

Ethics: Moral Dilemmas and Doing the Right Thing

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Session Agenda

- Ethics and Moral Dilemmas
- Creating an Ethical Business Culture
- Control of Organizational Corruption
- The Delicate Art of Compliance System Design
- Implications for the Compliance Practitioner

Ethics

Take a moment and think of someone you look up to as an ethical role model.

What characteristics come to mind?

Doing what is right?

- Assumes we recognize that we are in an ethical situation
 - Do we see our decisions as moral issues?
 - Moral issue – where a person's actions, when freely performed, may harm or benefit others (Velasquez and Rostankowski 1985 and Jones 1991)

Doing what is right?

- If we do recognize it, have we properly analyzed the situation
 - Correctly understood who is effected by the decision/action
 - Correctly assessed the effect on others
- Do we know our own values?
 - Moral Dilemmas involve trade-offs – Do we know what we really value?

Doing what is right? – Where we can go wrong

- Recognition of moral issues
 - Moral muteness
 - Moral myopia
 - Unintended consequences in compliance system design

Doing what is right? – Where we can go wrong

- Analysis
 - Cognitive biases
 - Innate ability to rationalize
 - Cognitive dissonance (Festinger – in cases of conflicting beliefs change them to support desired outcome)
 - Lack of knowledge
 - Ability to empathize

Doing what is right? – Where we can go wrong

- Do we know “ourselves”?
 - To what do we aspire?
 - Do I have a good dream?
 - Are we committed?
 - Do I care enough

Defining Moments

Right versus right

Joseph Badaracco - *Defining Moments: When Managers Must Choose between Right and Right.* (Harvard 1997)

An Ethical Business Culture?

- (a) To have an effective compliance and ethics program, for purposes of subsection (f) of §8C2.5 (Culpability Score) and subsection (c)(1) of §8D1.4 (Recommended Conditions of Probation - Organizations), an organization shall—
- (1) exercise due diligence to prevent and detect criminal conduct; and
 - (2) otherwise promote an **organizational culture that encourages ethical conduct and a commitment to compliance with the law.**

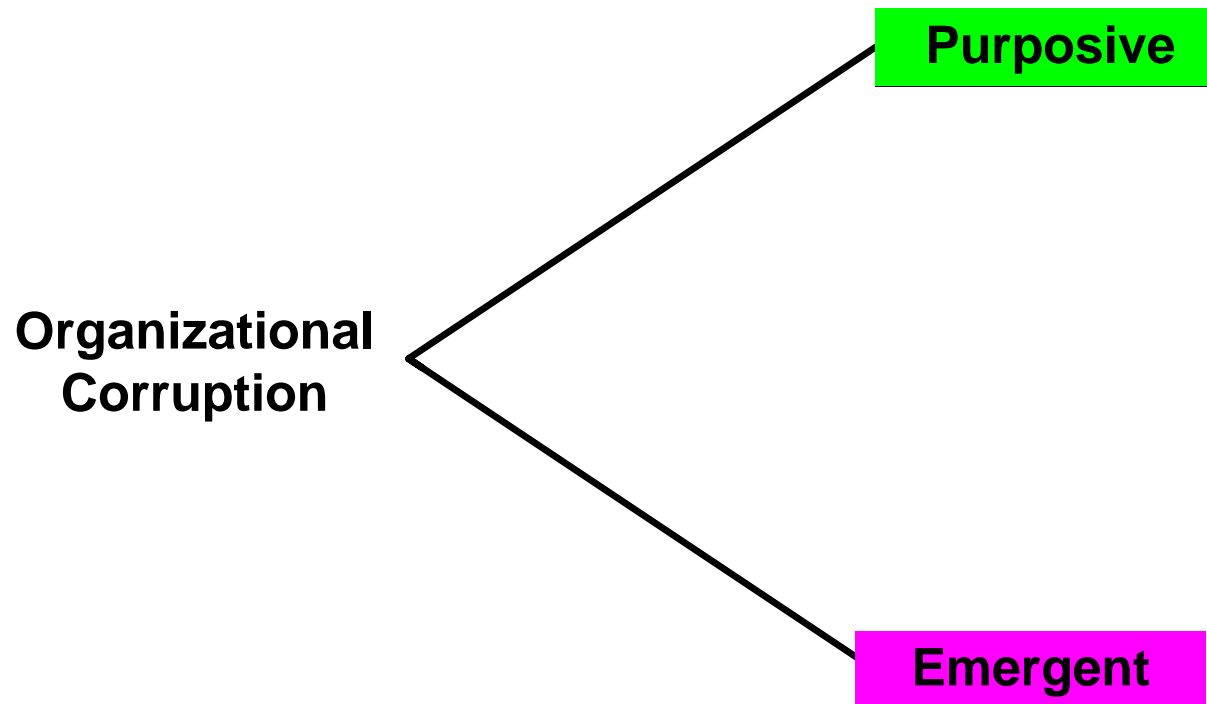
Fed. Sent. Guidelines Chapter 8

An Organizational Corruption Perspective

- Dukerich, Lange and Huber, “Ironic Processes in Organizational Corruption Control” The University of Texas, 2006
- Organizational corruption
 - Action taken by organizational members, through their organizational positions or with organizational resources, that is illegal or unethical by societal standards
- An organizational culture in which the occurrence of organizational corruption is held to an acceptable level

An Ethical Business Culture - An Organizational Corruption Perspective

- Two Types of Organizational Corruption



Organizational Corruption

- Purposive

- Agent recognizes the moral issue and still proceeds to engage in the illegal or unethical behavior
- Agent has asked him or herself the question “Is this a moral issue?” and then proceeds to engage in illegal or unethical actions

- Emergent

- Agent does not recognize the moral issue and engages in illegal or unethical behavior
- Agent never asks the question “Is this a moral issue?”

Organizational Corruption

- Purposive

- Engages in illegal or unethical actions in order to achieve gain or avoid loss (can be indirect)
- Individual differences in propensity, cognitive moral development, low self-control
- Situational characteristics (high hierarchical accountability, social relationships)

- Emergent

- Organizational routine
- Authorization
- Dehumanization
- Goals-means displacement
- Situational factors that increase focus on means rather than moral consequences associated with ends
 - Job pressure
 - Role conflict
 - Perceptions of organizational justice

Organizational Corruption



ANDERSEN

The Arthur Andersen partner was on his cell phone
when he said,

"Ship the Enron documents to the feds,"

but his Secretary heard,

"Rip the Enron documents to shreds."

It turns out that it was all just a case of bad cellular.



Sprint PCS The clear alternative to cellularSM

Control Processes

- Two Approaches

- Administrative

- Social

A Delicate Balance

- Cost versus Benefit
- Administrative versus Social
- Unintended Consequences of the control activity
 - What Dukerich, Lance and Huber call “ironic processes”

Administrative versus Social

- **Lynn Paine "Managing for Organizational Integrity" *Harvard Business Review*, March-April 1994**
 - **Compliance Strategy vs. Integrity Strategy**

Strategies

	Compliance Strategy	Integrity Strategy
Objective	Prevent criminal misconduct	Enable responsible conduct
Behavioral Assumptions	- autonomous beings	social beings self-interest, values, ideals, peers
Leadership	- self-interest lawyer driven	management driven with aid of lawyers, HR, IA, others

Strategies

	Compliance Strategy	Integrity Strategy
Methods	Education Auditing and control Penalties	Education, leadership, accountability, org systems & decision process, audit and control, penalties
Staffing	Lawyers	Executive and management with lawyers, IA,

Strategies

Activities

Compliance Strategy	Integrity Strategy
<ul style="list-style-type: none">-develop standards-train and communicate-handle reports of misconduct-conduct investigations-oversee compliance audits Enforce standards	<ul style="list-style-type: none">-lead development of org values and standards-train-integrate into org systems-provide guidance and consultation--assess values and performance--oversee compliance audits

“Ironic Processes” in Administrative Controls

Situation 1

- “Interference” Controls
 - Prevent corruption by interfering with employees’ ability to complete act
 - Password for access to data, keys, segregation of duties
 - Reduction in employees’ autonomy
 - May foster organizational corruption
 - Some may view with resentment,
 - Some with the challenge to beat the system

“Ironic Processes” in Administrative Controls

Situation 2

- “Punishment” Controls
 - Prevent corruption by punishing those who commit undesired actions
 - Requires monitoring of behaviors and outcomes
 - Reduces peoples sense of autonomy and self-control
 - Creates sense of distrust and could provoke retaliation against organization
 - Less rigid monitoring system also has problems
 - Minor infractions that are not detected reinforce behavior and downward beliefs in getting caught

“Ironic Processes” in Administrative Controls

Situation 3

- “Autonomy-reducing” Controls and Emergent Organizational Corruption
 - Employees focus on rules
 - If rules distorted or don’t fit all situations may lead to emergent corruption because employees are conditioned to just follow rules and not consider actions as “moral issue”

“Ironic Processes” in Administrative Controls

Situation 4

- “Autonomy-reducing” Controls and Emergent Organizational Corruption
 - May reduce employee monitoring of other employee’s actions
 - Lead to purposive or emergent corruption that would have been otherwise detected and eliminated

“Ironic Processes” in Social Controls

Situation 5

- Internalization of organizational values
 - Process for doing this are difficult to fit to each individual
 - Some individuals will not be receptive and perceive this as manipulation – can foster purposive organizational corruption in them

“Ironic Processes” in Social Controls

Situation 6

- Control mechanisms that attempt to align employee and organizational values
 - Side effect of reducing employee monitoring of other employees' actions
 - Employees that come to believe that socialization has been successful and that the organization's internal environment is highly ethical may be prone to dismiss and rationalize actions that are ethically questionable

“Ironic Processes” in Social Controls

Situation 7

- Control mechanisms that attempt to increase organizational identification can facilitate emergent organizational corruption
 - High identity may lead to a failure to question morality of actions prescribed by organizational routines
 - Lead to reduced monitoring of the actions of other organizational members

Implications

- What actions can organizations take to achieve control objectives and minimize counterproductive effects

Implications

Situations 1 and 2

Monitoring controls

- Increase effectiveness (probability)
 - Cost and potential retaliation
- Disproportionate punishment (loss)
 - Zero tolerance
- Make clear to employees why control is necessary for the organization and less attention to control or rule itself

Implications

Situation 3

Counter facilitation of emergent corruption from autonomy reducing controls

- Don't have strict focus on following rules for rules sake – focus on original purpose of rule
- Principle versus rule based

Implications

Situation 4

Increased corruption because employees don't feel need to monitor behavior of others

- Emphasize harm to the organization of the actions by any employees who engage in corrupt practices
- Keep an urgency to emergent corruption by calling attention to it (sharing of examples etc)

Implications

Situation 5

Side effects of attempts to align employee and organizational values

- Don't overdo value shaping efforts
- Most effective – learned experiences or independent choice rather than indoctrination

Implications

Situation 6

Reduced monitoring of others because in this organization “we are all aligned and good people”

- Make salient harm to the organization by corrupt actions of members

Implications

Situation 7

Actions meant to align employees' values with organization's can lead to over-identification with the organization

- Rather than “high levels” seek “moderate adherence”
 - Variable level of identification rather than one-size-fits all
 - Difference among jobs (IA and compliance for example)
 - Differences in individuals

Overall

- Communicate explicitly adverse consequences to the organizations or valued stakeholders
 - Communications – especially stories from those affected
- Design control systems that are understandable, that communicate that they are consistent with societal values, that are enforced