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Teaching & Learning

Shades of gray: applying professional codes of ethics to workplace dilemmas

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Abstract

This paper offers five real-life case studies for exploring ethics in the management classroom. They come from the fields of international business/strategy, human resources management, accounting, finance, and marketing. To spark critical thinking and provide additional information, students are presented with reflection questions and professional codes of practice that relate to the issues and actions described in each case. After the major piece of experiential learning activity has been completed, students are exposed to viewpoints from experts in the field, specifically how those experts would have handled the case situation themselves. Referenced ethical codes of practice are taken from the American Institute of Certified Public Accountants (AICPA), the Institute of Management Accountants (IMA), the Society of Financial Services Professionals (FSP), the Society of Human Resource Management (SHRM), the American Marketing Association (AMA), and the Global Business Standards Codes (GBS). The business cases explore the extent to which the professional codes give guidance to practitioners and highlight the nature of ethical dilemmas and challenges that occur in these professions.

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Introduction

Controversy exists among academics as to whether ethics can be taught and, if so, whether ethics can be effectively taught in a collegiate business setting. Various studies and approaches to ethics education in a business school are described below, which taken together, suggest concerns for the adequacy and relevance of how ethical decision making is delivered in the typical undergraduate business curriculum. In a study of practices used to teach ethics in business schools and reported in *The Washington Post,* Etzioni (2002) noted that Harvard has a minor course "to be gotten out of the way as soon as possible" and a required Leadership and Organizational Behavior course. George Washington University's School of Business has an elective on moral reasoning, which is aimed at clarifying values; the University of Michigan requires one course in ethics or law. Etzioni (2002) advises business schools to strengthen their ethics curriculum and to recruit more faculty to teach ethics. He also recommends that the AACSB apply more stringent standards to require all MBA students to complete at least one full-term course on ethics.

In particular, undergraduate accounting and MBA curricula have been identified as needing expanded coursework in business ethics and ethical decision-making. In order to emphasize that accountants must be capable of making independent decisions that avoid conflicts of interest, and to attract more and better-qualified candidates to the accounting profession, Rothenburg (2003) recommends a mandatory ethics course in accounting programs. In his study of 16 accredited accounting programs, he found that only five integrated ethics into an introductory accounting course, and only one accounting program required a business ethics course. Half offered ethics electives taught in the liberal arts only. Madison (2002) argues that accounting programs have become increasingly technical since the extension to 150 credit hours to accommodate the technical standards students must learn. His research of Ohio universities found that undergraduates receive roughly 10 h of ethics education in their bachelor degree, with the greatest exposure found in auditing classes. Improvement in the instruction of ethics is recommended along with critical thinking and communication skills. Verschoor's (2003) survey of 1700 MBA students at 12 business schools was conducted to determine ethical attitudes regarding the role of the company in society, and how attitudes are shaped by the college experience. Blame has been placed on the educational system for preparing unethical corporate leaders who should have been prepared to make ethical decisions but were trained for the real world of business instead. The researcher found that half of the students felt they will have to make decisions in conflict with values, 22% replied that their education was preparing them for managing these conflicts, while 19% said they were not being prepared. Verschoor (2003) concludes that business leaders need to know how to apply ethical principles more than how to apply business principles.

Stablein (2003) believes that "the issue is teaching ethically, not teaching business ethics." In order to effectively teach business ethics, he states that a clear understanding of the business context is necessary to make sound business decisions. Similarly, Bartlett (2003) finds a gap between theory and practice in business ethics and feels that the academic discipline and practical application of management is the key to ethics in organizations. The complexity of organizational ethics is not addressed by the philosophical basis used in teaching ethics, and Bartlett (2003) argues for a focus on the psychological aspects and behavioral intentions and beliefs in order to understand ethical behavior. He places the context for organizational ethics between Conrad's "undersocialized and oversocialized" view of ethics. The first ignores a social context, and the latter ignores individual psychological factors in favor of a social context. Bartlett (2003) recommends a qualitative approach and the use of experiential methods to study and teach business ethics to bridge the theory practice gap and allow students to explore the origin of ethical positions. Ethical decisions should be analyzed using interviews or observing communication of actual problem-solving situations that involve moral expression. In this way, students can develop their views of morality based on values and emerging ethical codes.

It also is debatable whether corporate codes of ethics are sufficient when evidence shows that corporate America has a spotty track record of developing and enforcing codes of ethics (Gumbus *et al.*, 2007). Company rules and codes do not cover all situations even though there has been a flood of newly clarified, updated, and newly created standards of ethical behavior in the workplace. Often managers resort to their personal codes of conduct and principles about behaving with integrity when codes are unclear and ambiguous (Golden and Dechant, 2006). Individuals also rely on various ethical decision-making frameworks to guide their behavior such as utilitarianism, individual rights, justice and fairness, virtue ethics, or various rules of thumb (Gumbus and Woodilla, 2004). Ethical dilemmas will always be a part of our workday, and there is no easy and single source to rely upon for solving these sticky, gray situations. "There is an opportunity and responsibility of management educators to help learners recognize the significance of real learnings of life" (Meisel and Fearon, 2007).

From this overview of the state of ethics education, we conclude that additional resources and effort are needed to expand students' exposure to ethical reasoning in the workplace. By incorporating the use of actual workplace examples with professional codes of conduct and reflection questions, student understanding is enhanced with respect to the type of ethical dilemmas they might face in the workplace or their profession.

Learning concept

Often it is difficult for students to imagine the types of ethical challenges they may encounter in their business careers or their chosen professions. In fact, students and ''young professionals'' may be completely unaware that professional codes of ethics exist in the first place, or may be only aware of them as a set of mandates that are either too abstract or innocuous. By presenting students with ethical dilemmas, the importance of living up to the ethical standards of their chosen field should become clearer to students. Moreover, students will be better equipped and poised to cope with the sudden emergence of an ethical dilemma in their field. Professional codes are emphasized to increase the toolkit available to students as they face those inevitable and difficult decisions ahead of them – business dilemmas that will test their ethical foundation. While personal principles and values alone often drive one's decision making, perhaps justified or supported by ethical frameworks such as utilitarianism, individual rights, justice, virtue ethics, and the ethics of care, the introduction of professional codes adds another important dimension into the student's ethical arsenal in two ways. First and perhaps most importantly, students become more aware of and familiar with the professional codes as a future resource. Second, compared to companies' ethics guidelines that are generic and global in their wording, professional codes reinforce specific behaviors and ethical duties expected of students as future accountants, marketers, managers, strategic planners, or finance professionals.

A series of reflection questions engage the student to dig deeply into the actual situation in order to decide how to approach the problem and to discover how and why the professional code may apply. Using this methodology, the theoretical is translated into a practical teaching tool to understand better how ethical codes and critical thinking can guide ethical practice.

Ethical scenarios

Five ethical scenarios are provided in the following areas of business in order to accommodate most business majors: international business, management, accounting, finance, and marketing.

1. The *international business/strategy* scenario encourages students to think through the strategic options open to a senior executive at Limited Brands, who is confronted by external pressure to change the paper stock used in Victoria's Secret catalog operations. The environmental group Forestethics has launched an aggressive campaign to put pressure on Victoria's Secret to use more environmentally friendly paper instead of the paper stock it has been purchasing from International Paper, its primary supplier. The Chief Operating Officer (COO) needs to determine how to best balance the competing stakeholder viewpoints and develop a strategy that will enhance the brand equity of the company. Sales have not as yet been unfavorably impacted by the 2-year environmental protest, nor has the stock price of the parent company. But Forestethics is relentless, and the public image of Victoria's Secret is very much at stake.
2. The *management* scenario involves the decisions a Human Resources (HR) manager of an educational institution must make in handling a sexual harassment complaint. It involves how best to maneuver in a situation that pits the powerful against those with little power; doing what is right for the individuals involved; and doing what is best for the institution, while protecting the HR manager's own position and career potential at the institution.
3. The *accounting* scenario discusses the inconsistent use of a favorable accounting change in the calculation of employee bonuses. The corporate CFO insists that the division's bonus pool should exclude this extraordinary windfall, but fails to adjust this windfall in the corporate bonus pool. Included is a discussion of whether this inconsistency amounts to stealing, or whether it is a ''non-material'' event.
4. The *finance* scenario involves a financial analyst in a corporate financial planning role who discovers at the ''11th hour'' that his EXCEL spreadsheet of his company's financial projections includes a significant mistake in the calculation of depreciation, thereby overstating what prospective buyers would be given as the selling company management's ''most likely'' financial projections. The financial analyst must decide whether to disclose the error or hide it from his own management. He faces professional risk if he discloses the EXCEL error, as the deal (and the price) is important to the selling company, and he is up for promotion if the deal goes through. On the other hand, the financial analyst faces a different professional risk if the error is discovered by prospective buyers in the due diligence phase.
5. The *marketing* scenario deals with a mid-level marketing research professional who must deal

with a senior-level marketing executive who wants to dictate how a research assignment should be done and by which research supplier. It involves doing what you have been asked to do (or ordered to do) *vs* what you think, from your professional training/experience, will best shed light on the research problem and thereby benefit the company.

Students are asked to analyze these five real-life ethical dilemmas using excerpts from professional practice codes and standards in the corresponding field of business. This approach contrasts with how business ethics classes typically are taught by using cases that are analyzed by one or more of the following methods: case analysis, stakeholder analysis, cost-benefit analysis, conflict of interest analysis, or ethical decision-making frameworks (utilitarian, individual rights, justice, virtue ethics, and the ethics of care). The cases are real situations, several commonly faced by managers and professionals. Names of individuals and companies have been changed except in the first case. In this activity, the intent is that students will transcend the traditional classroom experience and enter the workplace where they will be better able to respond to the ethical or quasi ethical situation at hand with the aid of their teammates, reflection questions, and the professional codes of conduct. The hope is that the scenarios and the reflection questions will be rich and thought-provoking enough to help students grasp that most business decisions, especially those fraught with ethical and political overtones, seldom fall into a black or white category. Instead, they tend to fall more often into that "gray zone" where the nuances of the problem need to be extremely well understood before one should draw his or her "ethical line in the sand."

Steps to conduct the activity

Students individually read the scenario and respond to the reflection questions about the ethical dilemma or challenge described in the situation. Condensed and summarized codes of professional practice also are distributed to each team based on the respective ethical dilemma. The teams work with the reflection questions and the professional code to arrive at a collaborative presentation aimed at

- weighing the magnitude of the ethical challenge presented in the scenario;
- considering the alternative courses of action – the pros and cons;
- making a recommendation to the individual undergoing ethical stress; and
- commenting on the adequacy or inadequacy of the professional code in wrestling with the assigned scenario.

This activity provides an innovative way of linking real-world ethical dilemmas faced by business professionals with the codes that are supposed to guide their actions. At the conclusion of the activity, epilogues are presented as well as responses from experts in the field. This content allows students to discover what practicing professionals in these five fields would do to resolve the ethical dilemma. Multiple professional viewpoints are presented to reinforce the gray area of ethics, as different experts may differ in how they would resolve the dilemma.

Teaching tips

1. Keep students on task

Sometimes it is hard to get students focused on the professional codes of conduct, or the professional risks inherent in the ethical dilemmas. While they seem to enjoy the ethical situations as group discussions, they often jump to conclusions that are black or white.

Advice

- Instructor should visit each group to clarify terms and to highlight possible professional risks to the decision-maker.
- Several teams analyzing the same case usually generate slightly different solutions, and there is benefit in discussing those differences with the whole class. To engender even greater debate and discussion, the instructor may want to guide or instruct teams to come up with opposing viewpoints. This is tricky to do and creates solution bias, yet it may be an important tactic to demonstrate how wide the feasible set of alternatives is for a certain case. We have effectively used this opposing debate technique for the international business/strategy case.
- If the case(s) are presented for the first time in class, we recommend the professional code(s) be passed out and read by students first, followed by the case story(ies) and the reflection questions. Ask students to analyze the degree to which the professional code of conduct is offering them clear and specific guidance on how to approach the ethical dilemma. Often it does not, and

students offer up interesting suggestions as to how the professional codes could have been more germane to the case at hand. If it is presented as a homework assignment for the next class, students might be asked to suggest how the professional code of conduct could be amended to have given them better guidance in reaching a decision on the ethical dilemma presented in the case.

2. Choose best scenario given time constraints and student interest

Some of the ethical scenarios are easier than others to get across to students. By far, the easiest scenario seems to be the finance scenario, as students can readily see themselves in that entry-level position, having made a common, but in this case serious EXCEL spreadsheet mistake. By contrast, the accounting scenario is often eye-opening, but its use of accounting terms can make it difficult for some students to understand. In addition, traditionally aged undergraduate students often do not have a great deal of experience with profit-sharing plans, nor do they have much personal experience with what constitutes a bona fide conflict of interest. It is easiest and less complicated to have every student team read and work on the same case for classroom discussion. Instructors should pick and choose from the five cases depending on their subject interests or what ethical topic they are currently studying in the classroom.

Advice

- Assign at least one student to the group that is studying in that particular field.
- Assign the more complex scenarios the class before. That way each student is under less stress to jump to a conclusion that lacks nuance. Start off the next class by assigning the students to groups of three or four, asking them to confer and present their best solution to the rest of the class.

3. Encourage students to critique the relevance and adequacy of the professional codes

Advice. When directed and reminded of the ethical dilemma, students provide excellent suggestions as to how the professional codes of conduct helped or hindered them in resolving each ethical dilemma.

- Simply ask them what would they add or clarify within the code. Often, they simply express the need for more real-world examples within the codes themselves in order to understand better their legal and ethical responsibilities.

4. Establish groups to generate dialog and debate

Advice

- We have found that three- to four-person groups work best in the classroom; however, five- to six-person groups have been effective for online courses, especially if used in a Group Wiki or a Group Discussion Board. For the human resources/management scenario, which deals with a sexual harassment complaint, mixed or single-sex groups can be used. Of course, different dynamics emerge depending on the group's composition. The dangers inherent in setting up single-sex groups – especially for the management case – is that a polarizing dynamic may develop that the instructor may find difficult to navigate. On the other hand, it does get a variety of viewpoints aired, underscoring that differences in attitudes by gender or cultural orientation are alive and well in the workplace, and that students must be aware of those sensitivities. As striking as gender viewpoint differences can be, quite by accident we have found there to be differences expressed by student athletes *vs* non-athletes. Student athletes, especially the males, express more tolerance to ''locker room'' language and behaviors finding their way back into the workplace.
- For an online ethics course, strongly consider forming single-sex groups for the human resources/management scenario. In an online class, we have observed that students usually are oblivious to the group dynamic you are setting up, as they do not visually recognize the groups' skewed make-up. The debates become rich and animated once the instructor reveals the gender composition of the groups.

5. Allow time for individual student reflection

Advice. To avoid ''groupthink,'' allow at least 5 min for students to read and think about the scenario individually before assignment to a group.

6. Debate the corporation's social responsibility and sustainability roles

In the classroom, we have observed that scenario #1 (the dilemma in international business/strategy) yields interesting and sometimes unexpected debate on a corporation's role and responsibility in advancing social agendas.

Advice

- If students neglect to bring up the subject themselves, challenge the notion that Victoria's Secret's best strategic social responsibility choice is saving the Boreal Forest. Perhaps social causes that resonant more with their clientele would be those that promote women's health and appearance – such as breast cancer or obesity funding and research.
- Ask students how a company with scarce resources (time, money, expertise) and various stakeholder groups to satisfy should select from among thousands of worthwhile social causes.
- Inquire of the students whether a corporation's investments in social causes should be showcased or downplayed. Is it ethical to invest in a social cause only for its public relations value? Is that crass capitalism or simply good business practice?

7. Take advantage of the cases' breadth to suit course learning objectives

Advice. Certainly these cases and the experiential activity can be used in courses other than business ethics. Besides business ethics, the individual cases have applicability to the following courses: the international business/strategy case for ''capstone'' strategy or international business courses; the management case for organizational behavior, business law, leadership, or human resources courses; the accounting and finance cases for financial accounting, managerial accounting, or financial management courses; and the marketing case for introductory marketing or market research courses.

Within a business ethics course context, all five cases can be introduced in line with the ethical topic being studied and the natural sequence of the course. We recommend using only one case per topic, with the possible exception of the accounting and finance cases, which can be covered in the same class. Most business ethics textbooks separately address the topics of ''whistle-blowing;'' employee privacy; employment law, unjust dismissal, and affirmative action; marketing, advertising, and product safety; ethics in finance and accounting; corporate ethics; social responsibility/sustainability; and international business ethics. As such, an instructor might choose one or all of the five cases to enrich textbook concepts covered in a typical business ethics course.

8. Wrapping up the interactive session

Advice. The instructor should read aloud the two expert opinions. We have found that students gain closure in this way. They listen quite attentively and are pleased if the expert opinion agrees with their own. Often the experts give the type of nuanced alternatives that make it easier for students to understand how organization and professional codes of conduct can give employees both guidance and courage. Some of the experts provide insight into the applicability and clarity of the professional codes that have been presented to the students in this assignment.

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Scenario #1

Ethical dilemma in international business/strategy

Case

As COO of Limited Brands, Leonard Schlesinger must contend with a public relations nightmare that shows no signs of abating within Limited's Victoria's Secret division. Victoria's Secret is a visible and significant international player in specialty lingerie retailing, with a huge and complementary catalog and e-retailing business. With no warning, Victoria's Secret has been singled out by and become the target of the environmental group Forestethics. Forestethics is a not-for-profit environmental advocacy group whose stated mission is to protect the endangered forests in the US, Canada, and Chile. By working to preserve endangered forests, the group believes that global warming will be minimized and endangered wildlife will be safeguarded.

Forestethics is ardently committed to its environmental cause. In the past, they have resorted to imaginative marketing and grassroots protests to put pressure on high exposure companies that they believe are poor stewards of the environment. Now, they are taking aim at the paper manufacturing, publishing, direct mail, and catalog industries in their all-out effort to expose (no pun intended) Victoria's Secret's Dirty Secret. Forestethics wants Victoria's Secret to curtail purchasing paper that has been logged from endangered forests, in this case the Boreal Forest that spans from Alaska to eastern Canada. In 2005, Forestethics unleashed all their energies and targeted Limited Brands with a campaign of unflattering advertising and coordinated protests at corporate headquarters – all to bring pressure on Victoria's Secret to use more environmentally friendly paper instead of the paper stock it was currently purchasing from International Paper, its primary supplier.

The COO needs to determine how to best balance the competing stakeholder viewpoints in devising a strategic response to the situation. Fortunately, sales have not as yet been unfavorably impacted by the relentless, 2-year environmental protest, nor has the stock price of Limited Brands. But Forestethics shows no signs of giving up on its fight, and the public image and brand of Victoria's Secret is very much at stake.

Note: Adapted from a case presented at OBTC in June 2008 by L. Schlesinger describing actual events faced by management of Victoria's Secret and Limited Brands.

Professional code of conduct for multinational corporations and international business professionals (GBS)

The GBS Codex is an amalgamation of numerous business codes for multinational companies that were researched and compiled in *The Harvard Business Review* in order to guide companies around the world in assessing the appropriateness of their own company codes of conduct. Three of the eight principles have been summarized below. The *Fiduciary* Principle assumes that all employees stand in a fiduciary relationship to the corporate entity in that they are entrusted to protect company resources. The *Transparency* Principle relates to promoting society's ability to function, by preventing corruption and by upholding the intrinsic value of truth. The *Citizenship* Principle addresses the responsibility for maintaining the commons – the shared goods of all the citizens; for example, the natural environment.

I. *FIDUCIARY PRINCIPLE*: Act as a fiduciary for the company and its investors. Carry out the company's business in a diligent and loyal manner, with the degree of candor expected of a trustee.

Diligence: Promote the company's legitimate interests in a diligent and professional manner. Maintain the company's economic health. Safeguard the company's resources and ensure their prudent and effective use.

IV. *TRANSPARENCY PRINCIPLE*: Conduct business in a truthful and open manner. Refrain from deceptive acts and practices, keep accurate records, and make timely disclosures of material information while respecting obligations of confidentiality and privacy.

Candor: Communicate in an open and honest manner, subject to legal and competitive constraints. Communicate and consult with communities affected by environmental, health, and safety impacts of the enterprise.

VII. *CITIZENSHIP PRINCIPLE*: Act as responsible citizens of the community. Respect the law, protect public goods, cooperate with public authorities, avoid improper involvement in politics and government, and contribute to community betterment.

Law and Regulation: Adhere to environmental laws and standards domestically and internationally.

Public Goods: Protect and, where possible, improve the natural environment. Promote sustainable development. Ensure that products and services sustain or enhance the natural environment. Do not use lack of scientific certainty as a reason to postpone cost-effective measures to address threats of serious damage to the environment.

Suppliers/Partners: Prefer suppliers and partners who observe applicable environmental standards.

Source: Adapted from ''Up to Code,'' in *Harvard Business Review* by Paine, Deshpande, Margolis, Bettcher (2005).

Reflection questions

- What business issues are uppermost in the COO's mind? Consider the specific organizational, marketing, finance, and competitive issues the COO might face under different strategy decisions.
- What additional information does the COO need to better understand the issues and formulate feasible strategic options? How does he go about getting it from his team? Does he need others from the outside to be involved?
- What allies does the COO have?
- What strategic options are open to the COO of Limited Brands? How would you think through the probability of success for each of them?
- What other companies can you cite that have effectively turned an unwarranted and targeted attack against them to their advantage? What lessons can be learned from companies that failed to creatively deal with an unwarranted and targeted attack on them?
- How do the concepts of corporate social responsibility and sustainability relate to this dilemma?
- What insights can you glean from the Fiduciary, Transparency, and Citizenship Principles espoused in the Professional Code of Conduct for Multinational Corporations and International Business (GBS)?
- Should multinational companies be required to follow an international code of conduct, or are their company policies sufficient?

Class wrap-up or case epilogue

The target, in this case Limited Brands and Victoria's Secret in particular, became the role model (change agent) for the catalog industry. Now, Sears is Forestethics' current target, and Victoria's Secret is showcased as a forward thinker and good corporate citizen. In effect, Victoria's Secret took the lead and others like L.L. Bean, Land's End, and Williams Sonoma followed. On the Forestethics web site, Victoria's Secret is given high praise for the initiatives it took to become a good corporate citizen.

- In 2007, Limited Brands Inc. earned the corporate award from the Canadian Boreal Initiative. In the CBI press release, it was stated:

  In the past year, Limited Brands has had a profound impact on Canada's Boreal Forest, taking action and helping to catalyze key changes in their own sector, within paper mills, the logging industry and governments. By engaging with media and being a strong public advocate of environmental paper and the Boreal Forest, they have also been highly instrumental in bringing the importance of Boreal forest conservation and market demand for sustainability into the public sphere. In the past year, J. Crew, Crate & Barrel, and L.L. Bean, three of the biggest and best known brands in the sector, have followed Limited Brand's lead and strengthened their procurement policies to prefer FSC certified paper and to incorporate recycled fiber.

- The COO brought Forestethics into the paper purchasing talks/negotiations, creating an interesting partnering situation with their environmental critic.
- Victoria's Secret took the lead and others followed. They did the following:
  - Announced a new forest protection policy, stating that pulp for the company's paper will not come from endangered forests, thereby working with its supplier to eliminate pulp from the Boreal Forest.
  - Announced a preference for FSC certification, viewed by Forestethics as the best certification for sustainable logging.
  - Reduced catalogs mailed out and amount of paper stock used.
  - Made a company commitment to continuous improvement with progress to be monitored by independent third parties and the public.
  - Contributed $1 million to research and advocacy to protect endangered forests and show leadership in the catalog industry.

Expert opinions

From Expert #1. Attacks like the one Forestethics is making on Victoria's Secret are alarming and potentially bad for business. The worst thing to do, however, is adopt a policy designed mainly to make the annoyance go away, either through inaction (hoping it will go away on its own) or through blind accommodation ("just make it stop"). Victoria's Secret should not ignore the issue Forestethics has raised, but its response must be the right one for the brand, the business, and its customers.

In deciding how to respond, Victoria's Secret must think through the following questions:

1. Is the issue raised by Forestethics relevant to the Victoria's Secret brand?
2. If so, when does Victoria's Secret have to respond – can they take some time to test alternative marketing models and measure their business impact?
3. How large a response will address the issues in a way that is a positive for the brand and the business, and also addresses Forestethics' concerns?

Relevance. Consumer brands don't live in a vacuum; they have to consider societal trends and issues that are relevant to their customers and to their businesses. They need not – in fact, should not – take a position on every social issue of the day, but where these issues intersect with their world, with how they operate, and with their customers' concerns, they must carefully incorporate thinking about those issues into their strategic and operational plans. Is the source of the paper in Victoria's Secret catalogs a relevant issue for the company? Is it relevant to Victoria's Secret's customers (if so, many or just a few)? What if Victoria's Secret's customers are more interested in social issues that are not directly relevant to Victoria's Secret's business, such as breast cancer or civil wars and genocide in Africa? Should the company engage with social issues that are popular with its customers instead of those that directly involve some aspect of the business?

Timing. With enough time, Victoria's Secret can test a variety of possible solutions and measure their impact on the business. Ideally, several rounds of testing and refinement would identify a solution with minimal negative impact on the business. Would Forestethics tolerate prolonged testing, during which the company would continue to do business as usual in most of its marketing efforts? How might the company and Forestethics come to a mutually acceptable compromise on timing? Should the company publicize its well-intentioned testing initiatives in this area? Could they even be the premise for a marketing campaign? What would the drawbacks be?

Scope. At the most basic level, Victoria's Secret could simply buy paper from sustainable sources. We have to assume that this solution presents cost and quality challenges – if it is even available (supplies of recycled paper are limited and not always reliable); otherwise, the company would have adopted this solution already. Realistically, will Victoria's Secret's customers pay more to subsidize the higher cost of more politically correct paper? How could the company position this to achieve not just a feel-good result, but one that does not hurt profitability? In addition to higher costs, lower quality paper may also hurt profits by reducing sales and projecting an image that is inconsistent with the brand. How can these problems be addressed? Instead of using different paper, more radical responses could involve initiatives such as

(i) reducing the size and/or frequency of printed catalog mailings (thereby reducing paper consumption). This would almost certainly reduce sales, but a focused effort aimed at marginal segments of Victoria's Secret's mailing universe might reduce total catalog volume by, say, 10–15% with "only" a 5–10% reduction in catalog profitability. Would that reduction in profits be acceptable? Over the longer term, fewer mailings will almost certainly result in the loss of customer relationships with significant long-term value – would that be acceptable? How should Victoria's Secret balance environmental issues against the economic interests of its shareholders and employees?
(ii) rethinking the use of printed catalogs altogether – for example, they could be used mainly as part of a multi-channel effort driving consumers to digital and online components. However, as noted above, this would certainly reduce sales in the short term and undermine the lifetime value of some customer relationships in the longer term. Printed materials are a highly engaging and effective way to communicate with consumers, and it is well-documented that customers who buy from a company through multiple channels (e.g., catalog, web, store) are more loyal and profitable than single-channel customers.

These more radical reductions in paper use are interesting, and perhaps in the long run a radical solution might work, but developing such a strategy that is economically justifiable will undoubtedly require time and effort. This leads back to the question (above) of how much time Victoria's Secret has to develop a new marketing model.

Principles vs practicality. Management of any company should recognize that their choices affect the world we all live in. Companies that are a factor for positive change can often create strong consumer affinity for their brands. However, virtually all companies exist in a highly competitive world. Profitability is a hard-won reward for years of strategic thought, tactical experience, and hard work – and it must be defended everyday. Either ignoring high-profile social issues or adopting feel-good but untested policies can erode years of work overnight. Since time is a crucial factor in finding a balanced solution, management should identify and address these issues before they become a public relations nightmare. When that is not possible, as in this case, management has to try to execute a very delicate balancing act to address the issues without damaging the business.

Chet Van Wert is Director of Strategy at a major magazine publishing company. Previously Chet was Vice President (VP) of Marketing at a leading direct marketing company.

From Expert #2. Schlesinger should pursue three strategies simultaneously.

1. He needs to enlist the support of his colleagues in his industry. No doubt Limited Brands has been an active member of The Direct Marketing Association (DMA) since it began the Victoria's Secret catalog, if not before. The DMA has resources to offer its members in the areas of lobbying, PR crisis management, advice and counsel on ethical dilemmas, and at the very least moral support. The association may also offer to take on the case brought by Forestethics as a symbol of where lines must be drawn in defending marketing and retailing interests in the larger context. There are likely other industry and trade associations that may want to join the fight (or the discussions), such as the NRF (Retail Federation), the American Marketing Association (AMA) and groups representing print publishing, paper and printing. No company – and certainly no executive – should stand alone in the face of such a monumental challenge. (And this reality underscores the importance of a company's active participation in its trade associations. As Harvey Mackay eloquently wrote, "Dig your well before you are thirsty.")
2. All commercial users of paper today must behave in an environmentally responsible manner. This applies not only to usage of paper, but also plastics, fuel, warehousing, and anything that impacts the so-called carbon footprint of the business. Tactics would include working with current suppliers to gain assurance and evidence that they are, in turn, environmentally responsible. This approach is consistent with the Citizenship Principle of the International Code.
3. Victoria's Secret must address these charges aggressively, in the court of public opinion.

Taking inspiration from J&J's famously effective handling of the Tylenol scare in the early 1980s, Limited Brands needs to consider this a matter of extreme PR risk. Rather than bury its head hoping the issue will blow over, Limited Brands must take on the Forestethics charges head on, making a fact-based, well-reasoned case for the company's environmentally responsible behavior. This approach will be consistent with the Transparency Principle in the International Code.

Ruth P. Stevens is President of eMarketing Strategy and Adjunct Professor of Marketing at Columbia University School of Business.

Scenario #2

Ethical dilemma in human resources management

Case

Three Graduate Assistant Athletic Trainers Bette Cousins, Julie Danvers, and Danny Lopez have complained to the Head Hockey Coach, Sam Owens, that the undergraduate work-study students who report directly to them are being exposed to a hostile working environment created by the Assistant Hockey Coach, Jim Bennett. Sam Owens reported this situation to a new HR manager, Bradley Price.

Bette and Danny were in their second year as Graduate Assistants (GAs), while Julie was in her first year working as a GA. (Typically, GAs work at a college for 2 years, signing two consecutive 1-year contracts with the school. In exchange for their 20–25 h of work per week, they receive housing, stipends, and their graduate studies are funded.)

Several work-study students repeatedly had complained to the GAs about the Assistant Hockey Coach's favoritism. They felt he overly criticized the work performance of competent, but less physically attractive, work-study students and that he defended the work performance of less competent, but ''sexy-looking,'' work-study students. Moreover, Jim Bennett did not take well to the GAs being demanding or critical of one particular female work-study student. The GAs – Bette, Danny, and Julie – observed that those female work-study students who they perceived to be the most physically attractive were the ones that were asked to come into Bennett's office for what the GAs considered to be unnecessary meetings with him. He closed his office door during those meetings. But the GAs sensed and heard from the ''rumor mill'' that the Assistant Coach's overtures to some of the work-study students made them feel very uncomfortable and unsafe in his presence. In short, the GAs felt that the Assistant Hockey Coach was inappropriately flirting with Bennett's chosen work-study students with his comments, his attention, and his biased evaluations of their performance. Also, it was rumored that ''behind closed doors,'' the Assistant Hockey Coach made more lewd and suggestive comments and expressed more off-color jokes than he did publicly in the workplace. This added to what many perceived to be an uncomfortable and unprofessional work environment, especially evidenced by the persistent attention paid by Bennett to one particular work-study student that they regarded as being one of the least competent. The GAs (two female and one male) and the work-study students felt that many of the Assistant Hockey Coach's behaviors were wrong and might constitute an unprofessional and hostile working environment that was unwelcomed and unwanted by all the student employees. As a result, the GAs went to the Hockey Coach, as their previous efforts to improve the working environment by speaking to the Assistant Hockey Coach had gone nowhere.

The new HR Manager, Bradley Price, reviewed the personnel file of Jim Bennett, but did not see other allegations of sexual misconduct in the file. (There were, however, complaints by some former employees that Jim had treated them in a condescending and threatening way, and that he had his ''favorites.'') Before getting back to Sam Owens, Bradley went to see the VP of HR for advice. After hearing about the allegations, the VP of HR, Kurt Peters, rolled his eyes and said, ''Oh great, here we go again.'' He added, ''Tread lightly, that guy brings a lot of money into the school; we need to be very careful in how we go about investigating the allegation.'' It was obvious to Bradley Price that other more serious complaints had been filed but were either ''verbal only'' or if documented those allegations had been kept in the private file of the VP of HR because of the Assistant Hockey Coach's position of power at the school.

Note: Adapted from an actual situation that occurred at a private New England university. Pseudonyms used to disguise individuals involved.

Professional Code of Conduct for HR Professionals

Society of Human Resource Management (SHRM)

Core Principle: *Professional Responsibility*:
As HR professionals, we are responsible for adding value to the organizations we serve and contributing to the ethical success of those organizations.

Guidelines:
{1} Adhere to the highest standards of ethical and professional behavior.
{3} Comply with the law.
{7} Advocate for the appropriate use and appreciation of human beings as employees.

Core Principle: *Ethical Leadership*:
HR professionals are expected to exhibit individual leadership as a role model for maintaining the highest standards of ethical conduct.

Guidelines:
{2} Question pending individual and group actions when necessary to ensure that decisions are ethical and are implemented in an ethical manner.
{3} Seek expert guidance if ever in doubt about the ethical propriety of a situation.

Core Principle: *Fairness and Justice*:
As HR professionals, we are ethically responsible for promoting and fostering fairness and justice for all employees and their organizations.

Guidelines:
{2} Treat people with dignity, respect and compassion to foster a trusting work environment free of harassment, intimidation, and unlawful discrimination.
{5} Develop, administer, and advocate policies that foster fair, consistent and equitable treatment for all.

Core Principle: *Conflicts of Interest*:
As HR professionals, we must protect the interests of our stakeholders as well as our professional integrity and should not engage in activities that create actual, apparent, or potential conflicts of interest.

Guidelines:
{3} Refrain from giving or seeking preferential treatment in the human resources processes.

Core Principle: *Use of Information*:
HR professions consider and protect the rights of individuals, especially in the acquisition and dissemination of information while ensuring truthful communications and facilitating informed decision making.

Guidelines:
{1} Investigate the accuracy and source of information before allowing it to be used in employment related decisions.
{2} Ensure only appropriate information is used in decisions affecting the employment relationship.

Source: Excerpt. Full code located at SHRM, http://www.shrm.org/ethics/code-of-ethics.asp.

Reflection questions

- What is sexual harassment?
- How is quid pro quo harassment different from hostile working environment harassment?
- Why are both of these forms of sexual harassment difficult to prove?
- How do you protect the victims, the whistle-blowers and the alleged perpetrator?
- How do you sense your company's commitment to providing a sexual harassment work free environment?
- To what degree is a company legally responsible for sexual harassment in the workplace?
- As a victim or whistle-blower, what can you do if you are in a powerless situation? What is your legal duty? What is your moral duty?
- What is HR's role in investigating a sexual harassment complaint?
- How should HR manager's actions comply with the ethical code of the SHRM?
- Does the SHRM provide sufficient guidance to solve the issue? Why or why not?

Class wrap-up or case epilogue

In determining whether a complaint of sexual harassment is valid, HR professionals have many stakeholders to worry about: the alleged victims, the alleged perpetrator, lawsuits, and taking steps to protect all employees from the debilitating effects of having a culture that condones this type of behavior.

In this scenario, Julie, Bette, and Danny learned from a few of the work-study students that an investigation did, in fact, take place. Two months after that Julie was informed by Jim Bennett that her GA position for next year was not being renewed. Julie had always received excellent performance reviews. This seemed like retaliation against Julie for filing a complaint on behalf of her work-study students who she and the other GAs felt were being harassed.

Additional reflection questions after reading case epilogue

- Does Julie have a legitimate case of being unfairly dismissed?
- What is the HR manager's role in counseling management about not taking retaliatory action against someone who has made an accusation of sexual harassment?

Expert opinions

From Expert #1. Sexual harassment is any unwelcomed and unwanted behavior that makes a person feel uncomfortable or unsafe. It is an inappropriate use of power that can take two forms. The first is hostile work environment that consists of inappropriate comments, touches, posted material, jokes, or other behaviors. The second is quid pro quo (this for that) that results in promotions or other benefits of employment granted based upon sexual favors. It is difficult to prove, because, although illegal according to the Civil Rights Act of 1991, it is based upon the reasonable person standard which says that a "reasonable person" must find the behavior unacceptable. What is unwelcomed and unwanted to one person may not be to another; however, if the harassed person finds it threatening, then an investigation must be performed in order to determine if the actions were harassment.

In this case, the fact that the accused brings in money to the institution may imply less than objective and impartial treatment. An Ombudsman, HR employee relations professional or legal counsel who is removed from the situation and will remain impartial should be involved. Other allegations may not be in the file, but the fact that complaints about condescending behavior or threatening actions by the accused have been reported warrants further investigation. Perception may be that he plays favorites, acts threateningly or condescendingly. However, these behaviors may be seen as hostile environment by the reasonable person standard. Bradley must bring this to his boss, Kurt Peters. He must conduct a thorough investigation by interviewing each of the three athletic trainers separately to get their side of the story. He may also consult with others in the department who may shed light on the situation. He must stress the confidential and serious nature of the investigation. In order to send a message to Jim Bennett he may suspend him without pay during the investigation. Each party interviewed needs to be told that the situation will be addressed and that it was resolved. No further details should be revealed to protect confidentiality of Jim Bennett and all involved. If the investigation reveals hostile work environment, Kurt Peters can act in various ways to resolve the dilemma. Jim can be fired to illustrate the no tolerance policy of the institution or he can be reprimanded with a written complaint to the file, or simply warned verbally and asked to apologize to the graduate assistants. If hostile environment is not warranted, then Jim should be trained with a consultant who can educate him to the seriousness of the allegations. Personal coaching from HR may sensitize Jim to discontinue the behavior. This training should be documented to protect the company in the future in case other complaints surface. If disciplinary action or termination is warranted, HR should consult with the legal department for protocol to follow. As a preventative measure sexual harassment training should be mandated for all in a supervisory capacity. Many states mandate a 2-h course within 6 months of promotion into a supervisory position. Training should be documented for protection and for insurance purposes. The no sexual harassment policy should be reviewed and posted as required by law. It should include a no retaliation clause in order to protect the accusers and encourage the reporting of incidents without fear of retaliation. The policy should provide a clear reporting mechanism of whom to go to in order to report an issue. This may be a hot line, HR representatives (usually a male and a female), legal department or an upper level manager of the company. If the boss is the harasser, then the complaint must go to HR or to their boss.

Most situations that are offensive can be resolved by clearly telling the person that their behavior is unacceptable and unwelcome. Firmly notifying the person that you will not tolerate harassment and will report it if necessary can be enough to get the offender to stop. An apology letter from the offender also helps to resolve most situations.

Dr. Andra Gumbus is Associate Professor of Management at Sacred Heart University and former HR director in the computer telephony industry. Gumbus also worked as a training and development director in the healthcare and medical imaging industries.

From Expert #2. Another group of stakeholders not included in the initial paragraph is "other employees." They should be included because employees experience morale issues, anxiety, and fear during an investigation. In addition, there may be other victims that have not come forward that have experienced a hostile work environment. Not mentioned in the case is whether the organization has a policy about harassment and inappropriate behavior in the workplace, and if it is being followed.

The HR manager may want to interview Bette, Julie, and Danny to understand their concerns. He will learn from them directly what their issues are and then can determine how best to move forward. In this way, HR takes on the role of investigator, and the manager is not involved. It also appears from the file and the reaction of the VP of HR that there have been issues with the Assistant Hockey coach in the past. It may be appropriate, and if warranted by current circumstances, to address the behavior of the Assistant Coach. The position of the individual should not matter; if the behavior in the workplace, especially by a manager, is inappropriate, it must be addressed to prevent much more serious issues. However, this is made more complicated by the attitude of the VP of HR. Again, if a policy exists, then the HR manager is enforcing a company policy to protect the organization. If no policy exists, then the HR manager will need to bring his concerns and the results of his investigation to the VP of HR to determine next steps. If the HR manager feels strongly that this is an issue with the Assistant Coach, and the VP of HR does not support him, then the HR manager always has the option to go to the CEO if he feels the organization may be at risk.

In the State of CT, employees who feel their issues are not being addressed may take their complaints to the CT Human Rights Organization, or they can always go to a legal entity or the Equal Employment Opportunity Commission.

Nancy Haas is President of Haas Consulting Services. Haas is a 20-year human resources veteran, certified to lead a Human Resources Certificate program and is on the adjunct faculty at Sacred Heart University.

Scenario #3

Ethical dilemma in accounting

Case

A division of a large conglomerate underwent a major accounting change that served to dramatically change the method of amortizing new member acquisition costs. (On an annual basis, investment in acquiring new members was approximately $100 million.) Instead of amortizing these costs over a 2-year period, the new accounting treatment amortized these costs over a 4-year period, which yielded a huge profit windfall in the first 3 years of the new accounting treatment being introduced.

The new accounting treatment was viewed by some as being a less conservative accounting method, but it had the advantage of providing a better matching of costs and revenues, and – of course – the one-time profit windfall was appealing to both the division and the parent company. Regardless, it was considered by outside auditors to be the preferred method of accounting because the revenue stream associated with the investment was very predictable and did, in fact, provide a better matching of revenues and costs.

As the end of the fiscal year approached, the parent company's financial (corporate) officers requested that the division's finance director identify the amount of the current year's profits which were related to the accounting change. The director did as instructed and estimated that the current year's reported profits of $200 million would only have been $100 million under the "old accounting" for new member acquisition costs. Under the prevailing bonus program, bonus money was calculated at 3% of operating profit. Bonus-eligible divisional employees therefore imagined the possibility of sharing in a $6 million bonus pool instead of a $3 million bonus pool. Instead, the parent company's financial officers instructed the division's finance director to recalculate the operating profit, as if the accounting change had not occurred, and to calculate the division's bonus money on that lower basis. Most bonus-eligible divisional employees reluctantly understood the logic of the bonus pool adjustment, as the accounting change was not a fundamental change in the viability of the business.

However, it was later learned that the parent company's financial officers failed to exclude the favorable impact of the division's accounting change when it came to their own compensation awards. In other words, the bonus-eligible

corporate employees' bonuses were calculated using reported operating profit, which was $100 million higher and based on the "new accounting," while bonus-eligible divisional employees' bonuses were paid on the basis of the "old accounting."
Note: Adapted from an actual situation that occurred in the entertainment industry as reported by a former divisional financial officer.

Professional codes of conduct for accountants

Institute of Management Accountants (IMA)

Statement of ethical professional practice: Members of IMA shall behave ethically. IMA's overarching ethical principles include: Honesty, Fairness, Objectivity, and Responsibility. Standards include:

I 1. *Competence*: Perform professional duties in accordance with relevant laws, regulations, and technical standards. Provide decision support information and recommendations that are accurate, timely, clear and concise.
II 3. *Confidentiality*: Refrain from using confidential information for unethical or illegal advantage.
III 1 and 3. *Integrity*: Mitigate conflicts of interest and avoid apparent conflicts of interest. Abstain from engaging in or supporting any activity that might discredit the profession.
IV 1 and 2. *Credibility*: Communicate information fairly and objectively. Disclose all relevant information that could be expected to influence an intended user's understanding of the reports, analyses or recommendations.

Source: Excerpt. Full code located at Institute of Management Accountants, http://www.imanet.org/about_ethics_statement.asp

The American Institute of Certified Public Accountants (AICPA)

Code of professional conduct

ET Section 53 – Article II – the public interest: Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism. In discharging their professional responsibilities, members may encounter conflicting pressures from among each public group. In resolving those conflicts members should act with integrity, guided by the precept that when members fulfill their obligation to the public, clients and employers interests are best served.

ET Section 54 – Article III – integrity: Integrity requires a member to be honest and candid within the constraints of client confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. Integrity can accommodate the inadvertent error and the honest difference of opinion; it cannot accommodate deceit or subordination of principle. Integrity requires a member to observe both the form and the spirit of technical and ethical standards, circumvention of those standards constitutes subordination of judgment.

ET Section 55 – Article IV – objectivity and independence: A member should maintain objectivity and be free of conflicts on interest in discharging professional responsibilities. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. Members employed by others to prepare financial statements or to perform auditing, tax or consulting services must be scrupulous in their application of Generally Accepted Accounting Principles (GAAP).
Source: Excerpt. Full code located at AICPA http://www.aicpa.org/about/code/index.html

Reflection questions

- Should an accounting change have an impact on an employee's compensation award? Explain. If yes, should it be consistently applied?
- Who is responsible for making the facts of the operating profit "windfall" known?
- Where are the conflicts of interest in this case? How should companies protect themselves and stockholders from this type of manipulation?
- What do you do if you are a beneficiary?
- What is the divisional CFO and CEO's role? What is the divisional VP HR's role?
- What are the corporate CFO and CEO's roles? What is the corporate VP HR's role?
- Is this a violation of the AICPA's Professional Code of Ethics? See ET Section 54, Article III. How do the codes assist decision making in this case?

Class wrap-up or case epilogue

Formulas for employee bonus calculations may not stipulate adjustments for extraordinary, non-operating or non-recurring items. Accountants and financial managers (usually at a senior level in the organization) can therefore increase personal compensation of employees by not acknowledging the favorable impact of changes in transfer prices, profit center allocations, and accounting changes.

Expert opinions

From Expert #1. The accounting change, which the outside auditors concluded to be the preferred method of accounting, is not at issue. That the parent company instructed the division's financial director to recalculate operating profit as if the accounting change had not occurred and then to calculate the division's bonus money on that basis because the accounting change was not a fundamental change in the viability of the business is fair and reasonable. The ethical issue centers on ***who*** in the parent company knew that the parent company financial officers failed to disclose the favorable impact of the accounting change when it came to their own compensation awards and ***who*** was enriched as a result. Since the case indicates that the parent company financial officers knew of the accounting change, failed to disclose it and were enriched, it is clear that they should be fired. The case does not mention the CEO. The inclusion or exclusion of the accounting change on the bonus is a CEO-level decision. Therefore, the CEO should be fired for either of the following reasons:

1. The CEO knew of the accounting change, that it was not disclosed and he was enriched.
2. The CEO did not know of the accounting change, that it was not disclosed and was not enriched. In this case the CEO should have known and therefore lacks control of the company.

Stephen Scarpati, CPA, is Clinical Professor of Accounting at Sacred Heart University, and formerly Senior VP, Finance with a Fortune 100 corporation.

From Expert #2. Because the facts state that the parent company's officers failed to disclose the impact of the favorable accounting change on their own compensation awards, it is assumed that these officers included the favorable accounting change in their calculation (resulting in higher bonuses). Contrast this calculation to the divisional employees' bonus calculation that is based on operating profits not including the accounting change (resulting in lower bonuses). Notably, the officers decided how to calculate both bonuses. Presumably, the divisional employees represent middle management and rank-and-file employees, while the parent company's officers represent senior management.

The facts presented indicate that the division adopted a voluntary accounting change. GAAP requires certain reporting and disclosures be made in a company's financial statement regarding accounting changes. Because the outside accountants encouraged the change, it is assumed that the change itself was properly reported in parent company's financial statements.

However, there may be other reporting and compliance issues to consider regarding the officers' bonus calculation. For example, the SEC mandates disclosure of the components of certain executives' pay; however, it is not clear that reporting the impact of an accounting change on a bonus calculation would be a required disclosure. If the officers' bonuses are related to tax qualified deferred compensation plans, calculating officer bonuses more favorably than other employee bonuses could cause the plan to become disqualified under anti-discrimination rules. Regarding the ethics of the officers' actions, it is difficult to reach a definitive conclusion without more facts. For example, were the divisional employees' bonuses awarded under a different plan, with different terms, than the officers' bonuses? It is not uncommon to have finance personnel's bonuses based, in part, on increases in financial income or tax savings. If this is the case, perhaps the officers did not behave unethically. Although the facts state that the officers did not disclose the information regarding using the favorable accounting change in their bonus calculation, in this circumstance, they may not have been under any duty to disclose such information.

If, however, the bonuses were based on the same agreement, but the officers interpreted the agreement one way for the divisional employees and a different (more favorable) way for themselves, they did behave unethically toward the divisional employees. In such a case, if the favorable accounting change was included for the officers, it should have also been included for the divisional employees. In this situation, the officers' actions appear to violate both the IMA integrity standards and AICPA ET Section 54 in that the actions were deceitful and discredited the accounting profession.

Whether the officers behaved unethically toward the company and its investors regarding their bonus (even assuming the same bonus agreement as the divisional employees) is unclear. According to the facts, the bonuses at issue were based on ''operating profit,'' but this term is not defined. From a GAAP perspective, operating profit would include any proper amortization expense, so if GAAP operating profit were the measure for a bonus, including the decreased amortization expense ''windfall'' in a bonus calculation (divisional employees or officers) would be appropriate. We would need to know more about the terms of the bonuses themselves to make this determination. Ultimately, if the financial officers had the ability to interpret arrangements one way for themselves and another way for others, this is a conflict of interest that should be eliminated. For example, the company's corporate counsel or outside counsel could be in charge of interpreting uncertainties in the bonus agreements. Also, the agreements themselves could be drafted with more precise definitions that would have provided more guidance in this situation.

As an aside, there is some doubt as to whether either of the ethical codes applies to everyone engaged in the accounting profession. I believe AICPA rules apply only if a person is a CPA. Note, one is not required to be certified if she/he is working in industry (practice). But it is likely that a CFO would be a CPA and therefore bound by the ethics rules. And as I recall, the IMA rules are only guidelines without enforcement power. Finally, to avoid these types of potential conflicts of interest, best practice would suggest a special committee of the Board be established to both structure and oversee employee bonuses.

Mary Walsh, CPA, Visiting Instructor of Accounting at Florida Atlantic University, formerly was a Senior Tax Manager with Ernst & Young.

Scenario #4

Ethical dilemma in finance

Case

Bradley Kinney is a financial analyst at a major direct marketing organization whose parent company is eager to sell the company to buyers that see it as an excellent ''Internet play.'' Along with the entire finance staff of DRC Company, Bradley has been working non-stop for the past few months on a major deal that involves the sale of DRC Company to interested buyers. Lawyers, investment bankers, and parent company financial staff also are involved in the pending sale.

At the ''11th hour,'' Bradley discovers that his EXCEL spreadsheet of DRC Company financial projections includes a significant mistake in the calculation of depreciation, thereby overstating what prospective buyers would be given as the selling company management's most likely financial projections. The CFO of DRC Company already has completed the MD&A (Management Discussion and Analysis) that sets forth the assumptions and risks associated with the DRC's 5-year financial projections.

Note: Adapted from an actual situation that occurred in the direct marketing industry as reported by former financial analysis associate director. Actual event disguised and pseudonym used.

Professional codes of conduct for financial services professionals

Society of Financial Services Professionals (FSP)

Code of professional responsibility. Through its code of professional responsibility, the society strives to improve the level of ethical behavior among its members by articulating standards that are aspirational in nature, by identifying the lofty altruistic ideals that define a true profession, and by delineating and enforcing minimum standards of ethical conduct.

Canons. *[1] Fairness*: A member shall perform services in a manner that respects the interests of all those he serves, including clients, principles, partners, employees and employers. A member shall disclose conflicts of interest in providing such services. A member shall not engage in behavior involving concealment or misrepresentation of material facts. A member shall respect the rights of others. A member shall disclose to the client all information material to the relationship including all actual or potential conflicts of interest. In a conflict of interest situation, the interest of the client must be paramount.

[3] *Confidentiality*: A financial services professional often gains access to client records and company information of a sensitive nature. A member shall respect and safeguard the confidentiality of sensitive client information.

[4] *Integrity*: Integrity involves honesty and trust. A professional's honesty and candor should not be subordinate to personal gain or advantage. To be dishonest with others is to use them for one's own purpose. A member shall avoid any act or omission of a dishonest, deceitful or fraudulent nature. A member shall avoid pursuit of financial gain or other personal benefits that would interfere with the exercise of sound professional judgment.
Source: Excerpt. Full code found at FSP, http://www.financialpro.org/about/CodeofProfResp.cfm

Reflection questions

- Would you report the mistake? If yes, to whom?
- What are the pros and cons to coming clean?
- If you decided to report the mistake, would you do anything beforehand?
- What advantage, if any, is there to reporting the news of the mistake first?
- How might FSP's Integrity canon guide your actions?
- Do the examples of each rule stated in the code of professional responsibility help in clarifying use of this code? How so?

Class wrap-up or case epilogue

In addition to the personal/professional workplace dilemma, this scenario deals with role responsibility, and the degree to which (and process by which) a junior financial analyst deals with a calculation mistake of this magnitude. Bradley needs to understand his environment/culture with respect to its tolerance for making mistakes. He also needs to think carefully through the process of making the error known. He has a tradeoff to make: covering it up *vs* admitting the mistake. Of interest would be how far Bradley needs to go if his direct manager decides to ignore or camouflage the mistake?

Expert opinions

From Expert #1. Overwhelming pressures can result from an intensive months-long process that has far-reaching financial consequences for a company and is characterized by the suffocating presence of a horde of internal and external overseers. The practical reality is that in the resulting atmosphere of physical and mental exhaustion, mistakes will be made. It is the responsibility of the senior executives, in this case the CFO, to appreciate that such risks are inherent to the process, and to have communicated a meaningful open-door policy to the staff. The analyst should be discouraged from trying to carry the weight of the world on his shoulders. This is of course far easier said than done, for few of us are prone to admitting significant errors, either out of pride or out of fear of losing our jobs or our reputations. Leadership and motivational skills are required. No one is likely to come forward if the organization is managed by fear and intimidation. The CFO would need to have demonstrated loyalty to his staff, and they would have to know that they had his support in a crisis. This takes ongoing effort.

From an ethical standpoint, obviously the analyst should come clean. But it is also to the ultimate advantage of all involved that the burden of deciding what to do be shifted to the CFO as soon as possible. Otherwise, by default, the analyst is making senior-level decisions without the benefit of the CFO's broader perspective and experience. Presumably, the analyst is responsible for a small piece of the whole, and may have simply run the numbers without having a complete command of the assumptions behind them. For all he (the analyst) knows, the CFO may be aware of compensating factors – perhaps a conservative estimate of an expense item, or an offsetting error – which would mitigate the problem.

In summary, this should be the CFO's responsibility, and where he gets to prove that he deserves his paycheck. The CFO must be given the problem so that he can bring to bear all that he knows, and, in the absence of a constructive and ethical solution, so that he can assume the burden of disclosing the error in a manner least likely to put the entire deal at risk. If the CFO has made it difficult for the analyst to come forward, he has done the analyst and the organization a serious disservice.

Mark Osterer is a former division EVP and CFO of an international entertainment company.

From Expert #2. There would be no question that I would tell of the error. It is the right thing to do and it would be inappropriate to do otherwise. Also, it would be best to notify others of the mistake first, rather than waiting for someone else to discover it. Should the latter happen, it might appear as though this was not just an error, but an intentional adjustment of the forecast to make results appear better than they really are. By owning up to the mistake, it also gives you the opportunity to modify other aspects of the forecast.

Here is what I would do. First, confirm the depreciation is, in fact, in error. Since this is a 5-year projection and not actual historical results, I would evaluate all other forecast assumptions to ensure that there were no further errors in the model, but also to identify any upside potential of other factors that might serve as an offset to the mistake. Quite often, a conservative approach is taken on key assumptions when a certain overall result is achieved. Given the error will have changed the end result of the forecast, it is also quite possible management may want to take a more aggressive, yet still reasonable and achievable, approach to other assumptions. Once this is done, I would develop a summary schedule outlining the impact of the error, along with a range of other changes that could result from including different assumptions.

As an analyst working on this critical assignment, I would approach my immediate supervisor on this project about the error. It would then be up to him to either revise the MD&A for the entire amount of the error or look to include any of the other potential assumption changes in the revised numbers. In either case, I would look to my supervisor to give the go-ahead for modifying the numbers used in the discussions.

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Scenario #5

Ethical dilemma in marketing

Case

Sharon Ellis is Market Research Director of a medium-sized entertainment company. She has a Ph.D. in Psychology from a prestigious university. As well, she is a seasoned market research professional with substantial qualitative and quantitative research experience in several high echelon companies. Unlike most organizations where the market research function would organizationally be found in the Marketing organization, Market Research in MSR Company for checks and balances reasons reports through the Strategic Planning and Finance organization. Sharon has just attended a meeting called by Birgit Sheehan, the SVP of Marketing. At that meeting, Birgit asked Sharon to undertake a qualitative research effort, namely a focus group session to evaluate a new product development theme for a book continuity series. Unfortunately, Birgit is not a numbers person, having been promoted through the creative end of the business. But that does not stop her from thinking she can analyze things. Birgit gets great enjoyment and insight out of focus groups, having on numerous times used information from them in totally bogus ways. This is something that Sharon feels needs to stop. While certainly focus groups have their place in market research, especially as an exploratory and idea-generating tool, too often people misuse focus groups by erroneously thinking they can poll a group of eight to ten people and project to the population.

During the meeting, Sharon tried to tactfully disagree with Birgit on a number of issues, trying again and again to point out the problem with using focus groups to solve this particular new product decision. But Sharon felt she had made little progress. It is becoming increasingly clear to Sharon that Birgit not only wants to dictate to her the research methodology to use on this project, but also has lined up a research supplier to do the moderator role for the focus group sessions. Sharon knows that focus groups are entirely inappropriate to getting managerially useful information on this particular research problem. As a result, she feels responsible to halt the investment of time and money on a research project that is doomed from the start, and worse a project whose end-product could easily be manipulated to concur with the product concept Birgit wants to implement. Unfortunately, this is not the first time that Birgit has tried to impose her will on the Market Research department. Sharon feels an obligation to the company and her superiors to critically evaluate all internal requests for market research services to ensure that (a) the research problem is being well-defined, (b) the methodology is appropriate to the task, and (c) the vendor selection makes sense in order to deliver a quality product that is cost-effective.

If Sharon went along and participated in the project, she would avoid political problems and might even gain an important political ally. On the other hand, if Sharon's boss, Janet Lawless, learns about this foolish expenditure of time and money, well that is a different kind of problem.

Note: Adapted from an actual situation that occurred in the direct marketing industry as reported by the VP of Planning. Pseudonyms are used to disguise the participants.

Professional codes of conduct for marketers

American Marketing Association (AMA)

Ethical norms and values for marketers. Marketing practitioners must recognize that they not only serve their enterprises but also act as stewards of society in creating, facilitating, and executing the efficient and effective transactions that are part of the greater economy. In this role, marketers should embrace the highest ethical norms of practicing professionals and the ethical values implied by their responsibility toward stakeholders (e.g., customers, employees, investors, channel members, regulators, and the host community).

Norms:

1. Marketers must do no harm. This means doing work for which they are appropriately trained or experienced so that they can actively add value to their organizations and customers. …
2. Marketers must foster trust in the marketing system. …
3. Marketers must embrace, communicate, and practice the fundamental ethical values that will improve consumer confidence in the integrity of the marketing exchange system. …

Ethical values:
Honesty – to be truthful and forthright in our dealings with customers and stakeholders.
Responsibility – to accept the consequences of our marketing decisions and strategies.
Fairness – to try to balance justly the needs of the buyer with the interests of the seller.
Respect – to acknowledge the basic human dignity of all stakeholders.
Openness – to create transparency in our marketing operation.

Source: Excerpt. Full code located at the AMA, http://www.marketingpower.com/AboutAMA/Pages/Statement%20of%20Ethics.aspx

Reflection questions

- What responsibility does Sharon have to push back on a research project that is unlikely to produce anything valuable, and which – at the worst – might lead to an egregious mistake in how the company goes about its new product development efforts?
- Who is harmed by a poorly designed market research project?
- When do you go along for the sake of organizational peace? When and how do you put your foot down and refuse to be involved in an inappropriate and wasteful use of the market research budget?
- Whose advice do you seek out?
- How do the ethical values in the AMA Statement of Ethics apply to this case?
- How does the market researcher's action comply with the AMA code's norms that ''marketers must do no harm.''

Class wrap-up or case epilogue

It is easy for a middle manager to fold under the pressure a senior level executive can apply in mandating (or strongly encouraging) a course of action be undertaken. Standing one's ground takes courage and the middle manager should not take on the task alone.

Expert opinions

From Expert #1. The information provided indicates that Sharon truly believes that, given the current state of affairs, the research project will be undertaken as planned, the results will most likely be misinterpreted, and the company will make a launch decision based on insufficient and, most likely, flawed information. The case does not explain in great detail: the history of the relationship between Sharon and Birgit; the internal politics; the cost of the inappropriate research; or the relationship of the research vendor to Birgit. Therefore, my guidance to Sharon is qualified on these points.

Sharon must think about all these things, as she develops her strategy. Nevertheless, Sharon should communicate (and document) her concerns to her boss, a person with a presumably comparable level of power to that of Birgit. If she shares Sharon's concerns, then they should map out a strategy of how to deal with this particular situation, recognizing that it will be setting a precedent in terms of ownership of the research process.

These are questions Sharon should ask herself, or try to get more information about.

1. Is there a real or imagined conflict of interest when Birgit proposes the research supplier to use? Companies often use suppliers with whom they have had satisfactory experience as long as their price and service are comparable to other firms that might be used. If Sharon feels that the identified vendor would provide professional-level results comparable to what could be expected from other potential vendors, then she could go along with the choice. If, on the other hand, Sharon suspects that the vendor is being selected for unethical reasons (i.e., Birgit will personally gain financially) or simply because it will provide the third-party independent validation that Birgit seeks, she may suggest to Birgit that they explore the project with a few more firms, just to get a few other vendors in the mix. If Birgit adamantly refuses to consider other firms, then that would be the tip-off that Sharon is unethically steering the research money to a firm that will do her bidding.
2. What's the level of the investment and how much of a drain is it on the organization?
3. In the meeting, it seems as if Sharon already has made her case that the research project is not appropriate for the research question Birgit says she wants an answer to. If the money to be wasted is small, less than $20,000, and the project will not absorb too much of Sharon or Sharon's staff's time, then Sharon perhaps should reluctantly ''go along.'' By staying involved, Sharon can mitigate the issuance of research findings that are not valid. If she refuses to stay involved, then it is possible that Birgit will have the power to sway the research supplier's findings to her own self-interest, which would likely lead to a greater waste of the company's time and money. On the other hand, if the money is significant, more than $20,000, and likely to absorb a great deal of Sharon or Sharon's staff's time, then the best route may be a diplomatically written, but forceful memorandum to Birgit, copying Birgit's management and Sharon's boss. (In this case, copying two levels up the organization would be reasonable.) In the memorandum, Sharon should restate what she's already said in the meeting with Birgit. It would be very helpful if Sharon included a reference from an external and authoritative source whose statements speak directly to the misuse of focus groups in situations like the one proposed. Sharon's memorandum should be reviewed by her boss before being issued. There are subtle edits that her boss would be able to add that would improve upon the effectiveness of the message. Also, it gives Sharon's boss an opportunity to directly intervene in a different fashion than the one proposed.

In the end, Sharon should not try to be the hero herself, adamantly refusing to help Birgit. Sharon should use the organization to help her cope with the problem, especially if it is a true conflict of interest in terms of the vendor to be used or the amount of money to be wasted.

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From Expert #2. Sharon Ellis is a Director. She is responsible for Market Research and is an expert on market research. In this company, Market Research reports through the Strategic Planning & Finance organization. Market Research is a support service to Marketing. Birgit Sheehan is an SVP. She is responsible for Marketing and has a creative background. She does not understand market research methods and processes well, nor does she seem to know how best to apply market research results to strategic planning. Birgit does not solicit Sharon's expertise, rather she tells Sharon what type of research study to execute – focus groups. This is not the right tool to measure the likely market demand for a new product launch, but it is Birgit's directive. Birgit would be a team builder and a better SVP if she had told Sharon what she, Birgit, needed and asked Birgit to suggest methods of market research best suited for providing the results, or simply trusted that Sharon would provide the best research effort once she understood the research question. Sharon would feel valued and respected.

Birgit is ego-driven and seems to have an agenda outside of getting the best Market Research Report. This is a power struggle; Birgit wants to assert herself over Sharon's area of responsibility. Sharon must bring her manager, Janet Lawless, up to date on this situation and let Janet decide on the next step Sharon should take. By explaining to Janet, the financial ramifications of a misdirected market research effort, Sharon will show her boss that Sharon respects the bottom line, has the best interests of the company at heart, has an established expertise in market research, and respects her boss. If Sharon has the support of her superiors in Strategic Planning & Finance (including her boss, Janet Lawless) they will encourage her to assert herself as the point person for the company's market research expertise. If Sharon does not have the support of her superiors, or if they are intimidated by Birgit, Sharon will be in a losing situation and is best off giving Birgit whatever she needs in whatever way she wants it, but holding Birgit accountable for methodology through careful documentation from the beginning through the end of the project.

Sharon cares about the company. She is altruistic and not ego-driven. Sharon needs to let her manager run interference at the VP level and create room within the organization for Sharon and her expertise. Sharon would be wise to let her boss be the heavy, while Sharon lets go of her expectations that Birgit will use market research improperly. Encouraging Birgit to use market research is a good first step. If Birgit uses the Market Research department more frequently, and with Sharon's input, Sharon may be able to influence Birgit's appreciation for the nuances of market research and help her understand that market research is a science, requiring an expert.

Getting her boss to act at the VP level will go a long way to building the bridge between Market Research and Marketing, as well as developing for Sharon, a more positive relationship with Birgit. With Birgit's creative background and Sharon's research background, together, they have the potential to make a balanced team. However, the ego and politics involved make it difficult.

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