

ETHICS EDUCATION TOOLKIT

SCENARIO TWO
WHAT A WASTE

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SCENARIO TWO: WHAT A WASTE

Participants

Clean Up Limited	A Waste Disposal Company
John Franklin	Managing Director
George Kostas	Financial Controller / Company Secretary
Fred Smith	Employee
Waste Away Limited	A Waste Treatment Company

Setting the Scene

(Use this paragraph as an introduction before the video is shown)

Clean Up Pty Limited has been operating successfully for ten years. During that time it has seen turnover grow to \$50million per annum. After tax profits for the last financial year were \$4 million. Its business is waste disposal and environmental control.

In order to sustain the growth of Clean Up and broaden its funding base, it has been decided that the company should go public and seek to raise \$10 million. The prospectus is due to be issued in two days' time with applications closing one month from date of issue.

Facts of the Case

George Kostas, the Financial Controller/Company Secretary, has been closely involved from the start in the plans to list the company. He has received from an unknown source what appears to be indisputable evidence that a company employee, Fred Smith, who drives one of the company's specialized transporters carrying toxic waste, has been dumping the waste in remote storm water drains.

The waste was supposed to be delivered to Waste Away Limited for treatment. In spite of non-delivery of the waste, Waste Away had still charged Clean Up its usual processing cost. It appears that this practice has been taking place over a number of months and that serious environmental damage was likely to have occurred in the local wetlands into which the storm water drains eventually flow.

George Kostas has secretly visited the wetlands. To his untrained eye, there did seem to be signs of contamination. His estimation of restoration costs was necessarily imprecise but due to the size of the area potentially damaged, it appeared the costs could run into millions of dollars. The local authorities appeared unaware of the potential problem.

George Kostas takes John Franklin, the Managing Director, to the wetlands and explains the position to him in detail. John is concerned. He instructs that confidential investigations begin immediately to establish whether the information held by George is factually correct. The target date for completion of this investigation is six weeks.

George is concerned that the share float should be delayed pending the outcome of the investigation but John seems reluctant to do this.

Suggested Discussion Points

1. What are the relevant facts?
2. What are the ethical issues?
3. Who are the primary stakeholders?
4. What are the possible alternatives?
5. What ethical issues arise from these alternatives?
6. What are the practical constraints?
7. What actions could be taken?
8. Could the situation have been approached differently? If so, how?

Discussion

This scenario is designed to generate discussion of the following points:

- The question of issuing the prospectus without announcing the possibility of the environmental damage and likely clean-up costs;
- issue of the company's responsibility for environmental damage;
- position of Waste Away Pty Ltd;
- conflict between current responsibilities and inability to determine full facts immediately; and
- company responsibility for actions of its employee, Fred Smith.

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Application of American Accounting Association 7 Step Model

1. DETERMINE THE FACTS

What? Who? Where? When? How?

What do we know or need to know, if possible, that will help define the problem?

- Clean Up has operated successfully in the waste disposal business for a number of years.
- The company intends raising further capital by the issue of a prospectus.
- Two days prior to the issue of the prospectus, George Kostas the Financial Controller/ Company Secretary receives information that one of the company drivers (Fred Smith) has been illegally dumping toxic waste.
- The waste should have been delivered to Waste Away for treatment, who has been charging Clean Up for this service.
- George visits the contaminated area with John Franklin (Managing Director - Clean Up).
- John instructs George to immediately commence an investigation (which should take about 6 weeks) into the allegations to assess their validity. He also asks George for an estimate to repair the damage. George estimates the cost to be in the \$ millions.
- George considers that the prospectus should be delayed, although John is reluctant.

2. DEFINE ETHICAL ISSUES

List the significant stakeholders. Define the ethical issues.

Make sure what precisely the ethical issue is (for example, conflict involving rights, self-interest, questions over limits of an obligation, etc).

a) List all stakeholders

- Clean Up: John Franklin
George Kostas
Fred Smith
- Waste Away; and
- Potential Shareholders

b) Identify the ethical issues

- George and John's responsibility to the company versus their legal/moral responsibility to the public
- George and John's responsibility to the company versus the action of Fred Smith
- George and John's responsibility to the company versus the actions of Waste Away

c) Discuss the ethical threats

- George and John are faced with self-interest threats in that they are in a situation where their personal positions may be threatened if they delay the issue of the prospectus.
- George and John are also faced with advocacy threats in which they may feel obliged to advocate for the interest of their company's image and to cover up the illegal actions of their employee

3. IDENTIFY THE MAJOR PRINCIPLES, RULES, VALUES

(For example: integrity, quality, respect for persons, profit)

- Integrity (George and John)
- Competence (George's assessment of damage)
- Confidentiality (Confidentiality of unsubstantiated allegations)
- Morality (Moral obligation to potential shareholders)

4. SPECIFY THE ALTERNATIVES

List the major alternative courses of action, including those that represent some form of compromise or point between simply doing or not doing something.

- George and John can issue the prospectus as scheduled, not disclosing the information.
- John can delay the issue of the prospectus until such time as the allegations have been investigated.
- John can withdraw prospectus completely and seek alternative forms of financing.
- George can notify the other directors and seek their support to delay/withdraw the prospectus.

5. COMPARE VALUES AND ALTERNATIVES - SEE IF CLEAR DECISION

Determine if there is one principle or value, or combination, which is so compelling that the proper alternative is clear. (For example, correcting a defect that is almost certain to cause loss of life).

Note: See how many of the group will move to a decision at this point based on the force or strength of a norm or principle. Regardless of whether a decision is reached, work through **steps 6 and 7**.

6. ASSESS THE CONSEQUENCES

Identify the short and long run, positive and negative consequences for the major alternatives. The common short run focus on gain or loss needs to be measured against the long run considerations. This step will often reveal an unanticipated result of major importance.

Issue prospectus

- results in company obtaining additional capital
- may be resultant litigation against company which will reduce value of shares
- action against the directors of Clean Up by shareholders for non-disclosure of material information.

Delay issue of prospectus

- enables allegations to be investigated
- proper evaluation / costing of any damage caused by illegal dumping of toxic waste
- necessary actions taken against Fred Smith and Waste Away
- diminished value of company if found guilty and therefore difficult to raise the necessary capital

Withdraw prospectus

- capital needed by company will not be raised and alternative sources of finance will be necessary
- avoid risk of litigation by potential shareholders for any non-disclosure of information

7. MAKE YOUR DECISION

Balance the consequences against your primary principles or values and select the alternative that best fits.

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