

An aerial photograph of a large, colorful geometric plaza. The plaza is composed of various colored rectangular sections: light blue, white, red, purple, and green. A large green square is the central focus, with several people walking on it. Other people are scattered throughout the plaza, some walking along the light blue paths. The overall design is reminiscent of Piet Mondrian's abstract art style.

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# MANAGEMENT

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Managing ethics and social responsibility

# CHAPTER 5



# CHAPTER 05

## Managing ethics and social responsibility

1

Define ethics and explain how ethical behaviour relates to behaviour governed by law and free choice

2

Explain the utilitarian, individualism, moral rights, justice and practical approaches for making ethical decisions

3

Describe the factors that shape a manager's ethical decision making, including levels of moral development

4

Define corporate social responsibility and how to evaluate it along economic, legal, ethical and discretionary criteria

5

Understand the triple bottom line as a measurement of an organisation's social, environmental and financial performance

6

Discuss how ethical organisations are created through ethical leadership and organisational structures and systems

7

Explain particular issues of ethical behaviour and sustainable development applicable in Australia



## NEW MANAGER SELF-ASSESSMENT

### What is your level of ethical maturity?

Instructions – it probably won't happen right away, but soon enough in your duties as a new manager, you will be confronted with a situation that will test the strength of your moral beliefs or your sense of justice. Are you ready? To find out, think about times when you were part of a student or work group. To what extent does each of the following statements characterise your behaviour when working with others in a group? Please answer each of the following items as mostly true or mostly false for you.

	Mostly true	Mostly false
1 I can clearly state the principles and values that guide my actions.		
2 I quickly acknowledge my mistakes and take responsibility for them.		
3 I am able to quickly 'forgive and forget' when someone has made a serious mistake that affected me.		
4 When making a difficult decision, I take time to assess my principles and values.		
5 I have a reputation among my friends and co-workers for keeping my word.		
6 I am completely honest and can be trusted to tell the truth.		
7 When someone asks me to keep a confidence, I always do so completely.		
8 I hold others accountable for using ethical practices in their work.		
9 I insist on doing what is fair and ethical even when it is not easy.		
10 My co-workers would say that my behaviour is very consistent with my values.		



# WHAT IS MANAGERIAL ETHICS?

- Refers to the code of moral principles and values that governs managerial behaviour and decision making
- Ethics sets standards as to what is good or bad in conduct and decision making
- Simply acting within the law does not constitute ethical behaviour

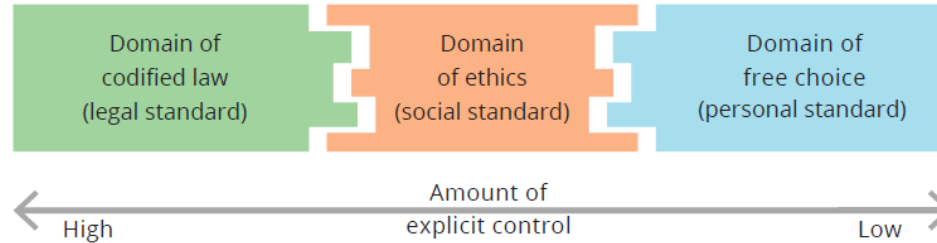


Exhibit 5.1 Three domains of human action



# EXAMPLES OF UNETHICAL AND ILLEGAL ORGANISATIONAL BEHAVIOUR

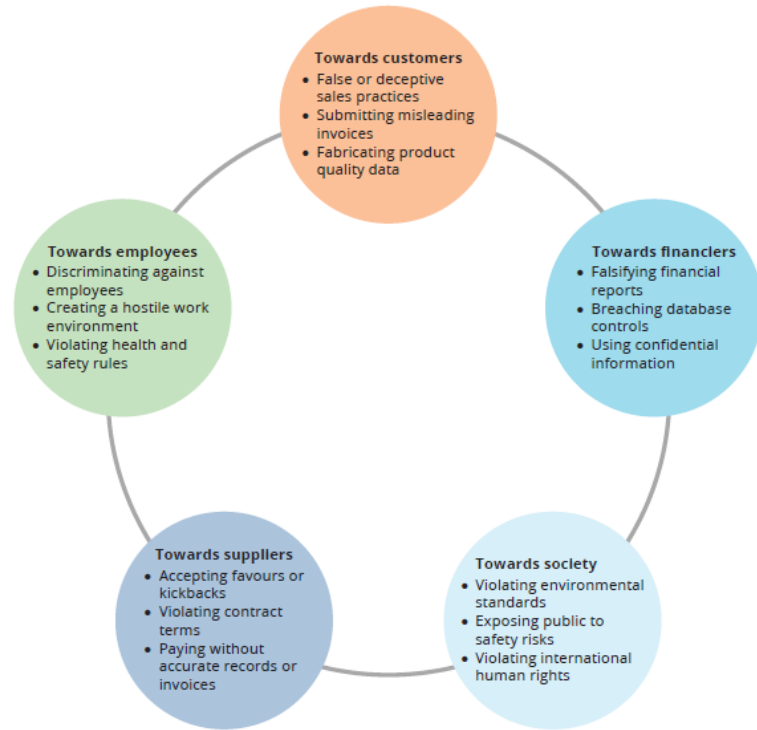


Exhibit 5.2 Examples of unethical and illegal organisational behaviour

Source: Based on Kaptein, M. (October 2008). 'Developing a Measure of Unethical Behavior in the Workplace: A Stakeholder Perspective'. *Journal of Management*, 34:5, 978–1008.



# THE BUSINESS CASE FOR ETHICS AND SOCIAL RESPONSIBILITY

- High costs associated with ethical breakdowns
- Being ethical is always about making decisions
- Some ethical issues are difficult to resolve
- An **ethical dilemma** arises in a situation in which:
  - each alternative choice or behaviour is undesirable because of potentially harmful ethical consequences, AND
  - right and wrong cannot always be clearly or crisply identified



# FRAMEWORKS FOR ETHICAL DECISION MAKING

Different approaches possible including:

- Utilitarian approach
- Individualism approach
- Moral rights approach
- Justice approach
- Practical approach



# UTILITARIAN APPROACH

- Using simple economic costs and benefits to help make decisions
- Consider the effect of each decision alternative on all parties and select the one that optimises the benefits for the greatest number of people



**utilitarian  
approach**

The ethical concept that moral behaviour produces the greatest good for the greatest number.



# INDIVIDUALISM APPROACH

- Often perceived as gratifying immediate self-interest
- Promotes behaviour towards others that fits standards of behaviour that people want shown towards themselves



The ethical concept that acts are moral when they promote the individual's best long-term interests, which ultimately leads to the greater good.



# MORAL RIGHTS APPROACH

- People have **fundamental** rights and liberties that cannot be taken away such as:
  - The right to free consent
  - The right to freedom of speech



The ethical concept that moral decisions are those that best maintain the rights of those people affected by them.



# JUSTICE APPROACH

- Concepts of:
  - **Distributive justice:** Different treatment of people not be based on arbitrary characteristics
  - **Procedural justice:** Requires rules be administered fairly
  - **Compensatory justice:** Compensation for the cost of their injuries by the party responsible



The ethical concept that moral decisions must be based on standards of equity, fairness and impartiality.



# PRACTICAL APPROACH

- Side-steps the question of right, good or just
- A decision would be considered ethical if it is one that would be considered acceptable by the professional community



Bases decisions on prevailing standards of the profession and larger society, taking the interests of all stakeholders into account.

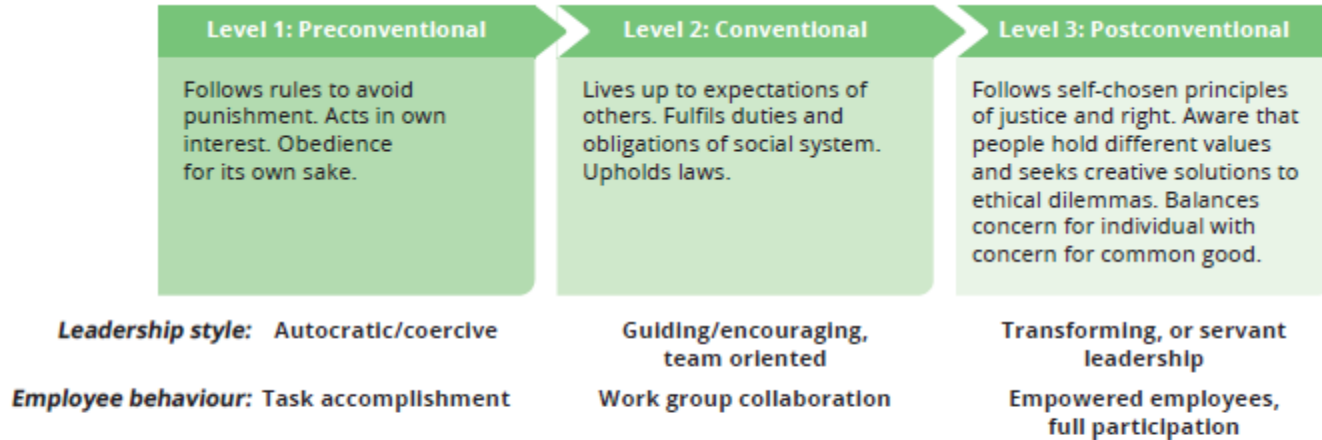


# THE INDIVIDUAL MANAGER AND ETHICAL CHOICES

- Organisational factors such as an unethical corporate culture and pressure from superiors and colleagues can induce employees to behave unethically
- When people experience organisational pressure to go against their sense of what is right, they typically become frustrated and emotionally exhausted
- Personal needs, family influence, and religious background all shape a manager's value system
- Personality characteristics, such as ego strength, self-confidence, and a strong sense of independence, may enable managers to make more ethical choices



# THE STAGES OF MORAL DEVELOPMENT



**Exhibit 5.3** Three levels of personal moral development

Sources: Based on Kohlberg, L. (1976). 'Moral Stages and Moralization: The Cognitive-Developmental Approach', in *Moral Development and Behavior: Theory, Research, and Social Issues*, ed. T. Lickona (New York: Holt, Rinehart and Winston), pp. 31–53; and Graham, J. W. (January 1995). 'Leadership, Moral Development and Citizenship Behavior'. *Business Ethics Quarterly*, 5:1, 43–54.



# GIVERS VERSUS TAKERS

- Managers who operate from a higher level of development may use a form of **servant leadership**
- Focusing on the needs of followers and encouraging others to think for themselves
- People will work harder and more effectively for people who put others' interests and needs above their own
- Shift toward admiring and rewarding givers over takers can bring significant positive changes



# WHAT IS CORPORATE SOCIAL RESPONSIBILITY?

- Formal definition of (CSR) is management's obligation to make choices and take actions that will contribute to the welfare and interests of society, not just the organisation
- View organisation as having internal and external stakeholders
- Careful balancing of **organisational stakeholder** needs
  - Stakeholder is any group or person with investment or interest in the organisation's performance and is affected by the organisation's actions
  - Organisations can use **stakeholder mapping** to identify stakeholders' needs and expectations



# CONSCIOUS CAPITALISM

- Conscious capitalism, or shared value approach, are organisational policies and practices that:
  1. enhance the economic success of a company
  2. and advance the economic and social conditions of the communities in which the company operates



# THE GREEN MOVEMENT

- **Going green** is a new business imperative
- Driven by shifting social attitudes, new governmental policies, climate changes
- Many companies have embraced **sustainability and the triple bottom line**

## Key Concepts

### sustainability

- Economic development that generates wealth and meets the needs of the current population while preserving the environment for the needs of future generations.

### triple bottom line

- Triple bottom line performance of an organisation involves measuring the three types of outcomes of an organisation's activities, namely financial, environmental and community/social.



# MANAGING COMPANY ETHICS AND SOCIAL RESPONSIBILITY

- Management is responsible for creating and sustaining conditions in which people are likely to behave themselves
- Create and support an ethical organisation
- Practise ethical leadership
- Managers who are honest and trustworthy, fair in their dealings with employees and customers, and behave ethically in both their personal and professional lives



# BUILDING AN ETHICAL ORGANISATION



Exhibit 5.5 Building an ethical organisation

Source: Adapted from Treviño, L. K., Hartman, L. P. and Brown, M. (Summer 2000). 'Moral Person and Moral Manager'. *California Management Review*, 42:4, 128–42.



# MANAGERIAL ETHICS AND SUSTAINABLE DEVELOPMENT IN AUSTRALIA

Most pressing ethical issues facing executives in Australia are:

- employment conflicts of interest
- environmental issues
- sexual harassment
- workplace safety
- employee privacy
- conflicts between company ethics and foreign business practices
- security of company records
- affirmative action
- employee health screening
- inappropriate gifts to corporate personnel
- unauthorised payments to foreign officials
- balancing work and family commitments



# ORGANISATIONAL SUSTAINABLE DEVELOPMENT

Sustainable development practices are defined (after World Commission on Economic Development, 1987)

- Sustainable development practices manage technology and social organisation to make balanced and equitable progress on economic, environmental and social needs so that meeting these needs in the present does not compromise the ability of future generations to meet their own needs.



# THE WHY OF SUSTAINABLE DEVELOPMENT

- Being seen as being sustainable is as important as being sustainable
- Guiding principles of a sustainable orientation:
  - Breadth of vision: view the needs of all stakeholders
  - Stakeholder empowerment: relationships with stakeholders
  - Being progressive: long-term vision and enthusiasm for change and new opportunities



# THE **WHAT** OF SUSTAINABLE DEVELOPMENT

Three generic strategic requirements:

- Stakeholder support – employee, customers, suppliers and regulators
- Efficiency – labour, systems, maintenance etc
- Market edge – R&D, innovation, supply chain



# THE **WHEN** OF SUSTAINABLE DEVELOPMENT

- Sustainability contributes to long-term success of an organisation
- Sustainable practices are most effective when they:
  - Are strategically congruent with the business
  - Achieve genuine improvements in development outcomes
  - Are mature, leading-edge approaches that offer best value
  - Are well integrated with other business practices



# CHAPTER 5 – BRIEF SUMMARY

5.1 Ethics is the code of moral principles and values that governs the behaviours of a person or group with respect to what is right or wrong.

5.2 Managers often employ normative strategies to guide ethical decision making. Five approaches that are relevant to managers are the utilitarian approach, individualism approach, moral-rights approach, justice approach and practical approach.

5.3 Organisational and personal factors can influence a manager's ability to make ethical choices. One important factor is whether a manager is at a preconventional, conventional or postconventional level of moral development.

5.4 Corporate social responsibility is the obligation of organisation management to make decisions and take actions that will enhance the welfare and interests of society as well as the organisation.

5.5 Businesses are being driven to 'go green' by shifting social attitudes, new government policies, climate changes, and information technology (IT). Employing a triple bottom line approach to measuring performance ensures that managers take social and environmental factors into account.

5.6 Managers are role models. One of the most important ways that managers create ethical and socially responsible organisations is by practising ethical leadership.

5.7 Australian organisations face a wide range of ethical challenges. Australian stakeholders are requiring higher standards of ethical and responsible behaviour from managers more than ever before.

