
Three Topics Today

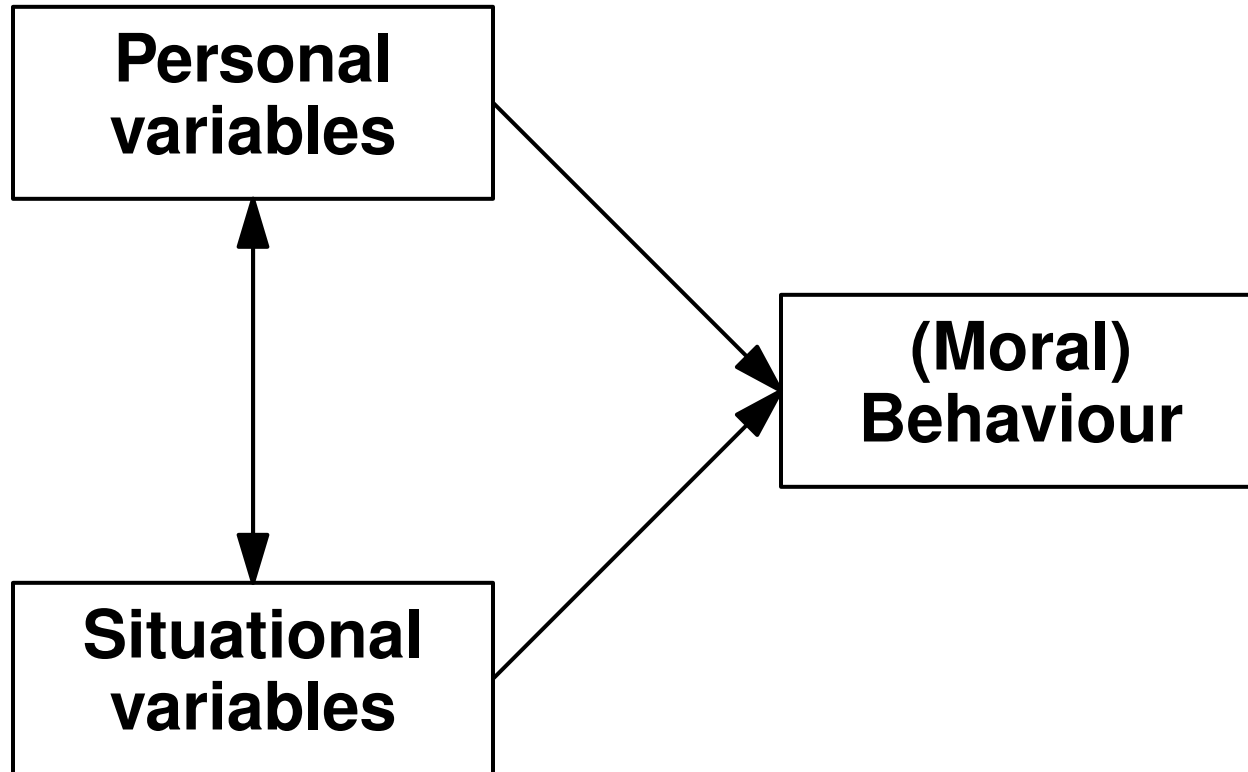
- 1. A Psychologist's View of Moral Behaviour from Noa**
- 2. Resolving Kidder's Dilemmas**
- 3. A Philosopher's View of Corporate Morality from Damian**

Today's handouts:

- 1. Lecture overheads**
- 2. The Merck case**
- 3. The Pinto case**
- 4. Mr Ethicist (with his answers)**
- 5. Course Essay Topics.**

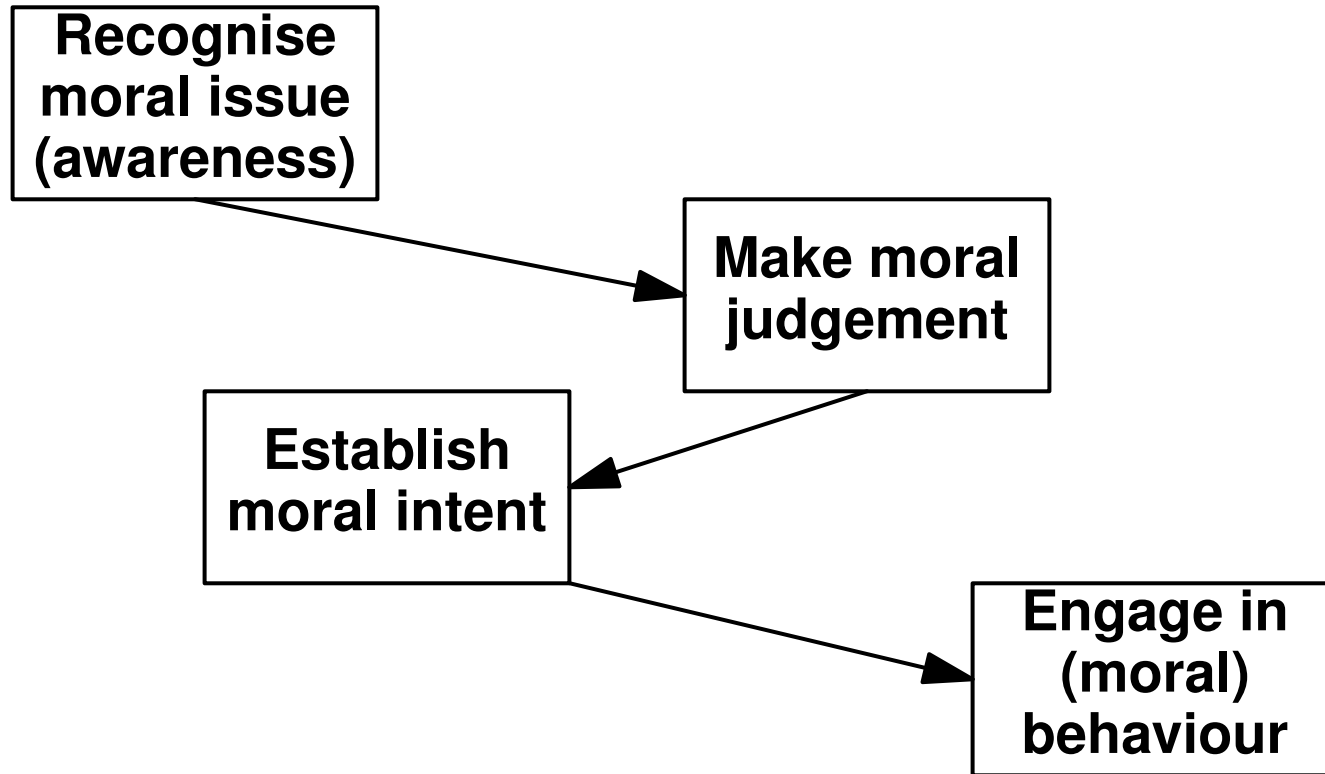
What influences people's behaviour?

(after Noa)



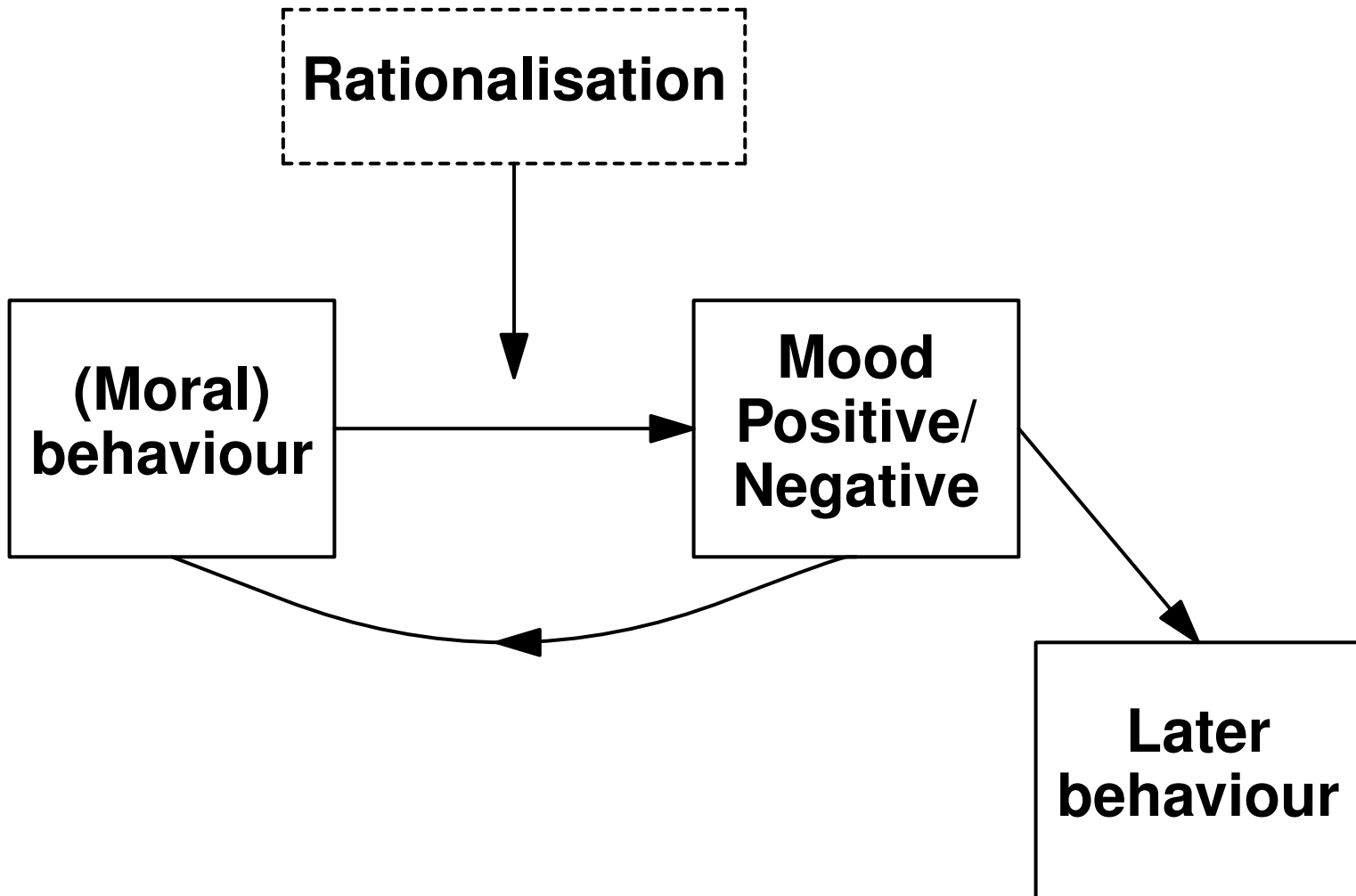
What you do depends on who you are and where you find yourself to be.

Ethical-Decision-Making Process



An issue-contingent model of ethical decision-making in organisation (after Jones *AMR* 1991). The characteristics of the moral issue (“Moral Intensity”: magnitude of consequences, social consensus, probability of effect, temporal immediacy, proximity, concentration of effect) affect all boxes.

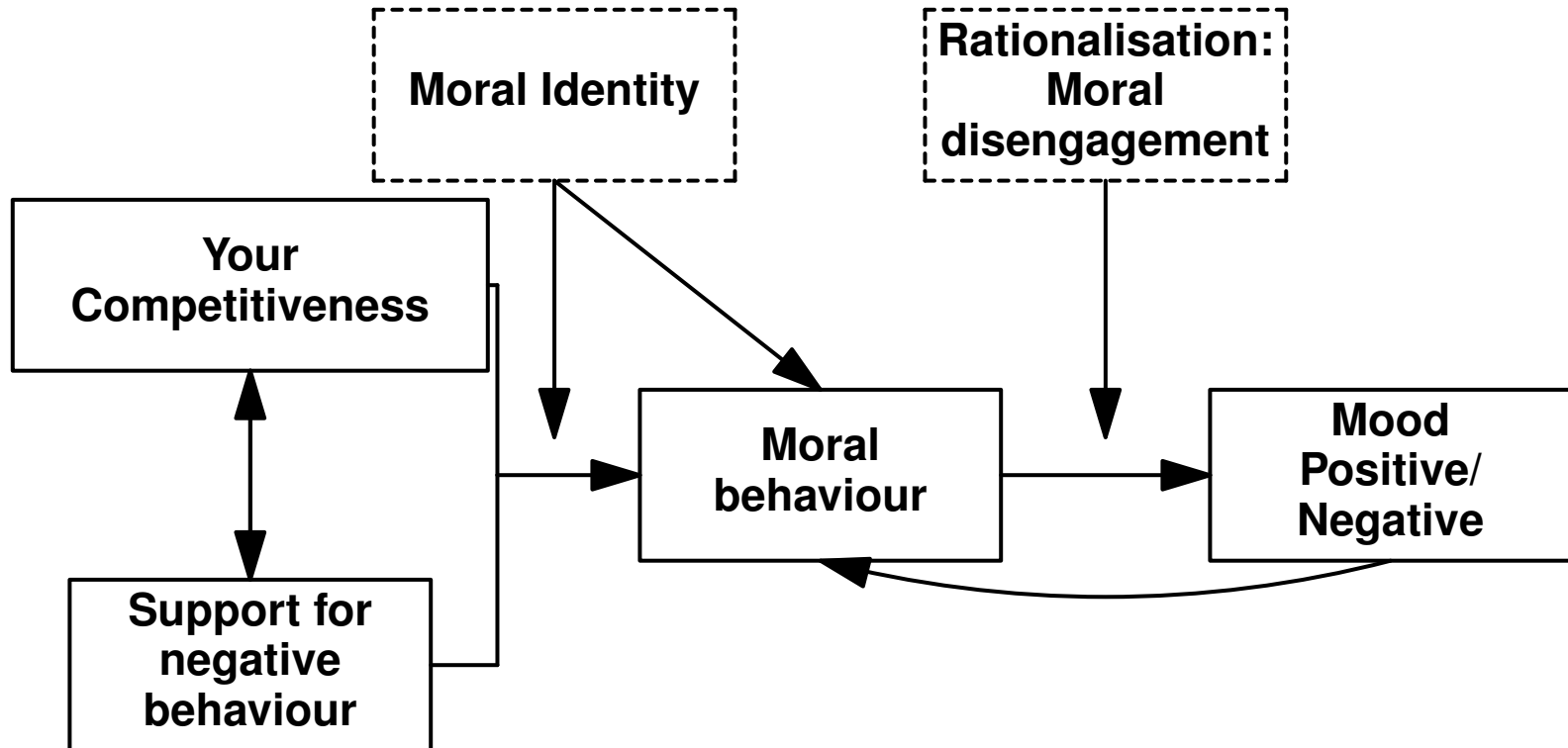
Self-regulation and rationalisation (Bandura 1999)



Rationalisations for Lying (Bandura 1999)

- ***It would have hurt her more if I'd told the truth.*** (moral justification)
- ***I am "flexible" with the truth.*** (euphemistic labelling)
- ***This little lie is better than stealing from the boss.*** (advantageous comparison)
- ***He pushed me into a corner: I had to lie.*** (displacement of responsibility, attribution of blame)
- ***We all decided together that this was the best thing to do.*** (diffusion of responsibility)
- ***A little white lie never hurt anyone.*** (disregard or distortion of consequences)
- ***He's a worm who doesn't deserve the truth.*** (dehumanisation)

Putting It All Together — An example.



Ethics

“[Ethics] is the domain of obedience to the unenforceable.

That obedience is the obedience of a man to that which he cannot be forced to obey. He is the forcer of the law upon himself.”

— jurist John Fletcher, Lord Moulton (1924)

Four Resolution Principles

(After Kidder)

- I. **“Do what’s best for the greatest number of people.”**
— ends-based or utilitarian (J S Mill)
- II. **“Follow your highest sense of principle.”**
— rule-based or Kantian
- III. **“Do as you would be done by.”**
— care-based, the Golden Rule
- IV. **“Live admirably.”**
Virtuous ethics.

Case 1: Publish and be Damned?

KF is the editor and publisher of a daily paper.

A banker's son is under investigation for arson of a popular restaurant.

The banker also owns a competing restaurant.

Unconfirmed leaks: indictment of son is imminent, but not generally known.

Advice to KF: *publish now, lest we are scooped.*

The banker to KF: *my son has been framed—publication of rumours would ruin his life. And he won't be charged.*

KF owes the banker for past (open) favour.

Conflict between KF and the executive editor, who says: *Publish now!*

Case 1 continued

Type of dilemma: Truth v Loyalty

Resolution: gather information, seek alternatives, otherwise a moral principle?

- I. Ends-Based: What's the greatest good? — the story? The greatest number? — not the banker and his family, but the public.**
- II. Rule-Based: The highest rule? — “Publish the truth and hang the consequences”? “Always protect the innocent?” Other editors in similar conditions?**
- III. Care-Based: Who are “others”? — the banker's son? the banker? KF: in the banker's shoes, don't publish.**

Case 1 continued

Result: Hold the story!

Why?

Was seeing off the competition sufficient to risk ruining someone's life and reputation? What public interest is there in publishing *early*? Yes, she owed the banker, but irrelevant. Same decision even if father unknown? — Yes.

A week later the son was indicted, and the paper still published first.

Case 2: What the tow-truck driver saw.

**Driver pinned in truck cab after hitting a tree.
Cab on fire — could explode at any moment.
Police arrived: driver — *Shoot me! Shoot me!*
Flames spread. Policeman draws his revolver.
Then, instead, the cop grabbed a can of CCl₄.
Sprayed the driver's face — unconscious. Cab
explodes.**

The cop's dilemma: Short v Long, Justice v Mercy.

Case 2 continued

- I. **Ends-based: saving 1 v losing both? easing pain v agony of burning?**
- II. **Rules-based: “Never kill!” (and can’t foresee consequences 100% — fire brigade?)**
- III. **Golden Rule?**
 1. **Assumptions of the driver/the cop — a third way?**
 2. **Police don’t kill, or ethical heroism to break the law and shoot?**

Case 3: May's ex and his new girlfriend

May is a counsellor at an STD clinic.

Finds she has 2 STDs herself, but sex only with her long-term ♂ partner.

Confronted, he denies infidelity. The relationship ends.

Later May counsels a young ♀ with 1 STD, whose boyfriend, she learns, is her own ex.

May's dilemma: warn the ♀ or keep quiet?

Dilemmas: Truth v Loyalty, Self v Other, Short v Long.

Case 3 continued

- I. **Ends-based: consequences? diseases spread to others? May compromised if silent? May scaring ♀ off her ex if she tells? ∴ Tell (to save community)**
- II. **Rules-based: (consequences mere speculation). Rule: “Save life!” whose?**
- III. **Golden Rule: if May the ♀, then Tell.**

Third alternative: turn the ♀ over to another counsellor?

Case 4: The Loyal Employee

Bill works with Maud, a very loyal employee, wrapped in work.

But never in 20 years of service did she quite fit any position.

Generous, careful, slow, deliberate, technophobic, a creature of habit.

Unable to change, no family, no savings, 6 years from retirement.

Cost cutting → Maud replaced by a computer, and no other work for her.

The firm can't easily carry Maud; but Maud needs the job until retirement.

Bill's dilemma: self v community.

Case 4: continued

- I. **Ends-based: risk the community's survival for a single person? No.**
- II. **Rule-based: consequences not certain — a new need for Maud? her loyalty is extreme — use it? favourite niece of a rich old uncle? ∴ stick to the rule? “People are ends, not means?” Less an employee, more a family member?
Or: “Always strengthen the team?” how? fire? or keep?**
- III. **Care-based: who is “other”? Maud? Other employees, at risk?**

Resolution depends on knowing Mary really well.

Syndicates

Go to your syndicate rooms.

Choose one the four cases above.

Discuss how to resolve your chosen dilemma.

Come back in 20 minutes perpared to justify your answer through your spokesperson.

A Managerial Approach

(after Damian)

- 1. Managers and leadership.**
- 2. Corporate culture.**
Raising the firm's performance by an inch.
- 3. Control systems.**
Away from ethical failure.
- 4. Stakeholders.**
Merck and Enron, as examples.

The organisation, not the individual

- **James Waters: “Rather than ask *What was going on with those people to make them act that way?* we ask *What was going on in that organisation that made people act that way?*”**
- **If we want people to be ethical, then we must support them.**

Jackall's Five Rules of Surviving in an Organisation

- 1. Don't go around your boss;**
- 2. even if your boss invites dissent, tell him or her what he or she wants to hear;**
- 3. if the boss wants something dropped, drop it;**
- 4. anticipate the boss's wishes — don't force him or her to act the boss;**
- 5. don't report what the boss doesn't want reported: cover it up and remain silent.**

Raising the ethical culture an inch

- **Say you're a new manager. As the CEO walks out the door for her annual vacation, she asks you to deliver a strategy to raise the ethical standards of the firm by an inch in three months.**
- **What would you deliver?**

Two Basic Rules

- 1. Identify (and state) your rules of operation clearly. Make commitments and values explicit.**
- 2. Avoid organisational hypocrisy. Don't subvert formal requirements with informal laxity (e.g. the Stonecipher case below).**

Leadership at every level

- **The single biggest factor in sustaining ethical conduct is example from superiors.**
- **The CEO sets the example and all other managers should follow.**

Institutional Supports

Codes ←

Ethics training

Ethics officers

Committees

Newletters

Leadership & mentoring

Incentives & disincentives

Hotlines

Ombudsmen

Performance standards

Use examples of both good and bad behaviour.

Boeing's Harry Stonecipher and his code

- **Hired as Boeing's CEO to clean up corruption and polish the firm's image.**
- **Pushed a strong code of ethics, inter alia forbidding sexual relationships between subordinates and their bosses.**
- **Had a brief affair with a vice-president who didn't report to him.**
- **He resigned when this became known: his judgment was questioned, he'd breached his own code and embarrassed Boeing, and the shadow of litigation ...**

Auditors/Consultants

- **Auditors *independently* endorse the firm's accounts.**
- **But conflicts of interest (with the firm using the consulting arm: see Andersen) → not entirely independent.
Andersens signed off on misleading audits for Enron, Sunbeam and others.**
- **Andersens consultancy prospered until spun off into Accenture.**

Law and Regulation

- ***Coopetition***: in firms' interests to face the same regulatory environment, with no disadvantage to the "ethical" firm in terms of costs etc.
∴ Lobby together for appropriate regulatory environment.
- **Self-regulate.**
With codes, policies, procedures, managerial exhortations.

In distressed firms ...

- **A “kill the messenger” mood: ∴ concealment of bad news and lying; ∴ little confidence in internal reports.**
- **Expediency (cutting corners) trumps ethics.**
- **Irrelevance or ignorance of ethical codes of conduct.**
- ***If it's legal, it's ethical***
- **Any avowed concern for ethics is window dressing.**
- **To accomplish their goals, even good managers might deceive.**
- **Those who produce profits, no matter how, are promoted.**

When to blow the whistle?

- **You have good evidence of an immediate and serious internal issue of public concern.**
- **You have tried internal reporting to no avail.**
- **Your intervention will make a difference.**
- **You believe that although there will be costs from your whistle-blowing these are proportionate to the issue's resultion.**

Sherron Watkins to Ken Lay, Enron CEO

Dear Mr. Lay,

Has Enron become a risky place to work? For those of us who didn't get rich over the last few years, can we afford to stay? ... I am incredibly nervous that we will implode in a wave of accounting scandals. My eight years of Enron work history will be worth nothing on my resume, the business world will consider the past successes as nothing but an elaborate accounting hoax. Skilling is resigning now for "personal reasons" but I would think he wasn't having fun, looked down the road and knew this stuff was unfixable and would rather abandon ship now than resign in shame in two years. ... I firmly believe that the probability of discovery significantly increased with Skilling's shocking departure. Too many people are looking for a smoking gun.

See Enron's code on-line.

<http://www.thesmokinggun.com/enron/enronethics1.html>

In response: the Sabanes-Oxley Act, in the U.S.

Strengthens corporate governance, enhances standards for firms and accountants.

The effects:

- **Lawyers and accountants booming**
- **But in May 2004 most financial statements still didn't reflect true financial states (RateFinancials)**
- **In November 2004, related-party transactions still common.**

Misconduct encouraged by ...

- **Lack of clear legal obligations, prohibitions.**
- **Diminished sense of personal responsibility.**
- **Lack of enforceable laws, regulations.**
- **Small risk of detection.**
- **Insufficient penalties.**
- **A climate of “sharp practice”.**
- **Lack of ethical recognition.**

But laws and enforcement ...

- **Will not substitute for ethics and personal responsibility.**
- **Will not alone prevent corruption.**
- **Still rely on a level of trust, rather than fear.**
- **Are expensive means of securing compliance.**

An Exemplar: Merck and its Mectizan.

(Read page 1 of the handout.)

- **Merck did develop the drug Mectizan, and tried to interest the US, the UN, and the WHO to support its distribution. Eventually, not only did they make the drug free, but they paid for its distribution.**
- **How could you justify this decision?**

The other side of the coin: Enron

See the Enron timeline at

<http://www.agsm.edu.au/~bobm/teaching/BE/Enron/timeline.html>

and the DVD, *The Smartest Guys in the Room*.

- **It's now clear that Enron routinely engaged in sharp practice, that it sought to hide this from investors and the financial world by a complex and arcane structure of accounts and partnerships.**
- **Moreover, it encouraged sharp behaviour by firing the lowest-performing 10% of staff and promoting the best 10%: results were all that counted.**

A distasteful Enron electricity traders' conversation

Kevin: *So the rumour's true? They're fuckin' takin' all the money back from you guys? All those money you guys stole from those poor grandmothers in California?*

Bob: *Yeah, grandma Millie, man. But she's the one who couldn't figure out how to fuckin' vote on the butterfly ballot.*

Kevin: *Yeah, now she wants her fuckin' money back for all the power you've charged right up — jammed right up her ass for fuckin' \$250 a megawatt hour.*
[Laughter]

- **These guys were beating up grandmothers, not regulators, legislators or legal draftsmen.**

Corporate Ethics

- **Should not have to rely on individuals to do the jobs of regulators.**
- **Should support individuals in their ordinary ethical commitments.**
- **Should have formal and informal examples in the organisation.**
- **Should be led from the top.**
- **Can always be raised by an inch.**

Tuesday's Homework (individual)

- 1. Read the Ford Pinto case (handout) and Damian's summary of Jackall (in Readings). Answer the questions in the Course Outline under Tuesday's HW.**
- 2. Can you resolve two questions from Mr Ethicist using the principles of resolution?**
- 3. Complete your second Reflections diary note.**
- 4. Due by 9am tomorrow, max five pages or less. (Be prepared to share in class.)**