Building Ethical Leaders: Some Scenarios Involving Unethical Conduct

There have been many high-profile cases of unethical business practices in recent years, and there will likely be more in the future. **These scandals** affect a number of people**.** The most obvious culprits lose their jobs, receive fines, and maybe even go to jail. **Since** these individuals are often getting what they deserve, **these results** are not particularly troubling. **However**, in the wake of these scandals, many others suffer. Co-workers, employees, customers, stockholders and others who have not done any wrongdoing often suffer as much or more than those who clearly acted unethically. There are also those who watched and did nothing as the unethical behaviors were carried out under their noses. Action (rather than inaction) by these individuals could have had a major impact on the ultimate outcome. In many of **these cases**, a stronger and more open demonstration of the value of ethical conduct may have prevented much of the damage.

Another reason to become more informed about ethical issues is because studies have shown that you will be confronted with ethical dilemmas much earlier in your career than what you may think. People often think that they won't see ethical issues of substance until much later in their careers. The reality is that most business people are forced to make decisions with ethical ramifications very early in their careers. **It** is a good idea to prepare for that reality and have a ready means by which to consider the ethical implications of decisions.

> *"Always tell the truth. That way you don't have to remember what you said."* — Mark Twain

Conduct as a student

How you conduct yourself as a student sets the tone for how you will conduct yourself in business. **More importantly**, how you conduct yourself now leaves an impression with fellow students (who will one day be your business colleagues) and teachers. Your reputation is being established right now — not when you graduate.

Students rarely set out to cheat. **However**, they do set themselves up for cheating opportunities by not taking the time to complete an assigned task and **then** justify cheating by rationalizing that "I really did know the material; I just didn't have the time" or "I didn't think that the assignment was very important or useful." Take responsibility for your learning and don't be tempted by the short cuts to complete an assigned task.

Imagine you are going into a class where there will be a quiz, and your friend is coming out of the same class and had just taken the quiz. Is **it** cheating if you ask what is on the quiz? Deep down what does your gut tell you? Yes, it is cheating. Any time you try to obtain information that is not publicly available to everyone else, **it** is cheating. Think about the awkward position you put your friend in; he is forced into participating in cheating or risking making you mad. Don't do **this** to your friendship.

If you aren't sure that discussing a project with fellow students is okay, ask! When in doubt, ask your teacher. There is nothing wrong with asking for advice or guidance. **It** is much better to ask and know what is or is not acceptable than to find out later that your conduct was cheating.

Unfortunately, there are students who intentionally cheat. These students devalue education. **They** devalue the education of everyone at their institution by becoming an inadequately prepared graduate of the university. Education is more than just the accumulation of facts and knowledge. Education **also** involves the development of the ability to commit to a goal and adhere to the requirements of achieving that goal.

By shortcutting **the process**, students only shortcut their own education and devalue the education of those who actually fulfill the requirements.

Fraud and misrepresentation

Using deceptive practices in business and commerce is referred to as fraud or misrepresentation. Under contract and tort law, fraud is a specific action for which a company and/or its managers may be sued.

Fraud occurs when there is an intention to deceive — when promises are made with no intention of keeping them. An infamous case of fraud occurred when Beech-Nut sold apple juice labeled as “pure” from 1978 to 1982. Beech-Nut is the second largest baby food manufacturer in the United States. The apple juice, **however**, was not pure but, rather, was reconstituted from concentrate with sugars added. A “whistle-blowing” employee brought the issue to light, eventually leading to Beech-Nut pleading guilty to more than 200 federal counts of producing and distributing mislabeled products with the intent to deceive and defraud consumers.

Another example of fraud is known as “bait and switch” — an unscrupulous sales tactic. Bait and switch occurs when a product is advertised at a special low price, **but**, when customers attempt to make a purchase, the product is either unavailable or the customer must wait for a long time to receive the offered product. The salesperson **then** attempts to convince the prospective customer to purchase a different product, often at a higher price and higher profit margin for the company. The fraud in **this situation** occurs when the company advertises the availability of a product with no intention to actually sell it. Law has specifically prohibited **this tactic**.

Misrepresentation occurs when one attempts to claim to represent someone else or tries to pass himself off as someone **he** is not. **When** a person lies on his résumé about his credentials or academic background, **it** is misrepresentation. **Unfortunately**, the use of deception on résumés is a fairly common practice — some estimate that the number of résumés containing some deception could be as high as 10%. In recent years, there have been notable scandals involving people who made claims on their résumés that were fabrications. In 2001, George O’Leary was hired as the head football coach at Notre Dame University, only to resign six days later when two significant inaccuracies were discovered on his résumé. The first was the claim that he had completed a master’s degree, which he had not received. The second was a claim that he had lettered in football at the University of New Hampshire — when he had never actually played even a single game at that school. **Similarly**, in 2002 Sandra Baldwin resigned from her post as the president of the United States Olympic Committee when **it** was revealed that she had not completed her undergraduate degree at the University of Colorado as she claimed on her résumé, nor had she completed her doctoral degree — another claim made on her résumé.

The bottom line with respect to fraud and misrepresentation is that business people should not make promises they don’t intend to keep, nor should they attempt to deceive customers or others with whom **they** engage in business.

Earnings pressure and financial reporting

Unfortunately, there are plenty of examples of unethical behavior with respect to financial reporting. In most instances, the motivation is to meet earnings expectations or to manage corporate performance to meet some other financial goal. Management at companies such as Enron faced extreme pressure to meet the expectations of the market and achieve steady earnings growth.

The cycle is something like **this**: Corporate analysts and brokers review corporate performance and make predictions as to how the company will perform in the coming quarter. Based on the predictions, an earnings “target” is implied. **If** the company does not meet that target**, it** is taken as a signal that the company is unable to maintain its competitive edge, which the market views as bad news. The bad news causes the traders to sell the stock and the stock price goes down. **In addition**, upper management is often compensated based on the company’s market performance (or they own stock in the company), **hence**, the pressure on management to meet earnings expectations.

There are various ways that management could try to manipulate earnings to meet expectations. The most common is to accelerate the recognition of revenue. Companies can do **this** by pre-booking sales. The second most common manipulation is to defer the recognition of expenses until the next period by delaying payments, extending payment deadlines and post-dating checks. Both of **these tactics** are futile because the revenue robbed from the following quarter will be needed in the next quarter and the expenses deferred into the following quarter will reduce the next quarter's net income. **Because** the same tactics will need to be done in the subsequent quarters as well**,** the cycle will perpetuate itself.

Customer relations

Customer relationships are critical to the success of a business, particularly over the long term. **Unfortunately**, some companies have taken actions that are contrary to the interests of customers. The Ford Pinto case in the late 1960s and early 1970s illustrates **this issue** all too well. In Ford's rush to put a car on the market that could compete with the flood of small cars from Japan and Germany, the company designed the Pinto.

During the development process, design engineers discovered that the placement of the gas tank and other design characteristics created a high probability of tank rupture in rear end crashes, even at slow speeds. Engineers estimated that **it** would cost $11 per car to reduce **this risk**, a cost of only one-half of a percent of the total cost of the car. The engineers **also** estimated that **this action** could save hundreds of lives per year and hundreds more from injury. **However**, based on financial analysis that projected the cost of potential liability from these accidents (estimating a lost life would be worth $200,000), Ford decided to not make the design change. **After** a pattern of accidents, which led to fires and deaths, **it** was discovered that Ford had made the analysis that led to the decision to not improve the design. **When** juries heard the information about the relatively low value (that) Ford put on human life**,** the courts handed down significant liability awards to people injured in crashes and the families of those killed.

The greatest irony of the case is that, prior to the Pinto case; Ford had a good reputation for product safety. The fallout from the Pinto case led to skepticism from consumers regarding Ford's diligence in designing cars for safety.

In contrast to the Pinto case**,** Johnson & Johnson demonstrated the value in making decisions with the interests of consumers as a high priority. In 1982, someone tampered with a number of bottles of Tylenol – one of Johnson & Johnson's most prominent product lines. Cyanide was put into the capsules, which then were bought by consumers in the Chicago area. Seven people died after ingesting the capsules, leading to a crisis for Johnson & Johnson. The prominence of consumer welfare in the company's decision-making is evident in its actions: The use of wide-spread media informing people of the threat of product tampering (not just in Chicago), the acceptance of product returns, the removal of ALL Tylenol products from shelves and warehouses, and the establishment of a variety of safety standards to make it more difficult for someone to tamper with products in the future. The packaging approaches became the industry standard for preventative packaging. At the core of Johnson & Johnson's actions was the company credo, which begins with the statement that "…our first responsibility is to doctors, nurses and patients, to mothers and fathers and all others who use our products and services."

In summary, organizations need to consider the needs and welfare of their customers or constituents and also must balance customers' needs with other priorities in decision-making.

> *"Think before you act, consider consequences, and be accountable for your actions."* — **Josephson Institute of Ethics**