

## **Ethics in Business Operations**

### **Operations Management and Ethics**

Although Ethics is covered under the Plan Section, Ethics cuts across every aspect of business. A comprehensive look at operations management would not be complete without looking at ethics and operations management. Ethics is doing the right things the right way – Always. All too often we see companies and management taking the easier wrong route rather than the tougher/harder right approach.

Recent headlines have placed several states and their leaders in the spotlight for violating ethics. The 2020 Elections campaign ads are filled with ethics violations accusations from all sides. The issues with the COVID pandemic have raised ethics questions in healthcare. And the political unrest raises questions about ethics, integrity and enforcement of laws.

Almost every company has an Ethics Department and Ethics Statements. Just because a company has an Ethics Statement or Ethics Advisor does not mean that they are following ethical behavior. Ethics is usually defined as doing the right thing. There is no right way to do the wrong things. Most people are born with an ethical compass that points true North. However, somehow, some folks have their ethical compasses demagnetized. Have you ever seen a compass that has been demagnetized? It will spin and never point to North again. The same thing happens to some people in business. Greed takes over and “situational ethics<sup>29</sup>” take over. We will look in detail at ethics in supply chains when we discuss supply chain leadership.

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<sup>29</sup> Situational ethics is a term invented to insinuate that ethics can change based on the situation. The reality is that what is right does not change because of being in a different country or location. Situational ethics may be the impetus to the saying “What happens in Vegas, stays in Vegas.” What is right in business does not simply change because a business partner has a different viewpoint.

One of the latest views of ethics concerns corporate responsibility and ethics. The Green Movement in businesses is an outcropping of that view. This view states that companies are responsible for the environment as part of their ethics. The Trinchero Family Wineries<sup>30</sup> (<http://tfewines.com/tfe-green/>) took this concept to the next level. This company plants a tree for every bottle of wine that they sell. To date, they have planted over one million trees. Hopefully, this new ethical movement will not prove to be a fad but a true focus on ethical stewardship of the environment. Imagery Winery<sup>31</sup> in Glen Ellen, CA, has also moved to more responsible wine making to help improve the quality of the wine while sustaining the environment.

### **Ethics and Decision Making**

In business and in our personal lives we are faced with decisions. We can make the decision with the understanding that there are consequences for some of our decisions or we can avoid making a decision and let someone else make the decision for us. Not making a decision is actually making a decision. Allowing someone else to make the decision for you may not work in your favor. If someone else is making the decision, they will most likely make a decision that is favorable to them.

Missing from most definitions of decision making is the mention of Ethics. Ethics is defined by Dictionary.com as: “the rules of conduct recognized in respect to a particular class of human actions or a particular group, culture, etc.: *medical ethics*; *Christian ethics*; moral

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<sup>30</sup> Go to: <http://tfewines.com/tfe-green/> to see how Trinchero is working to improve the environment through ethical practices.

<sup>31</sup> Go to: <http://www.imagerywinery.com/index.cfm?method=pages.showPage&pageid=d2ea47ef-c50e-634b-5044-1c9f5b143aa4> to view the actions at Imagery Winery.

principles, as of an individual: *His ethics forbade betrayal of a confidence.*<sup>32</sup> Another definition of ethics is: “The rules or standards governing the conduct of a person or the conduct of the members of a profession.”<sup>33</sup> Ethics is simply doing the right thing. We all learn from the time we start crawling the difference between right and wrong.

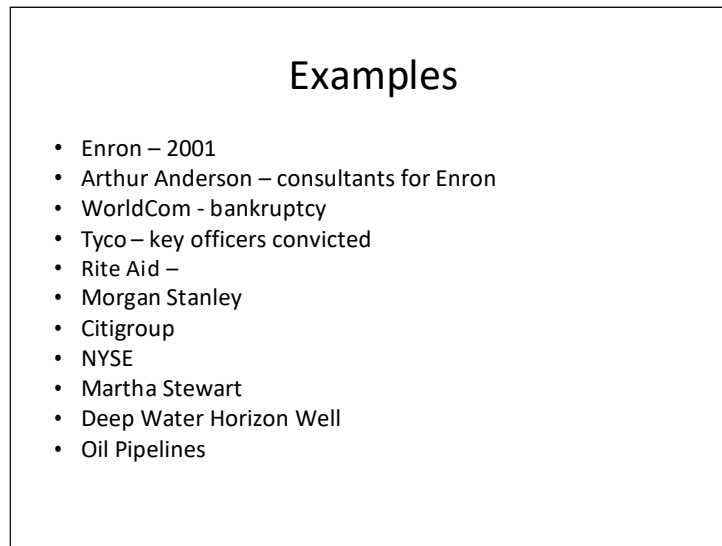
Just as we all face decisions that must be made; we also all face ethical decisions. What is ethical decision making? The process of applying ethics to decision-making models will enable the decision maker to look at the impacts and the consequences of the decision. Business is filled with decisions that appear that the decision maker did not consider ethics in making a decision or perhaps considered ethics but chose to ignore ethics. There is no situational ethics. Ethics as a benchmark of business leaders is a simple yes or no, ethics do not change as situations change or conditions change. Ethics is a matter of right or wrong according to society. A business leader that compromises his or her ethics in the name of making a profit or personal gain compromises his or her ability to be a competent leader. There is no right way to do something that is ethically wrong. Unethical decisions usually lead to corporate scandal which in turn leads to corporate ruin. The collapse of Enron in 2001 is a classic example of this sequence of events.

Let’s take a look at some of the business decisions from the past in Figure 4.1 that have not gone well—even though the decisions appear to be the result of a cognitive process:

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<sup>32</sup> "ethics." *Online Etymology Dictionary*. Douglas Harper, Historian. Accessed April 04, 2010. <Dictionary.com <http://dictionary.reference.com/browse/ethics>>.

<sup>33</sup> "ethics." *The American Heritage® Stedman's Medical Dictionary*. Houghton Mifflin Company. Accessed April 04, 2010. <Dictionary.com <http://dictionary.reference.com/browse/ethics>>.



**Figure 4.1: Examples of Unethical Decisions in Business**

In the Enron case, the investors lost over one billion dollars in stock value as the company collapsed under the strain of the scandal and unethical decisions. The unethical decision making that led to the Enron scandal and collapse also led to the passing of the Sarbanes-Oxley Law that was designed to protect the individual investor. By doing this it also added a new level of bureaucracy to corporations.

The corporate officers for Enron focused on personal profitability and lost focus on the principles that the company was founded on. When corporate officers become so concerned about their own well-being at the expense of shareholders and employees, there will be serious consequences. In the case of Enron, they were assisted in this operation by their accounting firm, Arthur Anderson—once one of the premier accounting firms in the world. The association of Arthur Anderson with Enron and the ethical debacle resulted in the collapse of both firms. The collapse of Enron has ripple effects in bankruptcies, small business closings, even the recall of the Governor of California because of his association with the company and its unethical practices. This recall was responsible for Arnold becoming the Governor of California.

WorldCom, Tyco, and Morgan Stanley all suffered from the unethical practices of their management. Martha Stewart participated in insider trading information and ended up serving prison time. Even the New York Stock Exchange had problems with ethical practices by their officers. Ethics are standards that are higher than what is legal. It is, therefore, possible to be legal without being ethical. For example, the US Supreme Court ruled in 2012 that the Stolen Valor Law was not legal. The ruling stated that falsifying accounts of military valor is not illegal

although lying is unethical. As a result, the House of Representatives passed a new Stolen Valor Act in September 2012 that will at least prevent those that lie about their military records and awards from profiting from their lies.

Consequences result from decision making. Some of the consequences are good; sometimes the consequences are not so good. Decisions may result in the downgrade of a company's credit or the company's bond ratings; still other decisions may result in the collapse of the company. Ethics should help guide the company in making decisions and establishing corporate strategies.

Unethical Decisions in business lead to corporate scandals which as we saw with Enron, leads to corporate ruin. Figure 4.2 shows the Institute for Business, Technology, and Ethics reasons to run a business ethically. I added the last bullet. It would appear that the list is upside down. The most important reason for ethical decision making is because it is right. The rest of the reasons appear to diminish in value as you head up the list. The last reason to act ethically is to avoid litigation.

### **Institute for Business, Technology, and Ethics – Reasons to Run a Business Ethically**

- Litigation/indictment avoidance
- Regulatory Freedom
- Public Acceptance
- Investor Confidence
- Supplier/Partners Trust
- Customer Loyalty
- Employee Performance
- Personal Pride
- Bottom line: it is the right thing to do!

**Figure 4.2 Reasons for Ethical Business Practices**

### **Ethics in Product Design**

In the 1970s Ford developed the Pinto. The Pinto was Ford's attempt to put an economy car on the Mustang chassis. The Pinto had two problems in the design of the car. The first was that it was a uni-body construction. When rear ended, the doors could be jammed shut.

The second problem was worse. The Pinto apparently had a problem with the location of the gas tank at the rear of the car that would burst into flames when experiencing a rear end collision. The problem was known but not fixed before the Pinto (see Figure 4.3) was introduced. Ford's initial analysis showed that it would cost less than \$10 per vehicle to fix the problem but instead decided to place \$175,000 times the projected number of deaths into a trust fund to cover liability expenses. The final result was deaths and lawsuits and the removal of the Pinto from the Ford Fleet.

This is why ethics is important in business decision making and in product design. Ford took the easy wrong approach over the harder right approach.



**Figure 4.3: The Ford Pinto**

## Summary

Ethics is critical to business success. Cutting corners is the quickest way to get into trouble in business. Every decision made in business must be looked at from an ethical viewpoint.

There was a poem by Anonymous printed and laminated in my Dad's desk that I read often growing up that sums up ethics very well.

### *The Man in the Glass*

*When you get what you want in your struggle for self and the world makes you king for a day,  
Go to the mirror and look at yourself and see what that man has to say.*

*For it isn't your father or mother or wife whose judgement upon you must pass;  
The fellow whose verdict means most in your life is the man looking back in the glass.  
Some people may think you a straight-shootin' chum and call you a wonderful guy,  
But the man in the glass says you're only a bum if you can't look him straight in the eye.*

*He's the fellow to please, never mind all the rest, for he's with you clear up to the end.  
And you've passed the most dangerous difficult test if the man in the glass is your friend.*

*You may fool the whole world down the pathway of life and get pats on the back as you pass,  
But your only reward will be heartaches and tears if you've cheated the man in the glass.*

This poem sums up ethics. If you make unethical decisions, no one other than the person staring back at you in the mirror may ever know. You still have to live with that person.

## **Chapter 4 Thought Questions**

1. Why is ethics important in decision making?
2. What company's actions prompted the passing of the Sarbanes-Oxley Act?
3. What is the goal of the Sarbanes-Oxley Act?
4. What are the variables that are included in decision making?
5. What is ethics?
6. Is there such a thing as situational ethics?