



## Chapter 3

# ORGANIZATIONAL ETHICS



## CHAPTER OBJECTIVES

- After exploring this chapter, you will be able to:
  - Define *organizational ethics*.
  - Explain the respective ethical challenges facing the functional departments of an organization.
  - Discuss the position that a human resource (HR) department should be at the center of any corporate code of ethics.
  - Explain the potential ethical challenges presented by generally accepted accounting principles (GAAP).
  - Determine potential conflicts of interest within any organizational function.



## Defining Organizational Ethics

- Business Ethics are separate from General Ethics for two reasons:
  - Other parties have a vested interest in the ethical performance of an organization
  - In a work environment, you may be placed in a situation where your personal value system may clash with the ethical standards of the organization's operating culture.
- **Organizational culture** – the values, beliefs, and norms that all the employees of that organization share
- **Value chain** – the key functional inputs that an organization provides in the transformation of raw materials into a delivered product or service
  - Research and development
  - Manufacturing
  - Marketing
  - Sales
  - Customer service
- Supporting each of these functional areas are the line functions:
  - Human resource management
  - Finance
  - Information Systems
  - Management

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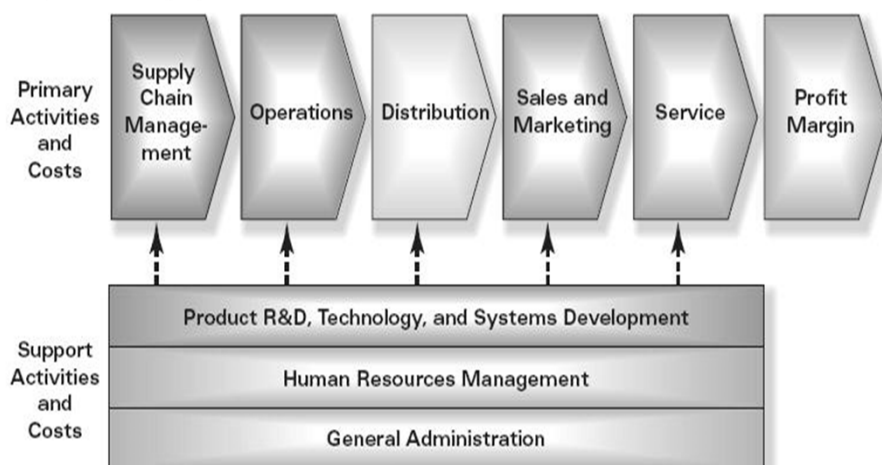
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## ORGANIZATIONAL ETHICS

Figure 3.1

A Representative Company Value Chain<sup>1</sup>



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## ETHICS IN R&D

- ❖ Research and development professionals carry the responsibility for the future growth of the organization.
  - Without new products to sell, organizations can lose their customers to competitors who are offering products that are 'better, faster, cheaper'
- Commitment to consumer that products are of highest quality, safety, and reliability.
- Defective products put consumers at risk and generate negative press coverage and very expensive lawsuits
- 'Better, cheaper, faster' mean compromises have to be made in functionality or manufacturing in order to meet a targeted cost figure.
- Too many features out - marketing and advertising have no story to tell - sales people will face difficulties in selling against competition.
- Too few changes made - company won't be able to generate a profit.
- Do we use the best materials available or the second best to save some money?
- Do we run a full battery of tests?

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## Ethics in Manufacturing

- Now it falls to the manufacturing team to actually get the thing built.
- Real ethical dilemmas come when decisions are made about product quality.
- Manufacturers face the ethical question, "Do you want it built fast, or do you want it built right?"
- From an organizational perspective, you want both.
- Compromise - which corners can be cut and by how much.

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## Ethics in Marketing

- ❖ The marketing process (which includes advertising, public relations, and sales) is responsible for ensuring that the product reaches the hands of a satisfied customer.
- Marketers see themselves as providing products (or services) to customers who have already expressed a need for and a desire to purchase those products.
- Marketers emphasize customer service and argue that since their customers are satisfied, the good outcome justifies the methods used to achieve that outcome no matter how misleading the message or how unnecessary the product sold.
  - **Utilitarianism** is the ethical choices that offer the greatest good for the greatest number of people.
  - **Universal ethics** are actions which are taken out of duty and obligation to a purely moral ideal, rather than based on the needs of the situation.
- Critics of marketing see it as a more manipulative process whereby unsuspecting customers are induced to buy products they don't really need and could quite easily live without by 'slick' commercials and advertisements.

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## Ethics in HR (1 of 2)

- ❖ The human resources function within an organization should ideally be directly involved in the relationship between the company and the employee throughout that employee's contract with the company:
  - The creation of the job description for the position.
  - The recruitment and selection of the right candidate for the position.
  - The orientation of the newly hired employee
  - The efficient management of payroll and benefits for the (hopefully) happy and productive employee.
  - The documentation of periodic performance reviews.
  - The documentation of disciplinary behavior and remedial training if needed.
  - The creation of a career development program for the employee.
  - Coordination of final paperwork - severance benefits and Exit Interview.

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## Ethics in HR (2 of 2)

- ❖ Many advocates of ethical business conduct argue that HR should be at the center of any corporate code of ethics—not as the sole creator of the code, since it is a document that should represent the entire organization but certainly as the voice of reason in ensuring that all the critical areas are addressed.
  1. *HR professionals must help ensure that ethics is a top organizational priority.*
  2. *HR must ensure that the leadership selection and development processes include an ethics component.*
  3. *HR is responsible for ensuring that the right programs and policies are in place.*
  4. *HR must stay abreast of ethics issues (and in particular the changing legislations and sentencing guidelines for unethical conduct).*

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## Ethics in Finance (1 of 2)

- The finance function of an organization can be divided into three distinct areas: financial transactions, the accounting function, and the auditing function:
  - **Financial transactions**—the process by which the flow of money through an organization is handled.
  - **Accounting function**—keeps track of all the company's financial transactions by documenting the money coming in and money going out and balancing the accounts at the end of the period.
  - **Auditing function**—the certification of an organization's financial statements, or books, as being accurate by an impartial third-party professional.
  - Existing and potential investors will make the decision to invest in the shares of an organization based on the information presented in the certified financial statements.

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## Ethics in Finance (2 of 2)

- ❖ **Explain the Potential Ethical Challenges Presented by Generally Accepted Accounting Principles (GAAP)**
  - The generally accepted accounting principles (GAAP) that govern the accounting profession – not a set of laws and established legal precedents, but rather a set of standard operating procedures within the profession.
  - A set of accurate financial statements that present an organization as financial stable, operationally efficient, and positioned for strong future growth can do a great deal to enhance the reputation and goodwill of an organization.
  - Creative Bookkeeping Techniques
    - It is legal to defer receipts from one quarter to the next to manage your tax liability
- ❖ The accounting/auditing firm is paid by the corporation, but it really serves the general public, who are in search of an impartial and objective review—a clear ethical predicament.

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## Determine Potential Conflicts of Interest Within Any Organizational Function

- ❖ **Conflicts of Interest**
  - A situation where one relationship or obligation places you in direct conflict with an existing relationship or obligation
    - Simply meeting the needs of your organization's stakeholders can present conflicts of interest when you consider the possibility that what is best for your shareholders may not be best for your employees and community.
    - Selling a product that has the potential to be harmful to your customers represents a conflict of interest.
    - Selling a product that has the potential to be harmful to the environment also carries a conflict of interest.
      - » Each conflict has one thing in common: the decisions come from the top of the organization.
    - Changing the way an organization does business can sometimes begin with support from front-line operations, but key decisions on corporate policy and capital expenditure eventually must come from senior leaders in the organization.

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• **Review Questions**

1. Briefly discuss the topic of ethics in HR.
2. Briefly discuss the potential conflicts of interest within any organizational function.