Ethics

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Director, Controls & Accountability
UC Davis

Training Goal:
UC Statement of Ethical Values and Standards of Ethical Conduct

- Impact on You, the Business Officer
- How Best to Use
- Pitfalls to Avoid
Guidelines for Actions & Decision-Making

Mission

Personal Ethics

Shared Values

Internal Controls

University Policies

Regulations

Laws

Accountability

Trust

Trust Accountability

Post Enron Environment

Intensified Scrutiny

Public Cynicism

Prosecution

Burdensome Regulation

Broader Accountability

Turning Our World Upside Down

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Values

*Important Beliefs and Desires*

Motivate Actions  Shape Attitudes

Factors Influencing Individual Values

- Upbringing (family values, religion, culture)
- Self-Conception
- Motivations
  - Need for Approval
  - Need for Security
  - Need for Money or Position
- Ethical Consciousness/Awareness
- Moral Courage/Strength of Character
Ethics

A set of moral principles or values
… a guiding philosophy

Merriam-Webster’s Collegiate Dictionary, Tenth Edition

Advantages of Ethics

• **Competitive Edge** – people prefer to work with those they can trust
• **Credibility** – people believe you
• **Efficiency** – trust makes decision making faster and more economical
• **Morale** – people feel better about their jobs and themselves
• **Loyalty** – internal and external
• **Personal Satisfaction** – self respect, affection of others

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Realistic Expectations

- **Criminal Conduct** – It won’t make crooks honest but it can create an environment where criminal conduct is less likely and more risky.
- **Improper Conduct** – It can provide knowledge and promote systems that significantly reduce a large category of improprieties.
- **Poor Judgment** – It can create a heightened understanding of the kinks of conduct that generate criticism and accusations of unethical conduct.

Enemies of Integrity

- Complacency
- Self Delusion
- Rationalizations
- Survival Syndrome
- Win-at-Any-Cost
- Misplaced Loyalty
- Undervaluing Integrity
- Unaccountability
- Short-Term Thinking
- Arrogance of Power
Win At Any Cost

If you’re not willing to lose, you have to be willing to do anything it takes to win.

— Michael Josephson

Ethics Checklist?

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The T.E.A.M. Strategy

Teach
Enforce
Advocate
Model

UC Statement of Ethical Values and Standards of Ethical Conduct

- President Dynes and Regents Chair Parsky
  - October 13, 2005
- Senior VP Mullinix
  - October 28, 2005
- Values and Standards apply to everyone
  - Including The Regents

http://www.ucop.edu/ucophome/coordrev/policyStmt_Stats_Ethics.pdf
University of California Standards of Ethical Conduct

1. Fair Dealing
2. Individual Responsibility & Accountability
3. Respect for Others
4. Compliance - Laws & Regulations
5. Compliance - Policies, Procedures & Guidance
6. Conflicts of Interest or Commitment
7. Ethical Conduct of Research
8. Records: Confidentiality/Privacy & Access
9. Internal Controls
10. Use of University Resources
11. Financial Reporting
12. Reporting Violations and Protection from Retaliation
1. Fair Dealing

“No unlawful practice or a practice at odds with these standards can be justified on the basis of customary practice, expediency, or achieving a ‘higher’ purpose.”

Tone at the Top

Our Public Trust

- “The University of California shall constitute a public trust …”
  - California Constitution, Article 9, Education

- “The University, as a public institution, has a special stewardship obligation …”
  - UC Accounting Manuals, Section A-006-4

- “We succeed by earning the ... respect and trust of those who govern us, support us, and do business with us."
  - Mission of UC Business Administration and Operations
Fairness in Policy

- **Small business enterprises**, particularly small disadvantaged, women-owned, and disabled veteran business enterprises
- **Retroactive authorization** of unofficial commitments (e.g., purchases) is a violation of University policy
- Avoid any appearance of **favoritism**
- Afford the **maximum opportunity** practicable to those wishing to become suppliers
- Follow **competitive bidding**

Make Character-Based Decisions

- Stakeholder interest & well-being
  - Meeting expectations?
- **UC Ethical Values** above all others
  - Integrity, Excellence, Accountability, Respect
- Greatest amount of good in the long run
2. Individual Responsibility and Accountability

“Each individual is expected to conduct the business of the University in accordance with the Core Values and the Standards of Ethical Conduct …”

Most of the time, we know what we should do.

The real test of ethics and character is whether we are willing to do the right thing

... even when it is likely to cost more than we want to pay.
Confucius: What you do not want done to yourself, do not do unto others.

Aristotle: We should behave to others as we wish others to behave to us.

Judaism: What you dislike for yourself, do not do to anyone.

Hinduism: Do nothing to thy neighbor which thou wouldst not have him do to thee thereafter.

Islam: No one of you is a believer unless he loves for his brother what he loves for himself.

Buddhism: Hurt not others with that which pains thyself.

Christianity: Do unto others as you would have them do unto you.

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The Moral Landscape
Hire for Character, Train for Skills
### Job Pool - Attitudes

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>“It’s important for me to be a person of good character”</td>
<td>98%</td>
</tr>
<tr>
<td>“It’s important to me that people trust me”</td>
<td>97%</td>
</tr>
<tr>
<td>“In business and the workplace, trust and honesty are essential”</td>
<td>94%</td>
</tr>
<tr>
<td>“Being a good person is more important than being rich”</td>
<td>89%</td>
</tr>
<tr>
<td>“My parents or guardians always want me to do the right thing, no matter the cost”</td>
<td>90%</td>
</tr>
</tbody>
</table>

*2006 Josephson Institute Report Card on the Ethics of American Youth*

### Job Pool - Cynicism

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>“In the real world, successful people do what they have to to win, even if other consider it cheating”</td>
<td>59%</td>
</tr>
<tr>
<td>“A person has to cheat sometimes in order to succeed”</td>
<td>42%</td>
</tr>
<tr>
<td>“People who are willing to lie, cheat or break the rules are more likely to succeed than those who do not”</td>
<td>23%</td>
</tr>
</tbody>
</table>

*2006 Josephson Institute Report Card on the Ethics of American Youth*
### Job Pool - Conduct

#### In the Past 12 Months:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lied to parent about something significant</td>
<td>82%</td>
</tr>
<tr>
<td>Lied to teacher about something significant</td>
<td>62%</td>
</tr>
<tr>
<td>Copied an internal document</td>
<td>33%</td>
</tr>
<tr>
<td>Cheated during a test at school</td>
<td>60%</td>
</tr>
<tr>
<td>Stole something from a parent / relative</td>
<td>23%</td>
</tr>
<tr>
<td>Stole something from a friend</td>
<td>19%</td>
</tr>
<tr>
<td>Stole something from a store</td>
<td>28%</td>
</tr>
</tbody>
</table>

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### Ethics in Recruitment - Example

**Exec. Director and COO, Josephson Institute of Ethics**

- **Position**
  
  “…assure that JI complies with all legal requirements and the highest ethical standards.”
  
  “…assure that all … functions of the organization are performed at the highest level of proficiency and with complete integrity.”

- **Candidate**
  
  “Be a person of exemplary character who cares about and is deeply committed to JI’s mission.”
  
  “Have strong personal character and credibility.”

- **Application Process**
  
  “Includes a statement that you understand that character is of the utmost importance to this position.”
Enforce the Values

“The longer you wait to adjust the trajectory of a rocket that is going off course, the more severe the adjustment will have to be.”

“The same is true with new employees.”

- Michael Josephson

3. Respect for Others

“The University is committed to the principle of treating each community member with respect & dignity”
What is Work Culture?

- Shared History
- Expectations
- Unwritten Rules
- Social Mores

Underlying beliefs
- color perceptions
- of actions and communications

Principles of Community

- UCOP - [http://www.ucop.edu/humres/prncpls_comm.html]
- UCB - [http://www.berkeley.edu/about/community.shtml]
- UCD - [http://principles.ucdavis.edu/]
- UCI - [http://www.dos.uci.edu/judicial/principlesofcommunity.html]
- UCLA - [http://www.diversity.ucla.edu/cagd_statement.html]
- UCM - [http://www.ucmerced.edu/ourvalues.asp]
- UCR - [http://www.chancellor.ucr.edu/documents/diversity.html]
- UCSB - [http://www.diversity.ap.ucsb.edu/diversity/message/]
- UCSC - [http://www.ucsc.edu/about/principles_community.asp]
- UCSD - [http://www.ucsd.edu/principles/]
- UCSF - [http://www.ucsf.edu/swe/principles.htm]
4. Compliance with applicable Laws and Regulations

“Members of the University community are expected to become familiar with the laws and regulations bearing on their areas of responsibility.”

Ethics Transcends the Law

Ethics requires us to give up the idea that an act is proper simply because it is permissible or that an act is ethical so long as it is legal.
Ethics Transcends the Law

There is a big difference between what you have a right to do and what is right to do.

Ethics Transcends Laws

Minimum compliance is like aiming for the outer rim of the target.
Jack’s Rule of Thumb

- We judge other people by their **actions** and we judge ourselves by our **intent**.

  Jack Azzaretto, UCR, “Ethics for UC Business Officers”

5. Compliance with Applicable University Policies, Procedures and Other Forms of Guidance

“It is not acceptable to ignore or disobey policies if one is not in agreement with them, or to avoid compliance by deliberately seeking loopholes.”
Rationalizations
Classical Fallacies – It’s not unethical if …

1. It’s for a good cause
2. I’ve got it coming
3. It’s legal
4. Everyone does it
5. Others are a lot worse
6. I don’t get caught
7. It’s not for me
8. It benefits my family
9. It’s necessary/it’s the only way I can win
10. I’m just following orders
11. My job is on the line
12. I’m just fighting fire with fire
13. No one is really hurt

Doctrine of Relative Filth

I’m not so bad as long as others are worse.

—Michael Josephson
6. Conflicts of Interest or Commitment

“In all matters, community members are expected to take appropriate steps, including consultation if issues are unclear, to avoid both conflicts of interest and the appearance of such conflicts.”
Perception is Reality

• When it comes to trust, perception is reality.
• It is not enough that we do no wrong, we must also try to assure that others believe we have done no wrong.

Educate Employees on Ethical Obligations

• Proper & improper use of public position and property
  – BFB G-39, Conflict of Interest Policy
• Recognize & avoid conflict of interest:
  – Gifts & Gratuities
  – Dealing with friends and relatives
  – UC purchasing power
  – Consulting & moonlighting
7. Ethical Conduct of Research

“[All those engaged in research] are also expected to demonstrate accountability for sponsors’ funds and to comply with specific terms and conditions of contracts and grants.”

U.S. Settles Case of Gene Therapy Study That Ended With Teen’s Death

• U. of Penn & Children’s National Medical Center
  – Government alleged:
    • Study produced toxicities in humans, but was not terminated
    • Reports misrepresented actual clinical findings
    • Consent form did not disclose anticipated toxicities
  – Settlement: $1,032,118
“Access to information concerning the conduct of the people’s business is a fundamental and necessary right of every person, as is the right of individuals to privacy.”

Disbursements and Documents Supporting Financial Transactions

- Retain documents for review by auditors
- Keep for the periods specified in the UC Records Disposition Schedules Manual
9. Internal Controls

“Each business unit or department head is specifically responsible for ensuring that internal controls are established, properly documented and maintained for activities within their jurisdiction.”

“Any individual entrusted with funds, including principal investigators, is responsible for ensuring that adequate internal control exists over the use and accountability for such funds.”

Ethics is the **Foundation** of Internal Control

- **Management Environment** - Tone at the top, integrity, **ethics**, competence.
- **Risk Assessment**
- **Controls Activities**
- **Information and Communication**
- **Monitoring**
Tone from the Top

“People behave in an unethical way because they are either responding to signals sent by top management or because the only way that they can meet expectations is to cheat.”

- James O’Toole, USC Graduate School of Business

Control Environment

• Train, Train, Train
• Ensure Separation of Duties
• Delegate Authority, Responsibility & Accountability
• Prohibit Password/Account Sharing
10. Use of University Resources

“University resources may only be used for activities on behalf of the University.”

Our Stakeholders

UC Revenues for FY 2005 - $19,080 M

- Tuition & Fees: 22.0%
- Contracts & Grants: 8.0%
- Med Ctrs/Aux: 31.0%
- State Govt: 14.0%
- Private Gifts: 1.0%
- Capital Gifts/Grants: 2.0%
- DOE Labs: 3.0%
11. Financial Reporting

“Certain individuals with responsibility for the preparation of financial statements and disclosures, or elements thereof, may be required to make attestations in support of the Standards”

UC Accounting Program

Objectives – In a Nutshell

• Meet stewardship responsibilities
• Provide management information
• Process properly and accurately all receipts and disbursements
• Account for all financial resources received and used
• Conform to:
  – Legal requirements and Administrative policies
  – Generally Accepted Accounting Principles
• Present a complete picture of funds and uses
Our Most Valuable Resource?

Expenses Associated With Core Activities
FY 2005 $18.9 Billion

- Salaries & Benefits
- Other

12. Reporting Violations and Protection from Retaliation

“Members of the University community are strongly encouraged to report all known or suspected improper governmental activities ...”
Bell, Book & Candle Test

Listen for the bells warning you of an ethical issue.

Check to see if there are any laws, regulations or rules which restrict your choices.

How will your decision look in the light? Could a reasonable fair-minded person conclude you acted improperly?

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The Real Loss

Productivity
Morale
Investigative Leave
Investigation
Disciplinary Action
Grievances
Lawsuits
Recruitment
Training
Funding / Gifts

$ Small Loss $
When you decide to fight fire with fire ...

... all you get is the ashes of your own integrity.

— Michael Josephson

The problem with the rat race is that even if you win, you’re still a rat.

— Lily Tomlin
The future will be better tomorrow.

- Dan Quayle

Scenarios

- Read scenario together.
- Vote and See Responses.
- Discuss in small groups (2 minutes):
  - What are the competing pressures?
  - What actions might be taken?
- Share with room (1 minute).
Remember:

- **YOU** are our most valuable resource.
- **TOGETHER** we can:
  - Support Ethical Culture.
  - Model Ethical Behavior.

**Thank You!**

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