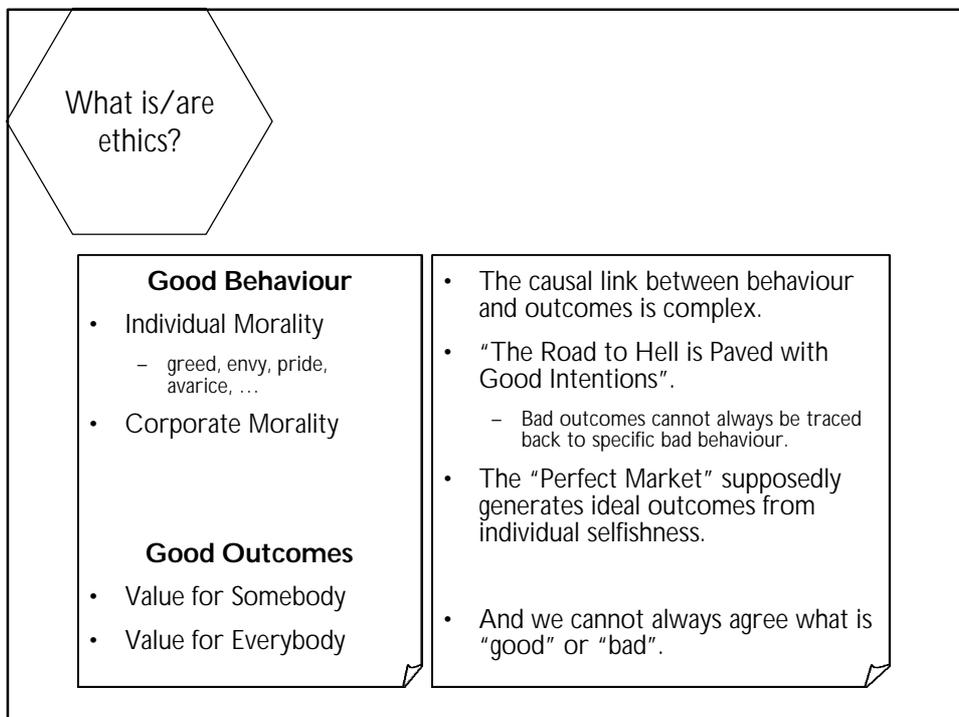
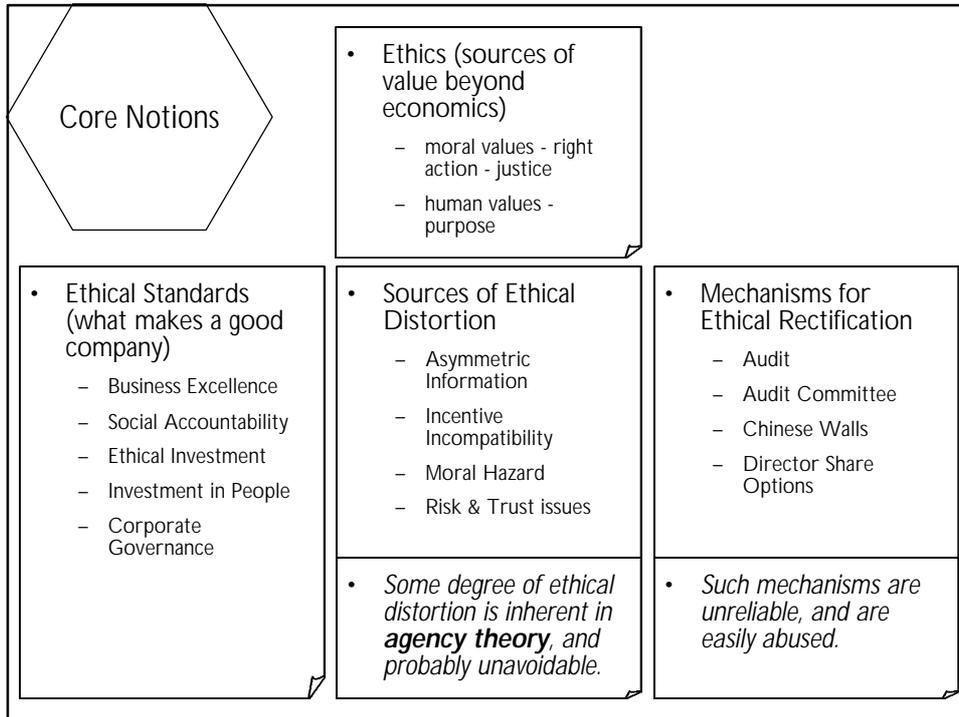
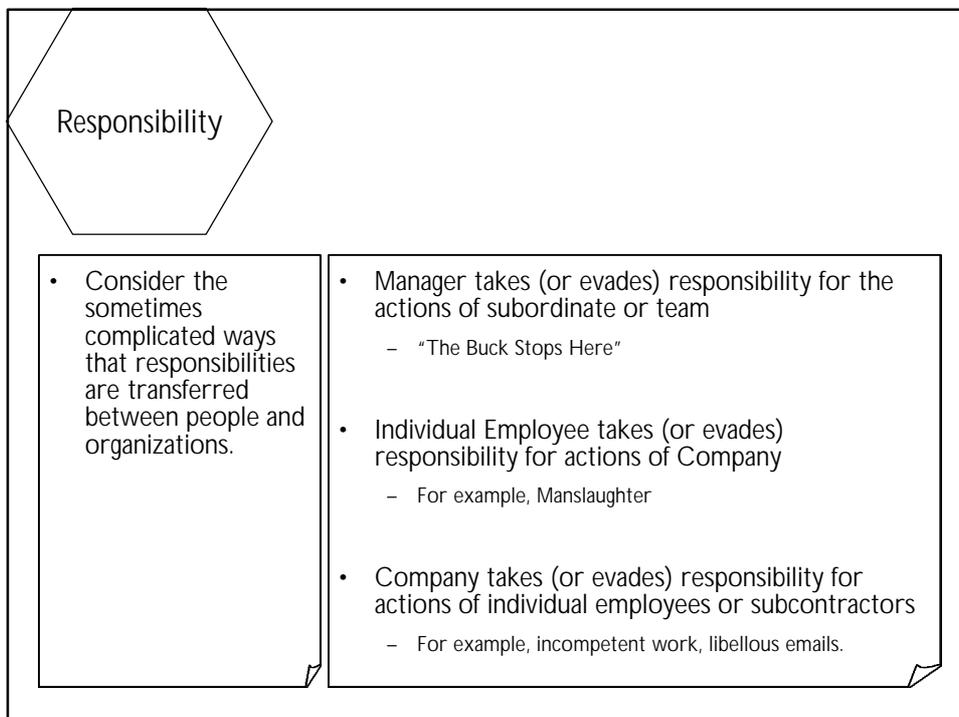
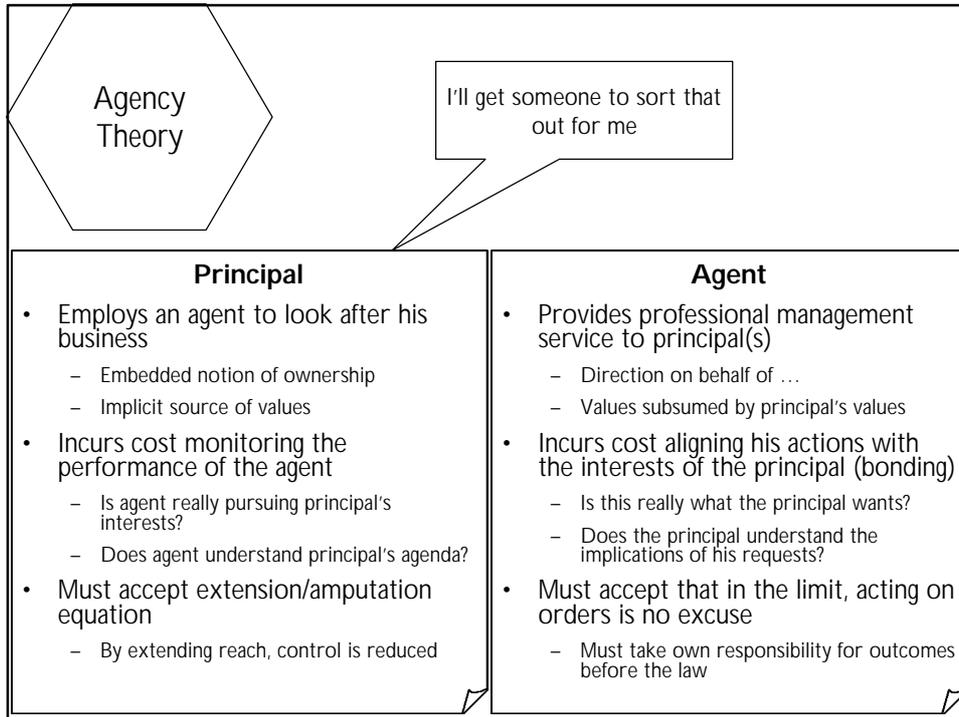
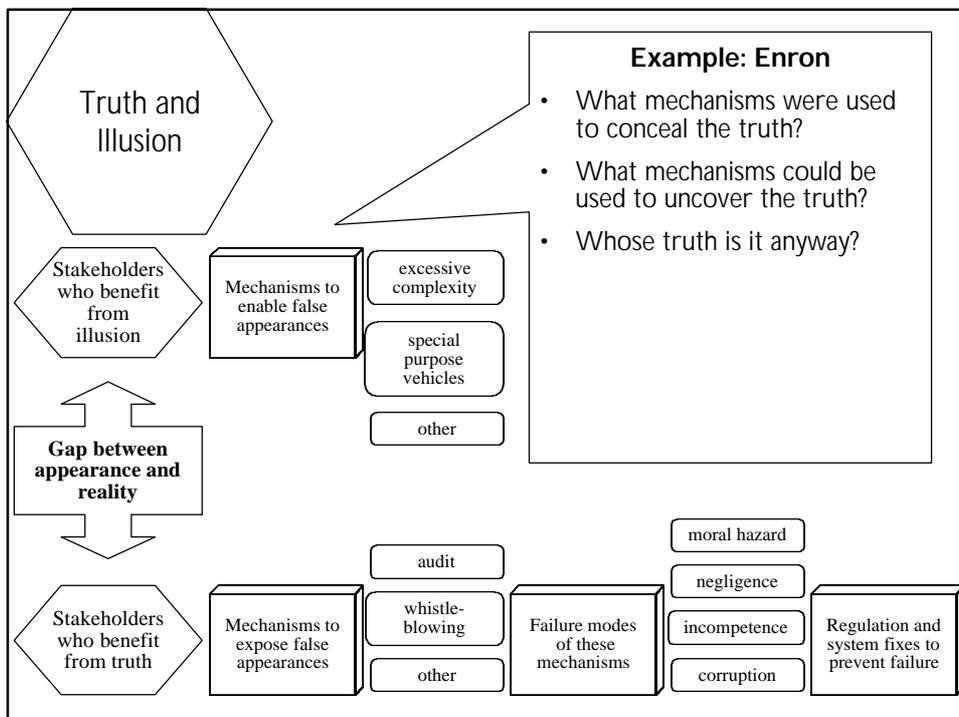
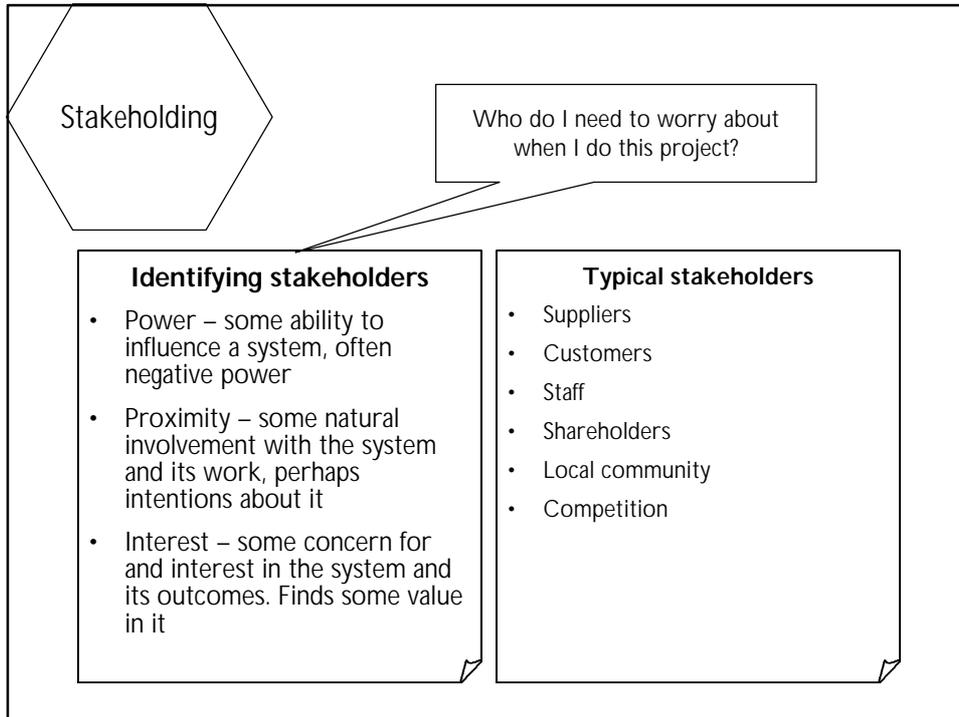


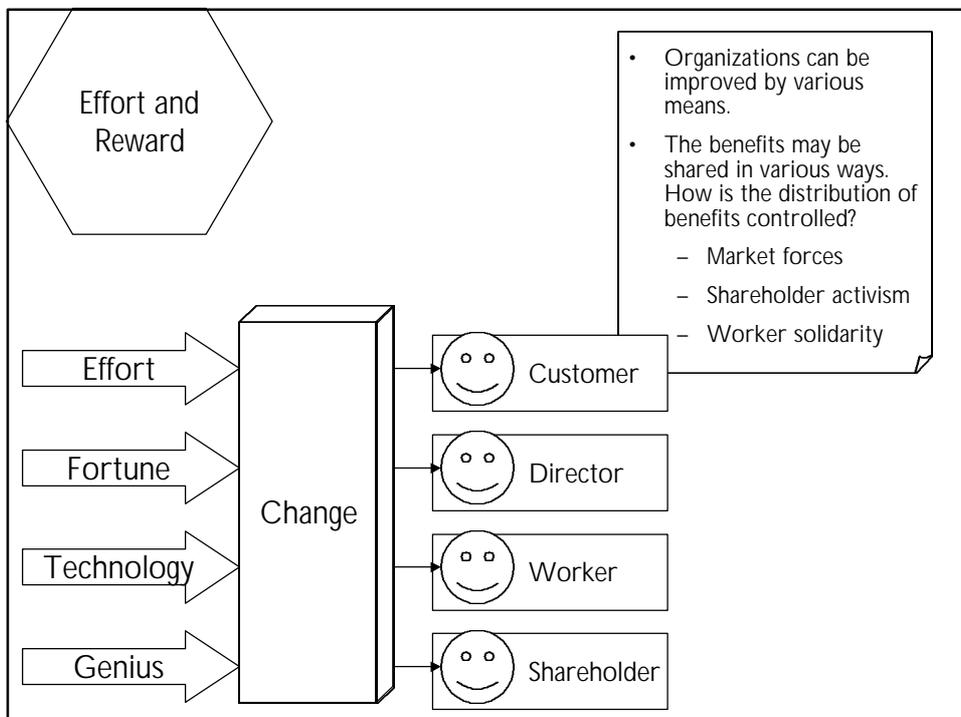
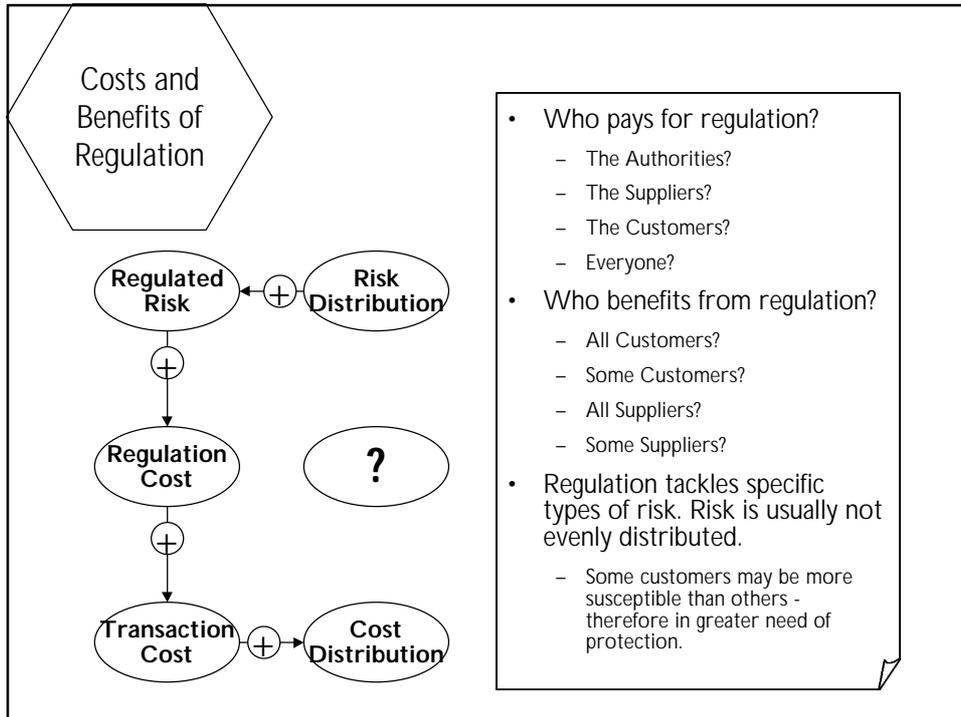
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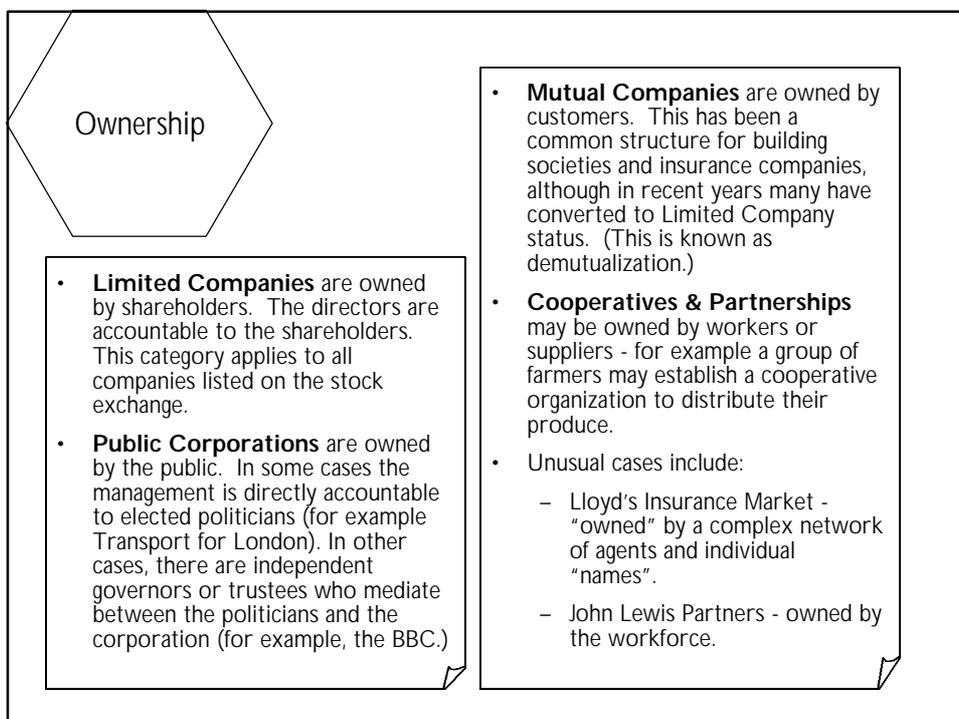
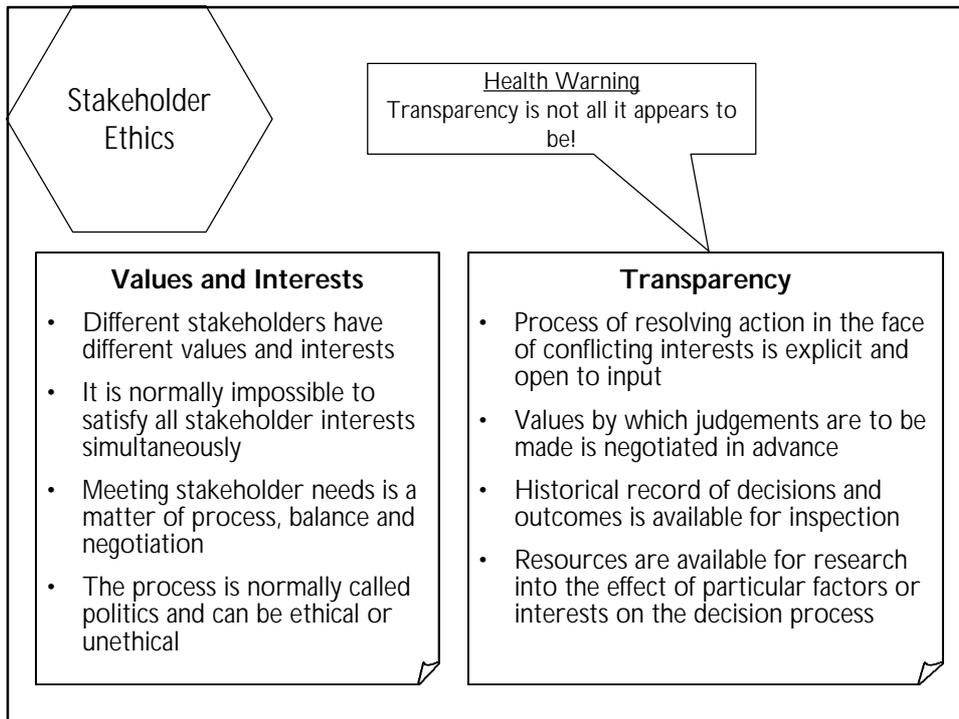
- Core Notions
- Agency Theory & Stakeholding
- What Makes a Good Company?
- Abuse & Ethical Distortion
- Risk & Trust Issues

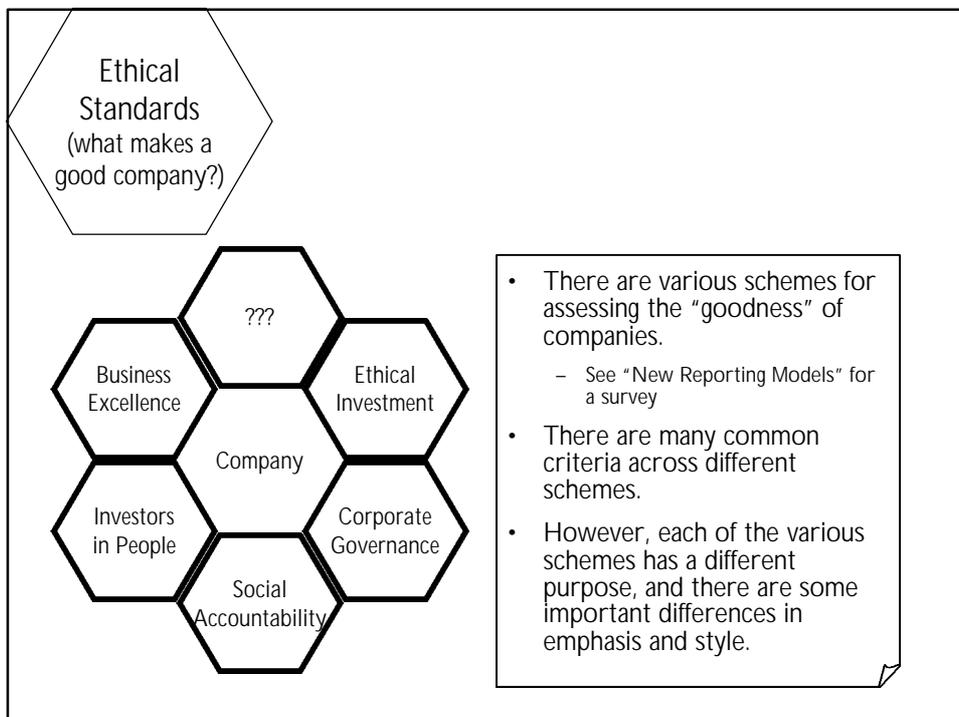
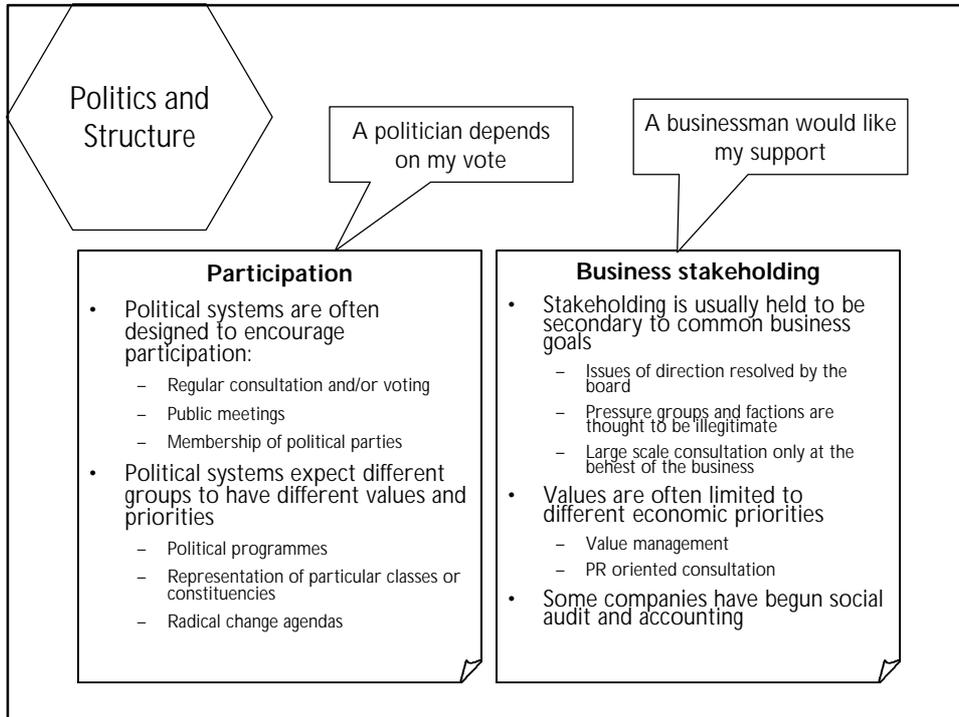


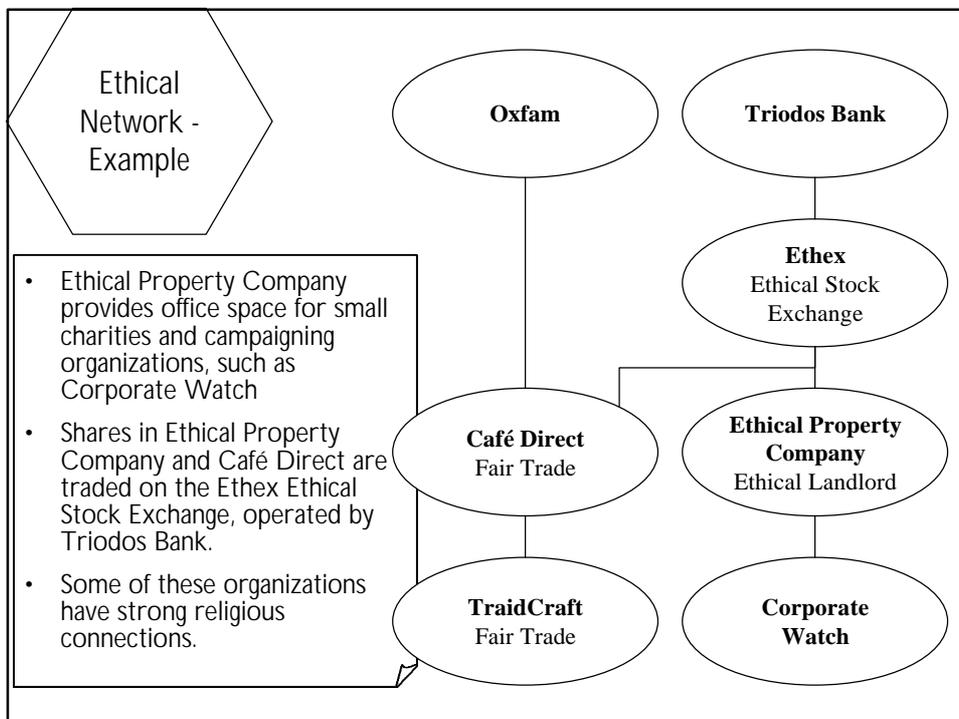
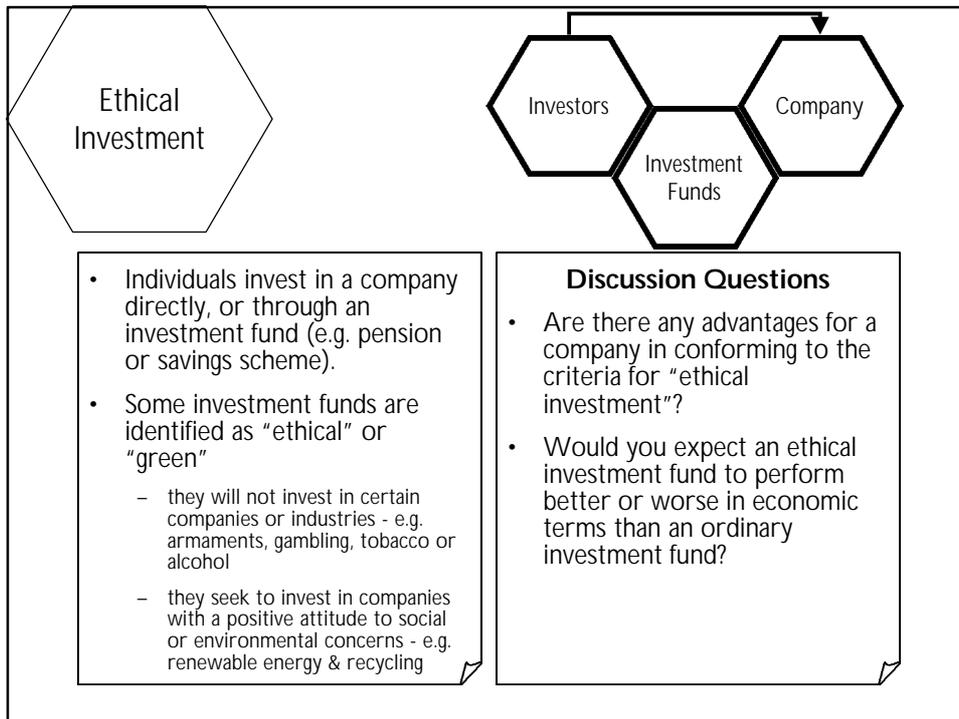


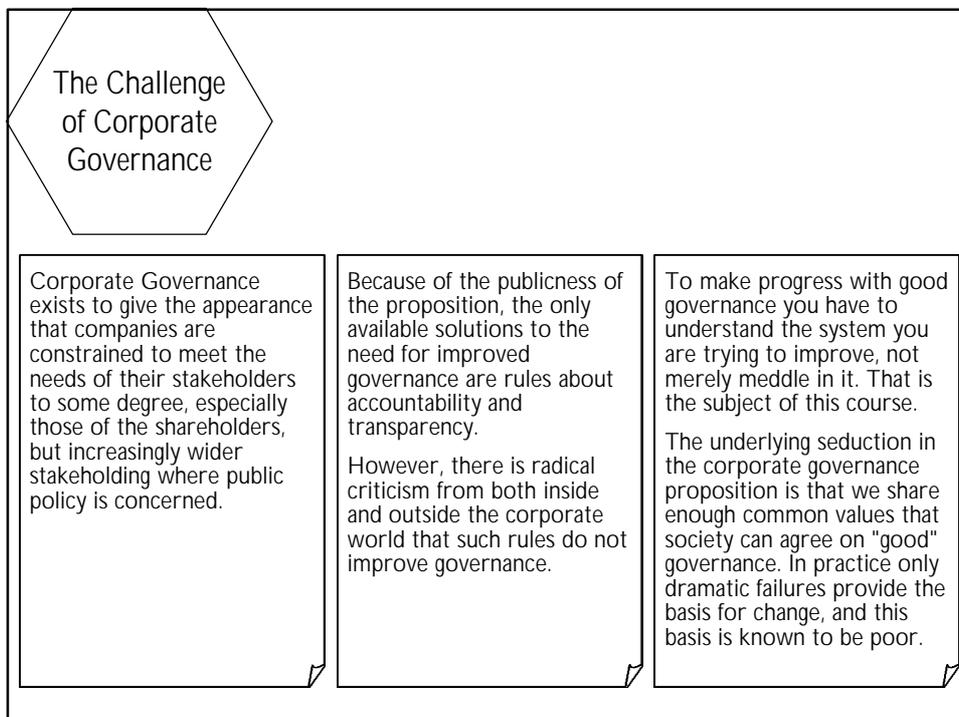
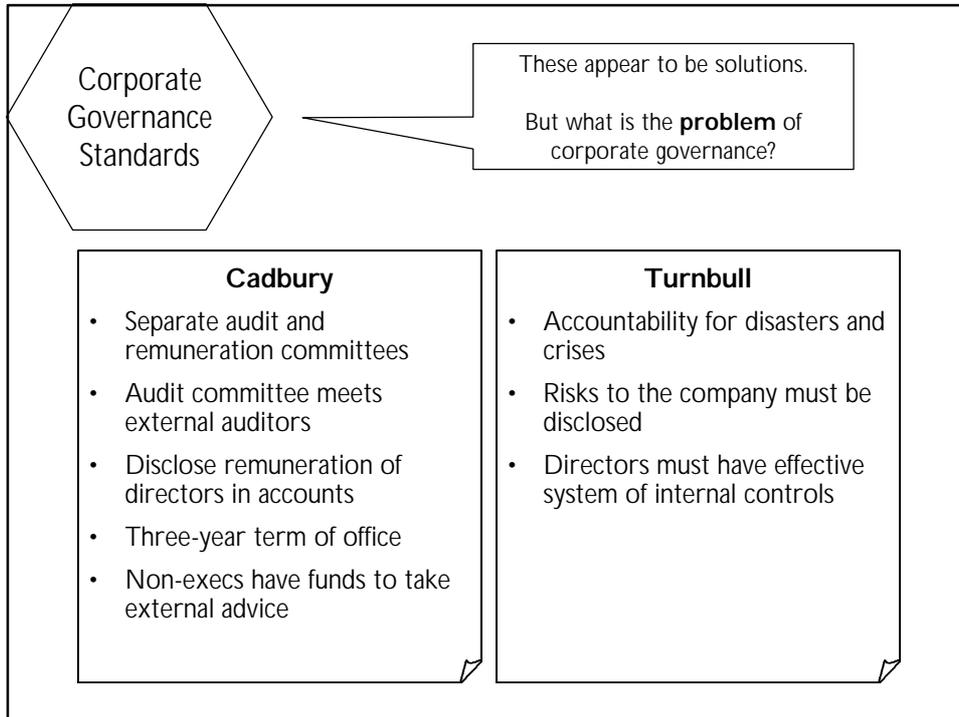


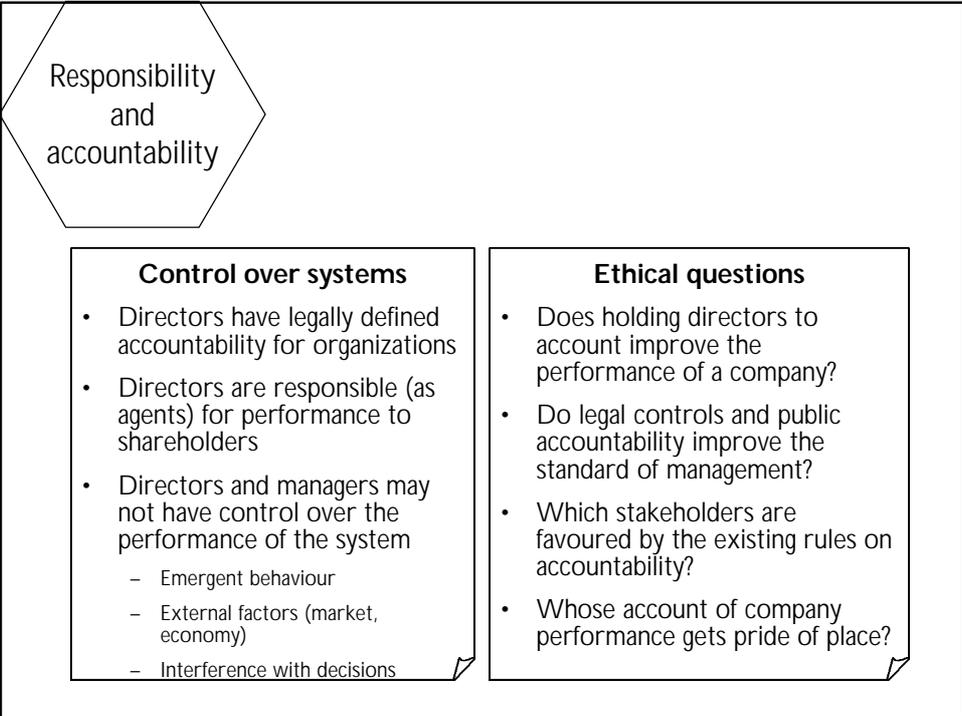
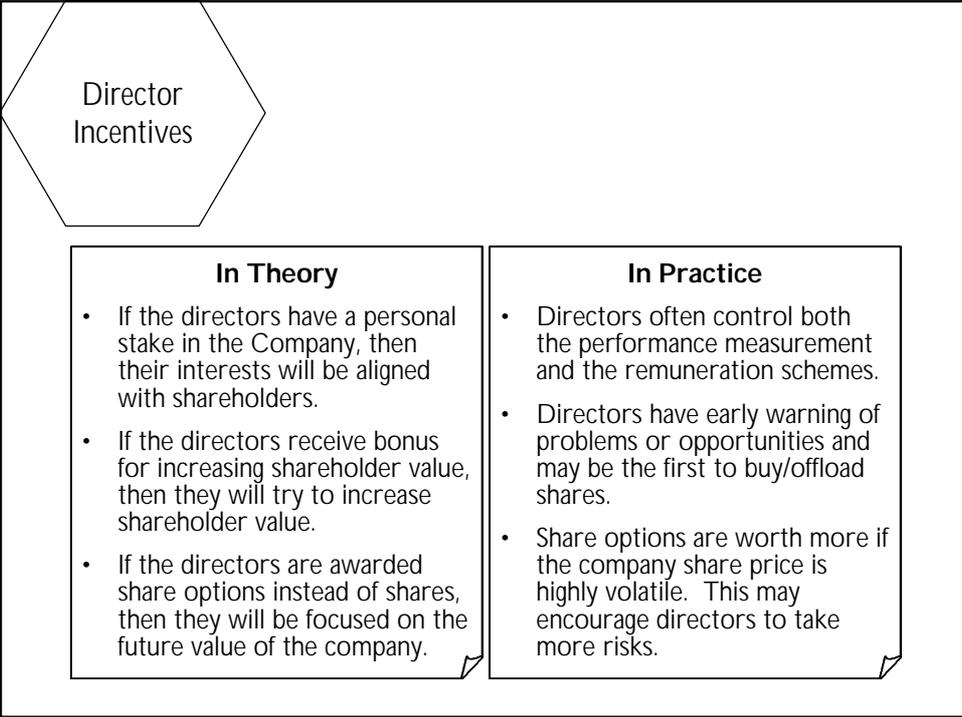


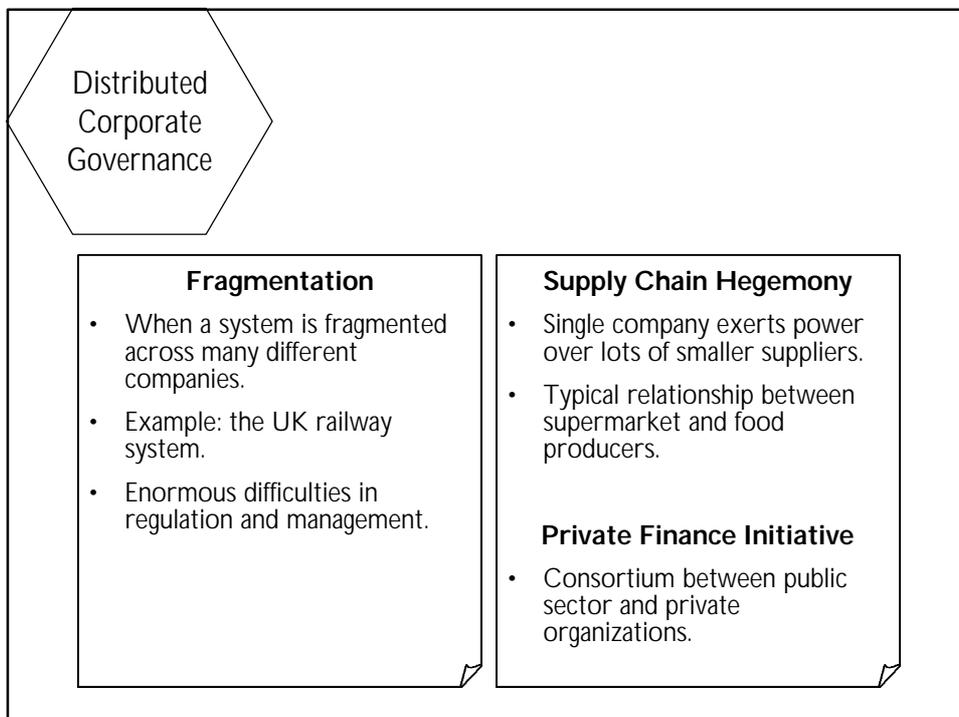
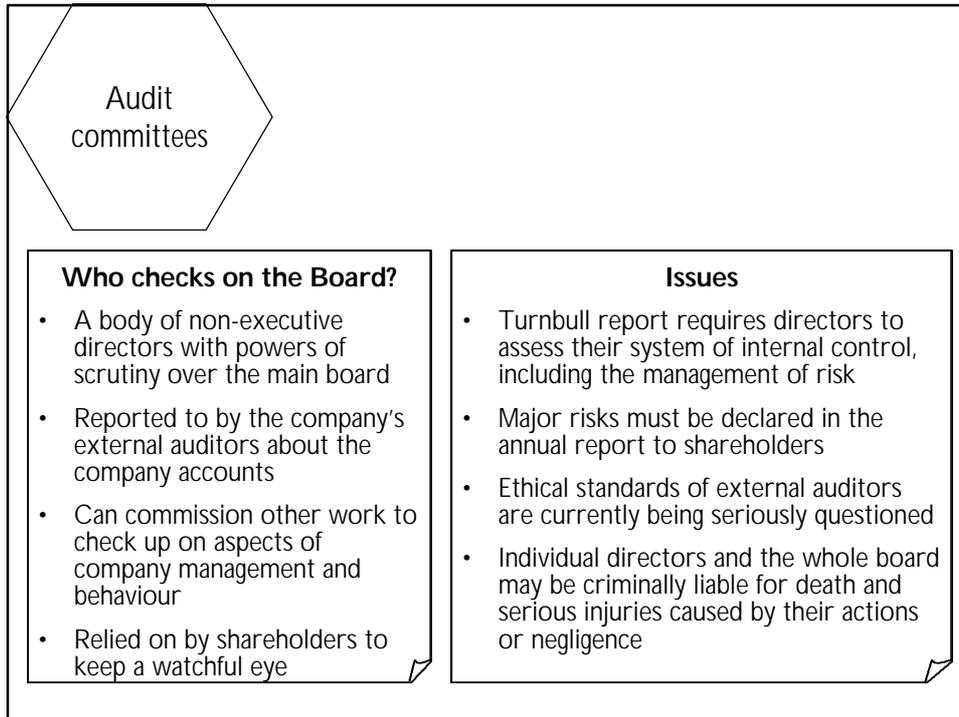


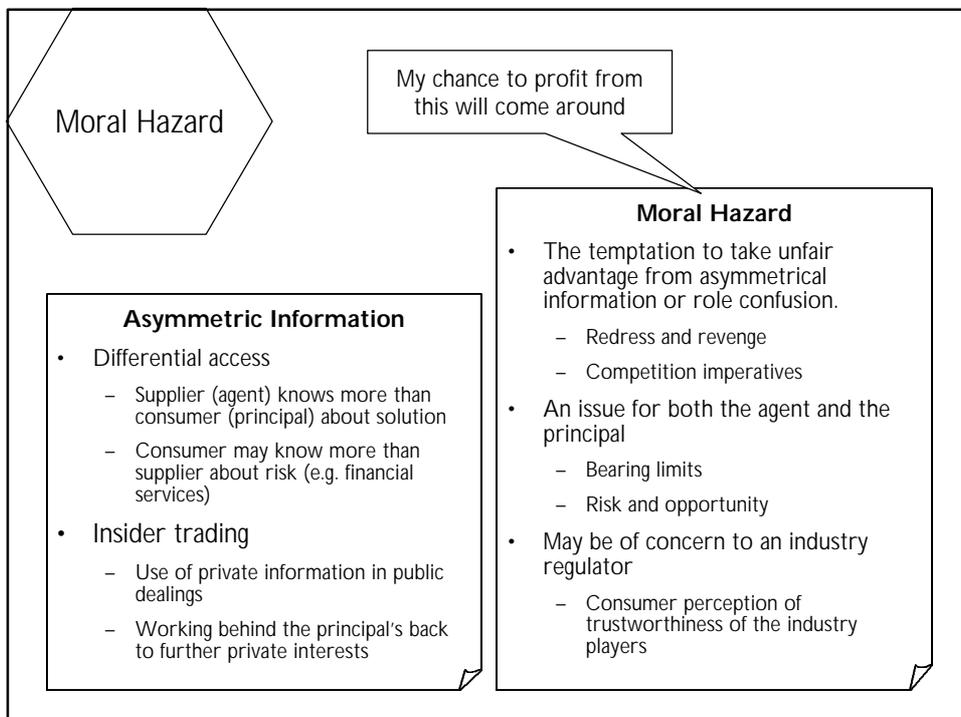
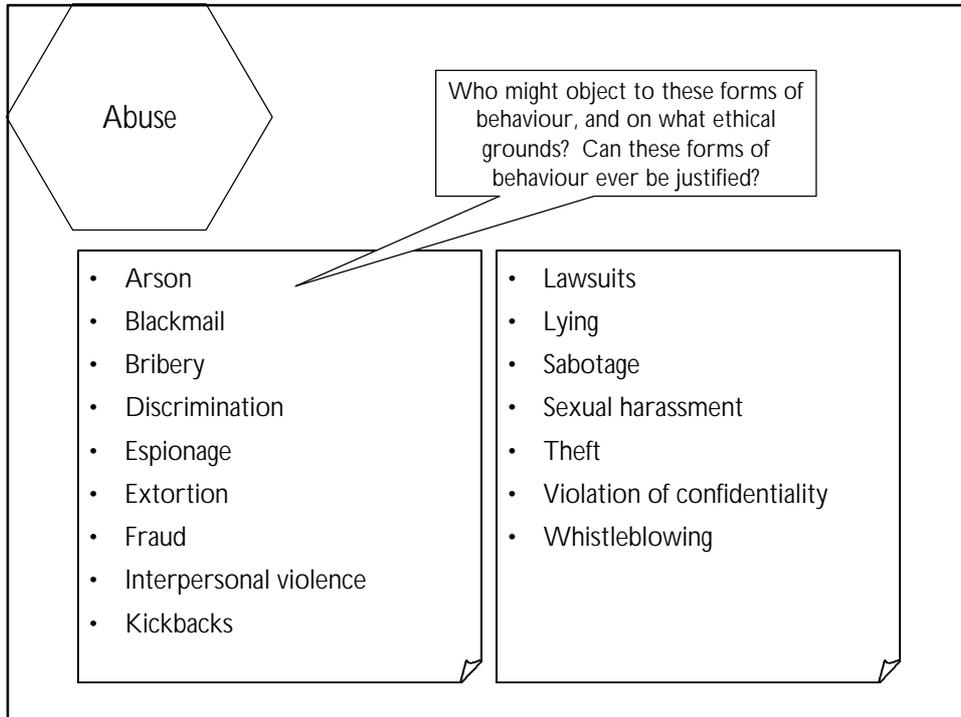


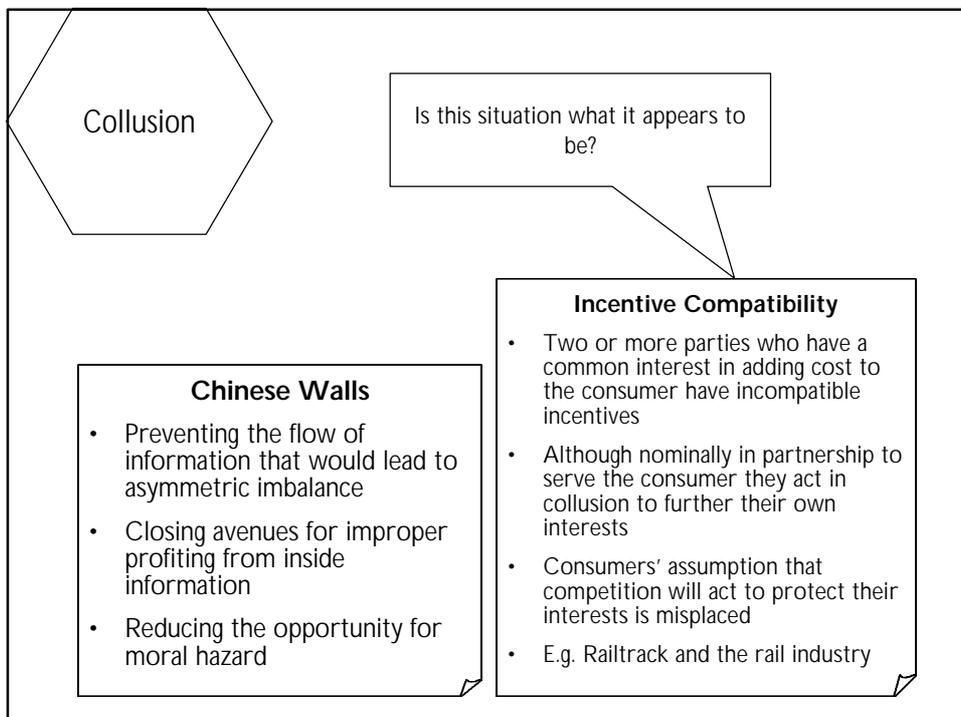
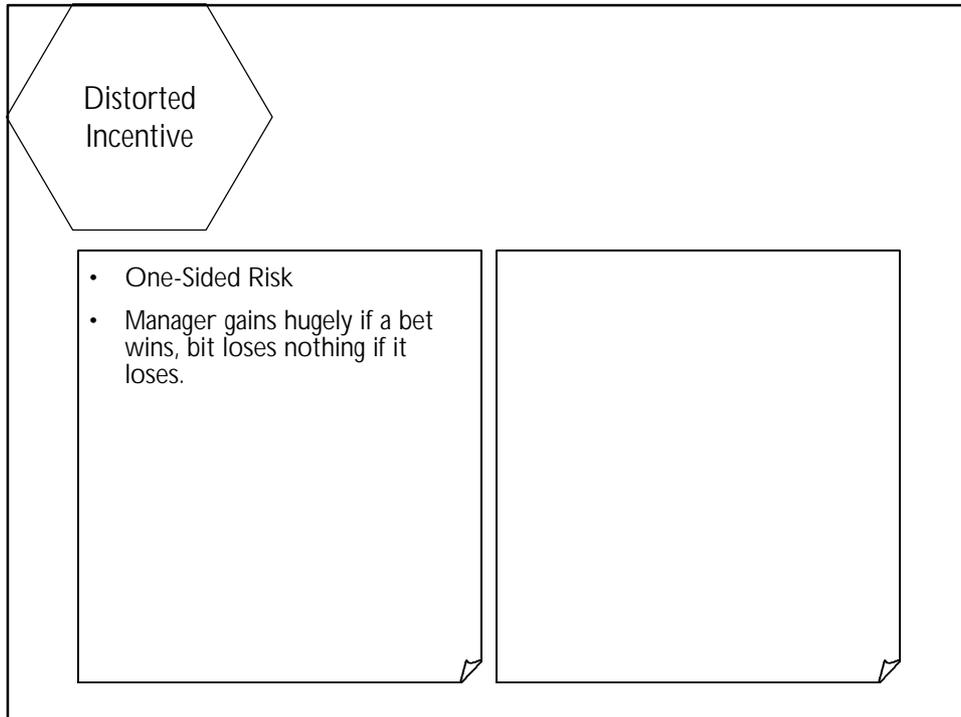












Ethics and Systems Theory

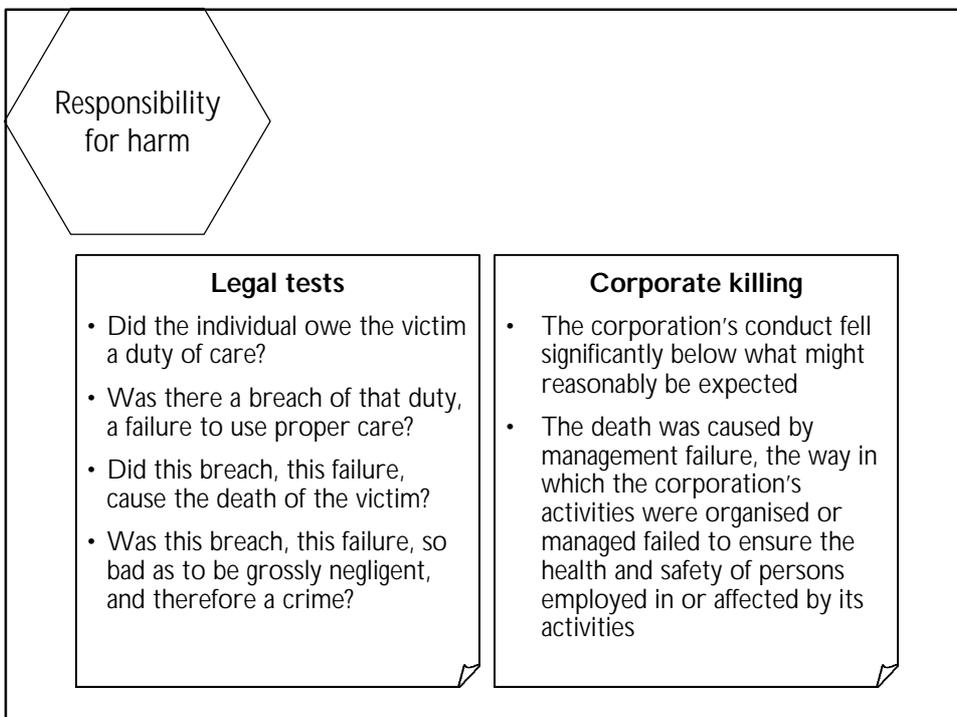
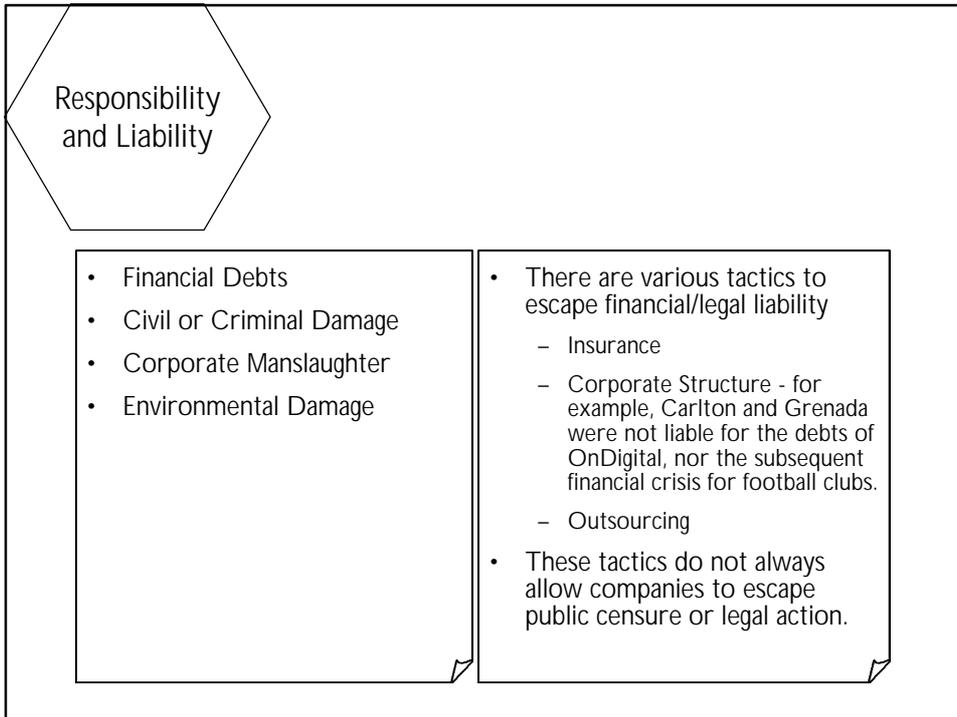
- A number of feedback loops may be identified.
- There is a possibility of oscillation following (with some delay) the general economic cycle.

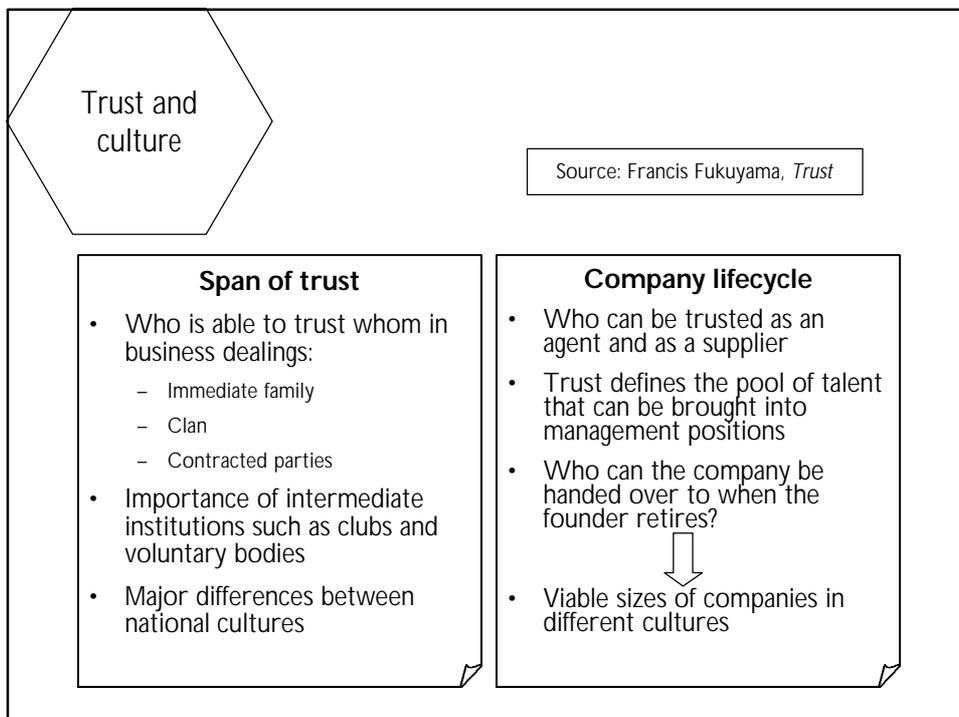
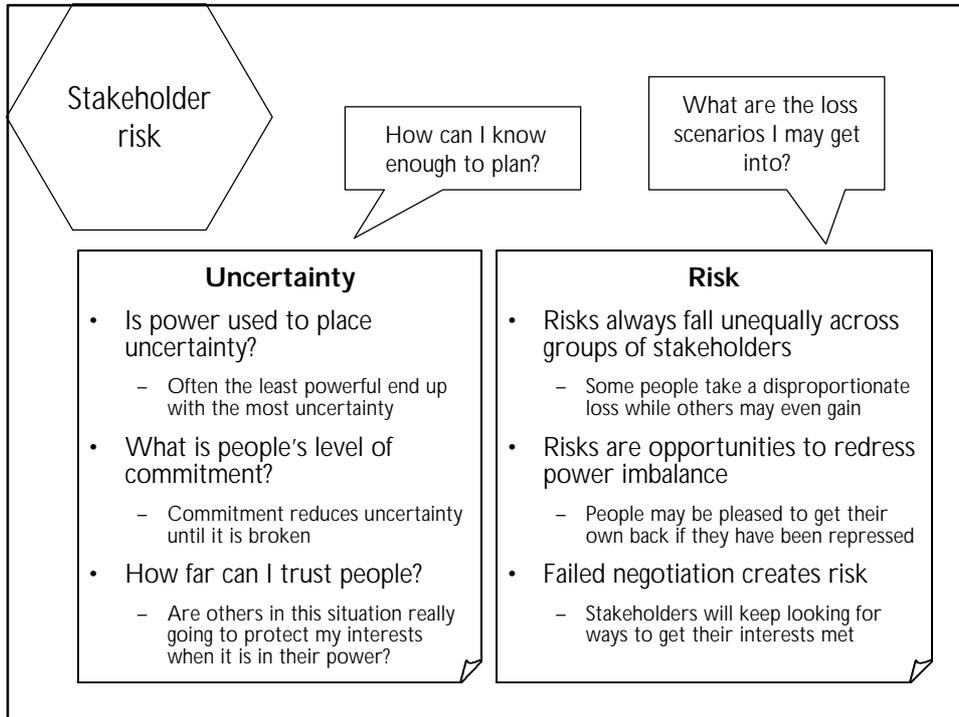
- Discovery of a scandal increases public and media attention to corporate governance, which increases the chance of further scandals being discovered.
- If further scandals are not discovered, even with a heightened level of concern and attention, this will reassure stakeholders, leading to a reduced level of concern and attention.
- Corporate governance issues are exposed in lean times, and concealed in prosperous times. Scandals reinforce the perception that we are currently in a lean time. Lack of scandal would reinforce the perception that we are back in prosperous times.
- In lean times, managers may become more desperate, and this may increase the motivation to cheat. In lean times, people count the pennies, and are far less tolerant of vagueness and warm feelings, in areas ranging from business relationships to management accounting.
- Excessive attention to issues of corporate governance could distract managers from other important management issues, and could also affect willingness to take risk. This could have an impact on corporate viability.

Ethics and the Economic Cycle

- **Bezzle** - the amount of money siphoned from the system.
- In good times the bezzle rises sharply, because everyone feels good and nobody notices.
- "In bad times, all this is reversed. Money is watched with a narrow, suspicious eye. The man who handles it is assumed to be dishonest until he proves himself otherwise. Audits are penetrating and meticulous. Commercial morality is enormously improved. The bezzle shrinks."
- J.K. Galbraith, The Great Crash 1929

- **Economic climate** affects ...
 - ... the ability of agents to conceal bezzle
 - ... the willingness of principals to tolerate bezzle
- As economic conditions get tighter, so the moral relations between agent and principal also get tighter
 - more tightly coupled
 - more uptight
- Of course, bezzle is not the only factor driving the economic cycle - but it may have a detectable effect.





Discussion Questions

- In what ways would you expect companies with cooperative or mutual ownership to have “better” corporate governance than listed companies.
- Who gains when a mutual company converts to a listed company (“demutualization”)? Who loses?
- Do listed companies have a duty to uphold their own share price? What mechanisms to do this are ethically acceptable?

Sample Exam Question

Following recent corporate scandals in America and elsewhere, the US Government proposes tough new laws against business executives who mislead investors.

- i Why are such laws necessary?
- ii What would be required for such laws to be effective?
- iii What could be the overall effect of such laws?

- A satisfactory answer will indicate the possible conflicts of interest between executives and other stakeholders - including investors and employees.
- An above average answer will make the ethical issues explicit, with reference to agency theory and moral hazard, and will explore the positive or negative implications of tougher legislation and regulation - including the extra costs of greater regulation.
- An excellent answer might analyse both positive and negative effects of regulation on ethical issues, and may be able to cite examples of clumsy or counter-productive regulation.

Sample Exam
Question -
Ethics and
Systems
Theory

Since the fall of Enron and other corporate scandals, there is much interest at present in corporate governance and related issues.

a) Identify a range of stakeholders with an interest in the quality of management and corporate governance. What are their primary concerns?

b) It is possible that the level of interest may diminish over time. Alternatively, it is possible that a continuing stream of scandals could reinforce the level of interest. Draw a system diagram to show how feedback loops could operate here.

c) How can the quality of management and corporate governance be assessed and improved?

- A satisfactory answer (>40%) will identify the ethical issues of corporate governance, and the potential conflict of interest between the directors of a company and its shareholders and other stakeholders, illustrating this in terms of Enron or some other example. Will show some awareness of the relationship between economic and ethical issues.
- In addition, an above average answer (>55%) should show some awareness of social mechanisms for maintaining the quality of corporate governance, such as board structures, external audit and media attention. Will be able to produce a reasonable system diagram, with at least one meaningful feedback loop identified, and draw some conclusions.
- An excellent answer (>70%) must produce a clear and well-argued system diagram. Could use such system concepts as attenuation and delay to illustrate the social and ethical issues. Should show how ethical concerns may have to be balanced pragmatically against other business concerns, and could reference the theory of decision-making and rationality to show finite limits to the pursuit of the perfectly ethical solution.

References

Reading

- Elizabeth Anderson Value in Ethics and Economics (Harvard 1993)
- Will McWhinney Creating Paths of Change: Managing issues and resolving problems in organisations (Sage 1997)
- Thomas Frank One Market under God (Secker and Warburg 2001)

Reporting Models

- ICA (EW) New Reporting Models. www.icaew.co.uk

Useful case studies

- Roger Lewin and Birute Regine The Soul at Work (Orion Business Books 1999)