

Chapter 7- Employee Responsibilities

- Discussion Case: Conflicts of Interests in Subprime Mortgages and at Goldman Sachs and Enron
 - The "gatekeeper" or "watchdog" functions – accountants, attorneys, auditors, financial analysts – why are these critical to an effective market system?
 - They must ensure that those who enter into the marketplace are playing by the rules and conforming to the conditions that make it function as it should
 - Subprime mortgage- lenders lowered standards and required lower down payments, lower credit ratings, little-no proof of income
 - Credit rating for mortgage backed securities should have fallen
 - Borrower starts with low payments but then faced large mortgage payoff at an early date
 - Ppl not earn enough to pay off
 - Enron created its own partnerships by funding these groups to make agreements with itself. This "underwrote" risks, which didn't actually happen at all
 - Auditors were also making millions of dollars by doing a "good job" of auditing enron
- To whom are we responsible as business professionals?
- **Rights** – claims that individuals have against others to be treated in certain ways or to receive specific goods (what is owed to me)
- **Responsibilities**- what I owe other people
 - Responsibilities to stockholders, to their families and as citizens
- The Narrow View of Employee Responsibilities: Employees as Agents
 - **Agent** - acts on behalf of another
 - Responsibilities vary with type of employee (i.e. nonmanagerial, managerial)
 - Nonmanagerial- little discretion in the workplace bc they are told what to do since they don't have the expertise to decide on own
 - Managerial- greater responsibility to act in best interests of employer
 - Special expertise that owners must rely on, act on behalf of organization
 - Could be real estate agent (not an employee, but still an agent)
 - Law holds that employee agents owe legal duties of loyalty, trust, obedience, and confidentiality - these override employee personal interests
 - But not override other ethical and legal responsibilities
 - What is the extent of these responsibilities? According to narrow view, few that trump desires of owner
 - But is this ethically defensible?
 - Narrow view of nonmanagerial:
 - Narrow view says that employees consent to obeying employers when take a job, and our normal responsibilities left at door of workplace
 - But consent is not enough to excuse from other responsibilities ex) volunteering for military not mean blindly follow every order
 - Can be in coercive situation, and employers are authoritative
 - More reasonable:
 - Nonmanagerial employees must obey directives of employer when they are job-related, reasonable, and when they don't violate legal or ethical duties
 - Job related: so not become servants
 - Not place employee at risk
 - Employer cant require employee to violate the law, cause harm to ppl, or do anything that goes against their ethical integrity

- o Conflicting responsibilities when manager is a professional
 - Professional trumps personal ex) accounting- responsibility conflicts with enron's interests
- Andersen and Challenger/NASA examples
- Professional Ethics and the Gatekeeper Function
 - o Our responsibilities are a function of the relationships we have with others (roles)
 - o Professional duties stem from the special knowledge they have
 - Ex) if lawyer knows someone committed a crime, cannot reveal that bc have duty
 - **Profession** involves some very specialized knowledge
 - o Gatekeepers – insure that those who enter the marketplace are playing by the rules – this ensures properly functioning market
 - o Professional intermediaries are paid by the companies they watch over – can create conflicts (accountants have responsibility to public, but serving clients' financial interests)
 - o Because professional gatekeeper duties are necessary conditions for economic legitimacy, they should trump any other responsibilities of an employee (responsibility to hold a promise to enron not as important as professional responsibility)
 - BUT – knowing and fulfilling duties are two different things – virtue ethics
 - Virtue ethics encourages development of personal habits and character that will make easier to be ethical
- Managerial Responsibility and Conflicts of Interest
 - o **Narrow view**- conduct business as owners desire, which is to make as much money as possible (do what's in best interest of firm)
 - More than one owner may have diverse desires that can conflict (some want short term gain, some support the company, some investing for retirement)
 - o Responsibility to represent best interests of the company
 - o Every decision made imposes cost on someone- stakeholders
- Trust and Loyalty in the Workplace
 - o Because managers have authority over corporate resources and because all stakeholders depend on the manager's decision
 - o Responsibility of trustworthy manager: Develop and maintain professional competence and expertise
 - Ensure that judgments are informed by best professional standards available
 - Duty of loyalty: willingness to make personal sacrifices in the interest of the firm, employee responsibility to be loyal to firm
 - o Workplace loyalty – willingness to remain faithful to one's commitments even at the cost of lost personal benefits – **a firm ought to be able to trust employees to keep commitments, BUT has no ethical basis to expect employees to go beyond this and sacrifice for the firm**
 - Duska: only loyal to things of mutual benefit, firm should sacrifice for employees just as they sacrifice for firm
 - Loyalty not good in case of enron