Business ethics as an applied ethics that guide the practice of business

Business, Management

Introduction

Ethics are set rules that guide behavior based on certain principles that define what is morally right or wrong. Business ethics hence are a form of applied ethics that guide the practice of business. Business ethics aims at examining whether ethical principles are followed in overall business practice and also provides guidance in case ethical or moral problems arise in the business environment. Business ethics hence examine the conduct of individuals to the entire organization. The major role of business ethics is to ensure that some level of confidence exists among all concerned stakeholders in a business. This includes consumers, suppliers, debtors, shareholders and other concerned parties in the business operations. This ensures that all these parties are treated fairly and protected from potential loss arising from business malpractices. Often, business ethics are guided by the law, but other times they just provide a fundamental framework that a business should follow in order to win public confidence (Shaw, 2011).

The Adelphia Communications Scandal

A good example of violation of deontological ethics is the famed Adelphia Scandal whereby Adelphia communications executives grossly violated the confidence that both the company’s shareholders and the public had bestowed upon them. Adelphia Communications, a large cable television company suffered massive looting of finances and gross violation of business ethics. Members of the founding family- the Rigas had colluded with some company executives to execute a massive financial rip off that ended in huge losses, law suits and loss of public confidence. The Rigas family was accused of improperly possessing the company's assets for their personal use. The Rigas family members were accused of exploiting Adelphia's business activities for their personal gain. They unlawfully borrowed the company's fund with the sole purpose of enriching their family at the expense of the company. The borrowed funds amounted to billions of dollars that were directed to their privately owned companies. In order to cover up the dubious financial deals, they falsified the company's financial reports, drafted fictitious receipts and diverted the company's finances towards lavish personal expenses such as expensive trips. For instance, they used the company jets for private trips, constructed two apartments in Manhattan for family use and used the company's money for construction of a golf course (Markon & Frank, 2002).

The magnitude of this financial scandal and looting of the company by the Rigas family led to Adelphia having a huge debt and loss of investors' money. Hence, rating agencies and investors started demanding that the company reduces its debts. This led to the Rigases adopting a series of schemes and financial fraud aimed at concealing the borrowings while inflating the earnings. To portray a contrary financial position and conceal the fraudulent deals, a huge amount of debt, amounting to $1. 8 billion was omitted from the company's public financial statements. This financial rip off was executed with the help of some company executives. The company also prepared false financial results by creating non-existent transactions to boost its revenue. The Rigas family also created an accounting system specially designed to mask their personal transactions. They also prohibited the Adelphia employees from recording the family's air travels and used the company's asset without the due process of approval by the company's board. This led to the company's stocks falling and margin calls on the Adelphia stock (Markon & Frank, 2002).

Two Key Ethical problems raised by the Adelphia Communications Case

In the Adelphia Communications case, the Rigas family in liaison with some company executives is involved in a lot of financial record manipulation and concealing of crucial financial information and transactions. The Rigases also misuse the company property for their own personal financial gains, a practice referred to as self dealing. These are the key ethical issues that surround this case, and whose gross violations bring the company to the knees of bankruptcy (Barlaup, Hanne, & Stuart, 2009).

Manipulation and Concealing Critical Financial Information

Manipulation and concealing critical financial information is a key integrity issue raised by the Adelphia communications case. Rigas family owned businesses entered into a co-borrowing business with Adelphia. The accountants also lacked objectivity as an ethical issue by allowing these co-borrowings to be kept off the books. They used nonexistent receipts to record fictitious transactions and released falsified financial statements. Their fraudulent deals that lead to staggering debts made them omit the debt from the company's public financial statements. Nonexistent transactions were also created to ' boost' Adelphia's revenue. Financial information was also manipulated and concealed by designing the special accounted system that was aimed at concealing their personal transactions.

This intentional misstatement was meant to mislead the analysts and investors that Adelphia still met their growth expectations (Barlaup, Hanne, & Stuart, 2009).

Self-dealing

Another key ethical problem presented by the Adelphia communications case is lavish personal spending, using the company's resources at the expense of the shareholders. Self- dealing represents a form of conflict of interest whereby a trustee or a corporate office takes advantage of his position by acting for his own personal interests as opposed to the interests of the corporate shareholders, clients or beneficiaries. It usually involves embezzlement of corporate assets and opportunities. They used company assets such as company jets for their private trips. They also borrowed huge amounts of money, amounting to huge billions of dollars for their private companies. Construction of a golf course and two apartments was also self-dealing on the part of the Rigases. The Rigas' family also prohibited Adelphia employees from recording their family's air travels. They used the company's assets without due approval from the board of directors. The Rigas family also, through manipulation of the cash management system, acquired more than $1. 3 billion in form of company stock and notes from Adelphia. Other instances that shows the self-dealing transactions done by the Rigases includes a transfer of $241 million from Adelphia's assets to pay personal family debt. The Construction of a golf course and the two apartments for family use was done using funds owned by Adelphia Company (Markon & Frank, 2002).

Deontological Ethics and Immanuel Kant’s Categorical Imperative

Deontological ethics are duty based ethics that place a particular weight on the association between the morality of human deeds and duty. Deontology hence considers an action as ethical based on the inherent nature of the deed itself, not because the effect of the deed is good. It hence concerns itself with acts rather than their consequences. Hence, one cannot justify their deeds under deontological ethics on the basis that the actions produced desirable consequences. Deontological moral systems are defined by their focus on adherence to autonomous moral rules or duties. Hence, for one to make the right moral choices in deontology, he has to understand what moral duties are and which right set of laws exist to standardize those duties. Therefore, we behave morally when we understand and follow our duty, and immorally when we fail to abide by our duty (Barlaup, Hanne, & Stuart, 2009).

Immanuel Kant, an important philosopher in modern Europe, came up with the philosophical concept of the categorical imperative, which was central to his deontological moral philosophy. Kant’s Categorical Imperatives can be described as a way of assessing motivations towards particular actions. In this concept, Kant viewed human beings as occupants of a special place in creation, while morality as a crucial decree of reason or the essence from which all duties and responsibilities originate. He then named this standard of rationality as the “ Categorical Imperative.” According to Kant, immoral acts hence involve a contravention of the Categorical Imperative and are therefore considered irrational (Johnson, 2008). Kant felt that hypothetical moral systems heavily relied on subjective considerations hence could not influence moral action nor be used as the basis for moral judgments. A categorical imperative was hence a favorable alternative as it represents a supreme and unrestricted requirement that affirms its authority under all circumstances (Barlaup, Hanne, & Stuart, 2009).

Deontological framework and Kant's categorical Imperative with regards to the Adelphia case

The deontological framework clearly labels the actions of the Rigas family as immoral. The Company had the duty to protect the investments of the stock holders and other investors. They also had the duty to protect the company's assets. On the contrary, the Rigases went on a spending spree using the company's assets. They embarked on self-dealing and run the public corporation as a family business, completely disregarding the interests of the shareholders. They hence neglected the moral duty and trust that had been bestowed upon them of taking care of the company and its assets, as well as protecting the interests of their shareholders. Certain acts, such as constructing a golf course and two apartment, expensive private trips using company planes and huge borrowing for their private companies are unacceptable acts and are considered as immoral.

According to Kant's deontological theory of categorical imperatives, immorality occurs when an individual tries to set standards that are different for themselves as opposed to other individuals. These acts cannot be universally accepted as they lack in rationality. For instance, withholding crucial financial information from shareholders lacks rationality and is therefore immoral. On the other hand, use of a company's assets for personal ends and without approval from the board of directors lack rationality in itself, hence qualifying as an immoral act. Kant's Categorical Imperatives hence establish a connection between rationality and Immorality. In addition, the amounts that are withdrawn for personal use are colossal, leading to Adelphia filing for bankruptcy (Barlaup, Hanne, & Stuart, 2009). This reveals the selfish nature of the Rigas family, who are not concerned about the impact of their actions on other stakeholders such as shareholders, investors and the general public. Their selfish acts cannot be universally accepted and are immoral under deontological ethics and also according to Kant's Deontological theory of Categorical Imperatives.

The act of concealing financial information and dealings by the auditing firm, Deloitte, goes against deontological principles, which require that this information be made public, whether it hurts the Rigas family or not. The categorical imperative was contravened by withholding crucial information for decision making from stockholders. The auditors failed to adequately disclose audit reports to the detriment of the company and shareholders only to serve the self-interests of the Rigas family. This audit failure questions the importance of the audit process if it doesn't benefit the stakeholders. Deloitte did not act in an independent manner when the management fraud occurred in Deloitte. Hence, they did not add value to the information available to outsiders. In the environment that lacked a moral framework, there was general relaxation of ethical standards, and gross inability of the external auditors to conduct an independent supervision (Barlaup, Hanne, & Stuart, 2009).