Intro

- Common sense advice.
  - “Common sense is not so common” Voltaire.

- Examples.
Common sense advice

- Do not do anything illegal.

- Do not do anything that you would not want to see on the front page of the Wall Street Journal.

- Concentrate on fundamentals and substance.
  - CIMITYM.
  - Avoid actions that are cosmetic.
Most hard decisions – ethical and otherwise – involve tradeoffs.

- There may be no one answer that is “right” for everyone.
  - Is it all right for your company to pollute? Fire people?
- To make those decisions, you have to evaluate the tradeoffs.

To do so, you should make the decision that makes you better off.

- I.e., act in your self-interest, but
- Think very broadly about what your self-interest really is.
What do I mean by self-interest?

- Self-interest interpreted very broadly.
- Need to consider the outcomes of your actions.
  - Unethical (or illegal) actions may lead to short-term gain; but
  - almost certainly have negative long-term consequences:
    - actual losses.
    - loss of external reputation.
      - very difficult to put a value on.
      - priceless.
      - loss can be irreversible.
    - loss of internal reputation.
      - can you live with yourself? stress?
      - also, priceless.
My (unscientific) sense: tendency to underestimate negative long-term consequences / loss of reputation, particularly if you have to make decision quickly.

Accordingly, very useful to think things through ahead of time.
- Many times a tough issue arises in real time.
  » Very easy to react without thinking carefully about consequences. Slippery slope.
- It is a good idea to try to forecast potential dilemmas / tough issues and think through your actions before they actually arise.
Examples of the Reality of Tradeoffs

- MBA Oath.
- Marriott Spinoff.
THE MBA OATH

Part 1:

– “As a manager, my purpose is to serve the greater good by bringing people and resources together to create value that no single individual can create alone. Therefore I will seek a course that enhances the value my enterprise can create for society over the long term … As I reconcile the interests of different constituencies, I will face choices that are not easy for me and others.”
Therefore I promise:

- “I will act with utmost integrity and pursue my work in an ethical manner.”
  » Empty.
- “I will safeguard the interests of my shareholders, co-workers, customers and the society in which we operate.”
  » How can you do that?
  - Shareholders want profits (and lower wages) while workers want higher wages.
  - Shareholders want profits (and higher prices) while customers want lower prices.
Therefore I promise:

- “I will manage my enterprise in good faith, guarding against decisions and behavior that advance my own narrow ambitions but harm the enterprise and the societies it serves.”
  
  » How can you do that?
  
  ■ If you work at one company, do you turn down a fantastic job offer at another company?
  
  ■ If you can outsource from the U.S. to India, do you not do that because it harms the U.S. (at least in the short run)?

- “I will strive to create sustainable economic, social, and environmental prosperity worldwide.”
  
  » These invariably conflict. How do you assess tradeoffs?
In 1992, Marriott proposed splitting itself in two.
- Marriott kept the hotel contracts and no debt.
- Host Marriott kept the hotel properties and a lot of debt.

Issue:
- Benefits Marriott shareholders, but hurts Marriott bondholders.
- Takes advantage of loophole in debt contract with bondholders.

Answers:
- In favor: fiduciary duty is to shareholders. A contract is a contract.
  » Board approved.
- Against: broke implicit promise to bondholders. Will incur damage to reputation that will be costly in future.
  » One director resigned.
Ethics and the Crisis

- Should you offer someone a mortgage they cannot afford?
  - No?
  - Yes, but only if you tell the borrower they should not take it because they cannot afford it?
  - Yes?

- Should you package mortgage-backed securities that you believe are bad investments and sell them to someone else?
  - No?
  - Yes, but only if you tell the buyer that you believe the mortgages are bad investments?
  - Yes?