

# **Corporate Ethics Workshop**

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**With material from Damian Grace, UNSW.**

## **Ethical Dilemmas?**

- Confidential evidence arrives of increased risk in a product of your company.
- An old friend is burgled. He overstates his insurance claim. The assessor asks you to corroborate the existence and state of the equipment claimed.
- The client finds the prospect of the product attractive, but you think there's a better product for her. Should you sell her the first one?
- A client firm wants you to help reduce their tax liability in a small country. You are CEO of the financial intermediary.
- You are an HR manager choosing entrants to a fast-track program. You get a call from one applicant's uncle, who is a state minister.
- You are a lawyer. You decide your client is guilty.
- You believe that you won't be successful as a foreign firm in another country unless you bribe officials there.
- As an employee of the auditors, you become aware of a client's scheme to boost profits on paper. Not an auditor yourself, but a consultant.

## **Why Ethics (1)?**

- Should I bring my personal beliefs into my organisation?
- Shouldn't my employer determine standards of behaviour for all employees?
- Shouldn't governments set minimum public expectations of business?

## **Why Ethics (2)?**

- You become a manager because of knowledge and skills, not to manage moral matters. Why is social responsibility your concern?
- Isn't it undemocratic for business professionals or other individuals to decide social issues under the cover of ethics?
- Ethics is subjective and relative, isn't it?
- Isn't ethics just about following rules?

## **The main ways of explaining ethics:**

1. Acts are intrinsically right or wrong. Ethical requirements are expressed in *duties* (Kant)  
“respect for persons”, “the ends don’t justify the means”
2. Right and wrong means producing a surplus of good over evil *consequences* (Mill)
3. A third way: *Virtue Ethics* — *ethics as excellence*.  
Focuses on character or human virtue; stresses the achievement of excellence in human activities.

## **Virtues and Professional Ethics**

Professional excellence ranks among the perfecting human virtues.

All social virtues built on friendship, but professional virtues include:

- High practice standards
- Trustworthiness and honesty
- Integrity
- Compassion

## **Why be ethical?**

Three answers:

1. Because it is your rational duty.
2. Because it will increase the sum of good in the world.
3. Because it is the most fitting way to be a person.

## **Connecting the personal and the professional**

Professional ethics draws from all three strands of moral theory:

- It cares about principles and about people as people;
- It cares about results;
- It cares about the virtues of professional practice (excellence).

## **Instrumental goods and intrinsic goods:**

- What is the good of a car?
- What is the good of money?
- What is the good of food?
- What is the good of a Master's degree?
- What is the good of friendship?
- What is the good of art?

In sum ...

- Goods (*instrumental* goods) can be useful for getting other goods, or
- Just good in themselves. These are called basic or *fundamental* goods.

## **So what is the good of ethics?**

- Ethics is about the pursuit of instrumental & fundamental goods.
- Reflected in stressing that human dignity cannot be traded for lesser benefits; and by taking consequences seriously.
- But fundamental goods should not be displaced by instrumental ones.

## **Shortcomings of these theories**

- Rules and absolute prohibitions work at the margins of conduct, eg. Do not torture; do not murder.  
Most conduct is not at the extreme.
- Consequences need some ranking principle beside quantity to distinguish what is important and inviolable from what is tradable  
→ a theory of good.

## **How can we choose an ethical theory?**

In an ethical position (whichever theory):

- Look at whether fundamental goods are protected and supported
- Look at human flourishing. Are any goods basic to human well-being deliberately compromised?

## **Can we name these goods?**

- Life
- Friendship
- Freedom
- Knowledge
- Aesthetics
- Play  
(e.g. Play informs many parts of our lives. The spirit of play is valuable just for itself.)
- Religion

## **Ethics and business**

- What goods are fundamental in business?
- What values do we need to protect them?
- What structures should encourage and protect those values?
- What rôle does an individual have in safeguarding those values in an organisation?
- What rôle does business have in protecting those values in society?

## **A Hierarchy of Actions:**

DO NO HARM

PREVENT HARM

REMOVE HARM

DO GOOD

## **The Kew Gardens Principles**

When should you act?

1. When you see extreme need.
2. When you are close by.
3. When you are able to.
4. When no-one else is likely to.
5. When you won't suffer undue loss.

## ENRON

“Enron ... took great pains to project an image of being a stalwart and responsible corporate citizen ... [It] appeared to have superior internal controls, including most of the elements of an effective ethics management system in place.”

(— *Strategic Finance*, Feb. 2002)

“The unrelenting emphasis on earnings growth and individual initiative, coupled with a shocking absence of the usual corporate checks and balances, tipped the culture from one that rewarded aggressive strategy to one that increasingly relied on unethical corner cutting. In the end, too much leeway was given to young, inexperienced managers without the necessary controls to minimise failures.”

(— *Business Week*, Feb. 25, 2002)

Enron changed from being a small regulated gas company to an huge unregulated trading company. The catalyst was Chairman Ken Lay hiring of Jeff Skilling “to build Enron Finance Corp. into an asset light laboratory for financially linked products and services.”

(— *Business Week*)

## ENRON

“The train was supposed to be kept on the tracks partly by an internal risk management group ... to screen proposals and review deals. Many of the unit were MBAs with little perspective and every reason to sign off on deals. Their own performance reviews were partially done by the people whose deals they were approving. The process made honest evaluations virtually impossible.”

(— *Business Week*)

“Arthur Andersen, the accounting firm, looked the other way while Enron management created ‘special purpose entities’ (that is, complicated financial arrangements that kept hundreds of millions of dollars in losses and debt off the balance sheet, and thus away from the scrutiny of investors). This led to an overstatement of profits of almost \$600 million and an understatement of debt of \$630 million between 1997 and 2000. Andersen was hardly ‘independent’ as more than half of its income from its Enron ‘account’ came not from auditing but from lucrative consulting work.”

(— *America*, Feb. 11, 2002)

## **Enron issues**

- Corporate governance
- Off-the-books partnerships
- Auditors also having consultancy interests with clients
- Independent audit committee
- Code of ethics
- Political favours

## **NYSE Response**

- Tighten the definition of independent directors
- Five audit committees the power to hire and fire auditors
- Let shareholders approve all equity-based compensation plans
- Force CEOs to certify the authenticity of their companies' financial statements
- Require board compensation committees to be composed of all independent directors

## **A Corporate Sea Change?**

In his 1967 book, *The New Industrial State*, John Kenneth Galbraith wrote of business executives of that time:

“Management does not go out ruthlessly to reward itself — a sound management is expected to exercise restraint. ... With the power of decision goes opportunity for making money ... Were everyone to seek to do so ... the corporation would be a chaos of competitive avarice. But these are not the sort of thing that a good company man [sic] does; a remarkably effective code bans such behaviour. Group decision-making ensures, moreover, that almost everyone’s actions and even thoughts are known to others. This acts to enforce the code and, more than incidentally, a high standard of personal honesty as well.”

Thirty-five years on, a cover article in *Fortune* is titled, “You Bought. They Sold.” “All over corporate America,” reads the blurb — but we can think of Australian examples, “top executives were cashing in stocks even as their companies were tanking. Who was left holding the bag? You.”

- a. Has there been a change in corporate culture over the past generation? How?
- b. What of attitudes and morality?
- c. If so, possible reasons?
- d. Does your answer to a) shed any light on reversing changes, if they have occurred? How?

## **Suggested ethical qualities**

**FAIR  
BELIEVING  
TRUTHFUL  
INFORMED  
CONSIDERED  
SETTLED  
CARING  
REASONABLE  
HONEST  
FORGIVING  
PRINCIPLED  
CONSISTENCY  
COURAGEOUS  
INTEGRITY  
CHARACTER  
KIND/COMPASSIONATE  
DECISIVE**