Chapter : 5

Managerial Ethics

Perhaps the most difficult managerial problems involve issues of ethics. Ethics is a problem not for managers alone but also for almost every person in any society; for managers, it is really challenging. One reason for ethical problems is that people have different sets of ethics which the manager of a business needs to take adequate care. To behave in a personally ethical manner is no guarantee that another person will view such a behavior as ethical Managerial ethics sets a code of conduct that deals with the rightness or wrongness of certain actions and the goodness or badness of the motives of the persons and the objectives of those actions. Behavior of the organizational personnel, in general, and the manager in particular is mostly determined by personal moral backed by organizational factors in a particular business environment. The pattern is shown:

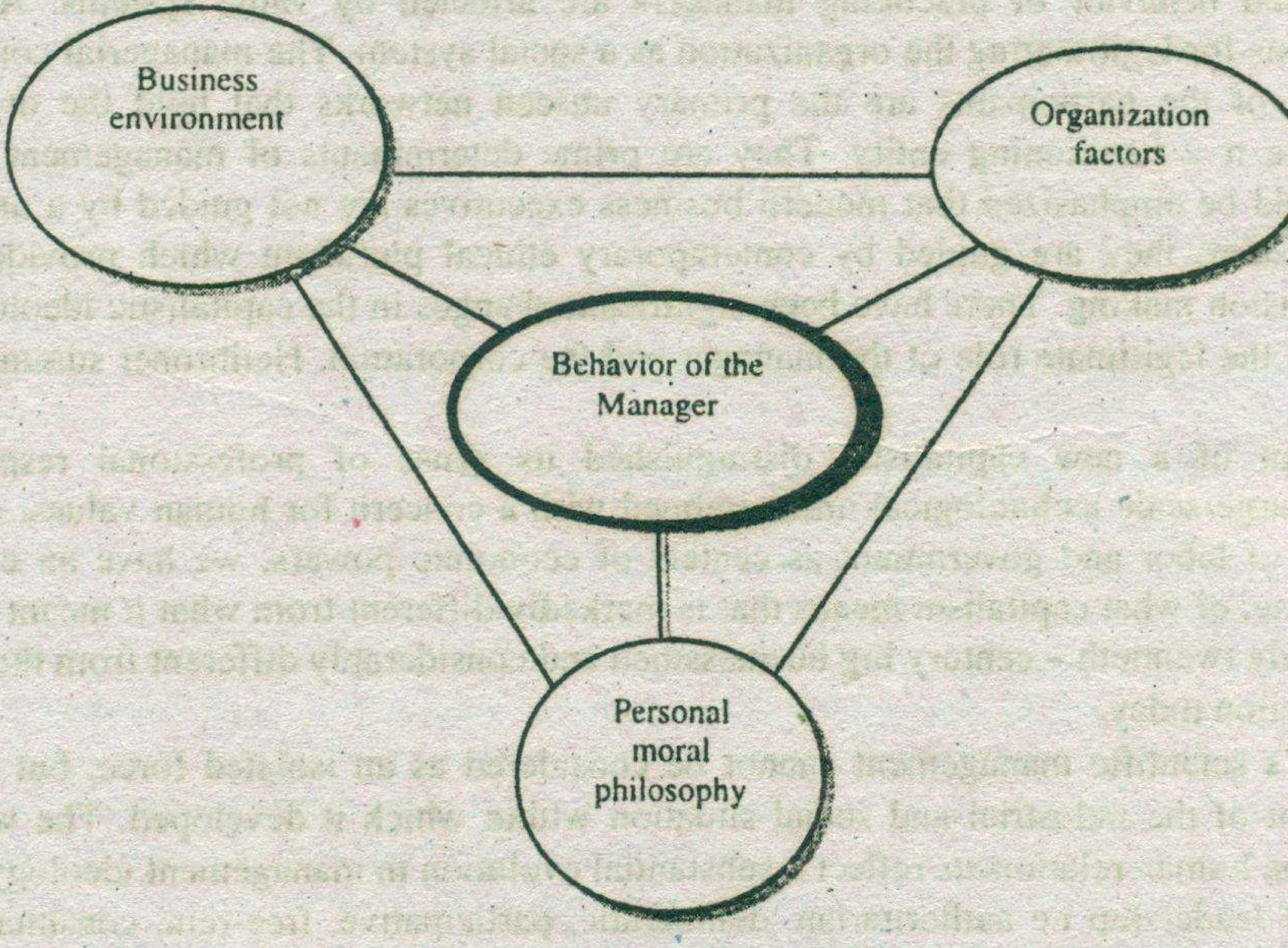

Figure-5.A: Showing Behavior of the Manager

What values do managers hold concerning business? Managers are neither cut in the image of the early Robber Barons, nor are they professional people with rigid standards of conduct. Instead, they have a remarkably wide variety of viewpoints on issues, and these viewpoints become even more diverse when managers have to apply values in operating situations.

Agreement of all business managers on their social responsibilities is as unlikely as agreement of all economists, politicians, or educators of their social responsibilities. Diversity provides checks and balances. Managerial value systems give strong support to market freedom. Even though managers recognize the need for regulation and adapt to it once it is established, they would prefer to have the flexibility that goes with freedom. Part of this preference is the normal human desire of most persons to be free of restrictive controls; however, there is also an important philosophical foundation for placing a high value on market freedom. Managers, as well as others, believe that by keeping economic decisions free and decentralized they are helping maintain political democracy and other human freedoms. They believe that freedoms are mutually linked in a system relationship and that erosion anywhere in the system increases the probability of erosion elsewhere in the system.

The quest for market freedom is not peculiar to manages but is a general cultural phenomenon. Almost all groups seek autonomy, even though – like business – they are subject to controls. Educators seek academic freedom for their group so that ideas can be freely traded. Laborers want to be free to make whatever demands they wish without wage and other governmental controls. Minorities want freedom to operate their own interests. All are brothers in their search for operating freedom, and all can philosophically justify it as a contribution to the public interest.

Managerial ethics, thus, is the code of moral managerial conduct that raises questions about the "goodness" or "badness" of managerial actions, motives and objectives.

5.1 Changing Values of Management

The motivation and behavior of practicing managers are affected by value systems. A common ideology is the basis for legitimating the organization as a social system. The managerial concepts that guide the actions of the participants are the primary unseen networks that hold the organization together and make it a functioning entity. They are prime determinants of management practices. Above all, it should be emphasized that modern business executives are not guided by a universal or monistic ethic. Rather, they are guided by contemporary ethical pluralism which provides general guidelines for decision making. There have been significant changes in the capitalistic ideology and in society's views of the legitimate role of the manager and the corporation. Heilbroner summarizes this change:

In is the concept of a new capitalism, distinguished its sense of professional responsibility, characterized by large-scale technological units, imbued with a concern for human values, and aware of the legitimacy of labor and government as centers of economic powers, we have an expression, however incomplete, of what capitalism means that is markedly different from what it meant to the late nineteenth – or early twentieth – century big businessmen and considerably different from the lingering conservative depiction today.

Frederick Taylor's scientific management cannot be considered as an isolated force, but should be viewed in the light of the industrial and social situation within which it developed. The writings of Elton Mayo and the human relationists reflect a substantial evolution in management ideology.

Different styles of leadership i.e authoritarian, democratic, participative, free-rein, consultative work with different sets of values. Managerial ethics find different treatment while leadership style changes.

Balancing Conflicting Values for Managerial Decisions

Some of the conflicting values which managers have to balance in making decisions are the following:

Social – based on group and institutional needs
Economic – based on market values determined by supply and demand
Psychological – based on personal needs of individuals
Technical – based on physical facts, science, and logic
Ethical – based on what is right
Political – based on general welfare needs of the state
Aesthetic – based on beauty
Spiritual – based on what God has revealed.

The domain of managerial ethics

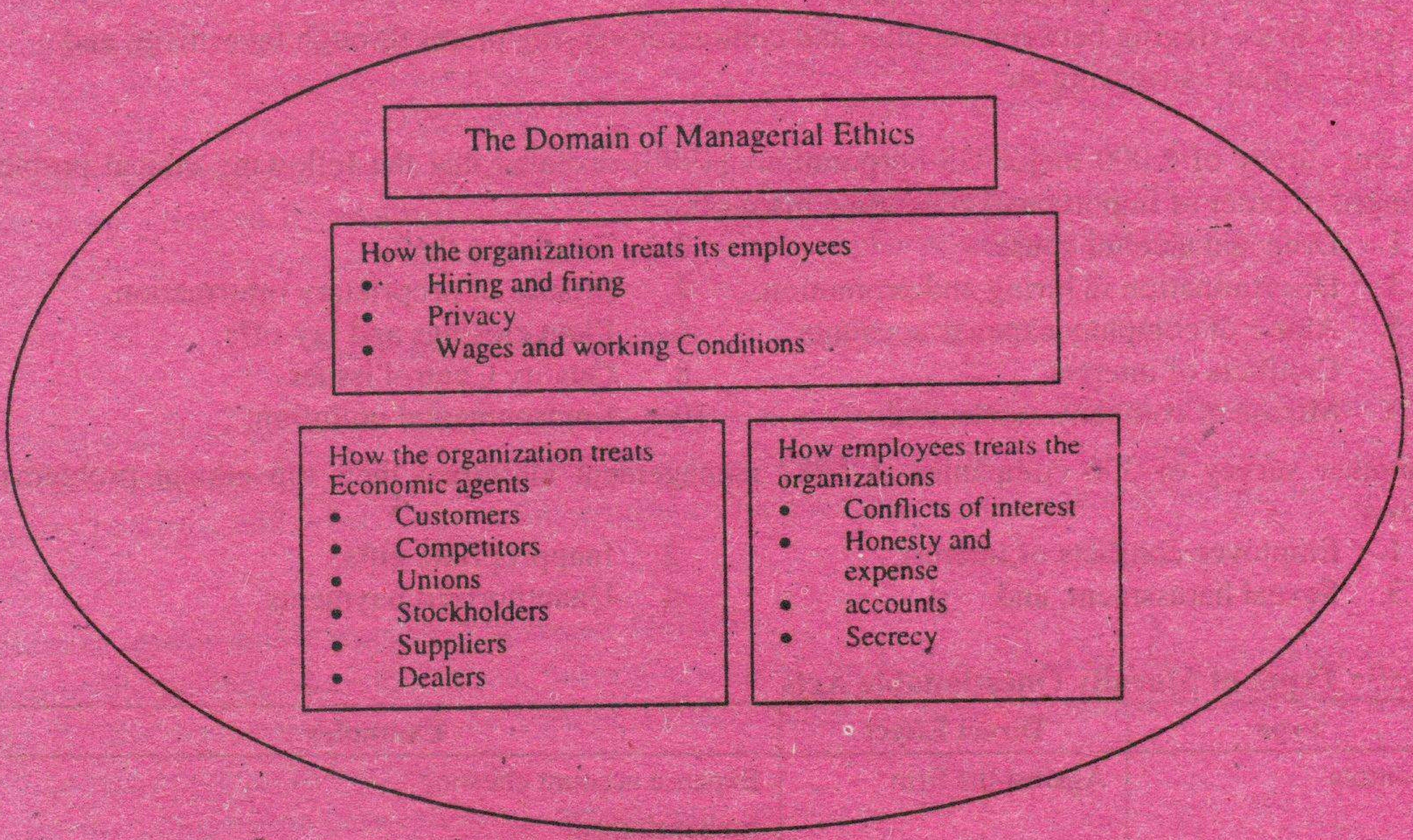

Figure-5.B: Showing the Domain of Managerial Ethics

5.2 Approaches to Managerial Ethics

When focusing on an ethical position, entrepreneurs should analyze various organizational characteristics. One study examined ethical norms, motives, goals, orientation toward law, and strategy for three distinct types of management: **Immoral management, amoral management,** and **moral management**. Summary of each characteristics within each of the ethical types. These characteristics are important for gaining insight into the continuum of behaviors that can be exhibited. Before entrepreneurs set forth any strategy, it is imperative they analyze their own reactions to these characteristics and thus their own ethical styles.

Moving from an immoral or amoral position to a moral position requires a great deal of personal effort. Whether it is a commitment to sending employees to training seminars on business ethics, establishing codes of conduct, or exhibiting tighter operational controls, the entrepreneur needs to develop particular areas around which a strategy can be formulated.

Unethical Practices Requiring Managerial Attention

Business practices which do not conform to rules of ethics are unethical practices. Illustrations of such practices include categories like;

[i] Seeking preferential treatment through lavish entertainment;
[ii] Collusion in contract bidding, underbidding with substitution of inferior workmanship or materials,
[iii] Misleading and exaggerated advertisement,
[iv] Kick –back to the purchase department employees;
[v] Obscene and demoralizing advertisement
[vi] Undercutting,
[vii] Pay-off to government officials;
[viii] Price-rigging between supplier and contractor varying prices through favoritism; and
[ix] Unfair canvassing etc.

A recent survey of 2,000 major US corporations [1990] revealed that the following ethical problems [arranged in order of importance] concerned managers:

1. Drug and alcohol abuse,
2. Employee theft,
3. Discrimination in hiring and promotion,
4. Misuse of proprietary information,
5. Abuse of company expense accounts,
6. Plant closings and lay-offs,
7. Conflicts of interest,
8. Quality Control issues,
9. Misuse of company assets, and
10. Environmental pollution.

In another survey of 300 companies in 1987 management identified their top ethical problems as follows:

1. Employee conflicts of interest,
2. Inappropriate gifts,
3. Sexual harassment, and
4. Unauthorized payments.

Specific Types of Morally Questionable Acts

Type	Direct Effect	Examples
Nonrole	Against the firm	Expense account cheating Embezzlement Stealing Supplies
Role distortion	For the firm	Bribery Price fixing Manipulating suppliers
Role Failure	Against the firm	Superficial performance appraisal Not confronting expense account cheating Palming off poor performer with inflated praise
Role assertion	For the firm	Investing in prohibited in areas/ activities/countries Using nuclear technology for energy generation Not withdrawing product line in face of initial allegations of inadequate safety

5.3 Rights and Obligations of Management

The obligation to manage gives rise to the right to manage. To put it another way, the basic authority of the manager arises from his functions. This is true even in the case where the manager is the sole owner. His property right may give him control over various things but it does not give him authority over workers their time and energies. He obtains this letter rights by means of the work contract which binds the employees to co-operate for the good of the business in return for definite benefits. A manager does have the right to use the business as a personal toy. Even though he has the power to subordinate the good of the business to his personal profit or whim, he does not have the right or authority to do so.

Management authority is limited by the clear rights of workers, stock- holders, suppliers, dealers, and the community at large. Since most of these rights are relative, the line is not always clear, but it is there some where under the smoke and haze. As a result, the ethical manager must constantly be asking himself if his act is a reasonable interference with another's search for even useful goods. In short, there is a suspicion that what people fear is not management authority buy management power which is not checked by an institutional framework providing for both bi-lateral decisions and due process. Hence arises the need for managerial ethics in the discharge of managerial functions.

5.4 Factors of Managerial Unethical Practices

Unethical practices are more likely when businesses focus solely of profit and intense competition, when top management gives lip service only to ethical behavior and fails to establish clear policies and adequate controls, and when they are insensitive to the customer's best interests and public concerns about ethics.

Factors of questionable unethical business decisions.

Questionable business decisions often, become unethical. Such type of business decisions are usually taken by the managers because of various factors. Some of these important factors that lead to questionable practices in business are:

1. Intense competition between firms, departments or individuals;
2. Management concern for the letter of the law rather than the sprit.
3. Ambiguous policies that employees interpret as "window dressing" for outsider rather than clear expectations for ethical behavior.
4. Inadequate controls so that managers get away with violating standards.
5. Expediency and indifference to the customers' best interest;
6. Management's failure to comprehend the public's ethical concerns;
7. Custom ("Let the buyer beware"); and
8. A "group think" mentality that fosters group decision that individual members would not countenance.
9. Over emphasis on both individual and firm performance;
10. Mission statements, evaluation systems and organizational cultures that focus on profit as the organization's sole objective.

5.5 Status of Managerial Ethics

In 1961, *Harvard Business Review* readers were surveyed concerning their feelings toward business ethics. In 1976, a follow-up study was conducted, again on the *Harvard business review* readership, to determine if there had been any substantial changes in view. Specifically the 1976 study investigated three major questions*:

1. Have business ethics changed since the early 1960s, and if so, how and why?
2. Are codes the answer to the ethical challenges business people currently face?
3. What is the relationship between ethical dilemmas and the dilemma of corporate social responsibility?

Some of the results of the study were as follows:

1. There is substantial disagreement among respondents as to whether ethical standards in business today have changed from what they were.
2. Respondents are somewhat more cynical about the ethical conduct of their peers than they were previously.
3. Most respondents favor ethical codes, although they strongly prefer general precept codes over specific practice codes.
4. The dilemmas respondents experience and the factors they feel have the greatest impact on business ethics suggest that ethical codes alone will not substantially improve business conduct.
5. Most respondents have overcome the traditional ideological barriers to the concept of social responsibility and have embraced its practice as a legitimate and achievable goal for business
6. Most respondents rank their customers well ahead of shareholders and employees as the client group to whom they feel the greatest responsibility.

A survey conducted among managers at Pitney-Bowes a large international manufacturer of business equipment and UniRoyal, a billion dollar rubber and plastics company, revealed that 90 percent of the respondents supported a code of ethics for business. An overwhelming majority also were in favor of business schools offering courses in ethics. Table below indicates the respondents' feelings with regard to the conflict sometimes created between personal ethics and organizational conduct.

Table

Personal ethics versus organizational conduct

	Percentage of managers agreeing with statement	
	Managers Pitney-Bowes	Managers UniRoyal
Most managers would not refuse orders to market nonstandard and possibly dangerous products	61	54
I personally would refuse to market nonstandard an possibly dangerous products	83	85
Young junior managers automatically go along with superiors to show loyalty	68	76
I would not give gifts to preferred customers even if other sales people did	80	55
Turning in a plausible but incomplete report is unethical	92	94
Managers feel pressured to compromise personal ethics to achieve corporate goals	59	70
Business ethics are as good as or better than ethics in society at large	90	88

Source: Adapted from "The pressure to Compromise Personal Ethics," *Business Week*, January 31, 1977, p. 107.

* Carr A Z. " Is Business Bluffing Ethical ?", Harvard Business Review, Jan- Feb., 1968, p- 145.

5.6 Parties Affected by Management Decisions

Among those who have a high personal stake in management decisions are employees, customers, suppliers, competitors, investors, and radiators.

[i] Employees Workers were once viewed as being similar to machines – as standard, interchangeable elements to be used at the lowest possible cost with the highest possible productivity. Modern ethics, however, tends more toward the view that the company has a real obligation to provide its employees not only with good pay and good working conditions, but also with the opportunity to grow and to achieve their full potential.

In three areas, in particular, employee rights and privileges are being advanced by both legal and voluntary means.

- *Rights to free speech and to privacy.* It used to be that employees, like children, were supposed to be seen but not heard. Currently, most employees expect to be able to say what they think about their jobs and companies without reprisals being taken against them. Then there is the matter of employee records. Employees want to know what is kept in their files and they do not want unauthorized people looking at them. At companies like United Technologies, Smith Kline, and Chase Manhattan Bank, there are formal policies limiting what will be kept in company files and assuring employees access to see that the information is correct.
- *Greater assurances of job security.* During the wave of factory closings and movement of manufacturing operations overseas in the early 1980s, employees, labor unions, suppliers, and communities made themselves heard. Employees were asking for extensive advance notice before a plant could shut down or move. Furthermore, there is a growing pressure for a company to demonstrate economic justification before such an action.

[ii] Customers The attitude toward customers in changing too. Business has become increasingly conscious of the importance of fair prices, good quality products and honest merchandising. This has been helped along by ***consumerism,*** which refers to organized efforts to protect the users of various products from harmful or deceptive business practices.

Many states and municipalities maintain offices of consumer affairs. These agencies provide information services for consumers, act as watch-dogs over supermarkets, retail stores, and lending institutions. They also provide an avenue through which to seek redress when a consumer feels wronged. Some corporations have added consumer representatives to their boards of directors.

[iii] Suppliers Ethical considerations also arise in relation to suppliers. The decision of one company to buy from another depends on price, quality, suppliers capabilities, shipping costs, and similar factors. The problem is that some unfavorable purchasing decisions can put a supplying company out of business. Opportunities for fraud, illegal payments in return for purchase orders, and other illegal activity may often arise.

[iv] Competitors Even though many business activities that affect competition are strictly controlled by law, ethical questions still abound. The use of industrial espionage to discover trade secrets of competitors is an example, as is the hiring away of key employees by competitors. The central problem of ethical competition is how to compete fairly without losing the aggressiveness and will to win needed for success.

Parties, Actions and Managerial Ethics.

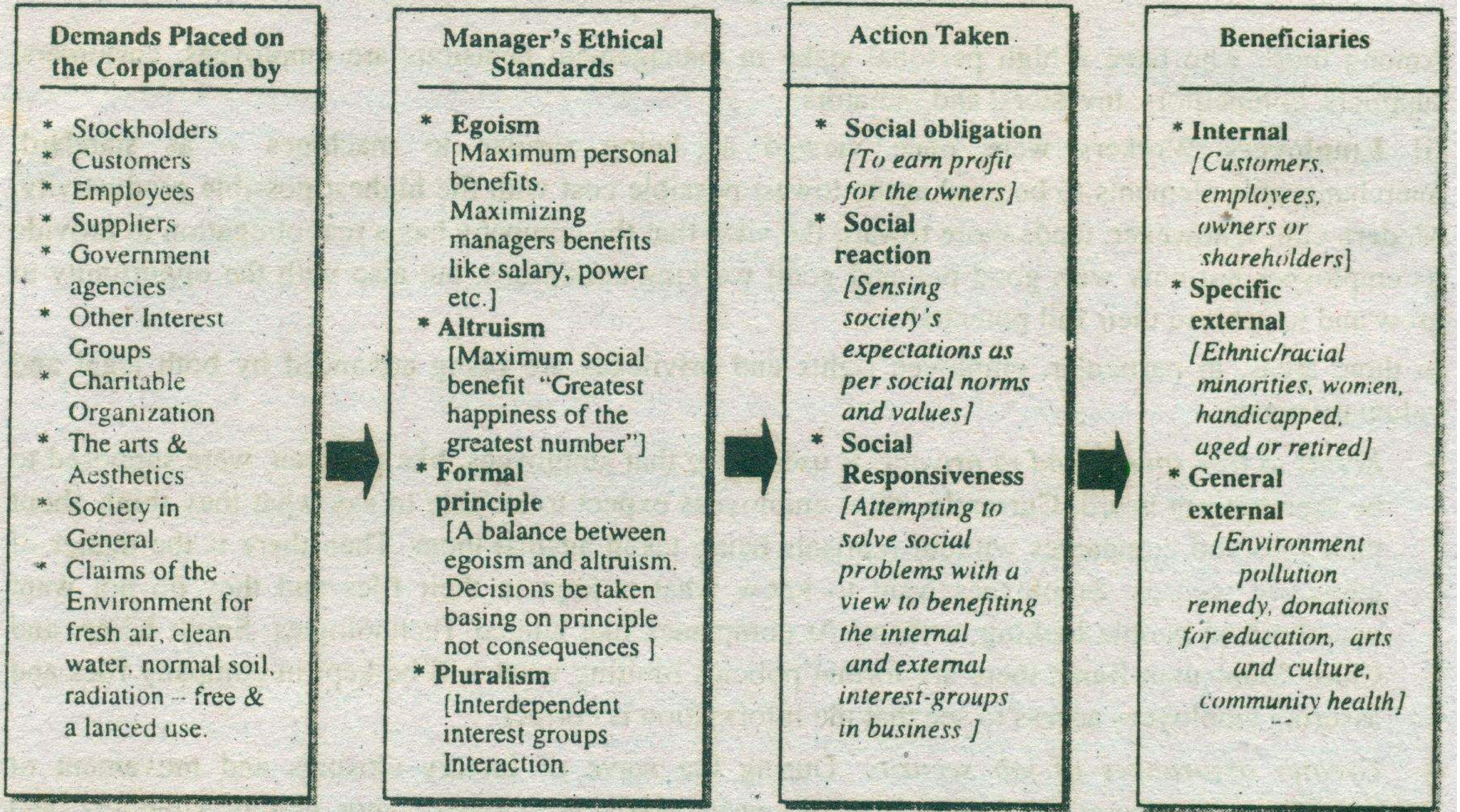

Figure-5.C: Showing the Parties, Actions and Managerial Ethics

[v] Investors and Creditors The traditional view of business's responsibility is to maximize profit at any price. This places the interests managerial decisions are understandably influenced by this priority. It is still clearly a manager's duty to operate businesses in such a way that profits will be created for investors. Creditors also deserve protection from fraud and deception on the part of borrowers who refuse to meet obligation.

5.7 Ways to Ethical Managerial Decisions

Refers to the standards of behavior that guide individual managers in their work.
How to ensure ethical managerial decision?
Twelve questions are recommended for examining the ethics of managerial decisions;

1 Have you defined the problem accurately? What are the factual implications of the situation, rather than a biased perspective that reflects your loyalties?
2. How would you defined the problem if you stood on the other side of the fence?
3. How did this situation occur in the first place? What is the historical background of events leading up to this situation?
4. To whom and to what do you give your loyalty as a person and as a member of the corporation?
5. What do you want to accomplish in making this decision?
6. How does this intention compare with the probable results?
7. Whom could your decision or action injure?

8. Can you discuss the problem with the affected parties before you make your decision?
9. Are you confident that your position will be as valid over a long period of time as it seems now?
10. Could you disclose without qualm your decision or action to your boss, your CEO, the board of directors, your family, society as a whole?
11. What would this decision symbolize for others if they interpret it correctly? What would symbolize if the decision is misinterpreted by others?
12. Under what conditions would you allow exceptions to your stand?

5.8 Managerial Code of Ethics

Managers should encourage and promote the discussion of ethical dilemmas. Employees should not be punished for questioning a decision on moral grounds. However, one of the difficulties of discussing ethics at work is that some people take the "moral high road" and criticize those who do not share their value. This makes it difficult to have reasoned discussions and often results in polarized views. Work at identifying and understanding the different perspectives on an issue and discuss the consequences of alternative actions that might be taken.

The top management of an organization sets the moral tone of the corporation. If they consistently behave in an ethical manner and set clear expectations that their subordinates should behave ethically, it is less likely that violations will occur. Some of the standards of moral behavior that are commonly expected of the employees are:

1. Keeping one's promises
2. Not harming others
3. Helping others in need
4. Respecting others and not treating them merely as means to boss's own ends; and
5. Not using the organizational resources for one's own needs.

While it is possible to define managerial ethics in a general way as "good" of "bad" conduct, it is much more difficult to define it in specific cases. This difficulty arises from the great differences in opinions of what ethical behavior is unless there is some code or general agreement among managers and the public, it is hard to deal with specific cases.

For instance, is it ethical for a sales representative no to tell the customer that a lower-priced unit is available from a competitor? Is it ethical for executives to own stock in one of the firms that supplies raw materials to their companies? Or even more basic, what rate of return (profit) is ethical? Is 10 percent ethical? Is 100 percent ethical? There is much room for disagreement, even among business executives. Thus a code of ethics would be useful for managers.

The National Association of Manufacturers is an industrial group that has adopted a code of ethics to govern the actions of its members. The NAM code of business practices serves as a useful device for self-regulation by the industry.

5.9 Managerial Ethics in the light of Islam

Managers are entrusted with opportunity of getting some assignments with help of some individuals, may be workers, office employees or staff experts. The people who do perform under his command are entitled to deserving treatments from the managers or the commanders under whom they work. Islamic Shariah prescribes some guidelines for such treatments. Some these may be seen as under:

Quranic Guidelines	Guidelines provided by hadiths
"Allah doth command you to render back your trusts to those to whom they are due and when ye judge between man and man. That ye judge with justice." (4:58)	The Messenger (SM) having said, "Allah, Most High, says, 'I make a third with two partners as long as one of them does not cheat the other, but when he cheats him, I depart from them." Abu Dawud
"Ye who believe. Betray not the trust of Allah and the Apostle, nor misappropriate knowingly things entrusted to you" (8:27)	"When the administrator is given a job, he should receive his due and should pay the dues of others and then he is like a fighter in the cause of Allah till he returns home." (Tibrani)
"If ye be on a journey and cannot find a scribe, then a pledge in hand (shall suffice). And if one of you entrusteth to another let him who is trusted deliver up that which is entrusted to him (according to the pact between them) and let him fear Allah. Hide not testimony. For whosoever hideth it his heart is sinful. Allah is aware of what you do." (2:283)	"All of you are caretakers and each one of you will be asked about the people who are under your control. The leader is accountable for his followers: the husband is the caretaker of his family and he is accountable for them, the women is the for that: the servant is the caretaker of the property of his master and he will be asked about that. In short, each one of you is a caretaker and a responsible person, and will be taken to task for (his behabiour towards) the people who have been given under his control." (Bukhari, Muslim)
"We have apprtioned among them their livelihood in the life of the world, and raised some of them above others in rank that some of them may take labour from others' and the mercy of the Lord is better than (the wealth) that they amass." (43:32)	"Allah says that I will act as a plaintiff, on the day of judgement against the person who engages some worker on work and takes full work from him but does not give him (full) wages." (Bukhari)
	"Those who work under you are your brothers. God has placed them to work under you. So if a brother is working under another brother, it is incumbent upon the borther in authority to provide the same food for his younger brogher as he part takes himself and give him the same clothing as he wears himself and do not put too much work load on their shouldrs least they are overburdened And if they are overburdened, then you should come to their help." (Bukhari)

Managers who believe in Islam need to be careful & vigilent :

- Manager's status & current position is a trust from Allah, his present employer and the employees of whom he is made the boss and he must not do anything which may be considered as a breach of such trusts .
- He must ensure justice among the people under him while making decisions with regard to personnel matters- must not make discrimation between man and man while making selection, placement, promotion, transfer, dismissal or awarding benefits or penalties for offences.
- Managers must guard against betrayal to all the parties who come in the process of his managing the affairs entrusted on him.
- He must take utmost care of fulfilling all the terms & conditions of the trust bestowed on him and embodied in the agreement written or implied .
- Managers must not forget that all of us are creatures of Allah. It is His design to make differences among our staus and abilities so that we can be mutually benefitted from one another.

- Managers must always keep in mind that He, the Almighty will be always giving srengths & courage for the success of everyone of managers' attempts so long the manager accomplishes his duties in order to upheld the trusts & promises expected of him. Any wilfull deviation from this will justify withdrawal of Allah's help and blessing for him.
- Managers may justifiably enjoy all the organisational benefits which are morally & legally due to him. Similarly, he should also provide all the just & beneficial benefits to the people working under him, else for any wilfull default he, the manager will be held for explanation and punishment.
- Managers are caretakers of the people working under him as the parents are caretakers of their children- it is a trust from Allah. And He, the Lord of mankind will nor spare the caretaker for any negligence, partiality and discrimination not approved by Allah.
- Allah the creator of the animals and mankind directs us to implement mutuality among His creatures. For example, cows be given food & drinks in exchange of milk or taking loads. Allah's direction to the managers who are care takers to provide the just & timely benefits and reliefs to those who work under him – deviation from this principle will be considered injustice done to them and the managers will be held liable and taken to severe tasks in the day of judgement.
- Managers and caretakers must distribute works and responsibility among the people working under him according to the physical as well as mental capacity & acquired skill that is exposed by then. Any tasks beyond the ability & skill of the people will be considered as torture to the person assigned, hence the managers will be held answerable.

5.10 Summing Up

A. Ethics refers to principles of behavior which distinguish between good, bad, right, and wrong.
B. Codes of ethics enable individuals to make choices among alternative behaviors.
C. Importance of ethics increases in proportion to the consequences of decisions.
D. There is a wide range of behaviors which would be discredited by almost any accepted code of ethics (for example, falsifying records, padding expense accounts). The chapter focuses on actions that require managers to make choices involving the organization's relationship to its internal and external environment.
E. Managers who choose to be socially responsible face much more ambiguity than those who limit social responsibility activities to those required by law.
F. In making decisions, manages must weigh consequences for themselves, their company, and society. There are three bases for developing ethical guidelines for decision making :
0. Maximum personal benefits (egoism) – an egoistic manager makes decisions that maximize his or her personal benefit (salary, prestige, power).
1. Maximum social benefit (altruism) – an altruistic manager makes decisions that provide "greatest happiness for the greatest number."
2. Obligation to a formal principle – an act's rightness or wrongness depends on principle, not consequences. Stands between the extremes of altruism and egoism.
a. This viewpoint is unacceptable to many who prefer a pluralistic approach where decision making considers several principles arranged in decision maker with a basis for evaluating decisions.
G. These bases help screen actions according to relative rightness.
H. The Corporation's Social Responsibilities and Managerial Ethics for a model which integrates social responsibility, expectations for corporate behavior, and ethics.

Ethics – 6-A

Model Questions

Broad Questions

1. What do you meant by managerial ethics? What are the indications of Managerial Ethics?
2. What influences does have the changing values on Management Concepts and styles- Explain.
3. State the approaches to Managerial Ethics. What factors lead to questionable practices in business?
4. What are the internal unethical problem of the Management?
5. Narrate the present states of Managerial Ethics in Business with empirical evidence.
6. Explain the major parties likely to be affected by management decisions. How to ensure ethical managerial decisions?
7. What is the framework of managerial ethics in the light of Islam – explain.
8. Explain how a manager's ethics affect decision regarding social responsibility.
9. Explain meaning of business ethics. How can managers ensure that they are taking an ethical approach to decision making?

Short Questions

1. Give some examples of conflicting values which managers have to balance.
2. What is meant by the term domain of managerial ethics?
3. Give some examples of unethical managerial practices in business.
4. Are there actions that are morally questionable? Give examples.
5. Briefly describe the actions taken against manager's ethical standards. Who are the beneficiaries?
6. Why is it difficult to define Managerial code of ethics?
7. Are most managers ethical? Discuss.
8. Discuss the issues a manager must consider in applying ethics.

Chapter : 6

Corporate Ethics

During the past two decades, organizational theorists and writers on business management have increasingly emphasized "corporate culture" as the factor that makes one company succeed while another languishes. Although intangible in comparison with things like sales revenue and price-earnings ratios, corporate culture is often the key to an firm's success.

What is corporate culture? One writer describes it is "the shared beliefs top managers have in a company about how they should manage themselves and other employees, and how they should conduct their business. These beliefs are often invisible to the top mangers but have a major impact on their thoughts and actions. Another writer puts it this way, "Culture is the pattern of shared values and beliefs that gives members of an institution meaning and provides them with rules for behavior in their organization. W. Brooke Tunstall, an assistant vice president of AT&T provides a fuller definition. He describes corporate culture as a general constellation of beliefs, mores, customs, value systems and behavioral norms, and ways of doing business that are unique to each cooperation, that set a pattern for corporate activities and actions, and that describe the implicit and emergent patterns of behavior and emotions characterizing life in the organization.

6.1 Status of Corporations

The moral status and obligations of corporations is different form the moral status & obligations of human beings. Agency responsibility is frequently found in business; it is often complex, and it raises a number of special types of problems. In a large organizations, the chain of agency frequently involves many people who are hierarchically related to one another. This raises problems of moral responsibility, both for those at the top and for those lower down the chain. The delegation of authority to carry out a command or policy does not relieve the delegation of the moral responsibility for how the command or policy is carried out. If one person acts for another person, we can often correctly say that the second person is acting as an agent for the first person. We are morally responsible both for our actions and for the foreseeable consequences thereof.

Moral responsibility is usually both ascribed to and assumed by individuals. Does it make any sense to speak of the moral responsibility of nations, or corporations, and of other formal organizations? If it does make sense to do so, do we mean the same thing by the term *moral responsibility* in these cases as we do when referring to human individuals? The argument against the claim that formal organizations are not moral beings is fairly simple. Morality governs the action of rational beings insofar as the affect other rational beings, formal organizations – for instance corporations – act.

The difference between 'corporate & human beings' ethical responsibility hinges on the fact that corporations are limited and organized for only certain purposes while human beings need to take care his conduct as an individual as well as with reference the corporation to which he belong. The fact that a corporation does exist and has been established for certain purposes is no guarantee that it should exist, or that its purposes are morally justifiable. But as long as the ends for which corporations are formed are not immoral, and so long as the means by which those ends are pursued are not immoral, corporations are not bound by a large range of moral rules that bind natural persons.

6.2 Collective Responsibility

A corporation is an assembly of individuals, posted in various hierarchies and performing actions with a view to achieving the goal of the corporation. In dealing with human individuals we speak of their moral character. Do firms, other formal organizations, and nations have moral character? Some people maintain that a firm that takes its moral responsibilities seriously, tries to be fair in dealing with its employees and customers, takes into consideration the effects of its actions and so on, is correctly called a moral firm. Although a firm's corporate culture is established over time, it is both initially and continuously responsive, especially to direction from the top. Top management's sets the tone that the rest of the firm follows. Those who do not agree with the tone and do not fit in usually do not stay long. It is possible for the top management to insist on morality throughout the firm.

Five Models of assigning collective responsibility

There are five models for assigning collective responsibility:

[i] In the **first model**, each member of the collective assembly is assigned and/or assumes full responsibility for an action.

[ii] The **second model** assigning only partial responsibility to all members of a firm or country, or as a variant, to those involved in any decision or action taken by the firm or country. Joint actions frequently require the participation of many people; some play a larger role than others, though all contribute to the total act, and therefore all are partially responsible.

[iii] The **third model** holds the firm or nation fully responsible, with responsibility assigned to individuals, as in the first mode.

[iv] **The fourth model** assigns full responsibility to the firm or nation, with individual responsibility assigned as in the second model, and

[v] The **fifth model** assigns responsibility for the firm's or nation's action only to the firm or nation as such, not to any of its members individually.

The notion of collective moral responsibilities is vague because it can be interpreted in so many different ways. Our moral intuitions are frequently not clear when we are asked to decide who really is responsible for some actions taken by a firm or country. In many cases, there is room for disagreement. The nature of the internal collective responsibility of a firm or a nation should be pursued by those within each, attempting to clarify, assign, and assume responsibility as appropriate.

6.3 Corporate Moral Decisions*

Corporate internal decision (CID) structures amount to established procedures for accomplishing specific goals. The CID structure lays out lines of authority and stipulates under what conditions personal actions become official corporate actions. Some philosophers have compared the corporation to a machine or have argued that because of its structure it is bound to pursue single-mindedly its profit goals. Others have argued the contrary.

Corporations are the result of free agreements, even if most owners do not know what management does. They purchase stock, knowing that they will not have control and knowing that they will gain or lose, depending on how effectively management runs the corporation. The corporation as a whole is responsible for fulfilling its contracts to the other firms with which it deals – that is, for delivering what was promised when and as promised, for paying the debts, it incurs in its operation, and so on.

In a large corporation, responsibility falls primarily on the board of directors. The board members are the legal overseers of management. The members of the board are responsible to be shareholders for the selection of honest, effective managers, and especially for the selection of the president of the corporation. They can and should see that the company is managed honestly and that the interests of the shareholders are cared for instead of ignored by management.

Board members are also responsible for agreeing to major policy decisions, and for the general well-being of the corporation. The members are morally responsible for the decisions they make, as well as for the decisions, they should make but fail to make. To be effective in their roles as protectors or the interests of the shareholders and judges of the performance of management, they should be separate from management. Management is responsible to be board. It must inform the board of its actions, the decisions it makes or the decisions to be made, the financial condition of the firm, its successes and failures, and the like. Management is also responsible to the workers. It both hires them and provides for the conditions of work. In hiring workers it has the obligation to engage in what have become known as fair employment practices.

Workers, in turn, are responsible for doing the jobs for which they are hired. This obligation is captured in the dictum "a fair day's work for a fair day's pay." Corporations are responsible to other suppliers and competitors for fair treatment. Corporations deal with other firms as well as with the general public. The corporation is responsible to the consumer for its products. The goods produced should be reasonably safe. This means that the ordinary user is exposed to only a certain acceptable risk level that is known by the user, when using the product.

Finally, the corporation is morally responsible for its actions to the general public or to society in general. In particular, it has the moral obligation not to harm those whom its actions affect. The group of moral obligations to the general public concerns the general safety of those who live in an area affected by a company's plan. The set of responsibilities to the public concerns the location, the opening, and the closing of plants –especially in small communities and in the industrial towns.

6.4 Opposing Views of Corporate Responsibility

Milton Friedman forcefully argued that business has no social responsibilities other than to maximize profits. Friedman is critical of those who would impose on business any duty other than that of making money, and he is particularly harsh with those business leaders who themselves take a broader view of their social responsibilities. Friedman believes that, by conceding the necessity for a broader view of corporate social responsibility, businesspeople are helping propagate ideas damaging to capitalism.

---

* Goodpaster K E and Mathews, J B, " Can a corporation Have a Conscience?", Harvard Business Review, Vol. 60, 1982

The rival position to that to Friedman and Levitt is simply that business has other obligations in addition to pursuing profit. They maintain, rather, that corporations have other responsibilities as well – to consumers, to their employees, and to society at large. If the adherents of the broader view share one belie, it is that corporations, have responsibilities beyond simply enhancing their profits because, as a matter of fact, they have such great social and economic power in our society. With that power must come social responsibility.

The debate over corporate responsibility is whether it should be construed narrowly to cover only profit maximization or more broadly to include refraining from socially undesirable behavior and contributing actively and directly to the public good. Proponents of the narrow view, such as Milton Friedman, contend that diverting corporations from the pursuit of profit makes our economic system less efficient. Business's only social responsibility is to make money within the rules of the game. Private enterprise should not be forced to undertake public responsibilities that properly belong to government. Defenders of the broader view maintain that corporations have additional responsibilities because of their great social and economic power. Business is governed by an implicit social contract, which requires it to operate in ways that benefit society. In particular, corporations must take responsibility for the unintended side effects of their business transactions and weigh the full social costs of their activities. Those proposing broader corporate responsibilities see the creation of an ethical atmosphere within the corporation as an important first step. Essential to this atmosphere are acknowledgement of the critical importance of ethics, encouragement of morally responsible conduct by al employees, openness to public discussion and review, and recognition of the pluralistic nature of our social system.

6.5 Ethical Extent of Access to Corporate Information

[A] Corporate Disclosure

The moral basis for disclosure of corporate information rests primarily on two second-order, substantive moral principles: (1) each person has the right to the information he needs to enter into a transaction fairly, and (2) each person has the right to know those actions of others that will seriously and adversely affect him. Each of these requires some defense.

We shall deal with three questions: to whom must disclosure be made available; morally, what must be disclosed; and what form should disclosure take?

1. Based on the two principles stated previously, a corporation has the moral obligation to disclose appropriate information to those with whom it enters into transactions, and those whom its actions affect seriously and adversely.
2. What morally must be disclosed? Because each group relates differently to the corporation, what is to be disclosed will vary from group to group. In each case the two principles apply.
   a) What must be disclosed to the workers? They have a right to know the conditions of work, including their rights, benefits, and obligations, This follows simply from the fact that this information is necessary if the contract between employer and employee is to be fair.
   b) Government has the right to know that corporations are complying with the law. Despite the fact that government receives a great deal of information from corporations concerning their activities, it is still very difficult for the federal government to obtain adequate information on the activities of mammoth conglomerates.
   c) The corporation, from a moral point of view, should disclose to its suppliers whatever is necessary to make the contracts between them fair.

d) Disclosure of information to stockholders and to potential stockholders has caused a great deal of debate. Corporation have argued that in disclosing information to these groups they were making information should be allowed to deep secret.

e) The members of the board of directors are the legal representatives of the shareholders, so they owe the shareholders appropriate information, as well as honest service in their interests

f) The consumer should be informed of any dangers posed by the use of the product he purchases. He properly expects that the item he buys will be reasonably safe if properly used.

g) The term *general public* includes more than simply a corporation's customers or potential customers. The potential customers of an airplane manufacturer, for instance, would be airlines, governments, and possibly individual firms.

3. What form should disclosure take? We have already touched indirectly on some of the appropriate forms of disclosure. Shareholders are informed of a corporation's activities through the annual report and the annual shareholders' meeting; government is informed of a company's activities through legally mandated reports, and, where appropriate, through on-site investigations and inspections; and workers are informed of the conditions of employment prior to their employment.

[B] Trade Secrets

Information that is available in the public domain is not secret. In a competitive situation, one business may not wish to share its knowledge and information, although doing so would not lessen its own knowledge and information. Information and knowledge, moreover, often represent a financial investment by a firm. Some knowledge is costly to obtain or develop. A marketing study, for instance, may represent a great deal of time and money, and a company's desire to deep such information secret is understandable.

The term *trade secrets* refers to all knowledge developed by a firm, which it guards as proprietary; in a narrow sense, trade secrets designate an alternative to patents and copyrights as a means to protecting inventions, formulas, and the like. Trade secrets, insider information, and disclosure are three aspects of questions pertaining to knowledge and information in business.

Indicators which make information secret

Three indicators are useful in determining what information is appropriately secret, what information belongs to a given firm, and hence what information an employee has a moral obligation not to reveal to his original firm's competitors.

[i] A first indication is the amount of security the company employs to maintain the secrecy of the information. A company may treat the information – techniques or inventions, or consumer and/or supplier lists – as highly confidential, that is, it takes measures to endure that the information is not available routinely, by restricting access, and so on.

[ii] A second criterion is the amount of money that a firm has spent in developing the information. Strict security regulations for information that is in the public domain, or that can be easily developed, make no sense.

[iii] A third criterion is the value of the information to a competitor. Again, it is unlikely that a firm will initiate great security to protect information valuable only to the firm itself. If, however, the information could be used by a competitor to gain a competitive edge, then it is reasonable that the originating firm be permitted to protect its investment.

Insider Trading

Insider information is information that someone within a company has but that is not available to those outside the company. This includes not only trade secrets, which we have already discussed, but company strategy and plans. The moral problems connected with insider information concern the use that individuals may make of such information while they are still members of a firm. Those who have access to personnel files, for instance, have no right to divulge what they know about an employee if the information is learned only through their work and is not otherwise available. Morally demands confidentiality of records whether or not one signs a contract not to divulge such information. Similarly, many plans, discussions, or memos that pertain to a company's business, and to which employees have official access, do not belong to them in their private capacity. From a moral point of view, one is not free to divulge such information casually, for personal profit, for monetary gain, or even to feel important. The second case of the illegitimate use of insider information also concerns personal gain, not at the company's expense but at the expense of those not connected with the company.

Those who engage in illegal insider trading misappropriate – and thus steal – information that they properly have only in their corporate role, and that they inappropriately use in their private capacity for personal gain. Insider trading is difficult to control. To prove successfully the case against accused insiders in often not easy. The tension between a corporation's urge for secrecy and the right to know of those affected or involved can strain a corporation's relations with the public. But if a corporation responds to this tension creatively and openly, it can lead to the exercise of more responsibility on the part of a corporation, and to greater acceptance of corporations on the part of the general public.

Computers and Privacy

The fears of many people concerning computers and privacy can be described as the Big Brother syndrome. We know that computers are capable of assembling large amounts of data, making the assembled data easily and readily available. We know that large amounts of data on each of us are assembled. Patient-doctor confidentiality, priest-penitent confidentiality, and lawyer-client confidentiality are all instances of privileged communication. Society recognizes that statements that patients, penitents, or clients make are appropriately kept confidential.

Our society recognizes areas of privacy for the individual, into which others have no right to penetrate, unless serious harm is threatened to others, Each person's thoughts are his own, as are his beliefs. We have no obligation to reveal them, even though it is a fact that we are thinking certain things and have certain beliefs. There are other private areas in our lives that we have no obligation to divulge any information about. We have the right to keep these secrets and if anyone tries to find out about them, they may violate our privacy. Employees, we noted, have a right to privacy. When employee records are kept in computer files rather than filing cabinets, employers are bound to secure that information at least as well as they secure filing cabinets.

6.6 Ethical Rationale of Restructuring and Takeovers

One set of ethical debates for and against hostile takeovers is between those both pro and con who implicitly accept a utilitarian approach to ethics, even though they do not necessarily identify themselves by that label. The implicit utilitarians ask whether more benefit is achieved – both to the participants and to society as a whole – by allowing hostile takeovers than by outlawing them. Defenders of takeovers argue primarily that they promote efficiency, and that the threat of takeovers is an incentive for managers to work harder and more productively, and to raise profits for their shareholders, rather than leaving that talk to a more efficient takeover manager.

Those on the other side deny that the good consequences of efficiency will outweigh the bad consequences of hostile takeovers on the long run, pointing not only to the predictable plant closings, sell-offs, and displacements but also to the growing internal debt that companies take upon themselves to finance the takeovers – debt that they may not be able to service during any kind of a down-turn in the economy, and that, in case of failure, will represent enormous losses that will threaten the whole system.

The number of takeovers of one company by another often brought about significant changes in the companies taken over, and the threat of takeover frequently promotes, if not forces, changes in many other companies. The rationale given for the takeovers in the 1980s was that the companies were undervalued by the market when one compared the price of their stock against the assets of the firm. Those holding the new perspective argued that companies were undervalued because they were inefficiently run. If taken over and run under new management, they could be made efficient.

6.7 Corporate Ethical Environment

Corporations create an environment in which unethical practices are more likely when they focus solely on profit and intense competition, when top management gives lip service only to ethical behavior and fails to establish clear policies and adequate controls, and when they are insensitive to the customer's best interests and public concerns about ethics.

Factors that lead to questionable unethical practices

Many corporations place employees in such positions and pushes them to such situations in which employees are likely to perform unethically. Examples of such situations are:

1. Overemphasis on both individual and corporate performance;
2. Mission statements, evaluation systems and corporate cultures that focus on profit as the corporation's sole objective;
3. Intense competition between corporations, departments or individuals;
4. Management concern for the letter of the law rather than the spirit.
5. Ambiguous policies that employees interpret as "window dressing" for outsiders rather than clear for ethical behavior.
6. Inadequate controls so that managers get away with violating standards. allowing them to pursue greater sales and profits for management benefit;
7. Expediency and indifference to the customers' best interest;
8. Management's failure to comprehend the public's ethical concerns;
9. Custom ("Let the buyer beware"); and
10. A " groupthink" mentality that fosters group decision that individual members would not countenance.

Infuse Corporate Ethical Behavior

Corporation that want to encourage ethical behavior in its organizations should :

i. Communicate corporate expectations that employees will behave ethically;
ii. Give a clear-cut definition of ethical behavior and make the same known to each and every employee of the corporation.
iii. Higher top executive who can deliberately set actions following ethical and moral guidelines-implement, "Example is better than precept"
iv. Recognize, appreciate ethical behavior accomplished by corporate personnel.
v. Identify employees with unethical conduct and reprimand and punish justifiably for such undesirable and unethical conduct.
vi. Train to teach the employees the basic tools of oorporate ethical decision making, and
vii. Encourage periodical discussion on ethical issues.

6.8 Corporate Ethics in Islam

In Islam an individual is responsible for each of his action either accomplished while unemployed, or while in self- employment or even while in employment. Corporation is an artificial personality created by law and all the individuals working in it are like its organs. Each and every individual as organs must help the corporation in all its affairs to act ethically. None will be spared for default resulting in unethical performance.

Guidelines provided by hadiths

1. "All of you are caretakers and each one of you will be asked about the people who are under your control. The leader is accountable for his followers; the husband is the caretaker of his family and he is accountable for them, the woman is the for that; the servant is the caretaker of the property of his master and he will be asked about that. In short, each one of you is a caretaker and a responsible person, and will be taken to task for (his behabiour towards) the people who have been given under his control." (Bukhari, Muslim)
2. "Alah says that I will act as a plaintiff, on the day of judgement against the person who engages some worker on work and takes full work from him but does not give him (full) wages." (Bukhari)
3. "Those who work under you are your brothers. God has placed them to work under you. So if a brother is working under another brother, it is incumbent upon the borther in authority to provide the same food for his younger brother as he part takes himself and give him the same clothing as he wears himself and do not put too much work load on their shoulders least they are overburdened And if they are overburdened, then you should come to their help." (Bukhari)
4. "Wealth, properly employed is a blessing, and a man should lawfully endeavor to increase it by honest means" (Sahih Al-Bukhari and Sahih Moslem)

Corporations work in an environment different groups of people who are directly or indirectly benefited or affected by each and every decision that are being made by the corporation in its life time. Islam stresses utmost care on the part of the corporation not to take a decision that have negative impact on any of the interested parties. Corporations so to say the owners of such corporations or their approved deputies must discharge their duties in accordance with the directions & guidelines as provided by Islamic shariah.

Corporations are a sort of giant business units. They are allowed to make business, employ people, make transactions in order to earn profit and ultimately increase their wealth but none of the functions that are required to have performed in the process either directly or indirectly be with dishonest motive or to harm or cause unjustified lose to those related with the corporations.

Involved persons be given just and fair share:

[i] Shareholders to get a fair share of the earned profits from Islamically allowed business;

[ii] Management and workers to get fair wage and fringe benefits after they have discharged their duties maintaining utmost trusts & care;

[iii] Consumers of its products & services to get these at competitive & justified fair price with told product quality & safety along with assurance of after sales service.

[iv] Suppliers & competitors are integral part of the corporation. Their services are essential for a healthy market behavior as expected in a Islamic economy. It is therefore, imperative to make fair and justified treatment in performing related transactions in such a way so that these two parties are not unnecessarily affected and eliminated.

[iv] Government, community & the society be given their due shares in terms of taxes, duties, fees, assistance, donation, payable compulsorily or as a charity either *in cash or in kind* as a responsible pious individual is required to have performed to another such an pious & dutiful citizen following Islamic way of life.

6.9 Summing Up

1. Culture is the pattern of shared values and beliefs that gives members of an institution meaning and provides them with rules for behavior in their organization.
2. The moral status of corporations is different form the moral status of human beings, the moral obligations of corporations are different form the moral obligations of human beings.
3. The question of corporate moral agency is whether the corporations are the kind of entity that can have moral responsibilities. There are at least three sense of " morally responsible". These are: sense of accountability for actions; specific role responsibility for care, welfare or treatment to persons related either directly or indirectly; and moral agents' actions representing one who of his own is not capable to make required decisions.
4. The nature of the internal collective responsibility of a firm or a nation should be pursued by those within each, attempting to clarify, assign, and assume responsibility as appropriate.
5. Philosophers disagree about whether the corporate internal decision [CID] structure makes it reasonable to assign moral responsibility to corporations. This problem is compounded by difficulty of assigning moral responsibility to individuals inside corporations.
6. Trade secrets, insider information, and disclosure are three aspects of questions pertaining to knowledge and information in business.
7. The moral basis for disclosure of corporate information rests primarily on two moral principles: the right to the information he needs to enter into a transaction fairly, and the right to know those actions of others that will seriously and adversely affect him
8. The rationale provided in favor of corporate restructuring and takeovers is that if taken over and run under new management, they could be made relatively more efficient, productive & profitable.
9. Corporations and the people who make them up must have high moral standards and monitor their own behavior because there are limits to what the law can do to ensure that business behavior is **socially and morally acceptable**.
10. To improve the **organizational climate** so individuals can reasonably be expected to act ethically, corporations should adopt an **ethical code**, setup a high-ranking **ethics committee**, and include **ethics training** in their employee development programs. Attention to **corporate culture** is also crucial to the successful institutionalization of ethics inside an organization.

Model Questions

Broad Questions

1. What is collective responsibility? State the model of assigning collective responsibility.
2. Can corporations make moral decisions? What is the underlying mechanism?
3. Explain the term trade secret. State the indicators which make information secret.
4. What do you understand by corporate disclosure? In what form should disclosure take?
5. What type of ethical behavior should take place in corporate restructuring and takeover?
6. How would you create an environment for implementing morality in a corporation.
7. Examine the nature and importance of ethics in managing an organization. Identify the ways to institutionalize and raise ethical standards. Recognize the differing ethical standards in various societies.

8. If you were the chief executive officer of a large corporation, how would you " institutionalize" ethics in the organization? Explain how organizations can promote ethical behavior.
9. What is your evaluation of the view that organizations seek to satisfy a number of objectives imposed by different groups rather than to maximize a single objective?

Short Questions

1. What is meant by the term corporate culture?
2. How does agency responsibility differ from moral responsibility?
3. What is the framework for corporate moral codes?
4. Are insider trading and privacy essentially the same thing? Why or why not. Explain.