

Module 3. Business Ethics, Ethical Dilemmas and, Ethical Codes (and a bit on Climate Change Ethics)

- 0. Business ethics vs. CSR w/Exxon example**
- 1. ethical dilemmas for the individual professional employee and manager**
- 2. contrast sources of ethical belief systems**
- 3. ethics for finance and accounting professionals.**
- 4. the role of the manager in establishing an organizational culture of ethical behavior.**
- 5. corporate level ethical codes.**
- 6. a final perspective on the individual employee,**
- 7. ethics and climate change.**

I. Ethical Dilemmas for individuals vs. CSR dilemmas for enterprises

Business managers confront ethical dilemmas on a continuing basis. These dilemmas can often be “paralyzing”-leaving managers uncertain how to act.

It is easier to speak of managers having “ethical dilemmas” but corporations having “corporate social responsibility or “social contract” dilemmas.

The reason to draw this differentiation is that corporations are not “thinking beings”—they cannot be reflective of underlying personal values (even though enterprises do have “organizational cultures” which we discuss later.

By contrast, the managers of corporations must consider the conflicting claims of various stakeholders as they define the firm’s social contract with society, which in turn requires consideration of stakeholder interests, power, rights, values.

Some Examples of Ethical Dilemmas

- 1. Greenwashing, referring to operations and products as “sustainable”**
- 2. “Natural” foods**
- 3. Fine print in consumer contracts**
- 4. Sourcing in Asia at known sweatshops**
- 5. Not exploring where fungible resources come from, e.g., soybeans or beef from Brazil**
- 6. Selling weapons to resellers and not investigating where they end up**
- 7. Aquaculture using FOFM (Fish Oil Fish Meal) to grow fish when it is taken from African waters where people are in poverty**
- 8. Cryptocurrencies using scarce electricity**
- 9. Dairy farmers ignoring the climate impact of their operations**
- 10. Ocean shippers refusing to invest in alternative fuels**
- 11. Is it ethical to**
 - force feed ducks and geese for foie gras?**
 - raise alligators for their leather?**

Some Examples of Social Contract/Social Responsibility Dilemmas

- 1. Should Shell divert capital resources to alternative energies**
- 2. Should Volvo and Daimler invest in hydrogen propulsion for their trucks**
- 3. Should electrical companies suboptimize by burning biomass in the short run**
- 4. Should banks stop investing in coal plant construction**
- 5. Should Finnish forest products companies stop cutting Finnish forests**
- 6. Should Amazon require sellers on their website to follow the Amazon packaging guidelines**
- 7. Should companies require suppliers to meet environmental standards**

Exxon and Climate Change: an Example

For 20 years researchers and engineers at Exxon were quietly incorporating [climate change](#) projections into the company's planning and closely studying how to adapt the company's Arctic operations to a warming planet, with a particular focus on the impact of carbon dioxide from Exxon's fossil fuels.

[Certainly a “socially response act on the part of Exxon, as one of the world's largest oil companies, for both its shareholders and society at large.]

The study focused on building models that incorporated how climate change:

- 0. would make it easier or more difficult to drill for oil in the Arctic**
- 1. impact on pipeline maintenance (from thawing of permafrost),
and**
- 2. rising sea levels and floods near Exxon's coastal operations.**

For 20 years, in response to what the company was doing in the face of global warming, at the annual shareholders' meeting the Exxon Chairman Exxon's would declare, “examination of the issue supports the conclusions that the facts today and the projection of future effects are very unclear.”

And the very same models that for two decades Exxon’s executives were using internally for strategic planning were publicly dismissed as “unreliable and based on uncertain science and unproven climate models, or, more often, on sheer speculation.”

[MY NOTE: an example of an unethical act by an individual executive—an outright lie and deceiving shareholders and the public as to what Exxon knew to be the fact and what was part of its internal strategic thinking, strategy and operations.

Apparently Exxon’s chairman saw no ethical dilemma in this situation, or found some means to dismiss it, perhaps as we note below.]

Resolving Ethical Dilemmas

An ethical dilemma for a manager or employee (a) internal to the firm or (b) external to the firm – in which he/she is uncertain how to act.

Ethical issues are raised, but ethical guidelines are unclear or contradictory. Often conflicting ethical signals come from one or more of the following:

- a. the manager's personal ethics (one can think of this as the baseline reference in ethical dilemmas for the individuals, just as profit is the baseline reference for the business enterprise)**
- b. formal company policy (which may dictate how ethical dilemmas should be handled, either implicitly or explicitly)**
- c. informal group norms within the company or industry**
- d. societal values (which can be fragmented and contradictory)**
- e. professional standards (which can be formalized in ethical codes)**
- f. the ethics of one's superiors in the organization (which may have to be inferred)**

Further, these ethical signals may conflict with short-term or long-term profit goals of the company.

There may be conflicts between different national cultures and within those cultures, different regulatory requirements, e.g., in the current conflict between US corporations and the Chinese government over controlling data.

Nevertheless, the manager must act or decide: What should he/she do?

Any analysis of an ethics situation must

**identify the dilemma,
the conflicting signals (public government, NGOs, media),
possible alternative solutions (is the science available?),
and a recommended action/decision,
with accompanying rationale.**

II. Deciding What's Right: Philosophical Approaches to Ethics for the individual manager

We often have a set of ethical principles we are not consciously aware of, a product of our culture, education and upbringing. However, if we wish to contemplate what our ethics are, we might consider the following sources of ethics:

A. Prescriptive Approaches to Ethical Decision Making

1. Focus is on Consequences

“Utilitarianism” – best decision is one that yields greatest net benefits, i.e., “utilitarianism” has a very practical orientation “~value-neutral” (ends>means)

2. Focus on Duties, Obligations, and Principles

Decisions based upon abstract universal principles: honesty, promise-keeping (Facebook and Instagram), fairness, rights, justice, respect. The focus is on doing what is “right” rather than doing what will maximize societal welfare

B. Deciding What's Right: A Psychological Approach to Ethics

1. Individuals Have Predispositions to Be Ethical or Not

Focus is on “Cognitive Moral Development” – how people decide what is right.

- a. A large majority of adults are highly susceptible to influence by those around them – peers, supervisors, etc.**

- b. A minority of adults gets their guidelines “internally,” and is therefore more likely to take responsibility for the consequences of their actions.**

2. Cognitive Barriers to Good Ethical Judgment: Human Limitations

- a. Over-confidence about knowledge of facts leads to failure to search for additional facts or for support for facts you have
- b. In sum: you may want to follow the folk wisdom that says, "*don't ask questions you don't want answers to.*"
- b. Risk is underestimated because of

“illusion of optimism”—things will turn out well in the end (“I’ll never get caught”)

“illusion of control”—I can control events and others who are involved

“illusion of Superiority”—individuals think of themselves as more ethical, fair, and honest than the average person or their peers.

Ethical Issues Facing the Accounting and Finance Professions

Finance and Accounting professionals are #'s people, but they are also watchdogs of the business world and “follow the money” is as good a rule in business as anywhere else. But they often experience ethical pressures because they control how numbers of categorized and reported. (& “crunched”)

Pressure to Manipulate the Figures

Management has a temptation to lean on not only accountant and financial analysts, but also marketing, production and legal staff to distort the numbers can be hard to resist. How do you respond to your boss's pressure?

Sins of Omission

Pressure to simply leave things out of financial reports if they'd cast a shadow over the company., psychologically easier misrepresenting numbers.

Overly optimistic projections of sales, optimistic production schedules, potential outcomes of R&D.

In sum: you may want to follow the folk wisdom that says, "*don't ask questions you don't want answers to.*"

Access to Information and Confidentiality Issues

Outside accountants naturally spend much of their time dealing with confidential information, e.g., Insider trading — is one of the most obvious issues.

Another is sharing knowledge of your company with a competitor.

Conflicts of Interest

When senior internal accounting, production, or marketing staff receives bonuses based on the stock price which in turn is based on profit or revenue # #s, they have an incentive to bend #'s to make them better than they really are.

Blowing the Whistle

One final ethical dilemma all employees may face is the thorny question of when to blow the whistle on a company or a division that's unethically manipulating or misstating its numbers. Fate of whistleblowers not good.

III. Managing for Ethical Conduct: Establishing an Ethical Climate or Culture

C. Organizational Culture

- 1. Organizational ethics as a cultural phenomenon. Every organization has a culture that encourages or discourages ethical behavior**

- 2. Formal cultural systems establish and reinforce organizational culture:**

- 3. Informal cultural systems also play a significant role in defining the culture in an organization, including the norms for ethical behavior at all organizational levels**

- 4. Posing the question, “Once formed, how does one change the ethical culture in an organization?”**
 - a. changing the formal cultural systems**
 - b. changing the informal culture**

**SO, How Does a Manger
Reinforce a Positive Organizational Culture
and
Redirect a Negative Organizational Culture?**

- a. Organizational structure (a given)**
- b. Avenues of communication within**
- c. Formal decision – making process (who has authority)**
- d. Formal policies (conflicting?)**
- e. Formal reward systems (people do what's rewarded and avoid doing what's punished)**
- f. Orientation and training programs (avoid routine)**
- g. Leadership (Walk the talk)**
- h. Communicating expectations**
- f. Ethical Codes**

Global Business Environment: a Special Case

1. Focus on the individual expatriate manager

- 1. The enterprise cannot assume that behavior of individuals in host country will be consistent with cultural norms of the home country.**
- 2. People adapt their behavior to what they believe others expect of them in the host country culture (“When in Rome, do as the Romans do.”)**
- 3. The danger of the expatriate manager assuming his or her home country boss wants problems solved in the host country and not brought home.)**

Formalizing Ethical Guidelines: Ethical Codes

Many companies want to eliminate as many ethical dilemmas for their employees as possible, so they set down in “Code of Conduct” general guidelines and specific precepts to guide employee conduct.

Companies use ethical codes to guide the behavior of employees.

There are three steps in a successful ethical code:

- 1. Code Design. Ethical codes consist of a combination of general precepts and specific practices. The general precepts permit broad application of a particular prohibition in a code, while specific practices define specific activities or practices that are NOT acceptable.**
- 2. Code Promulgation, which means making sure the code is widely understood by company employees and they “buy in” to the code’s objectives and elements.**
- 3. Code Enforcement, which includes**
 - a. Detection, monitoring employees to determine if an element of the code has been violated, and**
 - b. Consequences for violation of the code.**

An Example:

Does your university have a code of ethics and how does it make sure you have read, understand and accept it?

What are their mechanisms of enforcement? For example, many universities subscribe to an online service and/or software that checks for plagiarism.

What are the consequences of violating the code--a bad assignment grade, a failing course grade? expulsion from the university

VII. Entry-level Employee Perspective

As an entry-level employee, you could be asked by your supervisor or a senior manager in your company to do something you consider unethical. In a survey I did for the *Harvard Business Review*, it was surprising how many respondents described experiences they had as entry-level employees where they were asked to do something they considered unethical.

1. force hourly industrial workers to work so many overtime hours that there was a substantial increase in the risk of a serious accident
2. ignore company policy with regard to entertaining customers
3. report financial results that distort business unit performance
4. hire a relative of a superior
5. terminate a worker just before the worker achieved permanent employment status
6. permit products to be shipped that were substandard
7. use product components that had associated health risks
8. contact friends at other companies asking for proprietary information

Think about the following: How would you respond to pressures to commit such acts? Are you clear about your own ethical values? Would you quit a job rather than act

contrary to your ethical values if faced with any of the ethical dilemmas described above?

8 Steps for Managers to Resolving Ethical Dilemmas: Summation

1. Gather the Facts
2. Define the Ethical Issues
3. Identify the Affected Parties
4. Identify the competing values and norms of others and any ethical dilemmas that result
 - superior behavior
 - industry norms
 - company policy
 - peer ethics
 - professional ethics
 - societal values
5. Identify the Consequences
 - Long-term vs. short-term
 - Symbolic consequences
 - Consequences of secrecy
6. Identify the Obligations
7. **Consider Your Personal Values, Integrity**
8. Think Creatively about Potential Strategies
9. “Check your gut”—does your decision feel right?

VI. Ethics and Climate Change

As the Exxon example demonstrate, it easy to avoid the truth when the issue of climate change arises.

Principally, Climate change is focused on the responsibility of public and private institutions to confront the challenge. However, numerous ethical issues arise.

- 1. The most prominent ethical issue is “Climate Change denial” as with Exxon.**
- 2. The “What about...(the other company/country)?” a form of denial, suggesting that “our contribution is small(er), so the focus should be on the other company/industry (fossil fuels, aviation, cement, ocean shipping) or country(China, India).**
- 3. Deflections of responsibility are particularly common from executives in competitive industries where the additional costs of reduction in greenhouse gases would leave a company in a competitive disadvantage if the costs cannot easily be passed on to customers.**

The trade-offs. Executives often cite the trade-offs of doing something that costs money, e.g., “Yes, **our cows do generate methane in their flatulence**, but people have to eat, and more and more want to eat meat.”

- 4. Buying carbon offsets vs. reducing CO2 levels in existing operations.** While this might also be considered a social responsibility issue, it is a conscious executive level decision, resulting in what is popularly known as “greenwashing.”

Summary: Using forests for carbon offset is like selling indulgences – it does not mitigate climate change

The Practice: Using forests for carbon compensations refers to a model where forest owners are paid to sequester carbon in their forests for remuneration.

Businesses or consumers motives: offsetting their own emissions.

The Hard Critique:A business that pays compensation for its activity can cheerfully continue to pour out fossil emissions to cleanse their reputation and conscience-*greenwashing!*

The Soft Critique: It's just accountants moving carbon on paper.

Environmental NGOs have conflicting opinions – they question the benefit to climate, but some see this as a new source of financing forest protection.

Big(ger) Picture: First priority in mitigating climate change is to reduce fossil emissions.

In the worst case, the carbon bound in forests will end up bolstering the image and carbon-neutrality goals of polluting industries – while at the same time, the climate-friendliness of wood-based products is called into question in the carbon sink calculations of governments like the European Union.

A (Weak) Defense:

An extensive market of carbon compensations would be advantageous to many powerful actors, enabling them to contribute toward reduction of carbon in the atmosphere until such time as they can reduce their own emissions with new technology.