

PROFESSIONAL ETHICS: CASE STUDY ANALYSIS

2005

PROFESSIONAL ETHICS: CASE STUDY ANALYSIS

Introduction

Modern life often puts people in front of significant ethical challenges. Unfortunately, in most cases the simple ethical dilemma of “good and evil” does not work. As multiple case studies clearly demonstrate (e.g.: Enron, Parmalat or ImClone cases) corporate ethic in business is always closely interrelated with the issue of profit. Money for jam has made modern businessmen and even common employees to become the “knights of fortune” who easily betray ethical fundamentals looking for rapid commercialization.

There are globally known cases which serve the classic illustration to the issue. These are the cases of Enron, WorldCom, Vivendi and other commercial giants. These cases often give people a palliative feeling that these challenges are extremely remote and cannot influence their lives. However, also we do not often recognize it, we face contravenes of ethical principles quite often in our everyday lives. Joan Callahan (1988) in her “Ethical Issues in Professional Life” gives a number of examples. Doctors who make surgeries knowing beforehand that it will give patient more harm than benefits; engineers who scrimp expensive materials and make our buildings less reliable than it is required; designers who economize on development of passive and active safety of the car, etc. are all perfect illustration to the idea.

Whether we like it or not, but we all have recently become the hostages of business ethics. As a result, citizens’ privacy, financial welfare and even safety may be somehow endangered. I will provide only few examples to illustrate the ethical risks we face every day.

The cods of citizens’ identification cards do not remain secret, as they are known to the banks and police officers. Security-codes of credit cards do not belong purely to their

holders. Medical information is stored in a database which is not difficult to access. The planes people fly may fail to pass a required technical evaluation. People's dwelling may be built without following necessary standards. Yet, nation's government may fail to warn citizens about the inflation or coming defaults, etc (Daly, 1996).

However, regardless the number of examples people often underestimate the grave importance of ethic in their everyday life. The recent events in which the ethic was involved demonstrate that we are often excessively trustworthy when confide in our banks, engineers, doctors, attorneys, etc. The following case study serves a perfect illustration to challenges in modern business ethics and associated risks for the common people.

Identification of the case

In the present survey I will assess the issue of business ethics in banking and IT sector. In terms of modern digital society we seem to rely too much on our banks and software without recognizing that all our welfare and personal information may appear in danger. Also this is an invented story it seems to accumulate different ethical challenges in business sector, particularly those described in Callahan's (1988) book.

A software engineer is given a project to develop software for one of the top national banks that performs online banking services. The software involves share and exchange of large amounts of private information (e.g.: security codes, personal data, banking accounts, etc.) belonging to the vast customer base. Besides, as the bank provides a large number of services, it shares client's medical insurance codes, credit cards services, chequeing, deposit's codes, etc. Apparently, if this information comes in wrong hands it could lead to lose of critical financial and ultra-sensitive information.

The engineer realizes the importance of designing extremely reliable software but he faces a kind of an ethical dilemma. In fact, the engineer is given only six months to develop,

finish and launch the project, whereas at least nine months are normally required to produce this kind of product. Nine months are usually the average timeline necessary to produce reliable banking software which will maintain highest possible commitment to quality and security of the clients. Otherwise the software risks to appear underdeveloped and easy to be accessed by hackers.

Taking into account the sensitivity of information which is at stake, the engineer informs the managers of the issue. He tries to persuade them that it will be at least unwise to launch the software in six months, as its efficiency will only be about 80% versus 95% that it is normally required to ensure the best possible service.

After the lasting deliberations company's CEO and managers decide to continue with this online banking product due to the competition from other industry players who as well design the online banking software for a hypothetical bank. It appears a kind of a tender and the company which develops the software earlier will "skim the milk" while the others will loose perspective client.

The software engineer is actually given two choices, i.e.: either to continue with the project and design it within the denoted time-constrain (though both he and managers realize beforehand that they will not be able to design the reliable product within this limited period of time) or to take a discharge (though he realizes perfectly well again that the company will hire someone else to finish the project). In both cases, as it goes, the project regardless its reliability will be designed and launched within six months. In other words, the engineer understands perfectly well that the project will be finished regardless his participation. If he dismissed the software would be designed by another programmer. Thus, regardless the ethical challenges the engineer actually has no obvious way out but to keep on his work.

However, as we see the software design company was in completely the same situation as the engineer. If it rejected from a project the software would still be designed by a

third company within the limited period of time. Overall, the project would have been done in time regardless its designers. Thus, company's managers decided the same way as later the engineer did: if the project is to be done in this period of time let it be us who will do it.

After much hesitations and self-recriminations the software engineer decides to keep on working on the project and finishes it within the outlined six months period. However, being pressed for time he fails to provide required testing and the software appears to be of a rather poor quality. Nevertheless, the customer bank purchases this software and installs it on all the servers throughout the whole country though probably admitting as well the risk that the software designed in such a limited period of time may cause the leakage of sensitive information.

One year after in a result of security breach on this online banking service the vast amount of sensitive personal information including pivotal health and financial data of millions of customers comes in the wrong hand. As a result financial assets of the customers as well as bank and designing company's reputation appeared at stake.

Philosophical analysis of ethical dilemmas in the case study

Until recently philosophers showed little concern of the business, medical, law and other types of ethics. However, as since late 1970s – early 1980s the issue of ethic became a central concept in nearly all spheres of human life, philosophy became an important framework for ethical issues' analysis. Observing Callahan (1988) philosophy of ethics implies the principles of managers' moral and behavior, the rights of the stakeholders and a wider community as a whole, transparency of the company and equal attitude to its stakeholders, etc. In other words, this kind of analysis incorporates almost all organization aspects associated with ethics.

Nowadays there are at least several most influential ethical paradigms which are often put in the core of business ethics' analysis. The western corporate ethics is often assessed from perspectives of Classical Greek Philosophy based mainly on the ideas of Plato and Aristotle. This philosophical framework is based on the principles of good and evil for people and society as a whole. Another influential framework is the Japanese Kyoshi Philosophy based on the principles of co-living and co-working to achieve the common good. The other less spread philosophical models of business ethics analysis are Hindu Dharma which implies the principle of inherited duty, the Buddhist Santatthi incorporating the value of self restraint, the Muslim Zakat which focuses on a duty to help the poor. However, the dominant philosophical principle of business ethic is obviously the western notion of human rights shared in all Christian countries (Papoutsy, 2005).

Regardless the visible different approaches to philosophy of business ethics they generally imply at least several major common criteria, i.e.: responsibility of business for stakeholders and wider community, transparency of decision making, yet, its accountability. To my mind, the dominant criterion that underlies all philosophical approaches outlined above is moral, trust and respect. I will hereinafter follow these principles of research analysis (Callahan, 1988).

Let us try to be clear first about the major moral characteristics of modern business. In my analysis I will address major four of them, i.e.: social contract of business, collective responsibility of business, active responsibility of business (precautionary principle) and juridical state. I will briefly address each of these principles prior to the case study evaluation (Jeurissen, 2003).

According to Donaldson (1982) **social contract of business** model relationships between business and society as a whole are based on the idea of mutual exchange (Donaldson, 1982, p. 41-45). The business receives a number of privileges from society, such

as people's trust and credits, legal and human environment in which companies' function, etc. In exchange, society obtains another set of benefits, such as growing profits, developing economies and other social benefits. Society agrees with this mutual exchange only because the advantages exceed social costs (Jeurissen, 2000).

As this is society that actually builds corporations, it always has the right to choice. Donaldson verbalizes this right in the following way: "we choose to create corporations and we might choose either not to create them or to create different entities. Corporations are thus like political states in their need for justification" (Donaldson, p. 37). The same way we influence governments and authorities we may influence corporations to play in favor of society as a whole.

Another concern and moral obligation of business is **collective responsibility** embodied in businesses' concern in maintaining stability of civil society. Alternative definition of institutional responsibility's principle is "partnership" or "dialogue" (Jeurissen, 2000). According to the principle of partnership business should actively engage in partnerships with its direct and indirect stakeholders for the joint solution of social problems. Development of this mutual solution is based on the principle of common good. Ideally, business-society partnership incorporates the following agents and their interests: businesses, stakeholders, social partners and local actors.

Active responsibility of business also known as precautionary principle is one of the most recent philosophical criteria of analysis. It implies that as we live in an increasingly hazardous world modern society is first of all a risky and thus vulnerable society. With concern of this risk precautionary principle of business implies proper analysis of deeds and decisions taken by corporations. According to Russ (2003, p. 95) when a decision raises even minimal potential threat to society precautionary measures should be taken even at the cost of corporate profits.

Eventually, the principle of **juridical state** (which is one of the most important for our analysis as it implies business to business relationships) assumes that corporations as well as citizens pursue just legal environment in which they are willing to put themselves. In the other words, the principle of juridical state implies fair relationships between corporations (Jeurissen, 2000). These fair relationships imply development of common moral norms and principles shared by all business in a global scale.

Evaluation of the case study

As conventional wisdom says, when the law does not work it is the place for ethics. As my case study hardly implies any legal contraventions, it is now a time for its ethical analysis.

Prior to the analysis I would like to design a research hypothesis. I believe that assessment of ethical challenges behind the issue would be mutually beneficial for all three parties, i.e.: software company, bank and clients.

First I will address the contractor party and discuss the ethical collusions associated with the software design company. Then I will proceed with the party of a bank.

As I have already identified, at first glance both stakeholders within the contractor's party obviously had had no reasonable choice: in all the cases the software would have been designed by a third party. However, was there a way out from this dead-end? I am sure there were at least several.

The dilemma for contractor and engineer resembles the well-known prisoner's dilemma (Poundstone, 1992). This well known model involves the principles of philosophy, ethics and psychology of cooperation and conflict of interests. Regarding the value of this framework I will give its brief description.

Two men, prisoner A and prisoner B have been taken into custody and separated. The district prosecutor is convinced that they are both guilty of a felony but he needs a confession

from at least one of them in order to obtain a conviction. Each prisoner can either confess or not confess strategy of behavior. The same situation is with our case study as each party had a choice either to participate or reject from the project.

If both rejected they will be both prosecuted for the felony and moderate sentence would be recommended (in our case the company would have to pay the forfeit to the bank and bear some financial losses).

In both confessed (in our case, if both parties decided to work upon the project) they both would have a chance not to be sentenced as there are no visible evidences (in our case the software may appear to be reliable enough and not endanger the clients and the company may receive a financial reward).

If one confesses and the other does not, the confessor will have its charges dropped and the other prisoner will be prosecuted for the felony with a maximal sentence (in our case if a company agreed to participate in the project and the engineer rejected, he would have to leave the company and bear maximal possible losses).

The bank in this case performs the role of a prosecutor. In both the company and the engineer reject from participation the bank will obviously require them to pay the forfeit.

This schema implies a hard decision making based on the principles of philosophy, ethics, profits and losses, etc. It may be illustrated graphically:

		Engineer	
		Agree to participate	Reject to participate
Software design company	Reject to participate	The losses would be maximal, as the company will lose its client and expected income and reputation. Engineers' agreement without company's decision is of little effect on the deal	The company and the engineer will both lose their profits and jobs. The software will be nevertheless designed, launched and sold by competitive company. The risk for both stakeholders is great (the reputation and money are at stake)
	Agree to participate	The losses may be minimal if the software works well but may be maximal if it breaks down. In this case both the company and engineer will have greatest damages but may also have greatest profits. It is fifty-fifty deal for the company and engineer	The losses will be maximal as he loses his job and income. Besides, the company can hire another engineer and the software. The company loses nothing in this case as it may hire another person to do this job. It is a 100% loss for the engineer

Chart 1. Dilemmas for the issue stakeholders: research framework

Having agreed to design potentially failing software both the engineer and contractor contravened a key business moral: to sacrifice own profit for the sake of fair business and reputation. Failing to obey this moral the company lost not only money but also sacrificed its reputation. Following the philosophical principles of business ethics the company infringed the principle of businesses' *active responsibility* (precautionary principle). Also this party was aware that the software to be designed would fail it did not do anything to prevent this failure.

First of all, the company literally intimidated its employee who had no way out but to agree with the terms. In this case the contractor has broken another fundamental principle of business ethics. i.e.: *social contract of business*. It was ready to sacrifice the rights of its employee in order to achieve rapid profits. The principle of social contract was also infringed, as the designer did not warn its customer (bank) about the probable failure.

Another concern of social contract disdain was that the contractor sacrificed personal information, assets and health of bank's clients. However, bank's clients in this case may be regarded as the major stakeholders as they are the very direct "consumers" (users) of the software. So, their interests were put at stake and this is obviously the major ethical collision in the analyzed case.

Additionally, contractor also broke the juridical state, as it was injustice to its customer. However, commitment to customers whether they are corporate or private entities is another fundamental business moral.

Now I would like to proceed with possible ways out from the dead-end based on the principles of business ethics. As I have already defined, collective responsibility is one of the pivotal ethical concerns of modern business. The value of this principle is its ability to maintain a partnership and a dialogue between the partners. This principle implies share of information and development of joint solution of either actual or probable problems. To my mind, by strict follow of this principle the contractor would have avoided all of the problems above described.

To my mind, the contractor should have warned its customer (a direct stakeholder) that not only their company but not a single firm on the market was unable to design this software in the limited period of time. This solution, to my mind, might have helped both parties to arrange real terms for the project. Besides, this strategy might have been opted by the engineer. He as well might have warned the customers of a great probability of failure and ask for shift of a deadline. In this case, I believe, the company would remain its greatest asset – its brand and reputation and commitment to ethical principles in business.

Now I will analyze implication of another party, i.e.: the bank which was a customer of this software. Also it may be inherited that the bank did not contravene any ethical principles I argue this assumption. The ethical role of the bank in this crisis was also dramatic.

First of all, the customer was to my mind pretty well aware that it is impossible to design the software within a limited period of time. However, it still insisted on this term. In fact, the bank was somehow in contractor's situation: if it rejected from development of software within the six months period it would lose many of its clients and thus profits. Hence, the bank contravened the principle of social contract, collective responsibility and precautionary principle. As the bank functions through integration of citizen's assets it should act in depositors' favor. Instead, the bank as well put its client's financial welfare, personal information and health-associated issues at stake. The bank also should have abstained from rapid installation of poorly developed software and preserve both its clients' interests and own reputation.

The bank as well contravened the principle of juridical state. It pressed on the market players (contractors) instead of trying to develop mutually beneficial solution concerning the time constrains of the project.

Besides, as the bank tried to put the blame on to the contractor it committed a sin against the social (business) contract and juridical state. As both stakeholders were guilty in the software failure they both should have been punished equally.

Instead, the proper ethic-based strategy of the bank should have been based on the principle of collective responsibility. By means of dialogue and negotiations with different companies on the market the bank and their CEO's might have defined potential harms and the ways to avoid them.

Now I will describe an imaginative situation which, nevertheless, clearly describes what would happen if all banking sector and software designers suddenly decided to behave the very same way. Let us assume that all banks are impelled to expedite development of processing software. It is just the competitive situation on the market: the company that launches the software first "skims the milk" and attracts the majority of clients.

All banks define unreal terms of software development and address the contractors. Now they all admit that the whole project goes wrong but they all do not want to lose profits and clients. In fact, both the customers and contractors are in the same situation. They are pressed by competitors and they do not want to lose profits and clients.

Also the software is designed in the defined terms, within few months it collapses as well as people's assets, personal information, health insurances and probably a trust to the banking system in general. Let us assume that this collapse occurs in a single day and the national banking system in general stops working effectively. Consequently, this collapse means the crisis of national economy and if we live in a global world it may affect other economies and lead to the global financial and economic crisis.

Though the situation seems to be absurd, we have already been the witnesses of such collapses in a regional scale. The recent Asian crisis was caused by business ethics' neglecting. The Great Depression in the United States was also prompted by poor corporate moral. So, the situation described may occur in future and cause the collapse of a global economy. The same situation may occur in medical sector, transportation, energy generation, etc. By this I mean that we are now increasingly dependant on ethics. It is not a mere name and an abstract concept any more. We are indeed the hostages of corporate ethics and should insist on corporations to follow its major principles.

This final illustration emphasizes the dramatic value of moral and ethics in modern business. Only by following such key ethical principles as social contract, trust, mutual benefits and others, the business may exist and benefit the society

Bibliography:

1. Callahan, Joan (1988). *Ethical Issues in Professional Life*. Oxford: Oxford University Press, 1988.
2. Daly, H., K. Townsend (1996). *Valuing the earth – Economics, ecology, ethics*, 6th ed. MIT Press, Cambridge, Mass.
3. Donaldson, T. (1982), *Corporations and morality*, Prentice Hall, Englewood Cliffs, NJ.
4. Jeurissen, R. (2000). The social function of business ethics, in: *Business Ethics Quarterly*, 10 (4), pp. 821-843.
5. Jeurissen, R. (2005). *The Institution of Corporate Citizenship* [Online]. Retrieved November 18, 2005 from <http://ethics.bkae.hu/html/documents/Jeurissenpaper.doc>
6. Papoutsy, C. (2005). *Ethics, Whose Values?* [Online]. Retrieved November 18, 2005 from <http://www.helleniccomserve.com/ethicswhosevalues.html>
7. Poundstone, W. (1992) *Prisoner's Dilemma* New York: Doubleday (1992).
8. Russ, Th. (2003), Moral Underpinnings of the precautionary principle, in: *Estonian Business Review*, no. 15, p. 95-103.