ENTERPRISE ETHICS: DOES IT GUARANTEE EFFECTIVE ETHICAL MANAGERIAL DECISIONS?

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In the article the one part of enterprise ethics – ethical decision-making is researched. Enterprises apply decision-making in implementing ethical principals in their activity. The effectiveness of decision is one of the most important things in ethical decision-making. One of the often used methods in ethical decision-making is utilitarian method, analysed in this article. The practical application of the method is shown in the article. The utilitarian method is applied in Lithuanian maternity leave case. The application of utilitarian method implies that managers should accurately evaluate situation and analysed ethical dilemma for getting an effective ethical managerial decision with positive effect for their enterprises.

Keywords: enterprise ethics, enterprise, ethical managerial decisions, utilitarian method of ethical decision-making.
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Introduction

Relevance of the research. As M. Dierkes and K. Zimmerman (1994, p. 534) state, „it seems evident that discussions about ethics have a markedly cyclical component. Certain elements are stressed more than others, new ones emerge, and others vanish”. In 1970s Milton Friedman said that “the business of business is business”. But is it only that? One factor that seems likely to have a significant impact on the propensity of business managers to engage in ethical or socially responsible behaviour is the extent to which managers believe that ethical behaviour is critical for their business’ success and survival (Chan, 2002).

M. Dierkes and K. Zimmerman (1994) emphasize “reference groups, spheres of responsibility and key values institutionally determined, not mechanically”. The values are embedded in enterprises and organisations, it means institutionally. Enterprise ethics develops values of individuals as well as institutional values. The main aim of enterprise ethics is connection of these groups of values searching for activity effectiveness in an enterprise. It is important to distinguish personal and social values in an enterprise. Social values include items such self-respect, broadmindness, and courage, also competency-base values include items such as logic and competence (Belak, 2010). Values in enterprises are embedded variously. One of the ways is ethical decision-making. For enterprises it is more important effectiveness of a decision. The most important thing is how to make an appropriate relation between decision’s effectiveness and ethics.

A scientific problem of this article is how to guarantee effective ethical managerial decisions in an enterprise. Research aim of this article is to disclose the essence of ethical decision-making by using utilitarian method in an enterprise.
The research object is ethical decision-making. The main tasks of the article are: to discover importance of decision-making implementing enterprise ethics; to present the utilitarian method of ethical decision-making; to analyse the practical case using utilitarian method of ethical decision-making. Research methods are scientific literature analysis, case analysis.

Enterprise ethics – nourishment of values and virtues by ethical decision-making in an enterprise

Because economic activity involves a complex nexus of interactions in production, exchange, and consumption, economic choices have an essential ethical dimension (Brickley, 1997, 2002; Vranceanu, 2005). Business ethics more and more often gets a new oriented viewpoint dimension and it is named as enterprise or institutional ethics implementing values and virtues. Enterprise ethics refers to the notion that business and ethics are not separate – that business knowledge and ethical understanding are critical components of good decisions made at all levels of organisations. Enterprise ethics is most often initiated by ethical leadership which connects the goals of the organisation with those of the internal employees and external stakeholders. The most important function of enterprise ethics is value management, which is based on enterprise values’ identification and codification. The values must be identifying identity of an enterprise and structuring the decisions (Wieland, 2002).

According M. Dierkes and K. Ziemmerman (1994):
• business ethics must be specified as far as the relations between individual and institutional ethics are concerned;
• ethical principles should be operationalised in corporate visions and daily practice;
• ethics should be seen in relation to corporate culture – a point increasingly regarded as crucial;
• business ethics must be more specific about living and working in a multicultural value-setting. The question how can one develop the ethics of a firm that operates in many very different cultural contexts and value systems?
• business ethics must include even more components of technology ethics.

Surveys, public discussions and media reports clearly indicate that the significance of technology is growing as far as benefits are concerned.

Creating values, norms, rules in mezzo level, it is very important that in concrete institution, organization or enterprise public interest would go first (Štreimikienė, 2007). Those selected values, norms, and rules must be functional not only in an enterprise, but go in favor to society. In an enterprise, according Belak et. al. (2010), values allow a sense of identity to its members, enhance the stability of its social system, direct a manager’s attention to important issues, guide subsequent decisions by managers, and facilitate commitment to something larger than self.

According Adam Smith (1982), human community is characterised by sympathy, approbation, fellowship and the practice and cultivation of virtues as particular

http://lexicon.ft.com/Term?term=enterprise-ethics
As B. Kaye (1994) states, the moral sentiments of community constrains the social system while the social system facilitates the continuance of the community.

R. V. K. Chan et al. (2002) found that less-ethical Chinese business executives tend to be younger, and that a greater number of their less-ethical were employed by privately owned firms and joint ventures, rather than state-owned enterprises. The most common “accidents” in business are that individuals cut corners on quality control, cover up incidents, abuse or lie about sick days, lie to and deceive customers, steal from employers, and put inappropriate pressures on others (Jones, 1997; Beu, 2003).

Researches found that the propensity toward ethical action appears to be situationally specific and is likely to decrease in situations where one’s actions would not be discovered by others (Bartlett, 2003). Finally, those whose personal value systems were relatively more associated with economical than ethical or political issues were found to become more ethical as the level of responsibility increased.

F. F. W. Bird and J. A. Waters (1987) outlined seven main moral standards that managers use in thinking about moral issues which they identified from the analysis of interview data. The seven standards were: 1) honesty in communication; 2) fair treatment; 3) special considerations; 4) fair competition; 5) organisational responsibility; 6) corporate social responsibility, and; 7) respect for the law.

The process of implementation of values is tightly connected with all process of ethic’s implementation in enterprises. “Ethics in the workplace can be managed implementing an ethics code of conduct, obtaining top management commitment and support, the appointment of an ethics officer, ethics training, reward systems, a system to report unethical behavior and the auditing of ethical performance” (Lloyd, 2010, p. 2).

Ethic training in the organization should be connected to formal orientation training for all new employers and should be reinforced by continuous training procedures (Lloyd, 2010). A well-developed ethics code can help foster an ethical environment in the organization. It might be used discouraging unethical behavior and solving rising ethical dilemmas and problems. The existence of ethical code does not guarantee ethical behavior in organization or enterprise. The most important point is to make it “acting’ and active. Effective code of ethics must be constructed for every stakeholders’ group of an enterprise.

Attributes of innovating ethics (Potocan, 2007):

- from ethics of infallible authority to ethics of individuality;
- from ethics of inherited differences in wealth to ethics of the ones created by innovation (in a innovative society);
- from ethics of guilds ethics of the market as the power of the innovative ones;
- from ethics of routine and equilibrium to ethics of innovation and uniqueness;
- from ethics of passive obedience to ethics of one’s own responsibility;

\[4 \text{http://www.merriam-webster.com/dictionary/virtue}\]
• from ethics of owning treasures via ethics of owning capital to ethics of owning holistic knowledge and creativity;
• from ethics of individual working to ethics of creative co-operation.

One of the most difficult sphere of ethics’ implementation in an enterprise is ethical decision-making. The process has a lot of dangers such as subjectivity, wrong criteria selection, pressure of environment (social, cultural, economic, organisational), different values and expectations. The process is based on recognition of moral issue, making moral judgment, establishment of moral intent, and engagement in moral behaviour (see Figure 1). Ethical decision-making is based on moral philosophy, its theories, paradigms, and concepts, where the most important thing is values: individual, institutional, societal.

![Fig. 1. The ethical decision-making process, adapted from Jones (1991) (Pater, 2003)](image)

The role of moderators is very important in enterprise as well as moral intensity of a problem itself.

A lot of methodologies and methods are used for implementing ethical managerial decisions in enterprises. The most important is to choose the most suitable for individual question or situation and especially important is effectiveness of a decision, which is made.
Utilitarian method of ethical decision-making

Ethical theory is generally based upon moral philosophy and may be classified on many different dimensions; however, there are several basic “types” of moral philosophy which are used in enterprise or business ethics. They are egoism, utilitarianism, deontology, rights and relativism (Bartlett, 2003).

Utilitarianism is derived from the word “utility”; in Latin it is written and pronounced as *utilitas* (or *utile*)⁵. Utilitarian thinkers, in the line of Jeremy Bentham (1748–1832) and John Stuart Mill (1806–1873), focus on social consequences (Mill, 2005). In their view, a “good” action is one that brings about the largest balance of good over bad for all the participants concerned in the case. In more general framework, utilitarian ethics aims to evaluate not actions themselves, but the rules that individuals follow in choosing their actions. From the utilitarian perspective, any rule that creates personal gain at the expense of others can be considered unethical (Vranceanu, 2005). It is important to say that in many cases, ethics and effectiveness may be orthogonal goals.

The utilitarian and deontological approaches are the two common perspectives used to explain moral reasoning. In utilitarianism, an action is deemed moral or immoral by examining the consequences of the action. The deontological approach states that duty is the basic moral category, independent of the consequences of the action (Beu, 2003). The enterprise is seen as part of a wider mechanism, the economic system. From this well-known perspective, analysing the firm’s internal variables makes no sense. Self-interest is also supposed to be the economic system’s driving force. This stream of thought is fundamentally neoclassical in origin and is here defined utilitarian (traditional or mechanist). It derives mainly from the utilitarianism matrix (Secchi, 2007) (see Table 1).

Table 1. Defining the three groups: key concepts

<table>
<thead>
<tr>
<th>Groups of theories</th>
<th>Key concepts</th>
<th>Views of the individual</th>
<th>Ideas on the firm</th>
<th>Assumptions about the system</th>
<th>Responsibility allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilitarian</td>
<td>Simplified</td>
<td>Mechanical</td>
<td>Every subsystem has a definite function, inputs-outputs to be managerial</td>
<td>Economic system</td>
<td></td>
</tr>
<tr>
<td>Managerial</td>
<td>Organisational</td>
<td>Measurable</td>
<td>Firm</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relational</td>
<td>Value-based</td>
<td>Interdependent</td>
<td>Complex and uncertain</td>
<td>It depends on the type of relationship between the parts</td>
<td></td>
</tr>
</tbody>
</table>

In the first sight, utilitarian ethics offer a very reasonable method to solve ethical problems in business (Pruskus, 2003; Mill, 2005). Counting the rate of benefit and harm of particular actions is based on fundamental human principles:

Everyone is equal and counts the same.
Everyone seek to be happy or avoid being unhappy.
Good is what makes the most happiness or least unhappiness regardless of who is affected.6

Outcome is the main indicator of deciding if action is ethical or not. Outcomes can be measured by happiness and unhappiness (pleasure and pain), the preferences of individuals, money, as an indicator of preferences.

Assessing factual data and trying to predict the outcomes gives an opportunity to avoid terrible mistakes. There are some examples when an action of good will causes harmful outcomes. Moreover this theory requires seeking the best outcome, not simply just a good outcome.

Utilitarian ethics can be applied not only for a human but also for the welfare of animals and other entities, since they can become the affected sides of the problem.7

Rational calculation of good and bad outcomes helps to avoid immediate intuitions about right and wrong as well as sticking to personal ethical standards (Pruskus, 2003). Decisions in life by utilitarianism may be made according pure quantitative principal. The most important is total effect in society. It is very important to understand that some positive deviations from rules in utilitarianism are possible and ethical. Everything depends on individual situation. Utilitarianism is criticized especially for destroying justice principal (Pruskus, 2003):

- it is difficult to find and evaluate what is the most important thing for everyone; it means is it difficult to find the most appropriate criteria of benefit for all;
- if we found the most appropriate criteria of benefit, we would collapse with ethical compromises;
- ethics of utilitarianism denies the value of individual itself. This value can not be measured and compared with other people and their interests.

Utilitarianism of action is based on that the justice of action is based on the good or bad consequences of that action. Utilitarianism of rules is based on approach that justice of behavior must be identified by good or bad consequences, which are deriving from the rule, according which every action must be done in similar circumstances (Kanisauskas, 2009). Utilitarianists of actions are interested in individual, concrete results of actions; utilitarianists of rules question about is individual, concrete action such type of actions, which are giving especially desirable (or especially undesirable) result (Williams B., 1993).

On the other hand utilitarian method has a couple serious weaknesses. Situations of business as well as of other life fields are very complex, requiring a lot of aspects to consider. It is very difficult to count them all and here lays a danger to miss something, make a wrong assessment and accept wrong decisions. Another weakness

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7 Ten pat.
of this theory is that people are tending to outrun their mistakes by leaving the job, getting promoted, retiring or anyhow leaving the current decision-making position. Therefore, it is hard to focus on assessments of long term outcomes, which are highly important.

It is important to mention L. Kolhberg, who says that as individuals mature and develop, their cognitive processes of moral decision-making also develop, becoming more complex and sophisticated (Beu, 2003). But unfortunately, the literature on ethical decision-making has not yet reached a stage of theoretical integration and coherence.

**Case analysis by utilitarian method of ethical decision-making**

There is quite common problem associated with young woman ability and willingness to have children and leave the workplace for a while. Employers aim to employ effective and loyal employees in order to make business prosperous and competitive. They do not like a “time break”, especially in Lithuania, where situation in labour market is quite difficult.

The typical situation could look like this:

Young and very well qualified woman comes to an employer for a job interview. A woman has got married a few years ago and is thinking about having children soon after which she is likely not coming back to work. She wants good salary which is offered for this job position in order to have better benefit of maternity leave. However, employer is looking for qualified as well as loyal employee, because transitions in staff cost money for his company. If woman admitted her plans, likely, an employer will make a decision based on this circumstance and choose another specialist. On the other hand, a woman, asked about her plans, has legal right to refuse answering this kind of question or even lie to the employer. Therefore, an ethical problem arises – is the woman being ethical by hiding or lying about her family plans to employer when she knows the truth will adversely affect employer’s decisions about her? Or is the employer being ethical by trying to promote his business and making choices based on woman’s plans since mothers are risky because of higher chance of turnover as well as investment loss?

Considering the fact that accurate assessment is very difficult to make, especially when is not possible to express every outcome by single unit, for example money, authors try to assess the situation by making up such a unit. The possible outcomes of this situation will be evaluated from -10 to +10 points depending on positive or negative impact the particular action is going to have.

There were identified four affected sides of the situation and the probable problems (see Figure 2):
After the identification of affected sides, there were considered two alternatives of actions which would make different consequences: a woman lies about her plans and gets the job; an employer prejudges a woman and does not consider her as a good candidate.

The assessment tables would look like this (see Table 2, 3):

- Job transition problems;
- Risk of investment loss;
- Dealing with lower productivity of woman employee;
- Disappointed expectations.

- Tensions because of difficulties reconciling work and family;
- Heavier burden of taxation;
- Drain of family as a value.

- Loss of steady income
- Loss of qualification
- Discrimination
- Harmful working conditions

Fig. 2. Affected sides of the situation.
Table 2. Consequences: alternative of prejudging

<table>
<thead>
<tr>
<th></th>
<th>Negative</th>
<th>Positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Woman</td>
<td>Loses the opportunity to get a job and income. Has to be unemployed.</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Impact: -10</td>
<td>Impact: 0</td>
</tr>
<tr>
<td>Employer</td>
<td>Has to deal with negativity, resentment from woman and partly from society.</td>
<td>Saves a risk for his company from employees’ transition as well as time and investment loss.</td>
</tr>
<tr>
<td></td>
<td>Impact: -1</td>
<td>Impact: +7</td>
</tr>
<tr>
<td>State</td>
<td>Has to deal with unemployment of young and able woman, discrimination problems. Demographic policy encounters serious challenges, because of low birth rate.</td>
<td>Since the company is avoiding such a kind of risks, profit is higher thus the company pays more taxes, is more stable, does not bankrupt.</td>
</tr>
<tr>
<td></td>
<td>Impact: -5</td>
<td>Impact: +3</td>
</tr>
<tr>
<td>Society</td>
<td>Crisis of family as a value, because such a situation and practice creates an image that family and work is not possible to reconcile. Creates tensions between a man and a woman.</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Impact: -8</td>
<td>Impact: 0</td>
</tr>
<tr>
<td>Total</td>
<td>-24</td>
<td>+10</td>
</tr>
</tbody>
</table>

Table 3: Consequences: alternative of lying

<table>
<thead>
<tr>
<th></th>
<th>Negative</th>
<th>Positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Woman</td>
<td>None</td>
<td>Gets a job. Are fulfilled as a person and make an income for a living. It is possible she is interested to come back to work after time break.</td>
</tr>
<tr>
<td></td>
<td>Impact: 0</td>
<td>Impact: +10</td>
</tr>
<tr>
<td>Employer</td>
<td>Disappointed expectations. Risk to lose some money arises, because woman will be taught, prepared for new tasks. Staff transition takes some time, short-term productivity decreases, perhaps there some profit loss would be.</td>
<td>Save a little bit time for looking suitable, well qualified person, probably a man.</td>
</tr>
<tr>
<td></td>
<td>Impact: -7</td>
<td>Impact: +1</td>
</tr>
<tr>
<td>State</td>
<td>None</td>
<td>Woman is paying taxes especially her social insurance. Virtually, she is starting to earn for her maternity leave allowance.</td>
</tr>
<tr>
<td></td>
<td>Impact: 0</td>
<td>Impact: +6</td>
</tr>
<tr>
<td>Society</td>
<td>Creates distrust. Since the employer is societies member too, when the lie comes out, woman will not be trusted again and the same prejudgment will be applied for other woman of a society.</td>
<td>Society has a better member who is working, improving, learning, does not ask for support. More fulfilled as a mother in the future</td>
</tr>
<tr>
<td></td>
<td>Impact: -7</td>
<td>Impact: +5</td>
</tr>
<tr>
<td>Total</td>
<td>-14</td>
<td>+22</td>
</tr>
</tbody>
</table>
After summing up the impacts it becomes clear that total outcome of lying is positive while prejudging does more harm than benefit. According utilitarian principle it could be stated that the lying would be ethical in this situation; it is quiet interesting that this decision could be treated as effective managerial ethical decision. The positive effect of lying alternative lays on positive consequences for state and society (total positive impact +4). Alternative of prejudging is based on negative consequences to state and society (total negative impact -10). Sometimes pure economic effect of decision seems not enough ethical, but it is effective in general. The most important point of ethical side of that decision lays on summed effect of alternative to all society and its members. Positive consequences of lying alternative in this case eliminate negative action of a woman. It means the unethical action such as lying becomes positive in this situation. The interpretation of results can not be very simple and primitive also. The birth of child should be treated as the most important positive effect in this case.

The application of utilitarian method for this case analysis resumes that an enterprise might have some economic loss in this situation. But looking to long term perspective managers possibly would evaluate how to forecast more exactly maternity leave situations and their consequences seeking to gain a positive effect for an enterprise, because maternity leave is quite common problem in Lithuania. From long term perspective the growing birth rate in total has positive impact on overall economics.

Conclusions

1. Enterprise ethics solves a lot of important questions for enterprises. The process of implementation of enterprise ethics is rather difficult and requires high qualification. The one of the most important question of enterprise ethics is ethical decision-making. For enterprises ethical decision-making is tightly connected with effective managerial decision-making; it means that the most important point is the effectiveness of a decision: quantitative and qualitative.

2. One of the most popular methods of ethical decision-making is utilitarian method, based on the utilitarianism. Its main principal is an evaluation of possible consequences of an appropriate decision. It means that alternatives should be evaluated properly and qualitatively. The most important effect in applying utilitarian method is the total effect and consequences on society not an individual person.

3. The case analysis by utilitarian method of ethical decision-making of a woman planning a maternity leave and seeking for a job has showed that unethical action from its essence such as lying could cause positive economic effect for overall society. Unethical action of a woman is treated as positive looking to common effect to society. Long-term perspective is especially important evaluating the consequences of decision’s alternatives.

4. It is very important to understand that for enterprises in ethical decision-making the most suitable methods should be chosen for every situation. Any method of ethical decision-making could be applied as some “good example” for every situation. Enterprise ethics can guarantee effective ethical managerial decisions, but it ne-
eds qualified application and usage in enterprises, and, of course, logic interpretation of positive and negative results and effects after application of a method. Managers must be responsible for high quality of ethical management in an enterprise.

References

ĮMONIŲ ETIKA: AR JI UŽTIKRINA EFEKTYVIUS ETINIUS VADYBINIU SPRENDIMUS?

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Santrauka


Raktažodžiai: įmonių etika, įmonė, etiniai vadybiniai sprendimai, utilitaristinis etinių sprendimų priėmimo metodas.

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