



- Bernard Ebbers built WorldCom into a global telecommunications giant
- Ebbers used all of his WorldCom stock as collateral for bank loans
- In 2000 Ebbers gave the first in a string of instructions to report false revenues and use accounting tricks to disguise rising expenses
- Ebbers testified that he had no knowledge of the fraud, but five of his subordinates testified against him
- Ebbers was sentenced to **25 years** in prison for securities fraud, unprecedented for a white-collar crime
 - Longer than a self-confessed Mafia hit man who murdered 19 people
 - Longer than California's average sentence for first-degree murder

David Geffen



Business ethics

Jumbo shrimp

Military intelligence

Portable piano

Mature guy

What are Ethics?

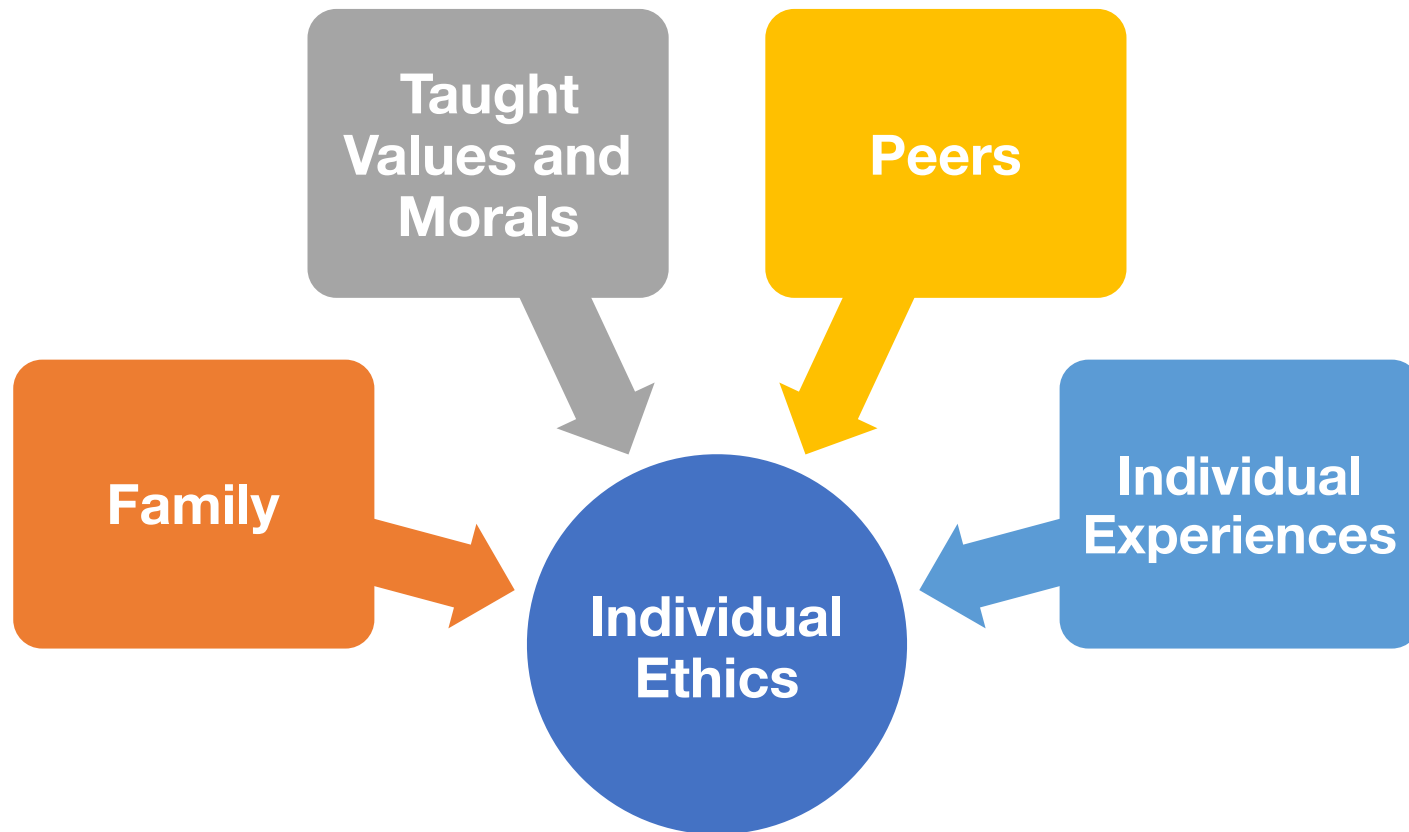
ethics plural of **eth·ics** (Noun)

Noun

1. Moral principles that govern a person's behavior.
2. The moral correctness of specified conduct.

Can you teach ethics?

- While jury is still deliberating, let us at least acknowledge prior history forms the balance of determining factors:



What are Business Ethics?

- All managers face difficult ethical conflicts
 - Applying clear guidelines resolves the majority of them
- Ethical traditions that apply to business support truth telling, honesty, protection of life, respect for rights, fairness, and obedience to law
- Some ethical decisions are troublesome because although basic ethical standards apply, conflicts between them defy resolution
- Some ethical issues are hidden and hard to recognize
- Nevertheless, eliminating unethical behavior may be difficult, but **knowing the rightness or wrongness of actions is easy**

Two Theories of Business Ethics

- **Theory of amorality:** The belief that business should be conducted without reference to the full range of ethical standards, restraints, and ideals in society
- **Theory of moral unity:** Business actions are judged by the same general ethical standards governing the rest of society, not by a special set of more permissive standards

Philosophy

- Even after two millennia, there remains considerable dispute among ethical thinkers about the nature of right action
- Immanuel Kant tried to find universal and objective ethical rules in logic
 - Kant's Categorical Imperative
- Jeremy Bentham developed the idea of utilitarianism as a guide to ethics, validating two dominant ideologies: democracy and industrialism
 - John Stuart Mill's Utilitarianism
- John Locke developed and refined doctrines of human rights and left an ethical legacy supporting belief in the inalienable rights of human beings

The Golden Rule

- Origination: Found in the great religions and in works of philosophy
- Basic premise: Do unto others what you would have them do unto you
- Criticism:
 - People's ethical values differ, and they may mistakenly assume that their preferences are universal
 - It is primarily a perfectionist rule for interpersonal relations

The Rights Ethic

- Origination: Western Europe during the Enlightenment
- Basic premise: Each person has protections and entitlements that others have a duty to respect
- Criticism:
 - Rights are sometimes stretched into selfish demands or entitlements
 - Rights are not absolute and their limits may be hard to define

The Categorical Imperative

- Origination: Immanuel Kant
- Basic premise: Act only according to that maxim by which you can at the same time will that it should become a universal law
- Criticism: Theory is dogmatic and inflexible

The Utilitarian Ethic

- Origination: Line of English philosophers, including Jeremy Bentham and John Stuart Mill
- Basic premise: The greatest good for the greatest number
- Criticism:
 - In practice it has led to self-interested reasoning
 - Because decisions are to be made for the greatest good of all, utilitarian thinking has led to decisions that permit the abridgement of individual or minority group rights

Law & Damages

- Laws codify, or formalize, ethical expectations
- Corporations and their managers face a range of mechanisms set up to:
 - Deter illegal acts
 - Punish offenses
 - Rehabilitate offenders

Damages

- In civil cases courts may assess damages, or payments for harm done to others by a corporation
 - **Compensatory damages:** Payments awarded to redress actual, concrete losses suffered by injured parties
 - **Punitive damages:** Payments in excess of a wronged party's actual losses to deter similar actions and punish a corporation that has exhibited reprehensible conduct

Criminal Prosecution of Managers and Corporations

- Managers may be prosecuted for criminal actions undertaken in the course of their employment
- Corporations are criminally liable for corrupt actions or omissions of managers if those actions are intended to benefit the corporation
- Criminal prosecution of corporations and their executives is exceptionally difficult

Criminal Prosecution of Managers and Corporations

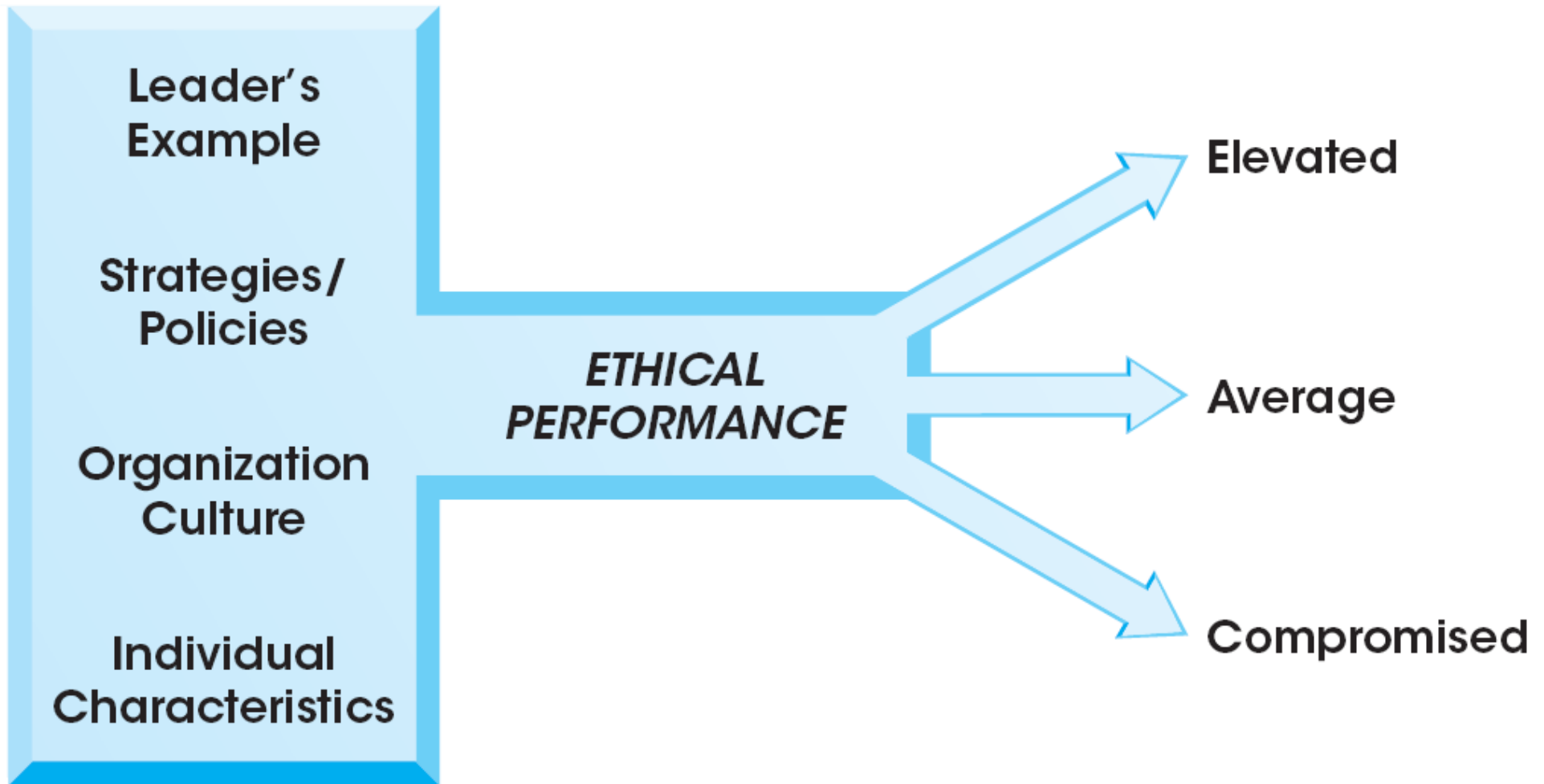
White-collar crime	A nonviolent economic offense of cheating and deception done in the course employment for personal or corporate gain
Deferred prosecution agreement	An agreement between a prosecutor and a corporation to delay prosecution while the company takes remedial actions
Nonprosecution agreement	An agreement in which U.S. attorneys decline prosecution of a corporation that has taken appropriate steps to report a crime, cooperate, and compensate victims
Monitor	A person hired by a corporation to oversee fulfillment of conditions in an agreement to avoid criminal indictment

How Do I Know I'll Stay out of Jail?



- Avoid the “**Marginal Costs**” mistake
 - “Look, I know that as a general rule, most people shouldn’t do this. But in this particular extenuating circumstance, **just this once**, it’s OK.”
 - Justification for infidelity and dishonesty in all their manifestations lies in the marginal cost economics of “**just this once.**”

Four Internal Forces Shaping Corporate Ethics



Corporate Culture

- **Corporate culture:** A set of values, norms, rituals, formal rules, and physical artifacts that exists in a company
- Three levels of corporate culture:
 - Artifacts
 - Espoused values
 - Tacit underlying values

Leadership

- The example of company leaders is the strongest influence on integrity
- A critical function of managers is to create strong competitive strategies that enable the company to meet financial goals without encouraging ethical compromise
- Unrealistic performance goals can pressure those who must make them work
- Reward and compensation systems can expose employees to ethical compromises

