PRACTICAL ETHICS

Danny M. Goldberg, Founder

GROUP EXERCISE

THE STANDARD IN STAFFING, RECRUITING AND PROFESSIONAL DEVELOPMENT

(C) GoldCal LLC DBA GoldSRD 2017
Exercise Instructions

- Walk through the following scenarios as a group and state how you would handle this situation
- Define ethics and the biggest single influence on a person’s ethical behavior
- Determine the difference between ethics and morals

To RIF or not to RIF

- My boss told me that one of my employees is among several others to be laid off soon, and that I'm not to tell my employee yet or he might tell the whole organization which would soon be in an uproar
- Meanwhile, I heard from my employee that he plans to buy a new house
- What should I do?

NOTE: You speak to your supervisor and they have confidence in you to address the issue (otherwise known as this is not your answer!)
WHAT ARE ETHICS?

Ethics: Generally Speaking

• Study of what is good and evil, right and wrong (based on societal norms), just and unjust
• Ethical dilemmas can be obvious to some and oblivious to others
• Ethics are viewed differently by age, background and value system
What Is Business Ethics?

Employees

Shareholders and investors

Customers

Community

Ethical Obligations

Business Ethics

• Study of what is good and evil, right and wrong (based on societal norms), just and unjust in an organization.

• Comprised of the principles and standards that guide behavior in the world of business.

• Determined by key stakeholders in an organization or, to an extent, rules and regulations (government agencies, public companies).
Business Ethics

• Can fraud be ethical in certain situations?
• Is fraud always immoral?

Group Discussion
Do You Become More Ethical with Age?
Benefits of Managing Ethics

- Legal Requirements
- Consumer Support
- Improved Communities
- Increased Teamwork
- Save Money
- Personal Satisfaction

Group Discussion

Difference Between Ethics and Morals

The Standard in Staffing, Recruiting and Professional Development

(C) GoldCal LLC DBA GoldSRD 2017
Ethics Vs. Morals

- **Ethics & Morals** both relate to “right” and “wrong” conduct
- **However**, Ethics refer to the series of rules provided to an individual by an external source (e.g. their profession)
- On the other hand, **Morals** refer to an individual's own principles regarding right and wrong

---

### Ethics v Morals

<table>
<thead>
<tr>
<th>What are they?</th>
<th>Ethics</th>
<th>Morals</th>
</tr>
</thead>
<tbody>
<tr>
<td>The rules of conduct recognized in respect to a particular class of human actions or a particular group, culture, etc. It defines how things are according to the rules</td>
<td>Principles or habits with respect to right or wrong conduct. Defines how things should work according to an individual’s ideals and principles</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Where do they come from?</th>
<th>Social system - External</th>
<th>Individual - Internal</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Why we do it?</th>
<th>Because society says it is the right thing to do</th>
<th>Because we believe in something being right or wrong</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>What if we don’t do it?</th>
<th>We may face peer/societal disapproval, or even be fired from our job</th>
<th>Doing something against one’s morals and principles can have different effects on different people, they may feel uncomfortable, remorse, depressed etc</th>
</tr>
</thead>
</table>
Ethics v Morals (cont)

<table>
<thead>
<tr>
<th></th>
<th>Ethics</th>
<th>Morals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexibility</td>
<td>Ethics are dependent on others for definition. They tend to be consistent within a certain context, but can vary between contexts.</td>
<td>Usually consistent, although can change if an individual’s beliefs change.</td>
</tr>
<tr>
<td>The “Gray”</td>
<td>A person strictly following Ethical Principles may not have any Morals at all. Likewise, one could violate Ethical Principles within a given system of rules in order to maintain Moral integrity.</td>
<td>A Moral Person although perhaps bound by a higher covenant, may choose to follow a code of ethics as it would apply to a system. “Make it fit”</td>
</tr>
<tr>
<td>Origin</td>
<td>Greek word “ethos” meaning “character”</td>
<td>Latin word “mos” meaning “custom”</td>
</tr>
<tr>
<td>Acceptability</td>
<td>Ethics are governed by professional and legal guidelines within a particular time and place</td>
<td>Morality transcends cultural norms</td>
</tr>
</tbody>
</table>

Moral Minimum/Majority

• Minimum basis from which we can begin ethical reflection
• Help us to find common ground between different political, ideological, and cultural views
• Provides the basis for a dialogue on the ethical issues that arise in a given practice
• Does this without forcing consensus or agreement
Survey Says....

- International Survey of more than 300 companies worldwide – top ethical issues:
  - Employee conflict of interest 91%
  - Inappropriate gifts 91%
  - Sexual Harassment 91%
  - Unauthorized Payments 85%

- Wall Street Journal Survey
  - 1400 working women
    - Managers lying
    - Expense-account abuses
    - Office nepotism
    - Taking credit for other’s work

Survey Says.... (cont.)

- WSJ Survey – Unethical behavior by industry
  - Government: 66%
  - Sales 51%
  - Law 40%
  - Media 38%
  - Finance 33%
  - Medicine 21%
  - Banking 18%
  - Manufacturing 14%
**Red Book Code of Ethics - Principles**

**Integrity**
- Establishes trust and thus provides the basis for reliance on their judgment

**Objectivity**
- Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined
- Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments

**Confidentiality**
- Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so

**Competency**
- Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services
**Rules of Conduct: Integrity**

1. Shall perform their work with honesty, diligence, and responsibility
2. Shall observe the law and make disclosures expected by the law and the profession
3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization
4. Shall respect and contribute to the legitimate and ethical objectives of the organization

**Rules of Conduct: Objectivity**

1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization
2. Shall not accept anything that may impair or be presumed to impair their professional judgment
3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review
Rules of Conduct: Confidentiality

1. Shall be prudent in the use and protection of information acquired in the course of their duties
2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization

Rules of Conduct: Competency

1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience
2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*
3. Shall continually improve their proficiency and the effectiveness and quality of their services
Group Discussion

SHOULD AUDITORS HAVE A HIGHER ETHICAL STANDARD THAN THEIR COMPANIES?

The Standard in Staffing, Recruiting and Professional Development

Ethical Dilemmas

Remember, quality is our top priority.

Question: Is it more important than safety?

Ooh... I forgot about that one.

Question: Is quality more important than obeying the law?

WELL, PROBABLY NOT.

If we could maximize shareholder value by selling lower quality items...

Wouldn't we have a fiduciary responsibility to do it?

I'm sure it's in the top four.

What if we had to lie to achieve quality?
Examples of Ethical Dilemmas

- Individual values and the company
  - Receiving or offering kickbacks
  - Stealing from the company
  - Questionable business expenses (T&E)
  - Confidential information/trade secrets
  - Utilizing company property for personal use
  - Conflict of interest

Examples of Ethical Dilemmas (cont.)

- Company and Individual Rights
  - Whistle-blower fired
  - Employee screening vs. privacy
  - Sexual harassment
  - Affirmative action
  - Employee rights
  - Due process
Examples of Ethical Dilemmas (cont.)

- Business Operations
  - Workplace safety
  - Business environment and practices in other countries (pay-offs, etc.)
  - Procedures (financial, cash management)
  - Environment issues

Key Influences on Ethical Behavior
Key Influences on Ethical Behavior

- How you grow up
- Personal moral and values
- Influence of meaningful people (mentors) – supervisors, parents, family, etc.
- Influence of senior management
- Personal drive
- Performance pressures
- Lack of consequences
- Law

Other Determinants of Ethical Behavior

- Religious convictions
  - Reciprocity
  - Fairness
  - Charity
  - Responsibility
- Moral philosophy
- Ethical philosophy
Why Should We Be Concerned With Ethics?

- Laws can be viewed as insufficient and do not cover all aspects or gray areas of a problem
- Free-market and regulated-market mechanisms do not effectively inform owners and managers about how to respond to complex crises
- Cost/benefit
- Whatever come around, goes around
Us Versus Them

- Customer asked for a product from us today
- After telling him our price, he said he could not afford it
- I know he could get it cheaper from a competitor
- Should I tell him about the competitor -- or let him go without getting what he needs? What should I do?"
Bank 123 Accounts Scandal

- Alleged misconduct was revealed when the CFPB, the Los Angeles City Attorney and the Office of the Comptroller of the Currency (OCC) fined the bank $185 million, alleging that more than 2 million bank accounts or credit cards were opened or applied for without customers' knowledge or permission between May 2011 and July 2015.

- Bank official acknowledged that it had terminated some 5,300 employees, roughly 1 percent of the workforce, in relation to the allegations, and the bank issued a statement saying, "We regret and take responsibility for any instances where customers may have received a product that they did not request."

- Misconduct: More than 2 million bank accounts or credit cards were opened or applied for without customers' knowledge or permission between May 2011 and July 2015.
- Fined $185 million.
- Terminated some 5,300 employees, roughly 1 percent of the workforce.
- Ended controversial employee sales goals program that was at the center of the allegations effective 10/1/16.
- EE's were opening and funding accounts without customers' permission or knowledge in order to satisfy sales goals and earn financial rewards under the bank's incentive-compensation program.
- Bank imposed the goals on its staff because it "sought to distinguish itself in the marketplace as a leader in 'cross-selling' banking products and services to its existing customers."
Exercise

• What controls would have assisted in mitigating this risk?

FOUR METHODS TO RESOLVE ETHICAL DILEMMAS
1. The Golden Rule

- Do one to others as you would want others to do to you
  - Treat all work situations the same as you would a personal situation
  - Do you normally fly first class?
  - Do you normally go to a first class steak house when out of town?

2. The Right Questions

- Are you confident that your position will be as valid over a long period of time as it seems now?
- Could you disclose without qualm your decision or action to your boss, your CEO, the board of directors, your family, society as a whole?
- Would you feel comfortable discussing via subpoena?
- How would you feel if the issues was in the newspaper?
3. Perception Can Be Reality

- How is the situation perceived by peers?
  - Does not matter reality; it is how it is spun and perceived.

- Logic Test
  - Does this make sense?

- Do not over think the situation
  - Simplify

4. Do What Feels Right

- Not what feels good but right
- If you would be embarrassed by it, you should not do it
- You know in your heart what should be done
Gold Nuggets – Practical Ethics

• If you are unsure if it is a problem, it usually is
• Ethics will always be important, especially in these trying economic times, which is driving survival and greed
• Use common sense; if it does not feel right, it probably is not right