

ÉTICA

Mestrado em Contabilidade, Fiscalidade e Finanças Empresariais





Ethical Decision Making

B – EDM Framework



Topics

- Preliminary Tests – Sniff, Rules of Thumb
- Philosophical Approaches & Frameworks
- Stakeholder Impact Analysis – Approaches
- Non-quantifiable impacts
- Managing stakeholder relationships



EDM: Four Fundamental Challenges

- Well-offness
 - More benefits than costs
- Fairness
 - Of distribution of benefits & burdens
- Right
 - No offence to stakeholders &/or decision maker
- Virtues expected
 - Do actions meet expectations

All four must be satisfied





EDM CONSIDERATIONS: PHILOSOPHICAL UNDERPINNINGS

EDM Considerations

Well-offness or well-being
Respect for the rights of stakeholders
Fairness among stakeholders
Expectations for character traits, virtues

Specific EDM Issues

Different behavior in different cultures
(bribery)
Conflicts of interest, and
limits to self-interested behavior

Philosophical Theories

Consequentialism,
utilitarianism, teleology (Mill)
Deontology (rights and duties)
Kant's Categorical Imperative,
justice as impartiality_(Rawls)
Virtue (Cafaro)
Relativism, subjectivism
Deontology, subjectivism,
egoism



Sniff Tests

Simple Questions that will expose concerns that need more thorough analysis. *If it smells, then ...*

- Would I be comfortable if this action were to appear on the front page of a national newspaper tomorrow morning?
- Will I be proud of this decision?
- Will my mother be proud of this decision?
- Is this action in accord with the company's mission and code?
- Does this feel right to me?

Table 4.2 Brooks & Dunn, 7e

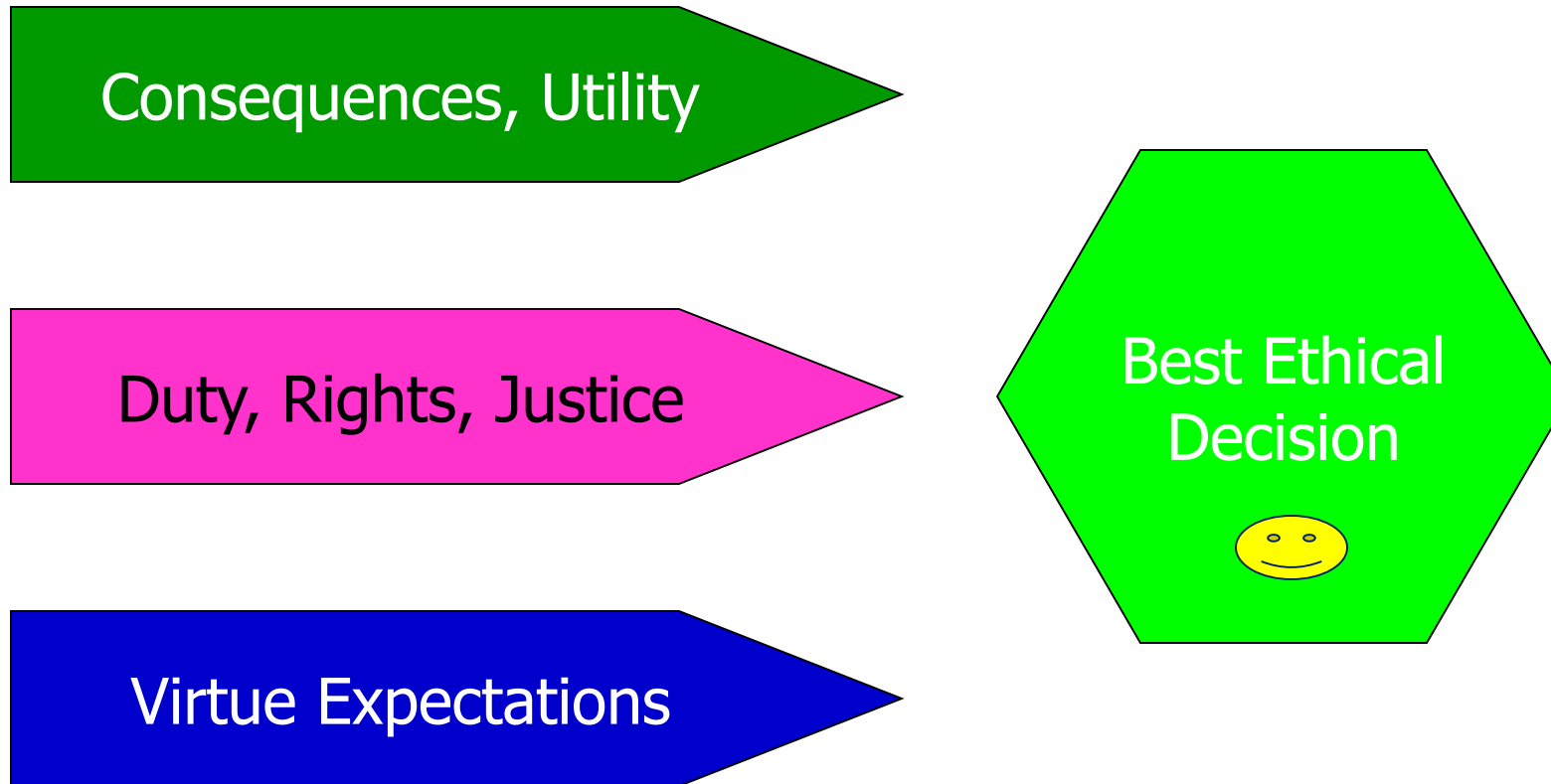


RULES OF THUMB FOR ETHICAL DECISION MAKING

- Golden Rule:* Do unto others as you would have them do unto you.
- Disclosure Rule:* If you are comfortable with an action or decision after asking yourself whether you would mind if all your associates, friends, and family were aware of it, then you should act or decide.
- The Intuition Ethic:* Do what your “gut feeling” tells you to do.
- The Categorical Imperative:* You should not adopt principles of action unless they can, without inconsistency, be adopted by everyone else.
- The Professional Ethic:* Do only what can be explained before a committee of your professional peers.
- The Utilitarian Principle:* Do “the greatest good for the greatest number.”
- The Virtue Principle:* Do what demonstrates the virtues expected.

Principle Source: A.B. Carroll, “Principles of Business Ethics: Their Role in Decision making and Initial Consensus,” *Management Decision*, 28:8 (1990): 20-24, see Figure 3

Ethical Decision Making – a Philosophical Framework



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What makes a decision ethical?

Concepts

Consequences, Utility

Duty, Rights, Justice

Virtue Expectations

Measurements

Profitable?
Benefits > Costs
Risk adjusted

Fiduciary duty
Individual rights
Fairness

Character
Integrity
Courage
Process

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Using Stakeholder Impact Analysis For Ethical Decision Analysis

- Why?
- Corporations are accountable to shareholders and other stakeholders
- Stakeholder interests need to be considered in decision making before a decision is made
- Stakeholder Impact Analysis permits that by providing a decision framework that includes the interests of shareholders and other stakeholders

FIGURE 4.3

MAP OF CORPORATE STAKEHOLDER ACCOUNTABILITY

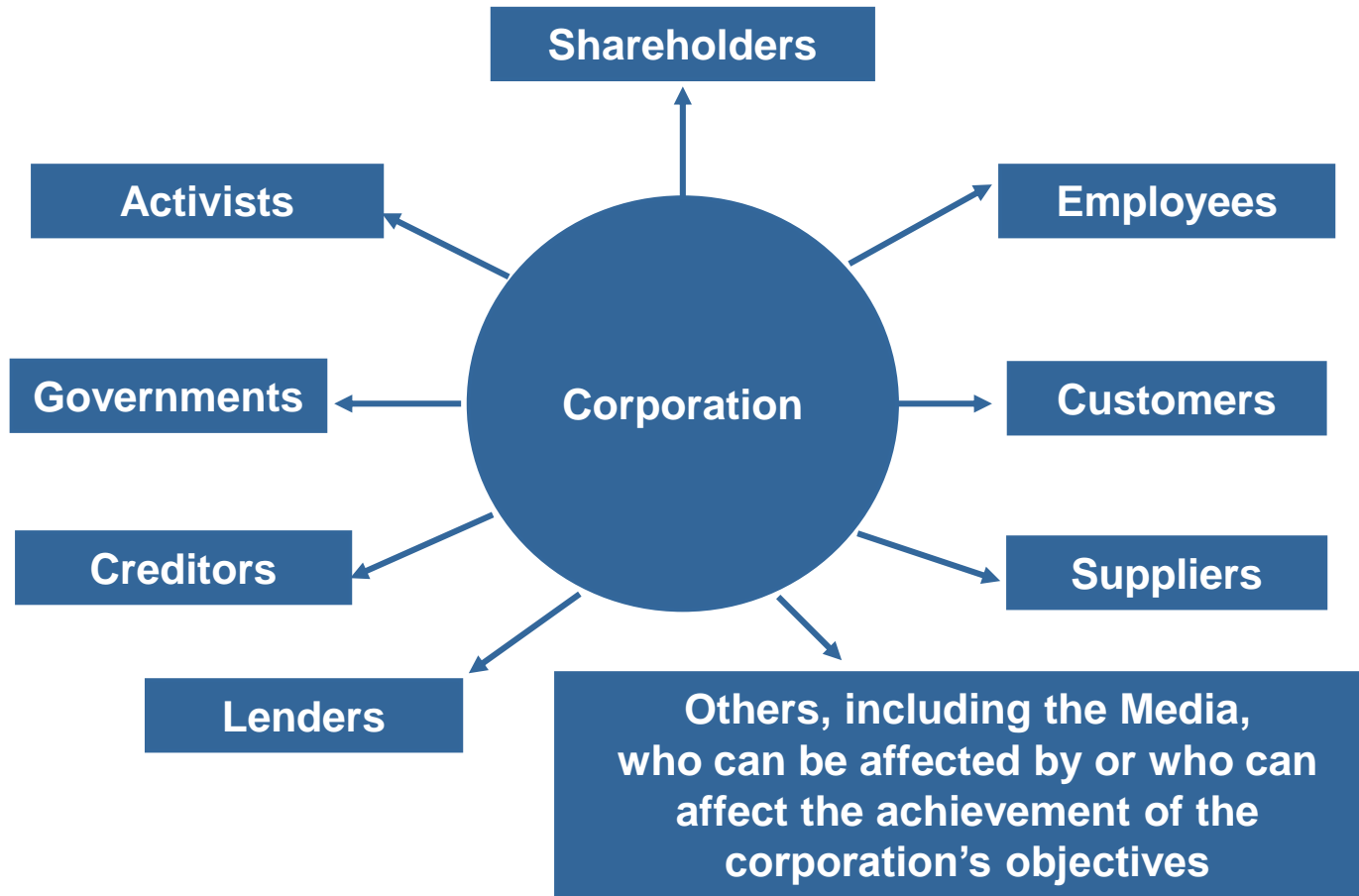




TABLE 4.3

FUNDAMENTAL INTERESTS OF STAKEHOLDERS

Well-offness	The proposed decision should result in more benefits than costs.
Fairness	The distribution of benefits and burdens should be fair.
Right	The proposed decision should not offend the rights of the stakeholders and the decision maker.
Virtuosity	The proposed decision should demonstrate virtues reasonably expected.

All four interests must be satisfied for a decision to be considered ethical.



Measurement of Quantifiable Impacts

APPROACHES TO THE MEASUREMENT OF QUANTIFIABLE IMPACTS OF PROPOSED DECISIONS*

- (A) Profit or loss only
- (B) (A) plus externalities, (i.e. Cost-Benefit Analysis /CBA)
- (C) (B) plus probabilities of outcomes, (i.e. Risk-Benefit Analysis/RBA)
- (D) CBA or RBA plus ranking of impacts on stakeholder's interests

*Optimal decisions usually result from the most thorough approach.

Future Costs: Cost-Benefit Analysis

➡ *Maximize Net Present Value (NPV)*

NPV = P.V. of Benefits – P.V. of Costs
for each option

How much of
the iceberg
is above water?



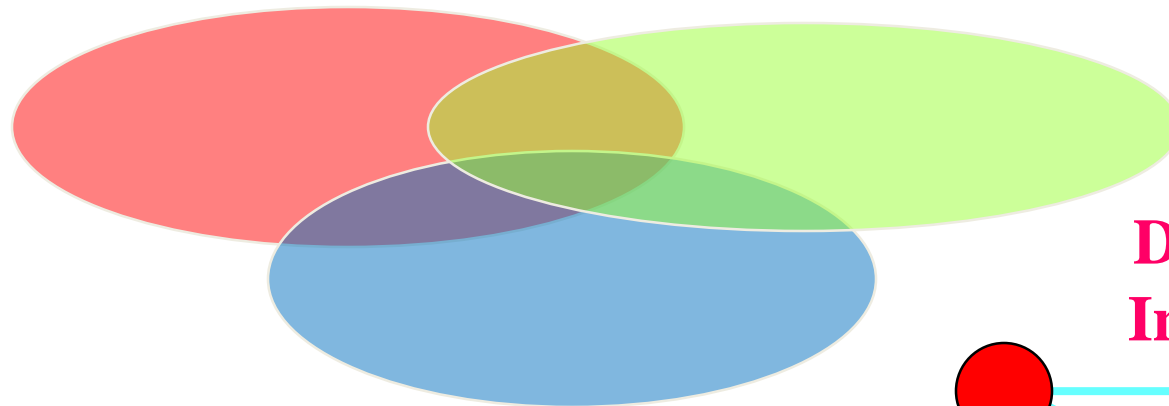
Example: JM Co in text

Stakeholder Identification & Interests

1. Who are the stakeholders interested in this decision?
2. Which stakeholder interests are the most important?

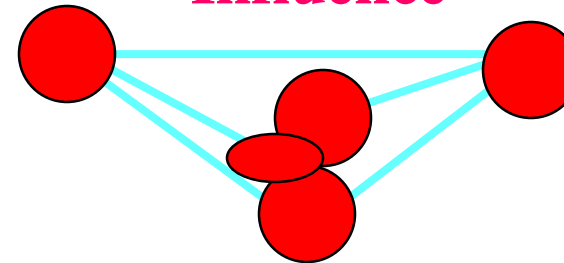
POWER

LEGITIMACY



URGENCY

**Dynamic
Influence**





Measurement of Non-Quantifiable Impacts

TABLE 4.6

STAKEHOLDER RIGHTS

- **Fairness Among Stakeholders**
- **Rights of Stakeholders**
- **Assessment of motivation & Behavior**

Life

Health and safety

Fair treatment

Exercise of conscience

Dignity and privacy

Freedom of speech



TABLE 4.7

MOTIVATION, VIRTUE, CHARACTER TRAIT & PROCESS EXPECTATIONS

Motivations expected:

- Self-control rather than greed
- Fairness or justice considerations
- Kindness, caring, compassion, and benevolence

Virtues expected:

- Dutiful loyalty
- Integrity and transparency
- Sincerity rather than duplicity

Character Traits expected:

- Courage to do the right thing per personal and/or professional standards
- Trustworthiness
- Objectivity, impartiality
- Honesty, truthfulness
- Selflessness rather than selfishness
- Balanced choices between extremes

Processes that reflect the motivations, virtues and character traits expected



Ranking Stakeholder Interests

- Most offensive to values:
 - decision maker
 - corporate
 - local country
 - consumer markets
 - capital markets
- Most vulnerable
- Most concern to public/press
- Most important - overall



Basic Stakeholder Impact Analysis

Should a proposed action be taken?

Sniff tests ... mom, paper ...

If it smells, then...

5/6 Questions – impact on stakeholders:

Is it profitable?

Is it legal?

Is it fair?

Is it right?

Demonstrate virtues expected?

Is it sustainable?

If not ...Modify ...Moral Imagination





MODIFIED 5-QUESTION APPROACH* TO ETHICAL DECISION MAKING

The following 5 questions are asked about a proposed decision:

IS THE DECISION	STAKEHOLDER INTERESTS EXAMINED
1. profitable?	Shareholders'—usually short-term
2. legal?	Society at large—legally enforceable rights
3. fair?	Fairness for all
4. right?	Other rights of all
5. demonstrating expected motivation, virtues and character?	Motivation, virtues, character traits and process expectations.

Optional questions can be added designed to focus the decision-making process on a particular issue of relevance to the organization(s) or decision maker involved.

* This approach is based upon that proposed by Graham Tucker (1990), updated with the addition of specific examination of motivation, virtues and character.



EDM: Modified Moral Standards Approach

Four Challenges:

M. Velasquez - adapted

- Individual rights impact
- Justice (fairness) impact
- Utilitarian impact
 - Maximize social benefits & minimize social injuries
 - Net benefit to society as a whole
 - Cost-benefit analysis (CBA)
- Virtues expected?



TABLE 4.9

MODIFIED MORAL STANDARDS APPROACH* TO ETHICAL DECISION MAKING

MORAL STANDARD	QUESTION OF PROPOSED DECISION
Utilitarian: Maximize net benefit to society as a whole	Does the action maximize social benefits and minimize social injuries?
Individual rights: Respect and protect	Is the action consistent with each person's rights?
Justice: Fair distribution of benefits and burdens	Will the action lead to a just distribution of benefits and burdens?
Virtues: Motivation, virtues and character expected	Does the action demonstrate the motivation, virtues, and character expected? See Table 4.7 for specifics.

All four moral standards must be applied; none is a sufficient test by itself.

*The Moral Standards Approach which was created by Manuel G. Velasquez (1992) is modified here with the addition of specific examination of motivation, virtue, and character.

EDM: Modified Mark Pastin Approach

- Ground rule ethics - organization's values
- End-point ethics
 - Risk-benefit analysis (CBA+)
 - End-point ethics
 - Rank stakeholders
 - Identify ethical alternatives
 - Intangible factors included
- Rule ethics
- Social contract ethics
- Virtue ethics





MODIFIED PASTIN'S APPROACH* TO STAKEHOLDER IMPACT ANALYSIS

KEY ASPECT	PURPOSE FOR EXAMINATION
Ground rule ethics*	To illuminate an organization's and/or an individual's rules and values
End-point ethics*	To determine the greatest net good for all concerned
Rule ethics*	To determine what boundaries a person or organization should take into account according to ethical principles
Social contract ethics*	To determine how to move the boundaries to remove concerns or conflicts
Virtue ethics	To determine if the motivations, virtues and character traits demonstrated in the decision are ethical

* Technique proposed by Mark Pastin, *The Hard Problems of Management: Gaining the Ethical Edge*, Jossey-Bass, 1986, has been modified with the examination of virtue ethics expected.

Summary of EDM Approaches

		6-Question Velasquez	Pastin
Consequences, Utility	Max. Profit	✓	
	Max. Utility (Benefits > Costs)	✓	
	Max. Utility (Risk-adjusted)		✓
Duty, Rights, Justice	Fiduciary duty	✓	✓
	Individual rights	✓	✓
	Fairness	✓	✓
Virtue Expectations	Character	✓	✓
	Integrity	✓	✓
	Courage	✓	✓
	Process	✓	✓

AACSB EETF Report, June 2004 - adapted

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Basic Stakeholder Impact Analysis

CHALLENGES FOR PROPOSED ACTION:

- ◆ Profitable?
- ◆ Legal?
- ◆ Fair?
- ◆ Right?
- ◆ Sustainable?
- ◆ Demonstrate virtues

TYPICAL FLAWS ENCOUNTERED:

- ◆ Short run
- ◆ Only test?
- ◆ To all?
- ◆ Personal+
- ◆ Optional
- ◆ No modification



STEPS TOWARD AN ETHICAL DECISION

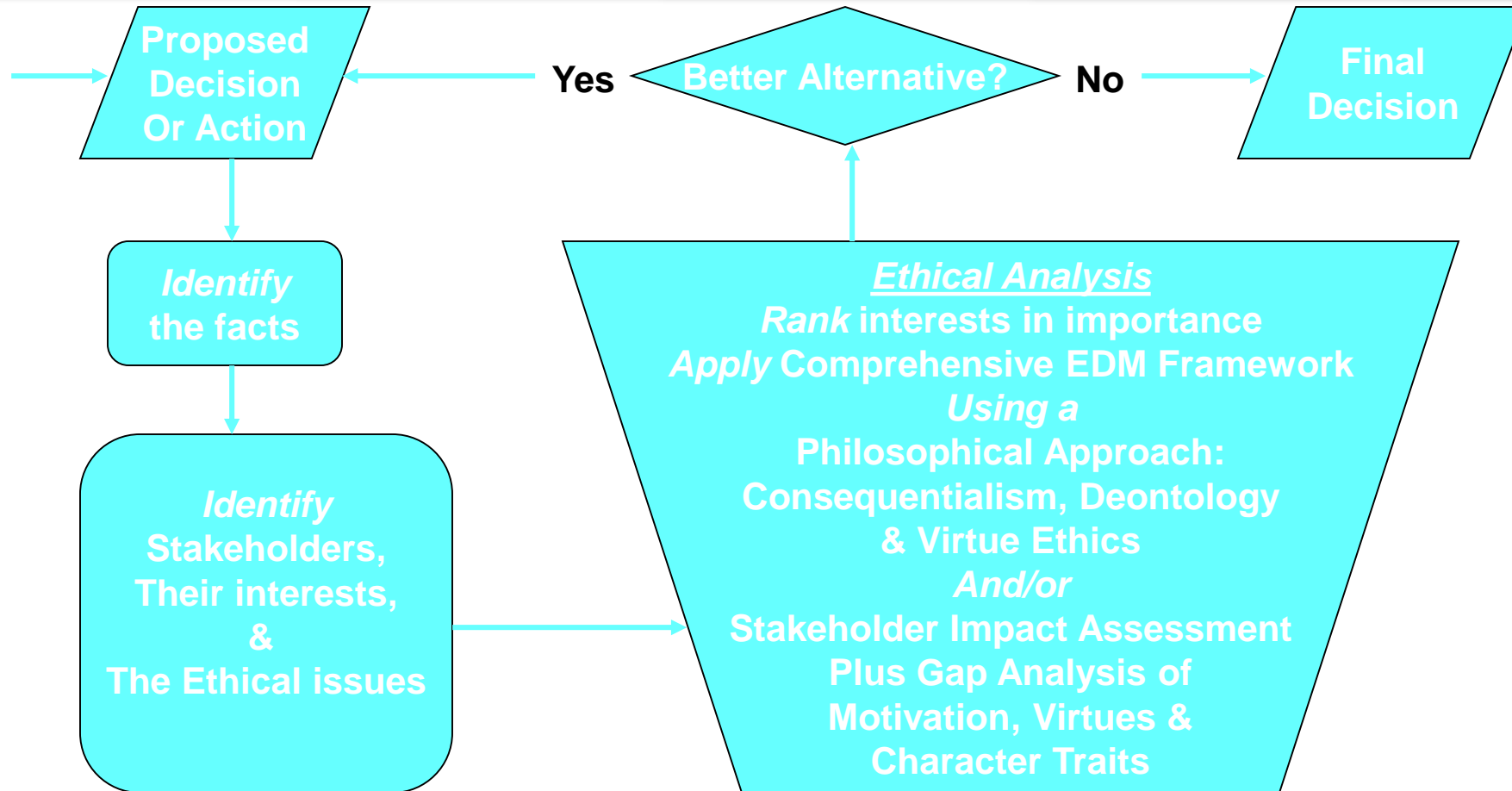
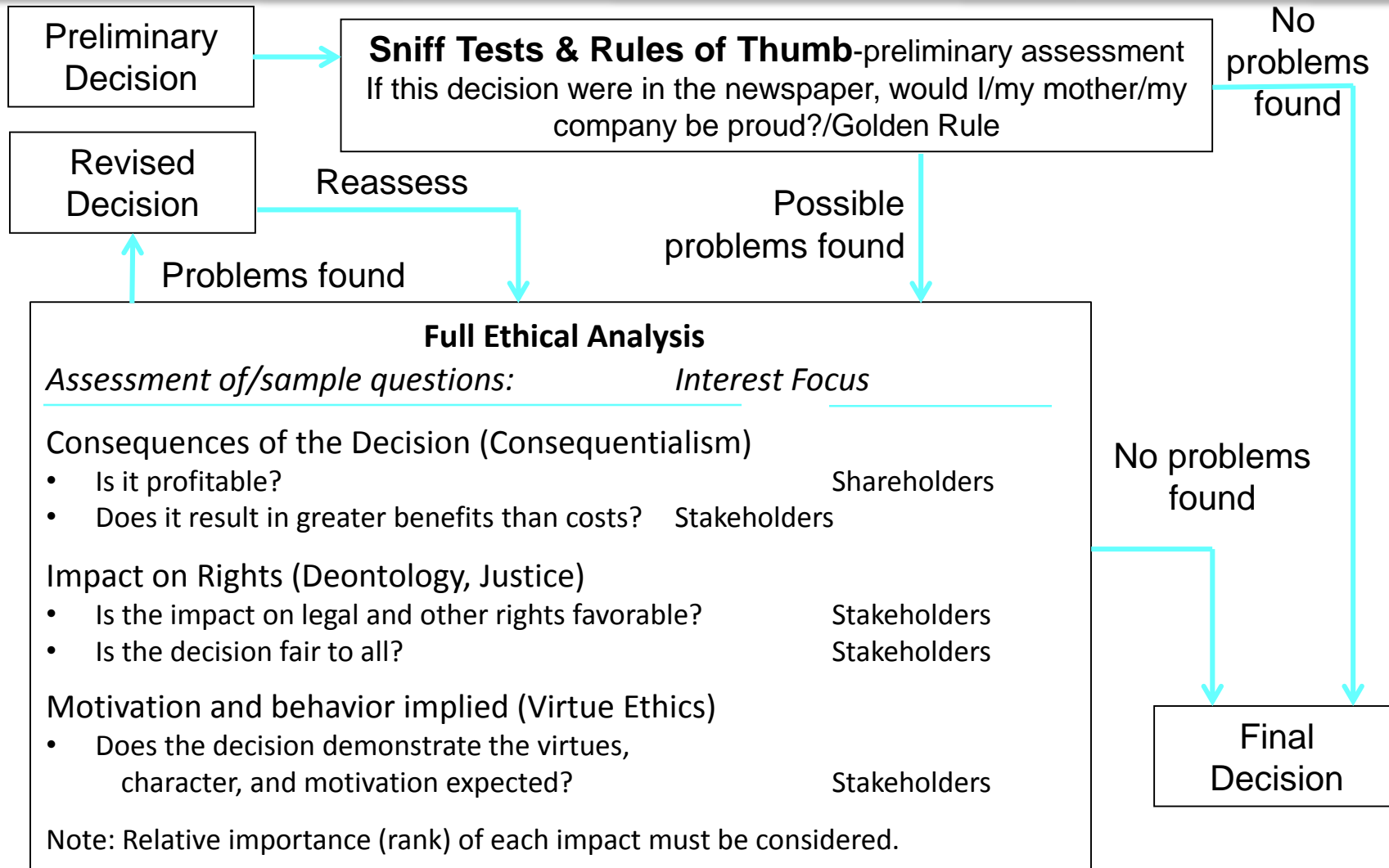


Figure 4.1

Ethical Decision Making Framework (EDM) – An Overview
Brooks & Dunn, 7e





Kardell Paper

- What is the scenario?
- Who are Kardell's stakeholders?
- Are their claims equally important?
- What factors would you suggest the Board consider in its decision?
- Did the Board make any mistakes? Why?
- Apply moral imagination for a better decision?