### CHAPTER 4: Ethics & Social Responsibility

### Practice Being a Manager

#### DISCERNING UNETHICAL BEHAVIOR

Applying ethical judgment in an organizational setting can be challenging. This exercise offers you the opportunity to consider how you might approach such a situation as a manager in an investment firm. Read the scenario and prepare your responses to the individual (homework) questions in advance of discussing this exercise in class.

##### Scenario

Imagine that you are a newly hired portfolio manager at Excalibur Funds. Although you’re new to this job, you have 8 years’ experience in the mutual fund business. You left a larger and more established mutual fund company to join Excalibur because of its reputation as a bright, up-and-coming investment company, a place where someone like yourself could participate in building a new and dynamic investment company. Your new fund, the Pioneer Fund, is a growth-oriented fund investing in small companies. Typically, the majority of the fund’s stock investments is in high-technology companies. Pioneer is moving up fast in its peer group, and if the fund continues to perform well, you stand a good chance of being the manager recognized when it breaks into the top tier of performance.

One of the features that attracted you to this job is the opportunity to work with a seasoned group of traders, analysts, and staff professionals. The Pioneer Fund staff has averaged 10 percent turnover over the past five years, unusual in an industry where turnover commonly reaches 60 to 80 percent. After a month of working with your new team, however, you have noticed some troubling patterns. First, you felt that some of your staff were delaying or stonewalling you on several occasions when you requested more detailed information on particular trades. It took too long to get the information, and when you did receive it, the information looked a little *too* neat and well organized. Second, the analysts have seemed guarded regarding their interaction with some of the technology companies in which the Pioneer Fund invests. On more than one occasion you’ve noticed analysts quickly ending phone calls when you entered the office or minimizing computer screens when you walk by their desks. Finally, the group just seems a bit too *nice* when you are around. The investment business is often hectic and stressful. Shouting matches over investment decisions are not uncommon, and grumbling is a second language. But all you get are smiles and charm.

So here you are at your desk on a Saturday evening, finishing off the last of a pot of coffee and planning for Monday morning. One thing is clear—you must begin to scratch below the surface of the Pioneer Fund team. Your gut tells you that something is wrong here, perhaps very wrong. For all you know, you may be sitting on the next big investment scandal. Your head tells you that you have no hard evidence of unethical or illegal behavior and that you’d better tread carefully. If your gut is wrong and you run around making hasty accusations, you may lose what appears to be a very talented investment team. What steps should you take starting Monday morning?

##### Preparing for Class Discussion

Complete the following steps individually in preparation for class discussion. Write your responses to the questions in each step.

**Step 1: Understand the situation and key considerations.** What considerations would be important to you in developing a plan of action in this situation? What resources might you draw upon to determine whether or not particular actions are unethical and/or illegal?

**Step 2: Develop a plan of action.** What steps would you follow in this scenario? What factors should you consider in planning your timing of these steps?

**Step 3: Anticipate response(s).** How might the Pioneer Fund employees respond to your plan of action? Develop a few scenarios.

##### Small Group and Class Discussion

Your group should discuss the following questions and be prepared to share your thoughts with the class:

1. What are the most difficult aspects of responding to a murky situation—those situations in which you sense the presence of unethical and/or illegal behavior but haven’t seen unequivocal proof of wrongdoing?
2. What are the risks of waiting for unequivocal proof before beginning to take action? What are the risks of acting decisively based on your “gut” sense of a situation?

What is different about acting ethically/responsibly within an organizational environment/culture like that of the Pioneer Fund versus acting ethically/responsibly as an individual? What are the particular challenges and dynamics associated with ethical and responsible behavior in an organization?