**6.02 Ethics and Finance**

**PART 1:**

Introduction to Ethics

The principles of right and wrong that guide an individual in making decisions are called ethics. In these Ethics Activities, you will have the opportunity to analyze the ethics of common business situations by using the following three-step checklist as a guide in collecting relevant information regarding an action.

1. *Is the action illegal?* *Does the action violate any laws?* Obeying the law is in your best interest and the best interest of a business.
2. *Does the action violate company or professional standards?* Public laws often set only minimum standards of behavior. Many businesses and professions set even higher standards of behavior. Thus, an action may be legal, yet still violate standards of business or profession. Violating these standards may affect your job security or any professional certification you may hold.
3. *Who is affected, and how, by the action?* If an action is legal and complies with business and professional standards, you must rely on your principles of right and wrong to determine if the action is ethical. Determining how the action affects individual and groups – including business employees and owners, customers, the local community, and society – will help you decide if an action is ethical.

In the activity presented below, you will read about a person who overstated information on a resume. Note how the three-step checklist, described above, was used to determine whether the individual demonstrated ethical behavior in preparing the résumé’. A solution to the activity is included. The solution illustrates the use of the three step checklist.

Example Situation:

David applied for a payroll clerk job with Search Services, a market research firm. To improve his chances in getting the job, he exaggerated his work experience on his résumé’. Based on the résumé’, David was hired. After one year, he received above average ratings during his annual performance review. Shortly thereafter, his boss met David’s former supervisor and learned the truth.

Example Answers:

1. Is the action illegal? No. Overstating qualifications is not illegal, but the employer could terminate your employment.
2. Does the action violate company or professional standards? No. David was neither and employee or the company nor a member of any profession.
3. Who is affected, and how, by the action? David: He obtained employment, but now he could be terminated. If retained, he could have difficulty being promoted. Other applicants: More highly qualified applicants lost an opportunity for employment. Search Services: Managers may lose trust in employees.

**Student Assignment: Based on the above analysis, David’s actions were unethical.**

1. When David exaggerated his experience on his résumé’, do you think he believed he would be caught? What effect did this belief have on his behavior?
2. If you were David’s employer, would you fire him? Why or why not?
3. If you were another applicant for the job David applied for, would you be tempted to do the same as David? Why or why not?

**Is This Really a Business Expense?**

Kate owns a computer consulting business. Each year she must report the amount of revenue and expenses involved in operating the firm. She must pay federal income tax on the amount by which revenues exceed expenses.

**Instructions: Use the three-step checklist to determine whether or not the following situations demonstrate ethical behavior.**

Situation 1: Kate often makes personal long-distance phone calls from her office. She charges these calls to the business account.

1. Is the action illegal?
2. Does the action violate company or professional standards?
3. Who is affected, and how, by the action?

Situation 2: Kate hired her teenage daughter to work after school as an office assistance. Rebecca comes in to the office every afternoon and earns $6.00 per hour. During this time, she does homework and telephones friends. Kate know that the business does not really need an assistant, but this is a good way for Rebecca to earn spending money.

1. Is the action illegal?
2. Does the action violate company or professional standards?
3. Who is affected, and how, by the action?

**Confidentiality**

Certified public accountants routinely see and hear confidential information while providing professional services to clients. The AICPA Rules of the Code of Professional Conduct prohibit disclosure of confidential information without the specific consent of the client.

Mitchell Moran, who recently passed the Certified Public Accountant examination, had lunch with a friend from school. While talking about their jobs, Mitchell told his friend about working on an audit of a large local company. He shared information about the salaries and bonuses of the company officers.

**Instructions: Use the three-step checklist to determine whether or not Mitchell’s actions demonstrate ethical behavior.**

1. Is the action illegal?
2. Does the action violate company or professional standards?
3. Who is affected, and how, by the action?

**PART 2:**

**Interviewing with a Financial Planner**

Increasingly, people rely on financial planners to help them manage their money. A financial planner is a professional who facilitates management of your investments, whether they include insurance purchases, the buying and selling of stocks and bonds, or other investments. Financial planners require that you have a sense of who you are, what your needs are, and what resources you have to work with. Although financial planners can be very successful at helping you make money, they are also employed to help you make decisions about what is important in your life.

The first step in selecting and working with a financial planner is the determination of what your needs and wants are. What do you value? What do you need? What are you willing to do to get what you want? Opportunities and options exist in all of these questions, but they can be reduced to one simple thought: Who are you and where do you envision yourself financially?

When you have identified the key ideas about yourself and your future, you should interview and consider several financial planners with good reputations. You should plan an introductory meeting to you, such as the stock market. Equally important is your relationship and comfort level with each potential financial planner. To a large degree you are trusting this individual with your money, so you should be thorough in the selection of your financial planner.

Some questions to ask your prospective financial planner might include the following:

* How long have you been in business?
* Who is your happiest customer and why?
* What is your least happy customer and why?
* What is your personal code of ethics?
* What have been your biggest successes during the past year?
* Does your company have specific beliefs about fair business practices?

In addition to full service financial planners, there are other individuals who concentrate their efforts on one or two specific areas. These might be stockbrokers, money market managers, or insurance agents. These professionals generally make a profit based on the size of your purchase or investment, so they want you to make and invest money through them.

**Complete the activity below, based on what you learned about interviewing financial planners. Reread the feature on interviewing with a financial planner if you need assistance.**

1. What is financial planner?
2. What is the first step in selecting and working with a financial planner?
3. What should you explore in a introductory meeting?
4. Name three questions to ask your prospective financial planner?
5. What areas might specialized financial planners concentrate on?