

OPERATIONALIZING ETHICS IN BUSINESS SETTINGS

Case Example 2: Phantom Expenses

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After completing her sales and ethics training with her new employer, a major appliance manufacturer, Jane Adams was assigned to work as a trainee under Ann Green, one of the firm's most productive sales reps. At the end of the first week, Jane and Ann were sitting in a motel room filling out their expense vouchers for the week.

When Jane remarked to Ann that her training had stressed the importance of accurately reporting expenses, Ann launched into a long explanation of how the company's expense reporting procedures resulted in underpayment of the actual costs the reps incurred. She informed Jane that all the East Coast sales people made up the difference by padding their under \$25 expenses, which did not require receipts. Their rule of thumb was to inflate total expenses by 25 percent. When Jane questioned whether that was honest, Ann said that even if the reported expenses exceeded actual expenses, the company owed them the extra money, given the long hours and hard work they put in.

Jane said she did not believe that reporting fictitious expenses was the correct thing to do and that she would simply report her actual expenses. Ann responded in an angry tone that to do so would expose all the sales reps. As long as everyone cooperated, the company would not question the expense vouchers. However, if one person reported only actual expenses, the company would be likely to investigate the discrepancy between her expense level and those of the others, and the other sales reps could lose their jobs. She appealed to Jane to follow the agreed-upon practice. They would all be better off. No one would lose his or her job. And besides, Ann told her, the company does not really need the money. They are very profitable already.

Should Jane pad her expense report like the other sales reps do?

IS THERE AN ETHICAL ISSUE HERE? THE SMELL TEST

Introduce the test: "What would it smell like if we read about it in a newspaper or a blog?"

Validity: Why is this principle a valid guide to identifying ethical issues? If they are living in an ethical society, then they should not be embarrassed if others knew what they are doing. Ethical actions should withstand the glare of publicity.

Application: Anne and the other reps do not want their actions publicized because they are concerned that others will think they are lying or stealing, both of which the society would condemn.

Conclusion: Padding is not ethical because the reps would not want it publicized. They would be willing to have accurate reporting of expenses publicized.

II. THE UTILITY TEST

Introduce the test: “Are we maximizing good and minimizing harm for all those affected?”

Validity: Why is this principle a valid guide to conduct? Since everyone is equal and everyone wants to be happy, we should try to maximize happiness for all affected.

Application: The stakeholders affected by this decision will be Jane, other sales reps, other employees, managers, and owners. Short term (ST) padding will give Jane and the sales reps extra money while taking it away from the other stakeholders but the reps can't claim higher marginal utility for this money than the other stakeholders would get. Long term (LT) they may be caught and punished and Jane may feel guilt for violating her ethical principles. Not padding will keep Jane safe and guilt free, will give more money to the other stakeholders, and will encourage respect honesty among employees, but may get the other workers fired which would harm them and may harm the company ST until it can rebuild the sales force. Since utility seeks to maximize happiness, Jane may want to consider a third alternative of agreeing to follow the padding practice once but putting the other reps on notice that she will file accurately after that. The loss to the other stakeholders will be small but will give the other reps time to change their practices to avoid being fired and allows Jane to follow her principles and LT will strengthen respect for honesty in the company. If the cost to Jane's self-esteem for violating her principles even once was high and if the other stakeholders suffered greatly (say the sales reps were taking hundreds of thousands in extra expenses each month) then the third alternative would not maximize happiness.

Conclusion: Compared to Alternatives (1) and (2), Alternative (3) maximizes the happiness of Jane and the other stakeholders while minimizing harm to the other sales reps.

III. THE RIGHTS APPROACH--THREE TESTS (RIGHTS, EXCEPTIONS, & CHOICES)

A. THE RIGHTS TEST

Introduce the test: “Are we respecting the rights of those affected?”

Validity: Why is this principle a valid guide to conduct? Persons deserve respect because they have value in themselves. Rights are what they need to have an existence that expresses that value. If I recognize value in myself and I claim to have rights that recognize or protect that value, then unless I can show that others are different, they should have the same rights that I have.

Application: Those whose rights may be violated are Jane, other sales reps, other employees, managers, and owners. The company has a legal right under its employment contract to have honest reporting of expenses. The owners of that company also have a fundamental human right to the property the reps are taking from them. The owners have a right to their property because they (or their ancestors) created that property by their labor and it would damage their dignity and self worth to have it taken. (Note that the amount taken in this case may be small enough not to be a serious threat to their freedom and well being, nor is it a serious violation of the owners' dignity and self-worth, but it is a violation.)

Conclusion: There is a violation of the owners' right to their property but not a serious violation if the amounts are small. Rights would not be a strong indicator in this case.

B. THE EXCEPTIONS TEST

Introduce the test: "Are we making an exception for ourselves? What if everyone did it? What if they did it to us?"

Validity: Why is this principle a valid guide to conduct? If everyone is equal, why should some be able to do what others can't do?

Apply the test: (1) **Specify the action:** Padding is the questionable practice being considered.

(2a) **What if everyone did it? Would it become impossible for anyone to do it?** If everyone padded, the companies would discover the practice and outlaw it by requiring receipts for all expenses or doing away with expense accounts, so padding would become impossible if everyone did it. Raising the level of generality in describing the questionable practice, padding is a form of lying, which is impossible if everyone does it because if everyone lied, no one would believe what anyone said, so no one could lie successfully. The action could also be described as taking what does not belong to them or stealing which is also impossible if everyone did it. Not padding can be done by everyone, and padding but giving notice can be done by everyone if described more specifically as "padding only once to save the harm done to others who need time to correct their past mistakes."

(2b) **Would it be unacceptable to us or to the company if everyone did it?** The sales people would not want to live in a world in which financial reporting was not accurate. No one could trust anyone else's figures and everyone would live in fear that they were not getting treated the way they deserved. The sales people and the

company would find it acceptable for a person to act unethically once (by padding) if the harm is not great and doing so would prevent a much greater harm such as the whole sales force being fired.

(3) Conclusion based on everyone doing it: padding once seems to be the most ethical action in the situation.

(4) **What if they did it to us?** The sales reps would think it was unethical for the company to withhold pay from them without their knowledge. So padding is unethical.

Conclusion: Padding would be impossible and unacceptable if everyone did it and they would not want it done to them so it is not ethical for Jane to pad her account on an ongoing basis but it would be ethical for her to do it once and put the other sales people on notice.

C. THE CHOICES TEST

Introduce the test: “Are we letting others make their own choices?”

Validity: Why is this principle a valid guide to conduct? If everyone is equal and everyone knows what they value, why should some be able to choose for others?

Application: Those affected who may need information and freedom to choose what they value are Jane, other sales reps, other employees, managers, owners.

(1) **Are we giving others the freedom to choose?** All the other stakeholders are free to act—the sales reps are not coercing or forcing them to pay the extra. However, padding is not **respecting prior choices** by the company to pay only actual expenses and by the reps to accept employment for the pay offered.

(2) **Are we giving others the information to know what they value** in this situation? By padding their expenses the reps are hiding information the company needs to know to decide whether they want to pay them the extra money or not in order to keep their services as sales reps. By padding, the reps are renegotiating the terms of their employment without the company knowing it. So padding is unethical.

Conclusion: So padding is unethical because it denies information and violates prior choices made by the reps whereas not padding and padding only once provide the needed information for the company to choose according to its values and respect the prior choices.

IV. THE JUSTICE TEST

Introduce the test: “Are we insuring a fair distribution of benefits and burdens?”

Validity: If everyone is worth the same, then everyone should receive a fair share. Treat equals equally and unequals unequally. The default fair distribution is to distribute equally since all are worth the same but in some circumstances the fair distribution could be based on effort, accomplishment, contribution, need, seniority, contract, or relationship. What would be most fair? We need to explain to which distribution scheme is fair in each situation.

Application: (1) **How are the benefits and burdens distributed?** Those who may have benefits and burdens that should be allocated fairly are Jane, other sales reps, other employees, managers, and owners. The reps seem to be getting the benefit of extra pay while the others have the burden of fewer resources.
(2) **Is this distribution fair?** The sales reps claim that the extra pay is fair because they work very hard (extra pay for extra effort) and because their actual expenses are higher than the reimbursement systems allows them to report (equality). These arguments might persuade the company to pay them more but they have no way of knowing how hard other workers work. By taking the extra pay without the company's knowledge, the sales reps are exercising an unequal share of power in wage negotiations and are taking an unequal share in relation to other workers who do not have expense accounts that they can pad for extra pay.

Conclusion: Padding expense account gives the sales reps an unequal advantage in wage negotiations. They may claim they deserve the extra pay but cannot prove that they do unless they actually negotiate openly with the company and allow other workers to do so also. They are maintaining an unfair advantage over the company and their fellow workers who do not have expense accounts. All workers should have an equal chance to negotiate.

V. THE COMMON GOOD TEST

Introduce the test: "Are we looking out for the common good in this situation?"

Validity: Since our individual good depends on the common good, we all have an obligation to maintain it.

Apply the test: (1) **What parts of the common good are involved?** Increasing my pay by padding my expenses impacts two important aspects of the common good: the trust that everyone will be honest that lowers transaction costs, and the system of negotiating contracts for wages that is part of the way our economic system functions.

(2) **Why do we have an obligation to promote or protect the common good?** We all depend on the trust that everyone is honest and will honor their contractual obligations.

(3) **Does the proposed action conflict with this obligation?** Padding their expenses, especially if it discovered, will harm the trust in honesty and raise transaction costs within the company and corrode the spirit of unity that binds

employees together in a common enterprise since the sales people are getting special treatment for themselves. The action also harms trust in the fairness of compensation.

Conclusion: Since the sales people benefit as individuals by working in a company and within an economic system that operates on trust, they should not directly harm that trust.

VII. THE CHARACTER OR VIRTUE TEST

Introduce the test: “Does this action represent the kind of person I am or want to be? Does it represent my organization’s reputation or vision?”

Validity: The kind of person I am, and the kind of organization I work in are both important to living a good life and are influenced by the specific actions we do. If we know who we are and aspire to be, we can decide how to act by considering whether an action is something that would be done by the kind of person or organization we want to be.

Apply the test: (1) **Would this action help make you the kind of person you want to be?** If Jane thinks of herself as a person who is honest and trustworthy in her business life, then padding her expense account on a regular basis will weaken her habit of acting according to the pattern set out by these virtues or good ways of acting. Departing from her ideals in small increments makes it easier to take larger steps later. Giving the other reps time to change their reporting practices would strengthen her habit of being compassionate toward others. If she thinks that taking even one action against her ethical principles will damage her character by changing her expectations for herself, she should tell the other reps that she will file an accurate report and that they should change their practices as soon as possible to avoid being discovered by the company.

(2) **Will the action fit the company’s reputation or vision of what it would like to be?** The company has indicated in its training that it aspires to honesty in its employee’s actions. Padding goes directly against those aspirations.

Conclusion: Since padding will weaken Jane’s habits of honesty and trustworthiness and goes against the aspirations of the company, it is unethical for her to pad her expense account. Her habit of compassion may lead her to file one false report in order to give the others an opportunity to reform.

VIII. COMPARE CONCLUSIONS OF TESTS TO DRAW A FINAL CONCLUSION

All of the principles show padding to be unethical. Utility shows that padding once with notice maximizes happiness since it gives the other reps the opportunity to change their behavior in the light of ethical insights provided by Jane and padding

once does not do great harm to the company or to Jane's character. If the anticipated harm to the other reps is great and the harm to the company from her one false report is negligible, Jane may use this utility consideration to soften the conclusions of the Expectations, Choices, and Justice principles to allow for only one instance of padding. This trading of insights among the various ethics tests is part of the practical wisdom that we should all cultivate. We should be conscious, however, that we do this at the apex of a steep and slippery slope. Discussing the tradeoff with wise and experienced others is the best way to overcome the limits of immediate intuition and self-reflection. On this analysis, my own considered judgment is the best action would be to file a padded report but give notice to other sales reps that she will not do it again.