

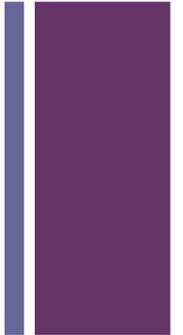


Managing Business Ethics

Chapter 1

Treviño & Nelson – 6th Edition

+ Chapter 1 Overview



- Financial Disaster of 2008
- Moving Beyond Cynicism
- Can Business Ethics Be Taught?
- This Book is About Managing Ethics in Business
- Ethics and the Law
- Why be Ethical? Why Bother? Who Cares?
- The Importance of Trust
- The Importance of Values
- How This Book Is Structured



+ Financial Disaster 2008

Direct Causes

Shadow Financial Market

- Credit Default Swaps
- Securitized Mortgages ("slice & dice")
- Derivatives
- Hedge Funds

Subprime Mortgages

- "Liar" Loans
- No \$ down, no income verification
- Consumers bought more than they could afford

Regulatory Climate

- Glass-Steagall Act repealed
- Debt regulations for banks eased
- "Markets can self-regulate"
- Revolving door between regulators and companies
- "Government is the problem"

Incentives

- Big rewards for short-term thinking for companies and individuals

Bottom-line:

- Arrogance
- Greed
- Total recklessness

Contributing Factors

"Herd Mentality"

- Wall Street
- Consumers
- "Real estate is safe"

Investment Banks

- Go public
- No "skin" in the game

Lots of Cheap \$\$

- Fed (low interest rates)
- Demand from China and Middle East

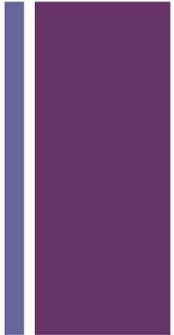
Rating Agencies

- Conflicts of interest
- Didn't understand what they were rating

"Innovation"

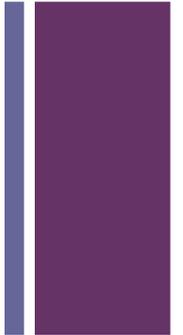
- Math whiz kids create complex products
- No one really understood what these products

+ The Players



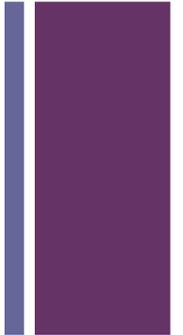
Rating Agencies	Went public and became shareholder owned; paid fees by companies they were supposed to rate; took the investment banks' advice on how to rate securitized mortgages (AAA ratings while many were complete junk)
CEOs	Much of their compensation is driven by stock price – this focused them on the short term; Also many did not understand the sophisticated financial products their firms peddled
Financial Professionals	Paid huge salaries and bonuses for short-term results
Mortgage Originators	Relaxed lending standards and created sophisticated products consumers did not understand
Regulators	“Asleep at the switch” -- also looking for their next jobs (high-paying) in the financial industry (which they are regulating)
Legislators	Lobbied and “paid” by the financial industry to relax regulations – “the markets can self-regulate”
Investors	Punished companies that did not deliver huge returns
Home Owners	Bought more house than they could afford. Home values plummet and mortgages are “under water” – home values sink and are worth less than their mortgages

+ Financial Disaster Results



- Business failures or contractions
- Government bailouts
- Unemployment
- Consumer distress: foreclosures and bankruptcies
- Tattered reputations (corporations, industries, countries)
- Plummeting trust in government and institutions

+ Moving Beyond Cynicism



- Edelman Trust Barometer (2012):
 - More than half of respondents say they trust business less than they did four years ago
 - Worse in the U.S.
 - For example, only 35% of Americans trust banks to be ethical (a 34-point drop since 2008)
 - No decline in BRIC countries (Brazil, Russia, India, China)
 - Business case for trust:
 - 91% of consumers purchase products from companies they trust
 - 77% of consumers refuse to purchase products from companies they don't trust

+ MBA Oath

As a business leader, I recognize my role in society.

- My purpose is to lead people and manage resources to create value that no single individual can create alone.
- My decisions affect the well-being of individuals inside and outside my enterprise, today and tomorrow.

Therefore I promise:

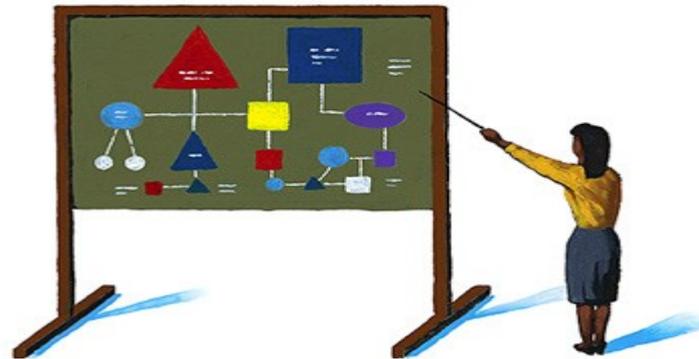
- I will manage my enterprise with loyalty and care, and will not advance my personal interests at the expense of my enterprise or society.
- I will understand and uphold, in letter and in spirit, the laws and contracts governing my conduct and that of my enterprise.
- I will refrain from corruption, unfair competition, or business practices harmful to society.
- I will protect human rights and dignity of all people affected by my enterprise, and I will oppose discrimination and exploitation.
- I will protect the right of future generations to advance their standard of living and enjoy a healthy planet.
- I will report the performance and risks of my enterprise accurately and honestly.
- I will invest in developing myself and others, helping the management profession continue to advance and create sustainable and inclusive prosperity.

In exercising my professional duties according to these principles, I recognize that my behavior must set an example of integrity, eliciting trust and esteem from those I serve. I will remain accountable to my peers and to society for my actions and for upholding these standards.

This oath I make freely, and upon my honor.

+ Business Ethics Defined

- The principles, norms, and standards of conduct governing an individual or group

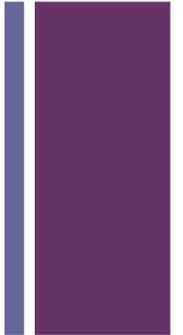


+ Why Bother Teaching Ethics?

- Bad apples are encouraged by bad barrels
- Good character isn't always enough
- Adults develop moral judgment into their 30s
- Conduct is influenced by environment



+ Case



You're the VP of a medium-sized organization that uses chemicals in its production processes. In good faith, you've hired a highly competent scientist to ensure that your company complies with all environmental laws and safety regulations. This individual informs you that a chemical the company now uses in some quantity is not yet on the approved Environmental Protection Agency (EPA) list. However, it has been found to be safe and is scheduled to be placed on the list in about three months. You can't produce your product without this chemical, yet regulations say that you're not supposed to use the chemical until it's officially approved. Waiting for approval would require shutting down the plant for three months, putting hundreds of people out of work, and threatening the company's very survival. What should you do?



CHARACTERISTICS OF INDIVIDUALS

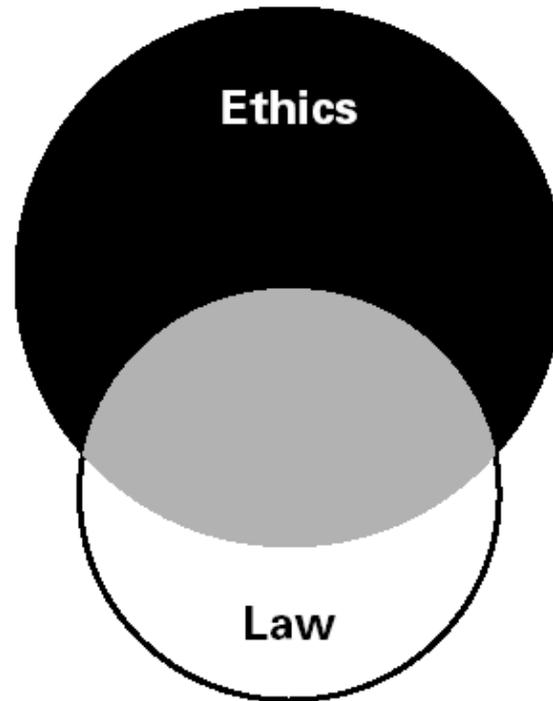
Individual Differences
Cognitive Biases



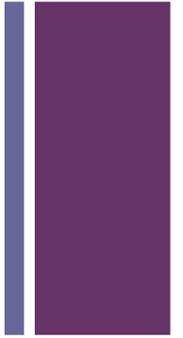
CHARACTERISTICS OF ORGANIZATIONS

Group and Organizational Pressures
Organizational Culture

+ Relationship Between Ethics and the Law



+ Why Be Ethical? Who Cares?



- Individuals care
- Employees care
- Managers care
- Executives care
- Industries care
- Societies care

+ This Book Starts With Ethics and the Individual: ...



...Then it moves to:
Managing Ethics in
an Organization...

...then to:
Organizational
Ethics & Social
Responsibility

+ Test Your Cynicism Quotient

1 = Strongly Disagree 5 = Strongly Agree

- Financial gain is all that counts in business.
- Ethical standards must be compromised in business practice.
- The more financially successful the business person, the more unethical the behavior.
- Moral values are irrelevant in business.
- The business world has its own rules.
- Business persons care only about making profit.
- Business is like a game one plays to win.
- In business, people will do anything to further their own interest.
- Competition forces business managers to resort to shady practices
- The profit motive pressures managers to compromise their ethical concerns.

