

CHAPTER 1: THE IMPORTANCE OF BUSINESS ETHICS**Accounting: Asset Valuation Write Downs**

Allen Carns is the new controller at a computer hardware manufacturer. The economy has taken a downturn, and jobs like Allen's are hard to find. After several months he notices a high inventory of outdated, high priced hardware. Allen looks at the books and notices a big discrepancy between the book value of the inventory and its real value. He makes an appointment with the company president and is told to wait and see if the auditors notice the problem. If they do, he is told to find a way to explain that the items are selling. He should:

- a. follow the president's request as he interprets it.
- b. attempt to write off a modest though incomplete portion of the old inventory this year.
- c. ask the president if he wants him to lie to the auditors.
- d. price out the inventory at full cost, while hoping that the auditors do not uncover the problem.
- e. talk to the auditors about the problem when they arrive even though they are considered an outside entity.

Instructor notes:

- Option a: The president of the company is taking a "wait and see" approach to determine if the auditors find the error. Such a practice is common in some industries. This option does not settle the issue for the student; it merely allows the student to sidestep the issue. Instructors may wish to force students into a "what if" scenario to help them understand their underlying value structure.
- Option b: This is a compromise solution that is akin to being "a little bit pregnant". There is also the issue of not bringing the problem to the attention of superiors.
- Option c: This is a direct challenge to the president's honesty and informs him that his decision is dishonest.
- Option d: This choice has a twist in that students choosing it usually fail to realize that they are agreeing to increase the value of all goods in inventory. Students choosing this option also need to ask themselves why they are in the president's office.
- Option e: Students choosing this alternative are betraying corporate trust. The question becomes whose values does one follow? This is possibly the best option.

Finance: Stock Market Trades

Jacob Feldman has been a stock trader in the pits for over a year at the Chicago Board of Trade when he notices some of his friends talking. As he approaches them, one says, "Jacob, we're glad you're here. We have some trades that need to be made for us. Take these shares and buy and sell them before your clients' and we'll do the same for you when you want to." "What do you mean?" says Jacob. "Look." explains Ted, "If we all sell or buy small transactions for one another before we execute our clients' trades, we can net a good profit." Jacob should:

- a. follow Ted's suggestion.
- b. do nothing.

- c. inform the proper authorities to make sure this is legal.
- d. discuss the situation with others on the floor to see if it's ethical.
- e. discuss the situation with others on the floor to see if it's legal.

Instructor notes:

- Option a: This is illegal.
- Option b: This can be illegal in terms of withholding evidence of a crime.
- Option c: A good choice, but the authorities will start asking you if you know of anyone doing such actions. The issue then becomes betraying friends or possibly the results of option b.
- Option d: The experienced employee knows this is illegal. By asking such a question in a public forum there could be unfavorable and subtle sanctions applied to the student by the other floor members.
- Option e: Same concerns with option d apply.

Management: Check Kiting

Tiffany is an operations manager at New England Savings & Loan, a small local bank. One of her jobs is to deal with check kitters -- people who withdraw funds they do not have by cashing precisely timed checks at more than one bank. The issue for Tiffany is that one check kiter is a friend of Tiffany's husband and is dating her boss. Tiffany also knows that this person is a financial officer at another bank. Tiffany should:

- a. do nothing.
- b. call the check kiter and give him an opportunity to change his ways.
- c. inform her boss and follow standard procedure.
- d. inform the boss's boss and follow standard procedure.
- e. inform the other bank about what is happening and follow standard procedure.

Instructor notes:

- Option a: This can be illegal in terms of withholding evidence of a crime.
- Option b: Instructors should ask students choosing this option, "if the check kiter says no or yes but does not come into your bank, then what do you do?"
- Option c: Good choice, but you lose some relationships and there is the possibility of displeasing your superior.
- Option d: Good choice, but depending upon the corporate culture it could be politically dangerous.
- Option e: Good choice, but the student must realize that he/she will probably lose some relationships and there is the possibility of displeasing the superior.

Marketing: Undercounter Sales

Robert, a division manager for Giggles, a major restaurant chain has heard rumors that Selma, one of his store managers, is taking in money without ringing up the sale. After some investigative work, Robert finds this to be true. He discovers that Selma is taking the unrecorded monies and paying her employees incentives or bonuses with it. This goes against company policy; however, Selma's store is the best in his division and second in the company. Robert should:

- a. fire Selma.
- b. do nothing.

- c. inform Selma about the information he has and have her stop.
- d. inform Selma about the information he has and have her continue.
- e. surreptitiously promote Selma's strategy to his other stores.

Instructor notes:

- Option a: Good choice, but division figures go down.
- Option b: Your numbers stay good but you are now going against company policy.
Students might suggest that the issue becomes whether anyone knows what you know.
- Option c: Good choice, but it will hurt your division's sales figures.
- Option d: Tacit approval. The issue is one of company policy.
- Option e: Egoists usually choose this option.