NAF Professional Ethics

Lesson 7

Ethical Misconduct in the Workplace

Student Resources

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| Resource | Description |
| Student Resource 7.1 | Reading: Government Regulation |
| Student Resource 7.2 | Reading: Corporate Social Responsibility |
| Student Resource 7.3 | Notes: Corporate Social Responsibility |
| Student Resource 7.4 | Anticipation Guide: Globalization |
| Student Resource 7.5 | Reading: Globalization |
| Student Resource 7.6 | Assignment: Professional Misconduct Research |

Student Resource 7.1

Reading: Government Regulations

Picture a 400-meter race at the Olympics. All of the runners line up, the gun fires, and they take off sprinting. One runner edges out in front of the others and crosses the finish line first. We all assume that he is the fastest, fittest runner, right? But what if you found out that he actually started the race 2 seconds early, or tripped one of the other runners, or put weights in his competitors’ shoes? What if he used performance-enhancing drugs? Sometimes the drive to win encourages people to be their best, and sometimes it encourages them to make dishonest choices in order to win.

The same is true in business. In theory, the free market is supposed to create the most efficient economy, with competition leading to the most effective companies with the best products at the best prices. But as with our runner, sometimes competition encourages companies to cut corners or cheat instead.

In a race, there are rules to prevent cheating, and officials whose job it is to enforce them. They watch to make sure everyone starts when they are supposed to and keeps their hands to themselves. They check runners’ shoes and test for drugs. And if a runner does break one of the rules, he or she is punished by being suspended or even banned from the sport.

In business, government regulation serves the same purpose. Since the early 20th century, Congress has passed antitrust laws to prevent monopolies, and consumer safety laws to ensure that products are safe for the market. Labor laws ensure that employees are treated fairly.

With new industries and technology, new problems arise. In recent years, several accounting scandals have occurred in some of the most important—and deregulated—industries: energy, telecommunications, and banking. Some companies in these industries “cooked their books,” or altered information about their earnings and losses in order to increase their profits. As a result, people stopped trusting business in general and began to assume the worst in every company. So, Congress passed new laws ensuring proper record-keeping and reporting to hold companies accountable and to increase consumer confidence.

Like the rules to prevent cheating in that 400-meter race, these laws provide rules that companies must follow, and punishments for those who do not.

**Sarbanes-Oxley Act**

The most important regulatory act businesses must comply with is the Sarbanes-Oxley Act, also known as SOX. Passed in 2002, its goal is to ensure accurate financial reporting. As you know, ethical breaches can occur at all levels of a company, so SOX addresses the ways in which companies cheated, at all levels of accounting.

*The Bottom Level:* While widespread fraud comes from the top, those actually committing the fraudulent acts are the accountants. Often they are just acting under pressure from a corrupt corporate climate. To prevent this, SOX created the Public Company Accounting Oversight Board (PCAOB) to provide additional oversight to the accounting industry. Now beholden to this outside organization, accountants are (hopefully!) less likely to bend to corporate pressure to “cook the books.” Because of past unethical behavior, the accounting profession has lost much of its ability to self-regulate (remember that self-regulation is one of the characteristics of a formal profession).

*The Middle Level:* Companies use **auditors** to determine the accuracy of their records. But what happens when the auditor cheats? Many auditors worked for the same company for many years and received gifts or bonuses from the company. They had an interest in the company being as profitable as possible, even if it meant fudging some numbers. Now SOX requires independent auditing. Companies must change their chief auditor every five years, and they cannot give other types of work to auditing companies (since the chance to gain additional work would be an incentive to give a favorable report). SOX also created stricter requirements to become an auditor and for auditor reporting.

*The Top Level:* What if the accountants or auditors cheat anyway? The head of a company is ultimately responsible for the company’s ethical conduct. So SOX requires CEOs and CFOs to certify that their financial statements are accurate and that they are properly monitoring financial reporting. If a CEO or CFO gets caught certifying something that is false, he or she can get a $5 million fine and a 20-year prison sentence!

**The Federal Sentencing Guidelines**

Just as governing bodies in sports use the threat of punishment to deter runners from cheating, the US government uses punishment to deter corporate lawbreaking. The **US Sentencing Commission** was created in 1984 to ensure that corporate crimes received hefty enough punishments to be effective deterrents. The Commission creates the **Federal Sentencing Guidelines,** which assign specific fines and prison terms to different crimes like fraud, tax offenses, antitrust violations, bribery, and money laundering. In 1991, the Commission switched the Guidelines in order to hold companies even more accountable: before, the individual was punished for the crime, but now the entire company could be held liable even if only one employee broke the law.

In 2004, in the wake of so many accounting scandals, the Guidelines changed again: this time to require companies to be proactive and create ethics and compliance programs. While all companies are required to have some kind of program, the way in which programs are structured and implemented, called **ethics management**, can differ greatly from company to company. Small companies may just have a statement of values and a strong ethical culture, whereas large corporations may have a separate ethics office and staff.

All programs, though, must meet the following seven requirements to be considered effective under the guidelines:

1. **Standards and Procedures:** Can a company be ethical if it doesn’t really try? The Guidelines say no. An effective program must have a code of ethics and clear controls for preventing crime.
2. **Compliance Infrastructure:** Every ship needs a captain. Ethics programs only work if those at the top know what is going on in terms of the company’s ethics, and if someone is put in charge of ensuring the company’s compliance.
3. **Delegating Responsibility:** In business ethics, there are no second chances. The Guidelines prohibit companies from giving serious responsibility to anyone who has a criminal record or a history of making unethical business decisions.
4. **Communications:** Actions speak louder than words. While a code of ethics is important, an effective ethics program cannot stop there. A company is responsible for ensuring that all employees, officers, and agents are trained in the code of ethics.
5. **Preventing Violations:** Just as a code is not enough, simply making sure your employees know about the code is not enough, either. A company must have a system in place that allows for employees to ask questions, discuss violations, and report wrongdoing without fear of reprisal (called whistle-blowing). There must also be an auditing and monitoring system that can spot criminal activity.
6. **Discipline and Incentives:** Companies must use the carrot and the stick. They need to actively reward ethical behavior in their employees and punish the unethical. And this must be done equally and fairly; no special treatment for management!
7. **Effective Response:** Companies must act quickly. If an ethical violation does occur, the company must respond right away and take action to make sure it does not happen again.

Student Resource 7.2

Reading: Corporate Social Responsibility

When you drop something on the sidewalk, do you pick it up? What if it is someone else’s trash? When you use a lot of scratch paper in class, do you recycle it? Have you ever donated money, books, food, or clothing? Have you ever volunteered to help a nonprofit organization?

When you do any of these things, you are exercising your **social responsibility**—your obligation to help make our society better—either by fixing the problems you have created (like trash dropped on the ground) or by helping with larger problems that exist (like hunger or homelessness).

But do corporations have that same responsibility? In the free market model, companies have no responsibility to make the society better. Their only job is to be as competitive as possible, resulting in the strongest possible economy (which some argue makes society better). But as you have learned, the cost of doing business can sometimes be quite high, and it is often paid, not by the companies, but by society at large. Do businesses have an obligation to balance out those costs?

Increasingly, the answer to that question is yes. There are several ways companies can give back:

**Cash Contributions:** Companies sometimes give monetary awards to individuals or organizations. These come in four main forms:

* Cash grant—given to a group for meeting a goal or other special accomplishment
* Capital grant—given to help an organization buy land, buildings, or equipment
* Challenge grant—given to an organization on the condition that they can raise additional funds from other donors
* Matching grant—given to an organization on the condition that another donor (or other donors) make a matching donation

For example, some companies will match any donation one of its employees makes to an organization. Apple has contributed over $78 million to a range of charities through its matching gift program.

**In-Kind Contributions:** Like cash grants, these are given to help an organization. However, rather than money, in-kind contributions include new products either manufactured or purchased by the company; excess products a company may have; used equipment, supplies, and furnishings; or the use of a company’s facilities or services.

For example, United Airlines donates airline travel certificates and allows individuals to donate their Mileage Plus miles to charitable organizations.

**Corporate Volunteer Programs:** Companies also practice social responsibility by encouraging their employees to volunteer some of their time to a charitable cause. In addition to improving a company’s reputation, these programs have been known to build teamwork and increase productivity back at the workplace. Some examples of corporate volunteer programs are:

* Offering employees paid work time to volunteer
* Implementing a volunteer award program
* Organizing employee volunteer teams for specific events
* Having corporate executives or managers serve on not-for-profit boards

For example, through Honda’s Corporate Volunteer Program, its employees amass thousands of volunteer hours every year.

**Corporate Foundations:** Some companies prefer to separate their giving from their business. They do this through corporate foundations, private not-for-profit organizations that receive most, if not all, of their funding from their associated corporation. While the two can be closely connected, the foundation is independent of the company and operates solely as a nonprofit.

The Walmart Foundation, Coca-Cola Foundation, and GE Foundation are some of the biggest corporate foundations.

**Cause-related Marketing:** This last type of philanthropy is different from the others because it does not involve direct giving. Instead, a company creates a marketing relationship with a specific organization or cause. The cause gets greater awareness through free marketing, and the company gets positive attention for their brand.

Some examples of cause-related marketing include:

* For every dollar spent or coupon redeemed, a company makes a donation to a specific not-for-profit.
* A company promises sales revenue from a particular product or product line toward a specific cause (often advertised as “a percentage of proceeds will be donated”).
* A company uses its knowledge about an industry or field to partner with local charities to educate or raise awareness.

For example, a food company creates partnerships with the Ad Council, local food banks, and afterschool programs to create a program that teaches children to cook, elevates awareness about childhood hunger, and promotes the use of its products.

Are all these efforts really necessary? While social responsibility is an old concept, **corporate social responsibility** is a relatively new one. For this reason, how companies interpret the concept varies widely. Is maintaining an ethical workplace sufficiently responsible? Or does a company’s responsibility extend beyond its own doors? Does a company that produces air pollution in making its product have a responsibility only to minimize that pollution, or do they need to actively work to clean up the air or reduce pollution in other ways? Does a company that sets up shop in a small town have a responsibility to make sure that the town’s citizens have enough to eat and places to live? Must they donate time and money to the schools, food banks, and other social institutions? Does it matter only that a company makes its money ethically, or should they be expected to spend it ethically as well? Another consideration is the size of the business: does a small business, with fewer resources than giant corporations, have the same responsibility to contribute in these time- and cost-intensive ways?

These are challenging questions. Many people feel that corporations do have a responsibility to engage in philanthropy—donating money, goods, or time—in addition to maintaining ethical work practices. Supporters argue that companies will ultimately benefit by taking a long-term approach: improving their communities and their environment can only help them in the long run. Critics argue that, while perhaps it seems nice, this kind of activity distracts from the true purpose of business: to make a profit. This can hurt both the companies and the economy in the long run.

Others still like the idea of social responsibility, but are skeptical of companies who advertise their efforts too much. Does encouraging this kind of philanthropy only lead to superficial efforts and exploitation? For example, a company could publicize that they support a neighborhood homeless shelter, and include pictures of their employees handing out meals, when in reality it only happened one time. The company gets positive attention for their good works without really doing very much to actually help the homeless in their community.

What do you think? What is a company’s social responsibility?

Student Resource 7.3

Notes: Corporate Social Responsibility

Student Name: Date:

Directions: Use this sheet to take notes as you read Student Resource 7.2, Reading: Corporate Social Responsibility.

What is social responsibility? Explain it in your own words.

Use the chart below to describe an example of each type of corporate social responsibility. You can use examples you know about from real life or you can make up examples. Do not copy the examples out of the reading. One example has been provided for you.

|  |  |
| --- | --- |
| Type of Corporate Social Responsibility | Example |
| Cash contributions | Luigi’s Pizza hosts a “Dine and Donate” night to support a local school’s marching band, which wants to raise money to travel to California and perform in the Rose Parade on New Year’s Day. For every pizza sold that night, Luigi’s will donate $3. For every salad or dessert sold, Luigi’s will donate $1. |
| In-kind contributions |  |
| Corporate volunteer programs |  |
| Corporate foundations |  |
| Cause-related marketing |  |

Student Resource 7.4

Anticipation Guide: Globalization

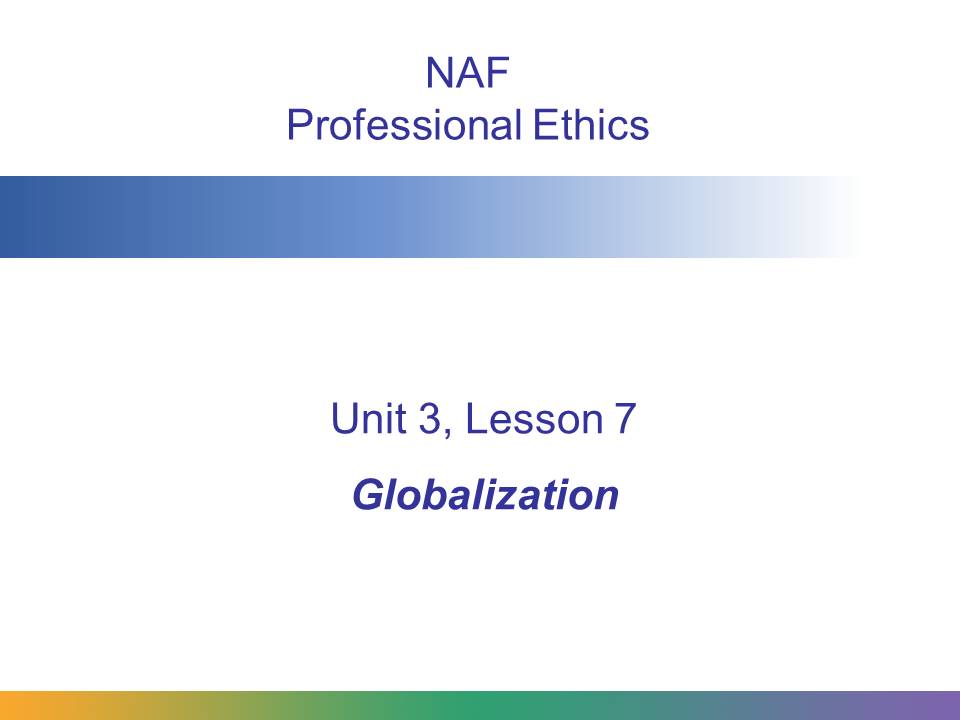
Student Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date:\_\_\_\_\_\_\_\_\_\_\_

Directions: For each of the statements below, underline “I agree” if you think the statement is accurate or “I disagree” if you disagree with it. Write one reason to explain your guess.

|  |  |
| --- | --- |
| Doing business in a foreign country is pretty much the same as doing a business deal in the United States. | |
| My guess: | I agree I disagree |
| My reason: |  |
| I learned: |  |
| In some parts of the world, giving and receiving bribes is a normal part of business. | |
| My guess: | I agree I disagree |
| My reason: |  |
| I learned: |  |
| *Fair trade* means a product came from a place that has good trade agreements with the United States. | |
| My guess: | I agree I disagree |
| My reason: |  |
| I learned: |  |
| *Outsourcing* means a business finds its raw materials from sources outside the United States. | |
| My guess: | I agree I disagree |
| My reason: |  |
| I learned: |  |
| Sweatshops are places, such as factories, with very bad or dangerous working conditions. | |
| My guess: | I agree I disagree |
| My reason: |  |
| I learned: |  |

Student Resource 7.5

Reading: Globalization



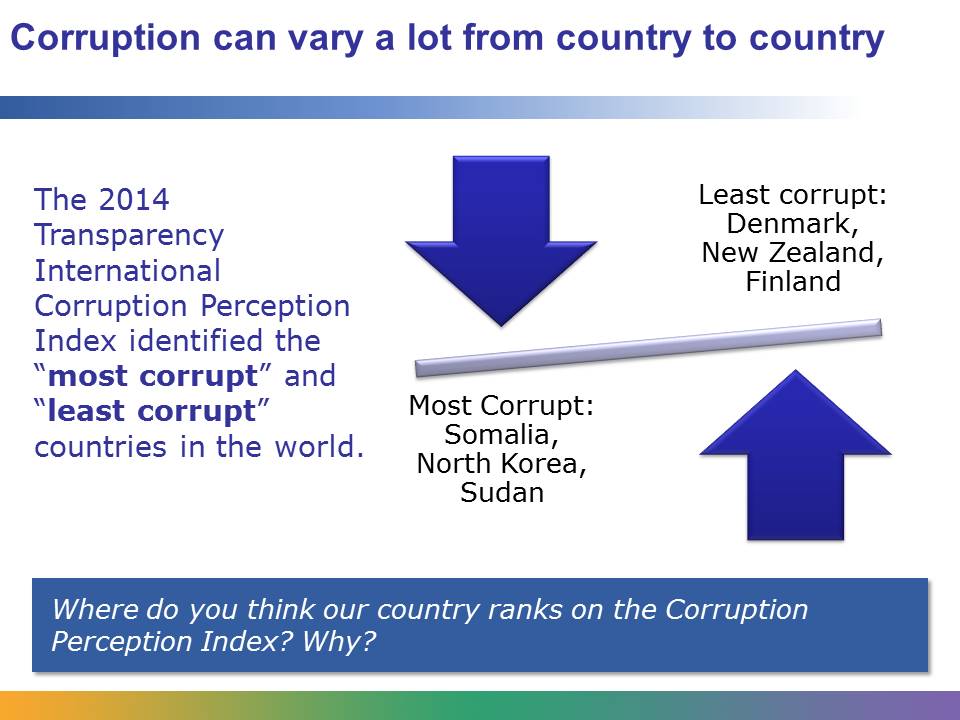
As you know, we are living in a world in which business and trade are becoming increasingly international in scope. The term for this increasing economic integration and interdependence is *globalization.* We will examine some of the ways globalization raises ethical questions and challenges when it comes to business culture, trade, and corporate policy and practice overseas.



Globalization has resulted in much more interaction between people from different countries and cultures. Sometimes ethical issues arise from ignorance or misunderstanding about people from other countries and how they conduct business. To solve this problem, many businesses pay for cross-cultural training for their employees to help make their global business more culturally sensitive.

Difficulties arise when people make assumptions about other cultures. Sometimes people believe everyone from a specific culture or country is the same, or they buy into the stereotypes they’ve heard about a country in the media. Or they think everyone is like people in the USA—even though the USA is a mix of all sorts of cultures. Think about the microcosm your own class represents: you are likely to be very different from one another, even though you all live in the same area and attend the same academy.

Sometimes the difference is a matter of how much importance a culture places on a particular value. Trust, for example, is more important in some countries than in others. Also, different countries have different ideas about appropriate behavior and ethical ways of doing business. It can be hard to strike a balance between your own cultural values, the values of the company you work for, and the values of your colleagues in a foreign country. If the foreign country’s laws are different, too, that makes it even more complicated. Some cultures have different standards regarding the treatment of employees, environmental regulations, and expectations for gifts or bribes.



Particularly in developing countries, business people face cultural values that may conflict with their ethical standards. Companies with years of international experience may have specific training programs and policies to guide their business transactions. Otherwise, employees face ethical dilemmas when conducting business in cultures where attitudes about corruption, human rights, workplace conditions, environmental issues, and other cultural norms are different from their own. In some countries, corruption is the norm. Bribes are a key part of their business culture. These situations create ethical dilemmas for people who value honesty and integrity.

Transparency International, an international nongovernmental organization, publishes an annual Corruption Perception Index (CPI). It is based on surveys of business people, analysts, and the general public. The surveys address issues such as bribery, illegal use of intellectual property, not honoring business contracts, and money laundering.



We have become interdependent with countries around the world for goods and services over the past several decades. People, ideas, and technology now cross borders everywhere. Communication, travel breakthroughs, changes in technology, trade agreements (such as USMCA), and international organizations (such as the World Trade Organization) have turned national economies into an international economy.

Supporters of expanding globalization argue that it promotes economic growth and development around the world, and that the more countries cooperate economically, the less likely they are to have conflicts. Globalization raises the standard of living in impoverished countries by giving people jobs (even if they make 40 cents a day, it’s more than they made before and it goes a lot farther than it would in the United States).

Critics of continued economic integration, including labor unions, environmentalists, and human rights organizations, argue that globalization does more harm than benefit to the world’s poor. They say that competition for the lowest production costs leads to poor environmental, health, safety, and workplace regulations. Reliance on richer countries prevents poorer countries from becoming economically independent. Another argument against it is that interdependence makes domestic economies vulnerable to market fluctuations everywhere else; our own economy is no longer insulated from the world.

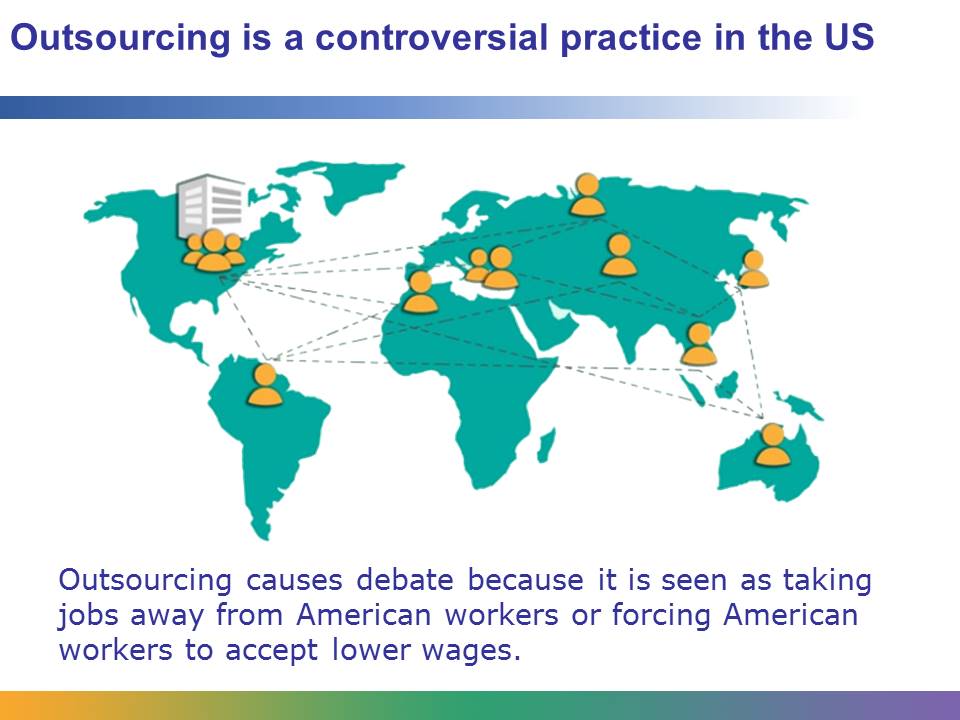


*Fair trade* is a global trade model that reduces poverty and promotes sustainability around the world. The fair trade movement calls for people to be paid a fair price for their labor and goods. People must have safe working conditions. Fair trade bans child labor and slave labor.

It also encourages developing countries, where the goods are produced, to uphold social and environmental standards. Harmful agricultural chemicals are banned, and so are genetically modified organisms (GMOs). Farmers must use environmentally responsible farming methods.

Fair trade farmers invest in their communities through such projects as providing scholarships and building schools. They conduct all of their business with transparent management, which means that their business practices are open to scrutiny. There are no secret deals behind closed doors.

Changing consumer preferences are driving market production. Conscious customers are paying attention and making fair trade a viable method of doing business.



*Outsourcing* means pretty much what it says: going “out” to find the “source” of what you need. Companies looking for parts or labor or services to maintain or build their business often find them in other places or even other countries. Companies outsource everything from call centers, bookkeeping, advertising, and making parts or entire products, like cars. Offshoring is the official term for relocating a business process to another country.

Outsourcing saves a company money. If you could build a factory where taxes were lower, wages were lower, and the price of materials was lower, that’s where you’d build. Other benefits of outsourcing include being able to hire the best experts for specialized work, instead of taking the time to train someone on site.

Problems with outsourcing include not having direct oversight over the work or product that is outsourced. You lose some control. Language barriers can make communication difficult. And every job you give to someone overseas is a job you’re not giving to someone local. Outsourcing has become a political issue in the United States.

Nevertheless, with the rise of global trade, outsourcing work to other countries has increased dramatically over the past couple of decades.



Working conditions vary throughout the world. The dark side of those variations, however, is sweatshop labor. Sweatshops are found most often in countries with few labor regulations (though they have been found in the United States as well). Sweatshops have poor, often dangerous, working conditions.

Examples of unethical working conditions include working in extreme heat or cold; working for long hours with no breaks; being paid so little that you can’t support yourself or a family; and forcing children to work. Remember the story of the Ring of Gyges? If we think we can get away with wrongdoing, Plato says, we will do it. The key is to expose abuse in order for things to change. For example, in 2010 the Gap was discovered to be forcing workers in India to work 16-hour days for less than 40 cents a day. In 2013, the Gap announced it would partner with 20 other companies to improve working conditions in Bangladesh.

The clothing industry is very labor intensive, and a lot of the inexpensive clothing we can get here in the United States may be made in foreign sweatshops. Many companies are starting to develop codes of conduct for doing business with foreign suppliers and insisting on proof of fair working conditions.



On the one hand, corruption in countries we want to do business with can cause us to do things that would not be ethical in our own country. There may also be situations in which the way we do business doesn’t seem ethical to the partners in the other country.

Technology that makes everything we do more transparent is one tool we can use to push for a more ethical global culture. It’s getting harder all the time for people to do business behind closed doors. Once corruption is exposed, a chain reaction occurs and the watching world demands change.

Professionals in every industry can influence the ethics of doing business globally. We can choose to work with companies that use fair trade, for example. The more we refuse to tolerate the unethical treatment of workers and the environment, the more pressure is put on those countries to change.

Student Resource 7.6

Assignment: Professional Misconduct Research

Student Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date:\_\_\_\_\_\_\_\_\_\_\_

Directions: Research potential examples of professional misconduct in your academy career field.

Step One: Generate a List of Potential Topics

The first step is to generate a list of potential topics. This list could include ethical dilemmas in your field or the names of specific people, businesses, locations, and so on. Your teacher will help you come up with the list. Copy it in the space provided below.

Now, choose a topic that is the most interesting to you. You may also wish to choose a backup topic, in case your most interesting topic does not have a lot of information available online.

My topic is:

My backup topic is:

Step Two: Plan Your Search

You are going to do Internet research on your topic, and you should plan to try several different search strings (combinations of search terms). For example, to research ethics in professional sports, particularly the ethics of using performance-enhancing drugs, you might try the following search strings:

* ethics + professional sports
* ethics + professional athletics
* ethics + performance-enhancing drugs
* ethics + steroid use
* ethics + Lance Armstrong
* ethics + Barry Bonds

Notice that some search strings are pretty general (ethics + professional sports) and some are very specific (ethics + Lance Armstrong); some use synonyms (e.g. *athletics* instead of *sports,* and *steroids* instead of *performance-enhancing drugs*); some use already-known examples (e.g., Lance Armstrong and Barry Bonds).

In the space provided, write out some search strings you can use for your topic. Write at least five different search strings.

1.

2.

3.

4.

5.

Step Three: Do Research

Now that you have some search strings, use the search engine your teacher recommends to search for your topic. Use the table below to record what search strings you used and how effective each string was. Keep in mind that you want good results, not just any result. (It doesn’t matter if your string pulls up 1 million hits if 99.9% of them are useless.)

To determine if a search string is helping you find good results, look at the first page of results the search engine pulls up. Are the results articles you can read, or are they excerpts from books or things that only subscribers can see? Are these articles from reliable sources? Are they recent articles?

Write down how effective each search string was. An example has been provided for you.

|  |  |  |
| --- | --- | --- |
| Search String Used | How Effective Was It? | Comments |
| Example: ethics + barry bonds | Okay, but not great | Lots of articles, but several were more than 5 years old; two or three of the top hits were from the same source, and some of the other sources weren’t very well-known, so I don’t know if they were reliable. |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
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Step Four: Choose an Article

Use one of your most effective search strings and find one or more articles you think will meet your teacher’s requirements. Your article(s) should give you enough information to answer the following questions:

1. What example of ethical misconduct did you find? Briefly summarize what happened.
2. Was this a mistake? Was it misconduct? Or a combination of the two?
3. Did anything change because of this misconduct? If so, what? If not, what, if anything, do you think should be changed because of this incident?