

## When Reality and Rules Collide: Understanding the Business Context of Ethical Decisions

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With the series of ethics scandals over the last decade, more and more companies have created, updated, or clarified their corporate codes of conduct. Yet even though tougher and more detailed guidelines are in place, managers often find themselves questioning the validity and application of some rules in certain situations. In particular, when managers experience a disconnect between company rules and what is actually occurring on the job, they are faced with the choice of whether or not to adhere to the rules, or bend or break them. This in-basket exercise simulates a day in the life of a corporate manager who faces such a challenge, and provides participants with the opportunity to experience real-world ethical dilemmas and to assess their own views in relation to them. It is designed primarily for use with graduate students or upper-division undergraduates.

**Keywords:** Ethics, Ethical Decision Making, Ethical Conduct

As a result of recent ethics scandals and the corresponding implementation of the Sarbanes-Oxley legislation, more and more companies have created, updated, or clarified standards of ethical behavior for their employees. What happens, however, if company rules do not cover certain situations? Most managers live by a personal code of conduct that includes a set of principles about behaving with integrity, treating others with respect, and keeping commitments (Veiga, Golden, & Dechant, 2004) and do not hesitate to listen to their conscience. If managers find their personal views in contradiction with corporate regulations and guidelines, what determines whether or not they should adhere to the rules or bend or break them? This article describes an in-box exercise designed to acquaint students with the challenges of managerial decision making in situations where company rules are absent or vague about the ethical standards which might apply.

In a recent study described in the *Academy of Management Executive* (Veiga et al., 2004), executives from various industries were asked to report their observations relative to decision making in situations where individuals are confronted with choices which favor bending or breaking company rules and general operating policy. On average, 70 percent of the survey respondents reported that rule bending is fairly typical. Although reasons vary, the study determined that they fall into three distinct categories: performance-based judgment calls, faulty rules, and socially embedded norms.

*Performance-based judgment* calls refer to situations where executives consider the ultimate welfare and reputation of their companies prior to taking action. In other words, they try to

balance the long-term impact of their choices with short-term results. They will bend or break rules when the outcome will be fairer in the long run for the company than it might be otherwise. Managers are interested in making decisions that get the job done but do not harm their organizations. For instance, if a company policy forbids overtime pay, a manager may feel perfectly justified giving extra vacation days to recognize an employee who works on a weekend during an emergency.

The second category, *faulty rules*, involves situations where managers make exceptions to company policies that appear to be unfair, ambiguous, out of date, or poorly conceived. For example, rule bending managers might well make an exception for a hardworking employee who must transport small children to day care every morning and finds it difficult to make the published 9 a.m. start time required by her employer.

In the third category, *socially embedded norms*, managers choose to break or bend the rules because they believe what they are doing is common practice, i.e. everyone else does it. This category also reflects the role that social relationships play in influencing rule bending and how managers sometimes turn a blind eye towards certain practices that may be widespread (Maclean, 2001). Examples include ignoring inappropriate employee practices such as leaving early for a long weekend, or not enforcing policies based on the premise that these are commonly accepted norms of behavior in the organization, such as using office phones for personal use. According to the survey this rationale was largely, though not completely, frowned upon by executives.

Companies whose ethical guidelines or codes of conduct are vague or incomplete place their managers and employees in a bind. If codes are to be useful, they must clarify beliefs, values, and norms. For example, when does the need of an organization to make a profit prevail over the interests of customers, employees, or distributors (Weiss, 2006)? Furthermore, the absence of clear guidelines relative to ethics policy and acceptable practice can place executives at personal risk (Badaracco, 2001; Paine, 1996). Simply being a good citizen may be valued in theory, but in practice the rewards are not evident and present personal risk to the decision maker. As a result, executives encounter circumstances where they believe challenging existing standards or practices is appropriate but will choose to take actions tempered by the personal consequences to them and to their positions (Brass, Butterfield, & Skaggs, 1998). The situations presented in this in-basket exercise reflect the reasons executives reported in the *Academy of Management Executive* survey (Veiga, et al. 2004) for not bending the rules as well as those in which they believed rule bending was appropriate. Through the completion of the in-basket items and ensuing discussions, students learn to better analyze and problem solve ethical dilemmas and recognize the limitations of corporate ethics codes in guiding everyday managerial situations.

### **Overview of the Exercise**

This in-basket exercise simulates a day in the life of a corporate manager confronted with a series of decisions with ethical implications that relate to the company's code of conduct and operating policies. Terry Ruller works for Ethi-Tech, a global technology firm headquartered in the northeastern part of the United States. Terry heads up the North American Sales Force of Ethi-Tech with offices in Chicago, Atlanta, Houston, and San Francisco as well as Toronto and

Calgary in Canada. Ethi-tech also has sales offices in France, Italy, Argentina, Brazil, Mexico, and Venezuela. In the first part of the exercise, students are asked to assume Terry's role and respond to 12 items in his/her in-basket on the day before a corporate ethics conference. In the second part of the exercise, students are invited to prepare Terry's recommendation for change to the corporate ethics code for presentation at the conference, based on his/her recent decision-making dilemmas from the in-basket.

### Exercise Objectives

After completing this exercise, students should be better able to:

1. Recognize the limitations of corporate ethics codes in providing guidance to employees and managers in everyday situations;
2. Analyze and problem solve ethical dilemmas where corporate rules and managerial common sense appear to conflict;
3. Gain insights into their own personal values and probable actions and decisions in the face of ethical dilemmas;
4. Compare the results of their own decisions with those of corporate managers and professionals.

### Overview of Sequence and Timing of Conducting the Exercise in Class

<b>Est. Time</b>	<b>Action</b>
10 minutes	Facilitator introduces exercise.
10 minutes	Facilitator distributes handouts (Appendix B: in-basket and Ethi-Tech Corporate Code of Conduct) and instructs students to work individually on the disposition of each in-basket item.
15- 20 minutes	Students are divided up into small groups (four to five members) to discuss their individual decision choices and to arrive at a group consensus for each item.
20 minutes	Facilitator debriefs group in-basket decisions (Appendix A contains possible decisions and explanations).
15 minutes	Small groups meet a second time to discuss the Ethi-Tech Corporate Code of Conduct and arrive at recommendations for change.
10 minutes	Each group reports its change recommendations.
5 minutes	Facilitator conducts general debrief and wrap-up.
<b>90-95 minutes</b>	<b>Total Estimated Time Requirement</b>

## Target Audience

This exercise is designed primarily for use with graduate students or upper-division undergraduates.

## Facilitator Preparation

This exercise is intended to supplement a class module on ethics and ethical decision making. Prior to giving this exercise to students, it is recommended that the facilitator:

- Read the “facilitator instructions” section below;
- Gain familiarity with the items in the in-basket as well as the “Ethi-Tech Code of Conduct” (both featured in the student handouts in Appendix B);
- Review possible decisions and explanations for in-basket items (Appendix A);
- Read the reference article “Why managers bend company rules” (Veiga et al., 2004).

## Facilitator Instructions

1. Present the findings from the survey described in the article, “Why managers bend company rules,” focusing on the three categories of rule bending rationale in Table 1 of the article (performance based judgment calls, faulty rules, socially embedded norms) and the top ten reasons for not bending the rules (Figure 1 in the article). Use this introduction as an opportunity to stress the value of clear and comprehensive ethical policies as well as management leadership in establishing a culture of integrity. (Time: 10 minutes)
2. Distribute the student handouts in Appendix B. Instruct students to read the items in Terry’s in-basket, make their decisions, and give a rationale for each decision in the spaces provided. (Time: 10 minutes)
3. Move students into small groups to review and discuss their individual decisions, working to arrive at a consensus for each item. Encourage them to integrate the information in the introduction on the three categories for bending rules—performance based judgment calls, faulty rules, and socially embedded norms. (Time: 15-20 minutes)
4. Debrief the entire class using some or all of the questions below (Appendix A provides some possible decisions and explanations for each item in Terry’s in-basket). (Time: 20 minutes)
  - What was your rationale for each decision?
  - Would you feel comfortable justifying your decision up the management chain?
  - Who is affected immediately by your decision? How?
  - Is your decision likely to establish a precedent? How will the company be affected by similar future decisions?
  - How might employee performance and morale be impacted by your decision?
  - Did the Ethi-Tech Code of Conduct help you make your decision? If so, how? If not, why?

We have found this portion of the exercise to lead to rich discussions about the challenges of making sound ethical decisions in a corporate environment. Students are inevitably surprised at how much their own decisions differ from others in their small group and class, even in what might otherwise be considered a fairly homogenous student body. MBA students typically bring their own ethical lens to each in-basket item, in-part shaped by prior experiences and the daily challenges they have faced throughout their careers. Discussions at some point usually center on the trade-offs of what decision is best from a “business” standpoint, versus what is ethically appropriate to do. Some students point to the Corporate Code of Conduct as rationale for their decisions, whereas other students point to the need to “interpret” the rules in order to do what is best for the company. Lively debates are usually sparked during the interplay of these two perspectives.

5. Reassemble students into small groups. Ask them to assume the roles of the managers at the Ethi-Tech off-site meeting on ethics. Instruct them to discuss the current Corporate Code of Conduct’s strengths and limitations based on their experience resolving the items in Terry’s in-basket. Have them form a list of recommended changes to address errors and omissions in the Code. (Note: If access to the Internet is possible, students can search the web for examples of companies’ ethics policies to compare with Ethi-Tech’s.) (Time: 15 minutes)
6. Debrief class based on small group discussions of Corporate Code of Conduct. In debriefing this segment of the exercise, the facilitator will want to ensure that the suggested changes are realistic and applicable. One way to do this is to refer to examples of other codes of conduct from other companies to illustrate the typical content and nature of corporate ethics policies and programs. (Time: 10 minutes)
7. Generally debrief and wrap-up the exercise, highlighting the interplay between individual decisions managers make daily (e.g. the in-basket items) with the company’s Code of Conduct and ethics programs. (Time: 5 minutes)

### **Materials Needed**

Facilitator should make copies for each student of Appendix B (Student instructions, Terry’s In-basket, Code of Conduct), as well as the Veiga et al. (2004) article. As an additional option, the facilitator may wish to provide examples of corporate ethics codes.

### **Conclusion**

As a result of their participation in this exercise, students will have an opportunity to experience real-world ethical dilemmas and assess their own values and views in relation to them. In the course of decision making and problem solving, they will be challenged to maintain their espoused values, norms, and assumptions in relation to company stated policies and practices when confronted with situations where the two appear to disagree. Finally, they will have a chance to compare their decisions with those of other students as well as a sample of corporate managers who faced similar situations (Veiga et al., 2004).

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## APPENDIX A: Instructor Materials

### In-Basket Items: Possible Decisions and Explanations

Below are possible decisions and associated explanations for each of the in-basket situations provided in the student handout. Each decision is based on the three categories of rule bending described earlier, as detailed further in the Veiga et al. (2004) article on the topic. Specifically, each item entails rationale aimed at performance-based judgment calls, faulty rules, or socially embedded norms. In **performance-based judgment calls**, the category favors rule bending in cases in which managers are placing the welfare and reputation of their organizations over the short-term impact of a single violation, company guideline, or policy. In **faulty rules**, managers act from the premise that the rules or policies in question are unfair, out of date, or ambiguous. For **socially embedded norms**, managers chose to bend or break the rules because they believe the behaviors are common practice and therefore justified due to generally accepted behavioral norms. Responses from conducting this exercise with professional MBAs who are managers themselves have been supportive of the decisions and explanations given below.

#### Item 1: Approve expense report.

In some emergency situations, managers believe rule violations are not only ethical but necessary. The purchase of a washer and dryer might be perceived as evidence of the company's concern for its employees and their families. It is one less thing they have to worry about as they try to recover from the disaster. On a more pragmatic level, depending on how long the power is out, the appliances enable the sales representatives to conduct business while maintaining the professional appearance that clean clothes creates! (*Performance-based judgment call*)

**Item 2: Sign time sheet.**

For many companies, when employees cannot be compensated with money for one reason or another, allowing compensatory vacation time is the norm. Given the absence of such an option in Pauline's firm, she is justified in bending the rule in this situation, particularly if one considers the impact of not providing some form of recognition and appreciation for the crew's work. It would not be surprising if this same crew was not motivated to work on future company emergencies. Terry ought to take the initiative to push for a change in policy to allow compensatory time off in the firm to avoid future conflicts. (*Performance-based judgment call*)

**Item 3: Do not approve expense reimbursement.**

Organizations set limits on expense accounts for good reasons. While Alicia's manager probably expects to encounter situations where meals and entertainment expenses run over a bit, how much is too much? By denying this significant violation of the cap, Terry reinforces the company guidelines and avoids making arbitrary exceptions where if \$170 is okay, then why not \$200 or \$225, etc.? (*Faulty rules*)

**Item 4: Do not falsify the work schedule.**

Falsification of the work schedule is not warranted in this case. While Brian has a good reason to miss work, his absence need not be explained beyond taking time off for "personal reasons." Assuming this will be a relatively short-term situation, Brian can tap into his vacation time or personal day allowance. Doing otherwise would set an uncomfortable and unethical precedent. (*Faulty rules*)

**Item 5: Seek approval from boss.**

Since this is likely to be a one-time event, in order to keep up morale and good will Terry may want to seek approval for the purchase as an exception despite the fact that Courtney should have known better. (*Performance-based judgment call*)

**Item 6: Do not sign expense account.**

The use of company funds for escort services is not only unethical, but probably illegal. (*Faulty rules*)

**Item 7: Approve award.**

Technically, the deal was consummated during the period and met the 40 percent sales goal despite the fact that \$50,000 of a particular contract is contingent upon the availability of a part which may or may not materialize before the end of the period. Since we are not talking about fraudulently booking revenue associated with reaching a sales goal, the impact on motivation and morale of the denial of bonus and award outweigh the possibility that the part may not be available. (*Performance-based judgment call*)

**Item 8: Do not approve phone bill.**

Ethical decisions should not be made in a vacuum. In this example, both employees are members of a larger organization and must operate in the best interests of the firm. In the situation described the manager's reasoning is faulty. Even though the secretary appears to be getting away with using the telephone for personal reasons, her actions are contrary to company policy and should not be used as an excuse for others' violations. (*Socially embedded norms*)

**Item 9: Stay in coach class.**

Save the upgrade for your next vacation. It appears that the corporate culture values thrift and saving money where possible. Such a culture is sustained by leadership and the example it sets, since a leader's actions set the tone and direction for behavior within the ranks of employees. Therefore, despite the fact that you are paying for the upgrade yourself, it is best to uphold the spirit of the culture by flying coach. If this were a situation in which you were expected to arrive at your destination and immediately step into a very important client meeting, flying in first class might help you be at your best. However, in such a case you may choose to point this out to your colleagues in advance and stress the fact that you are paying the difference in cost yourself. (*Socially embedded norms*)

**Item 10: Make things right with Raj.**

While you cannot get Raj reimbursed directly for the shirt, you can bend the rules and approve the equivalent of the cost of the shirt added to other legitimate reimbursables such as taxi cabs, meals, etc. (*Faulty rules*)

**Item 11: Clarify the rules in a culturally acceptable way.**

Global firms with high ethics are comfortable operating with diverse internal and external stakeholders. They begin with a strongly stated and widely shared philosophy about valuing customers as well as employees. While they encourage tolerance and respect for individual differences, they stress those values, norms, and behaviors that are in the best interest of the firm worldwide. In this example, customer service is a universal norm. Terry needs to have this made clear to the office in Venezuela and elsewhere. Lunch times can be flexible but the interests and welfare of clients must not be jeopardized. (*Socially embedded norms and performance-based judgment*)

**Item 12: Issue the cell phone.**

Here is a clear case where a rule has been established without consideration of possible implications. Positions for which companies expect employees to be available should be used as a guideline for cell phone issuance. (*Faulty rules*)

## APPENDIX B: Student Instructions

This exercise is based on the results of a real-world study of managers who are faced with situations in which they must weigh options as they attempt to make the appropriate or “right” decision. However as you will see, in making the appropriate decision, managers are faced with options which include either bending or breaking the company “rules.” You will assume the role of Terry Ruller, manager of the North American Sales Force of U.S.-based Ethi-Tech, a technology firm with regional offices in Chicago, Atlanta, Houston, and San Francisco as well as Toronto and Calgary in Canada. Ethi-tech also has branch sales offices in France, Italy, Argentina, Brazil, Mexico, and Venezuela.

Terry has just returned from lunch and finds a number of in-basket items sitting on the desk. These items, which include expense accounts, telephone messages, report approvals, and memos, must be handled this afternoon because Terry will be leaving for a weeklong company ethics conference in Chicago first thing in the morning.

The meaning of business ethics is certainly on Terry’s mind. Terry has also been asked to work with a group of peers at the conference to review the Corporate Ethics Code (Exhibit 1) and make recommendations for any necessary changes. Terry has been invited to participate in a corporate ethics conference along with other members of upper management. As a group they will be reviewing Ethi-Tech’s Corporate Code of Conduct in order to update and clarify it based on their collective experiences and the growing influence of the Sarbanes-Oxley Act. However before leaving Terry must handle these in-basket items, most of which contain ethics implications.

### **Directions: Part 1**

Review Ethi-Tech’s Mission Statement, particularly the part about ethical standards. Then go through the 12 items in Terry’s in-basket. Put an “X” through your choice and explain your reason for each decision in the space provided on the form. If you need more room, continue writing on the back of the form. When you are finished, your instructor will ask you to discuss your choices with your team to arrive at a consensus decision for each item.

### **Directions: Part 2** (Your instructor will inform you when to complete this part of the exercise)

Assume that it is now the day of the conference and you are about to meet with your colleagues at Ethi-Tech. Based on your collective experience with the in-basket exercise, discuss the strengths and weaknesses of Ethi-Tech’s Corporate Code of Conduct. With the members of your team, identify and agree what needs to be changed, clarified, or added. Prepare a group recommendation for presentation to the class.

### Terry's In-basket

<b>Item 1: Clean clothes</b>		
<p>Kansas City regional manager, Steve M., charged \$1200 for a washer and dryer for office use. A Level Five tornado downed power lines in a residential area where half of his sales representatives lived. Power was out for over a week. Company rules do not allow for the use of company funds for such purchases. He's submitted his expense account for your approval.</p>		
<b>Approve Expense Report</b>	<b>Do not approve expense report</b>	<b>Other</b>

<b>Item 2: Going beyond the call</b>		
<p>Pauline's crew worked overtime over the weekend on a big customer order. Overtime pay is not an option. Pauline has asked for permission to give her three-person crew an extra vacation day in recognition of their hard work. Since there is no mechanism for this in the company, she asks you to sign their time sheet for their day off as if they had been working.</p>		
<b>Sign time sheet</b>	<b>Do not sign time sheet</b>	<b>Other</b>

<b>Item 3: Travel reimbursement</b>		
<p>Alicia just returned from a sales trip to New Orleans. While there, she had the opportunity to eat dinner with a top manager who is likely to buy many of Ethi-Tech's products. However the dinner was at a very high-end restaurant and cost \$170 over the maximum allowable per-meal corporate-wide cap for meal and entertainment expenses.</p>		
<b>Sign expense sheet</b>	<b>Do not sign expense sheet</b>	<b>Other</b>

<b>Item 4: Marital counseling</b>		
<p>Brian has been having some marital problems which he does not want to share with others in the office. He comes to you to ask for three hours off every other week to go to counseling. As the counseling appointment times vary, he asks you to simply state on the common office schedule various types of fictitious off-site meetings with clients.</p>		
<b>Change appointment schedule to reflect fictitious off-site meetings</b>	<b>Do not change appointment schedule</b>	<b>Other</b>

<b>Item 5: New policy</b>		
<p>On Wednesday Courtney purchased a new digital assistant (\$250) to carry with her on client visits. However, Ethi-Tech recently instituted a new corporate-wide policy, which went into effect over a week ago, that requires prior approval for equipment purchases. Courtney did not obtain prior approval, and told you she doesn't recall hearing about the new policy even though she attended a meeting where it was mentioned. You must now decide if you will go to your boss and seek approval for the purchase.</p>		
Seek Approval from Boss	Do not Seek Approval from Boss	Other

<b>Item 6: Personal services</b>		
<p>During a recent sales trip to Tijuana in Mexico, Todd enlisted the services of an "escort" to accompany him to a reception hosted by a senior government official. Even though he is unmarried, Todd felt this was necessary to "look the part" and socialize effectively with top managers who would be attending the reception with their spouses. He has submitted a reimbursement form for \$300 for "personal services."</p>		
Sign reimbursement form	Do not sign reimbursement form	Other

<b>Item 7: Award approval</b>		
<p>One of your sales teams has completed a major initiative and increased sales of Ethi-Tech's products in the Chicago area by 37 percent. For such achievements, Ethi-Tech has an award and sizeable bonus for any team that increases sales by 40 percent or more in any period. You have been approached by the team requesting that you approve the award for them.</p>		
Approve award	Do not approve award	Other

<b>Item 8: Phone bill</b>		
<p>Company policy states not to use office phones for personal reasons. However, you receive a copy of the office phone bill for one junior manager (a high performer) whose unit clearly violates this policy. When you call the manager to alert him to the violation, he says that “it’s no big deal” and that he’s seen the division head’s secretary chatting with her boyfriend on the phone under the boss’ nose. You need to decide if you will approve the phone bill.</p>		
Approve phone bill	Do not approve phone bill	Other

<b>Item 9: Upgrade to first class</b>		
<p>You are making flight reservations for your next trip to Houston. The reservation agent asks if you would like to receive an upgrade to first class for \$85 since you have qualified due to your recent travels. You could easily afford this out of your own pocket but you are not sure if you should accept, as you have heard other managers at Ethi-Tech discuss how they believe all employees should fly in standard coach seats. You are not sure if other employees will be on the same flight.</p>		
Accept upgrade	Do not accept upgrade	Other

<b>Item 10: A new shirt</b>		
<p>Raj, one of your best sales people, has sent you a receipt for the purchase of a white dress shirt. Apparently, a very expensive prototype of company equipment leaked carbon dust ink into his overnight bag on a recent business trip and ruined a shirt. Raj was carrying the equipment to show to a customer and you asked that he carry the equipment with his baggage for safety purposes. Company rules do not permit reimbursement for the purchase of clothing.</p>		
Tell Raj you are sorry but cannot accommodate his request	Suggest Raj increase the amounts on the expense report for cabs and tips to cover the cost of the shirt	Other

<b>Item 11: Lunch at your desk</b>		
<p>In an email from your American sales manager in Venezuela, you read that he is upset about a practice in his office that caused him to lose a client. Apparently, the office staff and any sales managers on the premise eat lunch together and do not answer phones during this time. The lunch hour is really an hour and a half. A client whose IT system experienced a major meltdown was unable to reach anyone during the crisis period, which coincided with a nearly two-hour break taken by the staff last week to celebrate Cinco de Mayo. When the sales manager confronted the staff, they told him this was the custom in Venezuelan offices. The sales manager wants you to issue a policy that limits staff lunch to the 45 minute policy that is in place in sales offices in the States. He also wants you to mandate staggered lunch breaks among the staff so that phone coverage is always available. You realize that socialization is an important aspect of South American culture. The current crew has developed a real esprit des corps and has performed very well in all other ways.</p>		
<b>Act in agreement with your sales manager</b>	<b>Suggest the manager give his cell phone number to clients for emergencies</b>	<b>Other</b>

<b>Item 12: Cell phone on hold</b>		
<p>You open an email from Carly, an outstanding analyst in your department, who is unhappy that she is not entitled to a company cell phone at her management level. She has been using her own cell phone to contact clients when she is on the road and has been paying for it out of her own pocket.</p>		
<b>Issue Carly a phone as an exception</b>	<b>Thank Carly for going the extra mile but make no exceptions.</b>	<b>Other</b>

**EXHIBIT 1:  
 Ethi-Tech Code of Conduct**

*Ethi-Tech is committed to maintaining the highest ethical standards with respect to the management of its business processes, organizational systems and structures, and technology at home and abroad. This means that Ethi-Tech will:*

- *Act with integrity and candor in all its interactions with customers and suppliers*
- *Avoid even the appearance of a conflict of interests*
- *Comply with generally accepted accounting principles and standards*
- *Conduct business in accordance with all applicable federal, state, and local laws and regulations, and the laws of foreign countries where we transact business*

*All Ethi-Tech managers and employees will obey the law and act ethically in all situations. Ethi-Tech will not condone dishonesty or deceitful behavior in any form. This includes, but is not limited to, making misrepresentations to customers, changing customer documents, making false or misleading accounting entries, inflating expense reports, or falsely recording hours worked on time cards.*

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