Seattle with its constant rain. It nauseates me just to think about it. I told you before we were married that Texas was very important to me. You said that was fine. I didn't lie to you about my feelings, and now you're telling me that you want to move! If you want to move, I'll go to Fort Worth, Abilene, Houston, even College Station, but don't ask me to move to Seattle." With that Margurete's face turned a sickly gray and she rushed to the bathroom.

Later that week Jacob flew down to Mexico City, still pondering the feelings that he had evoked in Margurete. At first he thought that her reaction might be the result of the pregnancy, but the aura of that night's discussion had lingered as the days passed.

In Mexico, Jacob was dealing with ARMCO, which had decided to purchase $50 million worth of equipment. Jacob was the lead person on the deal and after the signing slipped Jose Ortiz several envelopes filled with five hundred crisp $100 bills. As Hillary toasted Ortiz and ARMCO, the celebration started in full force. While the music played, Hillary cornered Jacob and said, "Jacob, you're in the big leagues now. Very few people at Richardson believed that at 25 you could have handled a $50 million deal as complex as this. This contract will give us enough business to expand and hire 15 percent more permanent workers. There'll be the bonus and a probable promotion down the line. We're proud of the work you're doing."

On the flight home Jacob was catching up on the latest business news and read that the previous month Ortiz had taken a position in the Mexican legislature. He reminded himself to send a note of congratulations.

On Monday, when he checked his messages, he found one from the personnel manager of the company recruiting him. When Jacob returned the call, the conversation quickly focused upon a job. "Jacob, congratulations on the ARMCO deal. We've been trying to land that account for years. You certainly have the magic touch, which brings me to why I've called you. We want you to come up and see Seattle for a few days — our treat. No strings attached, just take a look." On a scheduled trip for Richardson to the Northwest, Jacob decided to visit the other firm, and when he arrived, he found it better than he had imagined. He fell in love with

the city, the job, and the people with whom he would be associating. One thing surprised him. In his conversations at the Seattle company, the subject of cash payments to customers came up. The personnel manager stated: "Yes, that type of business does happen, especially in other countries. Luckily, most firms are avoiding the problem by a firm policy against such behavior — at least that's our policy. We try to avoid that type of employee." After this conversation, the talk revolved around a client that Jacob was courting, and he inadvertently relayed some sensitive information.

When Jacob returned home, he started talking to Margurete about the "extreme possibility" of Seattle. Not that he was seriously thinking about it, but if something drastic happened at Richardson, this might be a fallback position, was his story. As the months went by, Margurete had somewhat softened to the idea of Seattle. Meanwhile, she had gone in for tests about the pregnancy, and the doctors had found that the baby had a high probability of some genetic disorders. Both Jacob and Margurete were concerned about what this would mean if it were true, but as the doctor explained, "We won't know until the third trimester, which in this case may still be grounds for terminating the pregnancy if you so desire." When Jacob was talking to the insurance carrier, he was told not to worry, that this particular condition would be covered. However, the agent added, "I must caution you that many insurance companies are not covering such conditions if you switch carriers before your baby is born."

On Friday things came to a boil. There had been bad accidents in the United States caused by the old liners. Doing some calculations, Jacob realized that the old liners were becoming increasingly problematic, which meant a higher probability of danger. When he explained the new situation to Hillary, her response was, "Jacob, you're on the fast track here. Why do you want to do something that is going to make waves? In one more year the new liners will be out. We'll give them to our high-risk customers at cost, and the problem will be solved. I believe we've had this conversation once before. Remember, if something goes down on this, it will come out that you knew well in advance." Jacob's next conversation was with the Seattle firm, which had wanted a decision by Monday as to whether he was going to take the offer. "We need you, Jacob, and hopefully you'll bring some of your clients with you." While reviewing the offer, he called the Seattle company's insurance carrier about his unborn child and was told that the potential problem would probably not be covered. Finally, word had spread that AXEON had put out feelers about a takeover bid for Richardson. It was well known that AXEON liked taking a chainsaw to management when it took over.

Questions ■ Exercises

1. Identify the ethical/legal issues for Jacob.
2. What options does Jacob have?
3. Assume you are Jacob and prioritize your decisions.
4. What aspects of Richardson's organizational culture may have a negative influence on long-term performance?

**This case is strictly hypothetical; any resemblance to real persons, companies, or situations is coincidental.*

CHECK YOUR EQ

Check your E.Q., or Ethics Quotient, by completing the following. Assess your performance to evaluate your overall understanding of the chapter material.

1.	There is a correlation between perceptions of organizational commitment to ethics and customer loyalty.	Yes	No
2.	Legal problems and negative publicity rarely affect the profitability of the organization.	Yes	No
3.	An ethical climate leads to profits through investor confidence.	Yes	No
4.	Trust between the employer and employee increases the likelihood of survival and success over time.	Yes	No
5.	Studies tend to show that financial performance is positively related to ethics and compliance initiatives.	Yes	No

ANSWERS 1. Yes. Also, employee loyalty seems greater in organizations with strong ethical cultures. 2. No. Legal investigations, fines, and negative publicity can decrease the stock price, customer loyalty, and the long-term viability of the company. 3. No. More specifically, an ethical climate leads to profitability through customer and employee trust, employee commitment, and customer satisfaction. 4. Yes. Trust is key in minimizing turnover and increasing employee commitment. 5. Yes. Good ethics is good business.