

# **MGST 451**

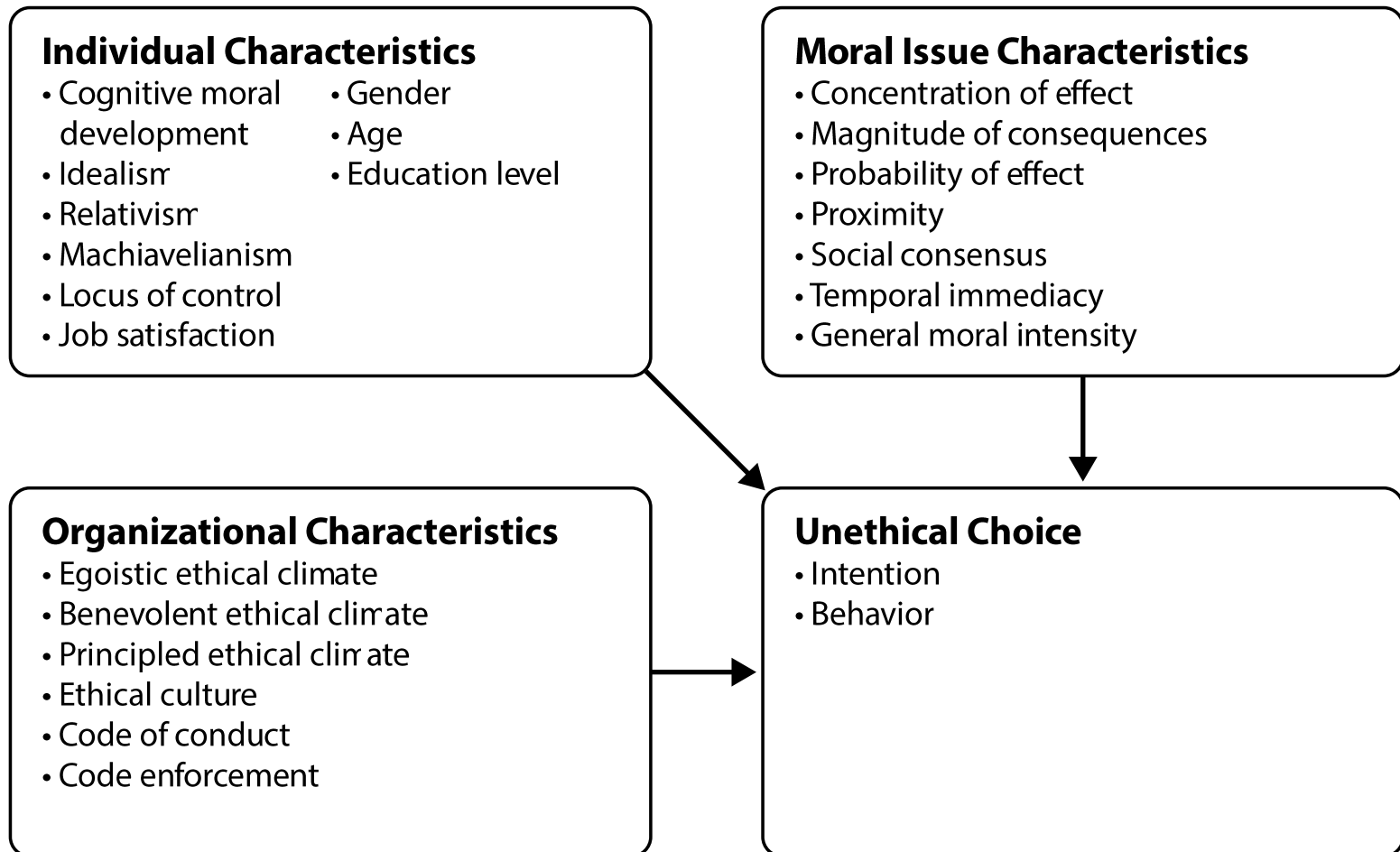
## **Corporate Governance and Ethical Decision-Making**

**Lecture 21 – Winter 2019 L01-L03**

**By Dr. René Wells, CFA**  
*Haskayne School of Business*

- Unethical behavior in the workplace
- Unethical behavior versus unethical decision making
- What is ethical decision making?
- Excuses to justify unethical decisions making
- Counterexamples of ethical decision making
  - BNP Paribas
  - United Airlines
  - Diesel emissions scandal

## Meta-analytic framework for antecedents of unethical choices in the workplace



# Unethical behavior versus unethical decision-making

Attribute	Unethical Behavior	Unethical decision making
Perpetrator	Individuals usually (sometimes groups)	Group(s) always
Beneficiary	Individuals	Organization primarily
Victim	Organization	One or more entities outside the organization
Norms violated	Organizational usually (sometimes legal as well)	Legal usually; societal always
Consequences of detection	Individual level	Organization level (sometimes individual as well)
Interaction between perpetrators	Not necessary	Essential
Organizational intentionality	Usually unintentional	Typically deliberate
Where manifested	Typically at the "periphery" of the organization	Almost always involves the "core" of the organization

Adapted from Pinto, Leana, and Pil (2008)

## **Ethical decision making**

- How various stakeholders are likely to be impacted by the decision is taken into consideration at the time the decision is taken (i.e. not ignored and not an afterthought).
- Neither a legal nor a societal norm is violated when making the decision (intent) and legal and societal norms violations are an unlikely outcome of the decision.

## **Unethical decision making** (intentional or unintentional)

- The decision will possibly or likely lead to one or several categories of stakeholders to be abused or harmed.
- One or several legal or societal norms are violated when making the decision and further legal and societal norms violations could or will occur as the decision is implemented.

# Excuses to justify unethical decisions making

**“It is legal” “We were well within our rights” ...**

- The traditional excuse is to argue that no laws have been broken, no criminality has taken place, and therefore there is nothing to debate or complain about.

**Plausible deniability** (and, why not, find a scapegoat if possible)

- See [https://en.wikipedia.org/wiki/Plausible\\_deniability](https://en.wikipedia.org/wiki/Plausible_deniability)
- Management was not involved in that, it is against our core values, a ‘few bad apples’ did that, etc.

**“Nobody could have ever anticipated that”**

- There is no unethical intent nor unethical decision since the outcome of the decision could not have been foreseen.

**Etc, etc...** (but increasingly the public no longer buys any of that)

## The story in brief

- In 2014 BNP Paribas (a large French bank) pleaded guilty to criminal charges and was fined almost \$9 billion.
- It falsified transactions for about \$190 billion (mostly with Sudan) to conceal them from the scrutiny of US regulators.

**Task** (15 minutes maximum – OK to discuss with neighbour)

- Read the three-page article from The Economist;  
<https://search-proquest-com.ezproxy.lib.ucalgary.ca/docview/1543324125?pq-origsite=summon>
- From the article, determine how many criteria are met in the “Unethical behavior versus unethical decision-making” table;
- What ‘excuse’ is mentioned in the article?
- Is a change of societal norms mentioned in the article?

- At the request of United, a passenger was forcefully removed by airport police from the aircraft – the video went viral.
- The next day, the CEO of United sent an email to staff stating that employees "**followed established procedures**" and called the **passenger "disruptive and belligerent"**.
- This created a PR nightmare for United, so the CEO changed tack and went on TV networks to apologize.
- Over the following three weeks United introduced 10 changes to insure such incident never reoccur again.

**Task** (video: <https://www.youtube.com/watch?v=VrDWY6C1178> )

- What was the nature of the excuses initially provided?
- Why the public was so incensed and its reaction so swift?



## Diesel engines

- More fuel efficient than gasoline engines;
- Cost more to manufacture than gasoline engines;
- Can pollute way more than gasoline engines.

As a car manufacturer of diesel engines, how do you balance:

- Performance (power and acceleration), fuel efficiency (liter by 100 kilometer), pollution (CO<sub>2</sub> and NO<sub>x</sub> per kilometer), durability and manufacturing cost.

Several manufacturers apparently ignored pollution... by using 'defeat devices' to defeat air pollution test and certification!

- See [https://en.wikipedia.org/wiki/Diesel\\_emissions\\_scandal](https://en.wikipedia.org/wiki/Diesel_emissions_scandal)
- See <https://www.youtube.com/watch?v=CQ4irwe3ZDk>

# Diesel emissions scandal

