

Ethical Issues in Human Resource Management

**HRD 327
Claremont Graduate University
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Class times: 7:00 to 10:00 on Wednesday evenings from March 26th to May 7th
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Introduction

Wikipedia, defines ethics as

"...a study of values and customs of a person or a group. It covers the analysis and employment of concepts such as right and wrong, good and evil, and responsibility."

The names of the most recent corporate villains could fill this page, and now they are going to jail! The questioning of their actions could fill a library, and their actions do imperil a nation; truly a world epoch has been soundly shaken. Throughout the history of the United States, businessmen and, recently women, have been called to task. As a nation we are increasingly divided about market capitalism and free enterprise. Over the past twenty years we have seen deregulation come, and now the pendulum swings the other direction yet again. A famous Chinese curse reads: *May you live in interesting times!* No times are more challenging and interesting than the one's we live! And within today's business arena, ethics are both important and vital if one is to succeed over the long haul.

The complexities of business and our human/social society makes corporate ethics a very interesting study. To a practicing manager in the working world today, this becomes critically important, especially if they don't get it! And many obviously have not and still do not.

The questions are really simple to ask - yet hard to answer:

*What does good business today really mean?
What does ethics have to do, if anything, with good business?
What impact can the human resource function have on either?
Within business, what is my responsibility as a human resource professional?*

During this nation's past, business ethics have wrought some of the most heated debates. (One could even argue that our Civil War was in a large part due to business ethics.) No doubt free markets and capitalism has benefited our nation. However, the cost has been great. Consider the ethics of cigarette manufacturers, nicotine and their advertising — not to mention the false and misleading testimony of several leading executives before congress; the Ford Motor Company and the Pinto, Bronco, and Explorer; General Motors and its fuel tanks in its pick up trucks, Al Dunlap and Sunbeam's sales and marketing scandal and Sunbeam's subsequent bankruptcy; the drop in value of Countrywide Financial due to its sub-prime lending practices; the housing loan debacle in general; Japanese bureaucrats and Lockheed's bribery transgressions; and Johns Manville and its handling of asbestos. (The readers will kindly note that this is all old news! No; the latest batch of troubled executives did not invent this stuff, although the dollar amounts are much larger.)

What about the monopoly charges brought against Microsoft—not to mention its movement into windows with a product remarkably similar to Apple's operating system; Sears and its auto repairs problems; Nike and IKEA, and their international labor issues; ValueJet's skimping on costs involved in airline safety;

General Electric and its river pollution problems; GE and Westinghouse's antitrust action in turbines; Wal-Mart's aggressive growth strategy and the loss of small town businesses; Wal-Mart and its labor and legal practices; and Wal-Mart with its "Buy America Program." Now here comes Enron, Arthur Andersen, Global Crossing, Tyco, Martha Stewart, Disney (remember its privacy practices and guest safety issues), Adelphia, Rite Aid, Nordstrom, the dot com bubble, Xerox and its large restatement of earnings, ditto Lucent, and who could forget Krispy Kream donuts?

There is a point here. Bad ethics isn't necessarily new, but there does seem to be more problems that are even bigger today than yesterday. These issues can be national news, but they can also permeate even small organizations, causing irreparable harm. This is where sound human resource (HR) development and systems become important so that HR leaders can strategically support the organization for the good of the organization itself.

There is a fundamental reality that seems to have escaped our notice:

Ethical issues are important, and ethical violations are not all that uncommon.

Think about your own encounters with rude sales people, telephone service sales solicitations, product defects, and other day-to-day encounters. Much of this does not make it to the nightly news, but ethical transgressions are quite common in today's society. Think about your work life. Does senior management truly respect you and your co-workers? Who gets blamed when problems arise? Are you surprised when important decisions are announced? Are you involved in discussions about strategically important problems, opportunities and questions? Ethics do not necessarily involve the big transgression all of the time. They can be the result of hidden forces that many times we don't even see. They are so common that we often take them for granted, almost. How often do we take action and don't even think that there is an ethical point to consider?

Ethical issues in the workplace are often invisible.

Publicly there is general consensus that managers should not violate laws. After the summer of 2002, it should be pretty clear that it makes no sense to knowingly break the law. Obviously, the executives at Arthur Andersen were foolish to shred those documents and the chief accountants at MCI WorldCom were wrong to book current period expenses as capitalized assets. Certainly, Enron's income recognition problems and off-balance sheet "Special Purpose Entities" was clearly inappropriate—as was their loans and dealings outside the United States. The answer to those that participated was a resounding "no". In *all cases*, the managers involved made a case that they "believed" their actions and "ethics" were within current social standards. These people share they didn't "knowingly" cross the line. Have you experienced people in your career and organization that would say the same?

One could argue that the fundamental mistake by the above executives was getting too close to a line that isn't clearly visible, even moves over time. Golden State Fence and Koch Foods may argue that they were not aware of those people working for them were brought in without valid right-to-work documents. However those employees at Citigroup, UPS, IBM, 24 Hour Fitness, Sears, RiteAid, Starbucks, Mervyns, Farmers Insurance, Longs Drugs, arguing for overtime wages after finding out they were misclassified as a "salaried" exempt employee do indeed "get it!"

Let's recap:

- ethical violations are not new but their size and frequency seem to have escalated dramatically,
- ethical violations can be both big and small within an organization or penetrating our society, and
- ethical violations can occur without the actor even knowing that it happened as values and standards may be unclear and because change.

And there IS much, much more: ethical issues are clearly both tenuous and complicated for all parties involved...and with a heavy price for the now defensive HR professional, the employee victims, the shareholders, and the organization itself.

Ethics sometimes fall by the wayside when organizations do not have a solid value-based culture starting from the top and working its way down. When this occurs, it is typically HR that is called to get involved. Issues such as sexual harassment toleration, knowingly hiring illegal immigrants, violation of privacy, biased performance reviews, wage and hour violations for the sake of saving overtime dollars, terminating whistle-blowers for reasons totally unrelated to performance, and tolerable discrimination. Lying for the sake of personal, corporate and shareholder gain. When is enough, enough? ...or is it ever?

It appears that an underlying theme in all HR-involved workplace issues is a management culture that fosters ethical ignorance – or at the very least knowingly allows an action to happen – even when the organization flaunts a Code of Ethics.

Ethical and moral issues are complex. Thinking through whose interest are involved and what consequences your actions, or lack there of, might have on them—the shareholders, employees, customers, guests, and public is not easy. As an HR professional, you might think that your decisions and actions are appropriate if nothing is done, as many at Arthur Andersen and Enron did, and presumably still do, but the final call isn't any individuals to make. Ethics is both a corporate and societal issue, easily becoming a legal and criminal one as well.

So who pays the price?

The negative effects of ethical violations within an organization can be enormous. Energy levels at work drop, gossip and rumors abound, attendance floats, turnover excels, clients lose trust, and profits decrease to the point of extinction.

Due to the nature of the position, the HR department is usually right in the middle. Decisions need to be made. HR determines, with or without a strategy yet within their worldview, if they will support “what is right” or “turn their head.” You now have to decide quite rapidly which side of the fence you are on, knowing it could cost you both your job and professional reputation. One is forced to ask; how will you make your decisions? What will your decisions be based upon?

Within the process someone usually gets hurt economically, but don't overlook the physical and psychological impacts as well. Morale can be destroyed overnight and productivity becomes non-existent when a manager is known to have violated the company Code of Ethics or values for the sake of selfish and personal gain. Enron's bankruptcy has had enormous adverse affect upon its employees and its many investors, the actions of executives within Johns Manville led to the death of many of its hourly workers, and Pacific Gas polluted the ground water and injured its neighbors. This is so obvious that it need not be carefully considered here. What is interesting is how the ethical violation injures, one way or another, every person that has contact with the situation. In other words, ethical violations are likely playing with hand grenades or worse. (dirty bomb is probably a better metaphor, as people get hurt when it goes off and its effects last a long time.)

How the ethical violation hurts the transgressor is easy to see. Penalties are often felt immediately. One is presumed guilty and the penalties come before the sentencing. Arthur Andersen was virtually out of business as customers and employees started to bolt long before the judge rules that only one executive's actions could be grounds for finding guilt. Disney's park attendance has been off every since revelations surfaced about it preventing emergency care people on to the park facilities to help injured guests. Ethical violations must be pursued, even if the actor is found guilty on a lesser charge. Think about Al Capone. We got him for tax evasion, not murder. Arthur Andersen was found guilty, barely, for destroying documents, not for its high risk accounting treatments and lax oversight. If you are accused of an ethical violation, the power flush is on. Does Martha Stewart's name come to mind?

The final loser in the ethical mess of today's 21st century age is no doubt society. We can think of it as social pollution. Corporate transgressors cause enormous loss for future generations. Some issues are small and ripples in society, others shout greatly and bring tidal waves of repercussions. Economic systems work best when they are supported by the rule of law and customs and practices based upon reciprocity.

We cannot do business as a culture if trust is lost, values have no meaning, and everything has to be solved through litigation. Good reputations and solid ethical decisions in business create value. However, the “cost of doing business” increases dramatically due to negative opportunistic behavior as productive resources are devoted to defensive purposes. Ethical violations result in new laws and new regulations. Ultimately the result is more constraints, low morale, a decreased attitude of caring, and a loss of a productive workforce.

To close...

Who has resting on their shoulders the role of ethics guardian and monitor for today’s enterprise? It is the person most passionate about supporting and growing the employees’ within. Like it or not, it is the human resource professional. And it is a responsibility that one can succeed only with a grasp and clarity of his/her worldview, a focus on one’s beliefs, and an understanding of the role Human Resources plays in today’s business issues and ethics.

We should be headed for a very exciting time together this spring. I expect that you will live up to the excellent academic tradition of CGU. Have your readings done before class, take an active roll in class discussions, and treat one another with dignity and respect. It is an honor to grow with you. I have a great deal to learn and look forward to sharing this experience with you.

Reading Assignments

Joseph Badaracco, **Leading Quietly**, Harvard Business School Press, 2002

Marvin T. Brown, **Corporate Integrity: Rethinking Organizational Ethics and Leadership**, Cambridge Press, 2005

Cases and additional readings: **www.study.net**

Plan on allocating at least six hours a week to read and consider the assigned materials that include texts, presentation materials, and case readings; your “reading” time should equate to two hours for every classroom hour. The reading assignments will prepare to actively engage in the classroom discussions.

Contribution and Evaluation

There are two Contribution and Evaluation Components core to this class.

1. Class Participation accounts for 50% of your final grade. This means that you should, complete the readings, attend every class, and actively participate in classroom discussion. If you attend every class but are not prepared or do not participate the highest grade you can achieve will be a “C”.
2. The Final Course paper accounts for 50% as well. Final papers needs to be submitted by May 14th via e-mail to myself. The paper should be seven to ten pages in length, double spaced, 10 point Ariel font, MS Word format, and should be written so that the student’s mastery of the course material is clearly visible. E-mail it to ron@sraonline.net.

Within your paper you will either: **a-** recount a personal experience; or **b-** read and use one of 2 cases listed below and, using the course and what you have learned, think through what happened, what you and your (the) organization did, and how you (HR) might have behaved differently, listing the various options reasons and possible outcomes.

Optional case for final paper (both found at study.net):

The Memo Every Woman Keeps in Her Desk,

or

Timberland: Commerce and Justice

Schedule of Classes:

| <i>session</i> | <i>topics</i> | <i>assigned reading & assignments</i> |
|---|--|--|
| Session I March 26 th | Course Introduction Worldview Development Case Study <ul style="list-style-type: none"> Gender Discrimination and Ann Hopkins | Corporate Integrity – 1 Constructing Your Personal Worldview Ann Hopkins – A Due Session II: Without your name on the paper, turn in a paper summarizing your personal worldview |
| Session II April 2 nd | Moral Mazes HR's Role in Ethics Policy and Plans Case Study 1 – <ul style="list-style-type: none"> Moral Ethics and IKEA | Leading Quietly – 1 & 2 Corporate Integrity 2 IKEA's Global Sourcing Challenge –A Wal-mart Mexico – Teens at Work Optional: 2003 Business Ethics Survey - SHRM 2007 National Ethics Survey Managing to be ethical: Debunking five business ethics myths |
| Session III April 9 th | As an HR professional, how ethical are you? Case Study 1 – <ul style="list-style-type: none"> Pregnancy and Michelle Levene | Leading Quietly – 3 & 4 Corporate Integrity – 3 Michelle Levene – A |
| Session IV April 19 th | Compliance and the Law Whistle blowing Immigration Sexual Harassment Case Study 1 – <ul style="list-style-type: none"> ZERO Tolerance Policies Case Study 2 – <ul style="list-style-type: none"> Termination and Ron Perez | Leading Quietly – 5 & 6 Corporate Integrity – 4 The Reign of Zero Tolerance Ron Perez - A |
| Session V April 23 rd | Corporate Ethics Executive Ethics and the challenges HR faces Case Study 1 – <ul style="list-style-type: none"> Writing and Following a Code of Ethics Case Study 2- <ul style="list-style-type: none"> Performance and Terminations | Leading Quietly – 7 & 8 Corporate Integrity – 5 Martin Marietta; Managing Corporate Ethics – A Two Tough Calls – A The Ethics Squeeze – HR Magazine March 2006, vol 51, No 3 Executive Discipline – HR Magazine August 2005, vol 50, No 8 Optional: A Guide to Developing Your Code of Ethics |
| Session VI April 30 th | Whistle-blowing Public Policy violations Hidden information Case Study 1 – <ul style="list-style-type: none"> The Whistle-Blower | Leading Quietly – 5 & 6 Corporate Integrity – 6 The Case of the Willful Whistle-blower |
| Session VII May 7 th | Managing Crisis You Try to Prevent Case Study – <ul style="list-style-type: none"> Poor communication & no one listens | Corporate Integrity – 7 Donna Dubinsky and Apple Computer, Inc. – A Due next week via email: Your final paper |

Special thanks to my good friend and colleague, Dr. Jeff Decker for his support and contribution to this material.