

# "Real World Business Ethics: How Would You React?"



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# The Vanguard Story

- **Vanguard Began Operations May 1, 1975:**
  - “A new type of mutual fund company”
  - 11 Mutual funds and \$1.8 billion in assets
  - 350,000 shareholder accounts
  - 50 employees based in Malvern, PA
- **Vanguard Today:**
  - “Provider of comprehensive investment management services”
  - Over 150 domestic funds and more than 50 funds in foreign markets
  - Nearly \$1 trillion in assets
  - 9 million shareholders
  - More than 12,000 employees at 3 U.S. locations as well as offices in Europe, Asia and Australia



# Why are you here?

## Session Objectives:

- Address the ethical standards and considerations that are critical to accounting and auditing professionals.
- Address how to recognize the presence of ethical issues and how to apply ethical standards to real life.

## Agenda:

- Defining ethics and ethical standards
- Applying ethical standards
- How would you react? What would you do? Some case studies for discussion, reflection and “action”.

# Defining ethics, what is it?

## eth·ic

**Pronunciation:** \ˈe-thik\

**Function:** noun

**Etymology:** Middle English ethik, from Middle French ethique, from Latin ethice, from Greek ēthikē, from ēthikos

**Date:** 14th century

**1** the discipline dealing with what is good and bad and with moral duty and obligation

**2 a:** a set of moral principles: a theory or system of moral values <the present-day materialistic ethic> <an old-fashioned work ethic> — often used in plural but singular or plural in construction <an elaborate ethics><Christian ethics> **b:** plural but sing or plural in constr: the principles of conduct governing an individual or a group <professional ethics> **c:** a guiding philosophy **d:** a consciousness of moral importance <forge a conservation ethic>

**3** plural: a set of moral issues or aspects (as rightness) <debated the ethics of human cloning>

*Merriam-Webster Dictionary on-line search*



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# Defining ethics, what is it?

*"Do the right thing."*

*Spike Lee*

*"The truth of the matter is that you always know the right thing to do. The hard part is doing it."*

*General H. Norman Schwarzkopf*



# Defining ethics, what is it?

“But simply knowing what's "right" isn't enough. Lots of times we say to ourselves, "I know I shouldn't do this, but I'm going to do it anyway.” Take a case like this. You're dating someone and have an explicit understanding that you won't see anyone else. However, one day you meet someone whom you find very attractive. You would like to start seeing this person, but you don't want to jeopardize your original relationship in case this new one doesn't work out. Since you feel that the person you've been seeing trusts you, you figure that you could get away with a few lies. But would this be justifiable?

There really shouldn't be any question that lying in this situation is wrong. The action itself is clearly unethical (you are breaking your promise and deceiving) and the consequences are dubious (since you'll be spending less time with the person you have an understanding with, he or she will probably experience some unhappiness; if you're guilty, you'll be less fun to be with when you are together, even if your deception is successful; both of the people you're dating will be deeply hurt if they find out what's going on). Nonetheless, many people would lie and deceive in a case like this, simply because they want the pleasure of dating someone else. Maybe deceiving someone is wrong, but if it'll make you happier, why not go ahead and lie?

**"Why Virtue?" Thomas White, *Discovering Philosophy*  
(Englewood Cliffs, NJ: Prentice Hall, 1991)**



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## Defining ethics, what is it?

*"Another way that I concealed my fraud was through the filing of false and misleading certified audit reports and financial statements with the SEC. I knew that these audit reports and financial statements were false and that they would also be sent to clients. These reports, which were prepared here in the Southern District of New York, among things, falsely reflected my firm's liabilities as a result of my intentional failure to purchase securities on behalf of my advisory clients."*

Bernard Madoff

Excerpt from court statements

The Associated Press, March 12, 2009



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# Framework for ethical standards and behavior

## Three “Guiding Principals”

- *The interests of clients always come first.*
- *Conflicts of interest “in appearance” and “in fact” must be avoided.*
- *The position of trust and responsibility must never be compromised.*



# Framework for ethical standards and behavior

## Some common situations for discussion:

- ❑ Safeguarding client information
- ❑ Gifts and entertainment
- ❑ Outside activities and secondary employment
- ❑ Use of company time, equipment, property and resources
- ❑ Proprietary information and intellectual property
- ❑ Serving as a Board member or “public official”
- ❑ Retention of company records
- ❑ Business versus “personal” relationships



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# Framework for applying ethical standards

## Three “More” Guiding Principals

- *Establish formal ethics policies and procedures.*
- *Maintain employee and business partner training and awareness programs.*
- *Manage on-going monitoring and enforcement practices.*



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# How would you react? What would you do?

## Case Study 1:

A supplier sends a basket of gourmet foods and a card to your home prior to the holidays. The message in the card: “Thank you for a great year. We hope you and your family enjoy the goodies”. What would you do?

## Case Study 2:

The purchasing manager for a large company agrees to award you the contract for a tax consulting engagement with the expectation that you agree to make a \$200 donation to her favorite charity, a local youth sports team. What would you do?



# How would you react? What would you do?

## Case Study 3:

A large quantity of old office supplies have been sorted and placed near the recycle bin. You observe a co-worker preparing to take these obsolete materials with him. When asked what he is doing, he replies: “They were going to trash it anyway. My son could use this stuff for his school work”. What would you do?

## Case Study 4:

As department manager, you are hosting an informal “End of Tax Season” celebration in the office. The budget is tight. Your next door neighbor has just started her own catering business and really wants you as a client. She offers to provide catering services at cost and provide extra items at no charge. What would you do?



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# How would you react? What would you do?

## Case Study 5:

You have started a new job and really want to get off to a good start. While unpacking, you notice some materials from your previous employer that would provide great ideas for your new firm. You created it, these are your ideas, so why not use it? What should you do?

## Case Study 6:

A major business partner offers you an incredible opportunity to be his guest at the U.S. Open. His firm is sponsoring several high profile activities that you will be attending. He knows that your firm would view this offer as a significant gift and would not approve your participation. So, you are provided with an invoice to pay for the fair market value of the event and attend as “yourself” and not as a representative of your firm. What should you do?



# Questions and Discussion



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# ***THANK YOU***

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