Lecture

INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Class: TY BSc

Subject : Professional Ethics

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Chapter: Unit 3 - Chapter 1

Chapter Name: Ethics and ethical behavior

Today's Agenda

1. Management of ethics

2. Hosmer model

3. Nature of Ethics in Management

4. Ethical analysis of Ethical problems

5. 5 major systems relevant to managerial decisions

6. Ethical dilemma
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   1. Ethics for managers
   2. Ethical Leadership
   3. Role and function of ethical managers
   4. Comparative ethical behavior of managers

1 Management of ethics

Organizational ethics is the ethics of an organization, and it is how an organization responds to an internal or external stimulus. Organizational ethics is interdependent with the organizational culture

- Organizational ethics express the values of an organization to its employees and/or other entities irrespective of governmental and/or regulatory laws

- Organizations that lack ethical practices as a mandatory basis of their business structure and corporate culture, have commonly been found to fail due to the absence of business ethics

- Ethical business practices of organizations has resulted in a solid financial bottom- line.
  - Greater sales
  - Increased revenue by companies retaining talented personnel
  - Attracting newly skilled employees

2 Ethics analysis – Hosmer model

- What are the best economic alternatives?
- What are the legal alternatives?
- Does a given decision result in greater benefits than damages for society as a whole, not just for our organization as part of that society?
- Is the decision self-serving, or would we be willing to have everyone else take the same action when faced with the same circumstances?
- We understand the need for social cooperation; will our decision increase or decrease the willingness of others to contribute?
- Lastly, we know that the universe is large and infinite, while we are small and our lives are short; is our personal improvement that important, measured against the immensity of that other scale?
- We recognize the importance of personal freedom; will our decision increase or decrease the liberty of others to act?

3 The Nature of Ethics in Management

Moral problems are truly managerial dilemmas. They represent a conflict between an organization's economic performance (measured by revenues, costs and profits) and its social performance (stated in terms of obligations to persons both within and outside the organization).

Characteristics of Moral Problems in Management:

1. Most ethical decisions have extended consequences.

2. Most ethical decisions have multiple alternatives.

3. Most ethical decisions have mixed outcomes.

4. Most ethical decisions have uncertain consequences.

5. Most ethical decisions have personal implications.

4 Ethical analysis of ethical problems

- Economic analysis
- Legal analysis
- Ethical analysis
- Ethical relativism

4 Ethical analysis of ethical problems

1. Economic analysis

A firm that is optimally satisfying consumer needs, to the limit of the available resources, is operating most efficiently and most profitably. Consequently, business managers should act to maximize profits, while following legal requirements of no conclusion and equal opportunity and adhering to personal standards of truthfulness and honesty.

2. Legal analysis

The law is a guide to managerial decisions and actions, but it is not enough. And certainly, the absence of a law is not enough to excuse some of those decisions and actions.

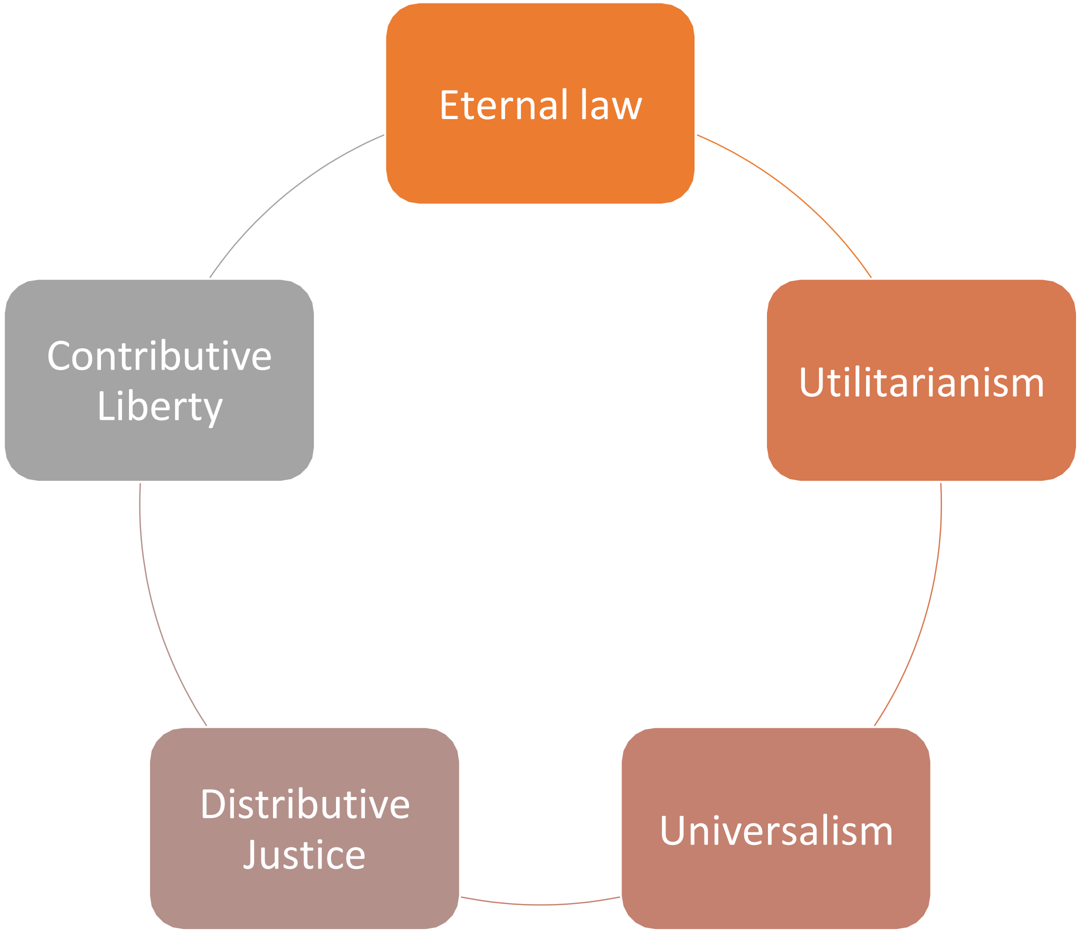
3. Ethical Analysis

The view is that a manager should always act in accordance with either a single principle of behavior or a single statement of belief that is "right" and "proper" and "just" in and by itself. This is "moral reasoning": logically working from a first principle through to a decision on the duties we owe to others.

4. Ethical relativism

There is one principle that does seem to exist across all groups, cultures, and times and that does form part of every ethical system; that is the belief that members of a group do bear some form of responsibility for the well-being of other members of that group.

5 major systems relevant to managerial decisions



5 5 major systems relevant to managerial decisions

1. Eternal Law
Moral standards are given in an Eternal Law, which is revealed in Scripture or apparent in nature and then interpreted by religious leaders or humanist philosophers; the belief is that everyone should act in accordance with the interpretation.

2. Utilitarianism
Moral standards are applied to the outcome of an action or decision; the principle is that everyone should act to generate the greatest benefits for the largest number of people.

3. Universalism
Moral standards are applied to the intent of an action or decision; the principle is that everyone should act to ensure that similar decisions would be reached by others, given similar circumstances.

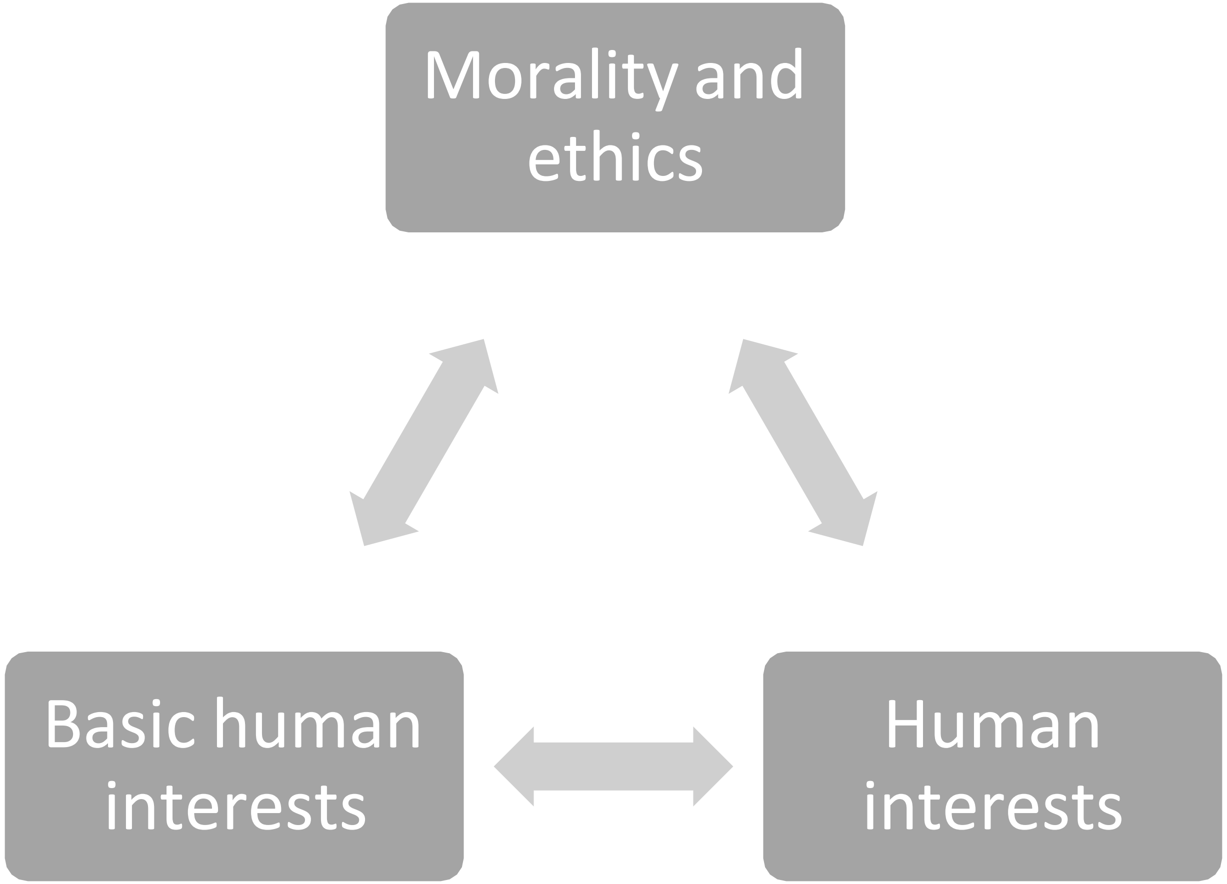
4. Distributive Justice
Moral standards are based upon the primacy of a single value, which is justice.

5. Contributive Liberty
Moral standards are based upon the primacy of a single value, which is liberty.

6 Ethical dilemma

- Managers are responsible for upholding the ethical code and helping others to do so as well.
- Outline the role for managers must play an important role in implementing internal ethical standards and aligning the organization with external standards
- Managers hold positions of authority that make them accountable for the ethical conduct
- Managers monitor the behavior of employees in accordance with the organization's expectations of appropriate behavior, and they have a duty to respond quickly and appropriately to minimize the impact of suspected ethical violations.
- Managers may be responsible for creating and/or implementing changes to the ethical codes or guidelines of an organization
- Managers may also be subject to a particular code of professional ethics, depending on their position and training. Fiduciary duty is an example that applies to some managerial roles.

6.1 Ethical dilemma – The role of ethics



7 Ethics in practice

- Human dignity, human rights and justice, which refers to the duty to promote universal respect for the human person
- Beneficence, which concerns human welfare, reducing the harms and optimizing the benefits of social practices
- Cultural diversity, pluralism and tolerance, which relates to the need to take different value systems into account within the limits of other moral principles
- Solidarity, equity and cooperation, which refers to the importance of collaborative action, sharing scientific and other forms of knowledge, and nondiscrimination
- Responsibility for the biosphere, which concerns the interconnections of all life forms and the protection of biodiversity

7.1 Ethics for managers

- A narrower construction of the ethical role of the manager is that managers should serve only the interests of the shareholder and to maximise shareholder wealth.
- Ethics are at the core of management practice
- The ethical role of managers is broadened beyond fiduciary responsibility when consideration is given to the multiple stakeholders
- Business decisions affect both stakeholders and nature; therefore, a logical conclusion is that those decisions have ethical content inherently
- While some skeptics claim that business ethics is an oxymoron, the reality is that decisions and actions have consequences, and that reality implies some degree of ethics, high or low
- Thus, ethics and the managerial role cannot realistically be teased apart

7.2 Ethical leadership

- Ethical leadership, is a combination of being a moral person and being a moral manager.
- Being a moral person rests on a combination of key traits such as integrity, honesty, and trustworthiness
- Integrity involves not only forthrightness and honesty or truthfulness but also consideration for the soundness of the whole entity that one manages as well as of the society in which the organization is located
- Integrity also means firm adherence to a code, such as an ethical code of conduct
- The essence of ethics, of course, is doing the right thing, especially under difficult circumstances
- To be able to make good decisions ethically, an individual needs to have thoughtfully developed his or her personal set of standards or values, a personal code of conduct or integrity
- It also means providing rewards and discipline around the ethical and unethical decisions made by others, so that a clear message is sent about what behaviors are and are not acceptable in the organization or situation
- Moral management means communicating openly, explicitly, and frequently about ethics and values

7.3 Role & functions of ethical managers

Rights & Duties	Utilitarianism
Justice	Ethic of Care

7.3 Role & functions of ethical managers

1. Rights & Duties

Rights are justifiable claims or entitlements, frequently based on the law or other authoritative documents, such as treaties and international declarations that allow people to pursue their own interests. Rights can be viewed as the positive things that people are allowed to do, but they come with an obverse side as well, in the form of duties or obligations that go along with the rights.

2. Utilitarianism

A second way of reasoning through a moral conflict involves using utilitarian analysis, or assessment of the greatest good of the greatest number. This type of cost-benefit analysis is a very common management approach, but as the framework suggests, it may not be a sufficient basis by itself to make an ethical decision in a moral conflict. In a utilitarian analysis, the harms and benefits of a decision to the different parties that would be affected by the decision are evaluated, with some sort of weight given to the various harms and benefits that assesses their degree.

3. Justice

Principles of justice are a third way for managers to reason about ethical decisions. Just decisions require fairness, equity, and impartiality on the part of decision makers, particularly with respect to the ultimate burdens and benefits that will accrue from the decision. This veil-of- ignorance consideration forces managers to take into account the fairness of the decision to any party that will

7.3 Role & functions of ethical managers

4. Ethic of care

In addition to assessing a moral conflict from the perspective discussed above, ethical managers and leaders also need to look at the impact of a decision on the network of relationships that will be affected. This perspective is called the ethic of care. The ethic of care proposes that one's moral responsibilities vary according to how closely one is linked to other people.

7.4 Comparative ethical behavior of managers

- To decide effectively, managers need to take several factors into consideration as they weigh decisions based on the principles of rights, justice, utility, or care
- Another consideration is whether one criterion is more important in a particular situation than others
- Other decision-making aids for managers include thinking about whether they would want their decision made public
- The ethical decision making framework for managers relies on reasoning using the principles of rights, justice, utility, and care. It presupposes that managerial decision makers have the capacity to reason from principles in making an ethical decision
- At the preconvention stage of development, the rationale for ethical decision making is rewards and punishments or self- interest
- Most managers have passed beyond the preconvention stage to the conventional stage of development

7.4 Comparative ethical behavior of managers

- At the later stages of conventional reasoning , individuals focus on the rules, regulations, and norms of society as bases for their ethical decisions

- The fact that only about 20% of adults reach the post conventional level of development highlights the need for ethical leaders and managers who are able to reason not just from society's or their peer group's norms but also from core principles such as those discussed above so that decisions can be made with multiple stakeholders' needs and interests in mind