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ETHICAL DECISION MAKING: GUIDING PRINCIPLES**M. R. JHANSI RANI****RESEARCH SCHOLAR****DEPARTMENT OF MANAGEMENT STUDIES****SCSVMV UNIVERSITY****KANCHIPURAM****DR. C. B. VENKATA KRISHNA PRASAD****ASSOCIATE PROFESSOR****DEPARTMENT OF MANAGEMENT STUDIES****EMERALD'S ADVANCED INSTITUTE OF MANAGEMENT STUDIES****TIRUPATI****K. UDAY GOWRI SHANKAR****DEAN****ACCORD BUSINESS SCHOOL****TIRUPATI****ABSTRACT**

Issues connected with business ethics have recently acquired prominence in the changing business scenario. The anxiety of global investors in emerging markets is not only about the quality of management but also the ethical framework for decision-making and the collapse of the South East Asian countries has stressed the issue further. In the process of adopting new techniques and ideas for ethical decision making-let us not throw out the existing good stuff that has helped us build and shape civilization as we know and enjoy today, even in future. In this paper an attempt is made to recollect the principles with seminal works developed by few of the great conceptualists. Further, the paper offers models for ethical decision making.

KEYWORDS

ethical decision making, virtue ethics, ethical reasoning, eternal law, hedonism/egoism, utilitarianism, universalism, distributive justice, personal liberty and rights.

INTRODUCTION

Ethics always says, "Not I, but thou." Its motto is, "Not self, but non-self." The vain ideas of individualism, to which man clings when he is trying to find that infinite power or that infinite pleasure through the senses, have to put yourself last, and others before you. The senses say, "Myself first." Ethics says, "I must hold myself last." Thus, all codes of ethics are based upon this renunciation; destruction, not construction, of the individual on the material plane.

– **Swamy Vivekananda**

"Ethics is not definable, is not implementable, because it is not conscious; it involves not only our thinking, but also our feeling"

– **Valdemer W. Setzer, Brazilian Anthropologist**

It is important to realize that different professionals may implement different courses of action in the same situation. There is rarely one right answer to a complex ethical dilemma. However, if you follow a systematic model, you can be assured that you will be able to give a professional explanation for the course of action you chose. Decision making is informed, consistent, balances the requirements of multiple stakeholders and is responsible and ethical. Moreover, Code of Ethics is actively applied as the benchmark for individual conduct and open and accountable governance.

When deciding ethical dilemmas take time to think out the problem, as this is not the moment to make snap-decisions. Seeking aid to take appropriate decision in a righteous manner, the earlier seminal works can always act as basis. Proficient people contributions towards guiding principles of making decision ethically can demystify the changing needs of the organization at present as well as in the future by considering moral standards at the work and organization.

According to Sunil Kumar Maheswari and M P Ganesh (2006) The ethical decision making and behavior of individuals in the organization are influenced by various factors which can be classified into three major headings namely: a) Intrinsic variables (internal ethical issues/ethical dimension in a given problem or opportunity and managerial concerns in an organization), b) Extrinsic variables (Environmental factors like culture, legal frameworks etc) and c) Moral issue related variables (Personal characteristics of decision maker and organizational guiding principles/philosophy and code of conduct). These above given variables are going to influence the decision making process in general, whereas the moral concerns are to be guided by seminal principles of earlier experts. Here, the below conceptualizations are going to be the foundation for students, academicians and practitioners while making ethical decisions.

PRINCIPLES GUIDING ETHICAL DECISION MAKING

Ethical issues involve dilemmas and managers require some sort of guidance in resolving them. Many theoretical approaches to guide ethical decisions and behavior have been evolved. The theories of business ethics which explain approaches to ethical decision making fall into two groups, one based on traits another based on methods of reasoning.

(A) VIRTUE ETHICS

Virtue ethics theories maintain that the habitual development of sound character traits determine the ethical value of persons. Individual character, work character and professional character are covered by these theories. It focuses on improving the character or traits of the agent. Virtue theorists try to identify the list of virtues and give an account of each. They also explain why they are important. Plato and Aristotle pursued the questions: What is a good person? What are the virtues associated with a good person? For the Greeks virtue meant excellence, and ethics was concerned with excellence of human character. The list of possible virtues is long and there is no general agreement on which is most important. Aristotle, in his Nicomahean Ethics, espouses moral virtues, such as courage and truthfulness. Other often stated virtues are: honesty, generosity, tolerance and self control. The virtues are dispositions to find the golden mean between two extremes and help us find happiness and fulfillment.

(B) ETHICAL REASONING

Two distinct sets of theories of business ethics are found as given under:

- Teleological ethics theories maintain that good ends and/or results determine the ethical value of actions (Eternal law, Hedonism, and Utilitarianism).
- Deontological ethics hold that fulfilling obligations, responsibly following proper procedures, doing the right thing and adhering to moral standards determine the ethical value of an action (Universalism, Distributive justice and Liberty).

A brief of the six theories under the two categories is presented here.

A). ETERNAL LAW

Many church leaders and some philosophers (Thomas Aquinas and Thomas Jefferson among them) believe that there is an Eternal Law, incorporated in the mind of God, apparent in the state of Nature, revealed in the Holy Scripture, and immediately obvious to any man or woman who will take the time to study either nature or the scripture. Religious leaders tend to emphasize the revealed source of the truth more than the reasoned nature, but they also believe that the state of the Law is unchanging, and that the rights and duties are obvious: if we are to be loved, then we must love others. This reciprocal exchange is summarized in Christian theology by the Golden Rule; "Do unto others as you would have others do unto you".

Thomas Jefferson, really the first of the secular humanists, believed that the truths of this law were "self-evident," in his famous phrase, that the rights were "inalienable," and that the duties could easily be derived from the rights. If people had rights to "life, liberty and the pursuit of happiness," then they had obligations to ensure those rights to others, even if this meant revolution against the British Crown.

The philosopher David Ross qualifies that sometimes duties arise from our special relationships in life, and they are not absolute. Our character as well as our circumstances, therefore determines what our actions are.

- *Golden rule principle:* You act on the basis of placing yourself in the position of someone affected by the decision and try to determine how that person would feel.

B). HEDONISM/EGOISM

It refers to the self serving philosophy of individuals who seek to maximize their pleasure in the world in which they live. The following three ethical principles attempt to justify self-serving decisions and behaviors.

- *Hedonist Principle:* You do whatever is in your own self-interest, but not clearly illegal.
- *Might-equal-right principle:* You do whatever you are powerful enough to impose without respect to ordinary social conventions and widespread practices or customs, but not clearly illegal.
- *Organization interest's principle:* You act on the basis of what is good for the organization and the achievement of its goals, but not clearly illegal.

C). UTILITARIANISM

The utilitarian view of ethics says that ethical decisions are made solely on the basis of their outcomes or consequences. It focuses on net consequences and not individual intentions. It is termed 'Utilitarianism', a philosophy originated by Jeremy Bentham (1748-1832), a British thinker. The name of the philosophy is derived from the word utility, which had an eighteenth-century meaning that referred to the degree of usefulness of a household object or a domestic animal; that is a horse could be said to have a utility for plowing beyond the cost of its upkeep. Utility has this same meaning, and this same derivation, in microeconomic theory; it measures our degree of preference for a given good or service relative to price.

This theory advocates that a good course of action as being that which brings the greatest amount of good over bad, both over the long term and the short-term. It uses a quantitative method for making ethical decisions by looking at how to provide the greatest good for the greatest number. The use of a cost and benefit analysis is one of the ways in which one can make a decision.

The basic principle is:

Every one ought to act so as to bring about the greatest amount of happiness for the greatest number of people.

The utilitarian principle provides a decision procedure. When you have to decide what to do, you should consider the happiness – unhappiness consequences that would result from your various alternatives. The alternative that produces the most overall net happiness is the right action.

Acts Vs. Rules

Utilitarians have recognized the difficulty in making cost benefit analysis in all cases.

- Sometimes we must act quickly
- Sometimes consequences are impossible to foresee
- Sometimes consequences are difficult to measure or quantify

To save time, and to avoid the need to compute the full consequences of every decision and action, most Utilitarians recommend the adoption of simplifying rules.

Rule utilitarians argue that we adopt rules that, if followed by everyone, would, in the long run, maximize happiness. Examples of utilitarian rules are:

- Be honest
- Tell truth
- Do your duty
- Keep your promises
- Don't reward behaviors that cause pain to others.

Act utilitarians, put the emphasis on individual actions rather than rules. 'Act' in these ways to bring happiness to people. Rule utilitarians believe that rules are universally applicable and take them to be strict. However, act utilitarianism regards rules as rules of thumb general guidelines. They are at best relative, as they have varying implications depending on the situation.

- Use of water - Putting water in swimming pools and watering lawn is right in a water-abundant situation and wrong in an environment in which water is scarce. Therefore, rules to be effective should be flexible and changing with the times.
- Divorce - Rules and laws that break marriage bonds are unknown earlier. Today they are found in many societies.
- Lying - It is wrong as per the rules, but lying may sometimes bring happiness without harm. A sick husband may lie to his wife so as not to create stress in her. However, lying in all cases is not good. It destroys the trust between the husband and wife.

Both act and rule principles can be used to formulate a decision-making procedure for figuring out what one should do in a situation. In fact, the principles can be used to determine and evaluate the laws of a society. Law against killing, stealing, fraud, breaking contracts and so on, can be justified on utilitarian grounds. Laws are criticized when they fail to produce net good consequences. The debate on changing the law examines alternative approaches that maximize the good and minimize the harm.

- *Means-end principle:* You act on the basis of whether some overall good justifies any moral transgression, but not clearly illegal.
- *Utilitarian principle:* You act on the basis of whether the harm inherent in the decision is outweighed by the good in it, but not clearly illegal.

D). UNIVERSALISM: A DEONTOLOGICAL THEORY

The deontological approach is the reverse of teleological theory. The term deontology is derived from Greek word *deon* (duty) and *logos* (science). Etymologically, then deontology means the science of duty. Deontology says that individuals are valuable in themselves, and not because of their social value. Further they argue:

- (1) The capacity for rational decision making is the most important feature of human beings.
- (2) We are moral beings, because we have the capacity to give ourselves rules and laws and to follow them.
- (3) What morality requires is that we respect each other as valuable persons in themselves. We should refrain from valuing them only as aids, facilitators or means to our ends.
- (4) Happiness is not the only end. Humans seek a variety of goals.

It emphasizes on intentions and not outcomes - It states that the moral worth of an action cannot be dependent upon the outcome because those outcomes are so indefinite and uncertain, at the time the decision to act is made; instead, the moral worth of an action has to depend upon the intentions of the person, making the decision or performing the act.

Intentions guide actions - Personal intentions can be translated into personal duties or obligations because, if we truly wish the best for others, then we will always act in certain ways to ensure beneficial results.

Actions become duties - The theory states that these ways of actions become duties that are incumbent upon us, rather than the choices that are open to us. It is our duty to tell the truth; it is our duty to adhere to contracts; it is our duty not to take property that belongs to others. In teleological theory, these are the actions that bring the greatest benefits to others.

Duties are universal - Our personal duties are universal, applicable to everyone and consequently deontological theory is also termed as 'Universalism'. The common law is a form of Universalism: Everyone, who secured a loan, should repay it and no one, needing money, should rob banks.

Treat others as ends - The first duty of Universalism is to treat others as 'ends' and not as 'means'. Other people should be seen as valuable ends in themselves, worthy of dignity and respect, and not as impersonal means to achieve our own ends.

Categorical Imperative - Immanuel Kant (1724-1804) proposed a simple test for personal duty and goodwill. The test is to ask yourself whether you would be willing to have everyone in the world, faced with similar circumstances, forced to act in exactly the same way.

'Never treat another human being merely as a means but always as an end.'

This is the Categorical Imperative; "categorical," of course, means absolute or unqualified, and the precept is that an act or decision can be judged to be "good" or "right" or "proper" only if everyone must, without qualification, perform the same act or reach the same decision, given similar circumstances.

The two formulations by Kant, in his words:

1. To act only in ways that I would wish all others to act, faced with the same set of circumstance, and
2. Always treat other people with dignity and respect.

The first version says that what is morally right for me must be morally right for others. Everyone is of equal value. If this is so, then no person's rights should be subordinated to those of anyone else. If that is so, then we must treat people as free and equal in the pursuit of their interests. For example, when I start a business, success is my goal. I hire employees to work in my company to achieve the success. If I make them work for longer hours and extract heavy work ignoring their well being, I can improve my success, but it is exploitation. It is unfair because I have used people as a means to the end (success).

Take another example, when a researcher assures confidentiality of information,

Is he justified in hiring research assistants to process the responses?

No, because he is violating a promise.

Will he be right when individual responses are secretly coded?

Yes, because he is not using respondents as objects but as humans and treating their concerns with respect.

A related principle that helps managers in decision making therefore is:

- **Professional standards principle:** You act on the basis of whether the decision can be explained before a group of your peers, but not clearly illegal.

E). DISTRIBUTIVE JUSTICE

In 1971, John Rawls, a Professor at Harvard University, examined the distributive justice in his book "A Theory of Justice". It is explicitly based upon the premise of a single value: justice. Justice is felt to be the first virtue of social institutions; our laws and institutions, no matter how efficient or accepted, must be reformed or abolished if they are unjust. Professor Rawls proposes that society is an association of individuals, who co-operate to advance the good of all. Therefore the society and the institutions within that society are marked by conflict as well as by collaboration. The collaboration comes about, since individuals recognize, that joint actions generate much greater benefits than solitary efforts; the conflict is inherent because people are concerned by the just distribution of those benefits. Each person prefers a greater to a lesser share and proposes a system of distribution to ensure that greater share. The alternative systems are:

- (i) **Absolute equality** - They would not select absolute equality in the distribution of benefits, Professor Rawls argues, because they would recognize skills; develop greater competences, and so on.
- (ii) **Absolute inequality** - They would not agree to absolute inequality based upon effort, skill or competence because they would not know who among them had those qualities and consequently who among them would receive the greater and the lesser benefits.
- (iii) **Conditional inequality** - Instead, they would develop a concept of conditional inequality, where differences in benefits had to be justified, and they would propose a rule that those differences in benefits could be justified only if they could be shown to result in compensating benefits for everyone, and in particular for the members with least advantage in their society. That is, the distribution of income would be unequal, but the inequalities had to work for the benefit of all, and they would work for the benefit of all by helping in some measure, the least benefited, who would then continue to contribute and co-operate.

Rawls, understands that individuals are self interested. Therefore, they will be influenced by their own experiences and their own situations when they think about fair arrangements. This may result in injustice favoring the powerful and influential ones.

Smart people would want rules that favored intelligence.

Strong people would want a system that rewarded strength.

Justice will be possible only when individuals take decisions behind the veil of ignorance with regard to their own characteristics (intelligence, strength, etc). Rawls argues that individuals in their original position (unaware of characteristics) would agree to two rules, they are:

1. Liberty – Each person should have an equal right to the most extensive basic liberty compatible with a similar liberty for others.
2. Opportunity – Social and economic inequalities should be arranged so that they are both:
 - a. Reasonably expected to be to everyone's advantage, and
 - b. Attached to positions and offices open to all.

Theory of justice suggests, framing and enforcing rules fairly and impartially by following a suitable base of distribution consistent with legal rules and regulations. Modern economic systems make use of distributive systems that have five very different bases as given in the Table 1.

TABLE 1: METHODS OF DISTRIBUTIVE SYSTEM

Method	Example
to each person equally	public education
to each according to his or her need	welfare payments
to each according to his or her effort	sales commissions
to each according to his or her contribution	public honors
to each according to his or her competence	managerial salaries

The distributions are justified by the principle of equity.

- **Distributive justice principle:** You act on the basis of treating an individual or group equitably rather than on arbitrarily defined characteristics, but not clearly illegal.

F). PERSONAL LIBERTY AND RIGHTS

The theory of Personal Liberty is proposed by Robert Nozick, a member of the Harvard faculty. This system is based upon the primacy of a single value, 'liberty'. Liberty is thought to be the first requirement of society. An institution or law that violates *individual liberty in making choices*, even though it may result in greater happiness and increased benefits for others, has to be rejected as being unethical. Professor Nozick argues as follows:

Society is an association of individuals and co-operation between those individuals is necessary for economic gain. The co-operation comes about as a result of the exchange of goods and services. The exchanges can be considered to be "just" as long as they are voluntary. Non-voluntary exchanges, based upon the use of social force or other coercive means, are unjust. Individuals must be allowed to make informed choices among alternative courses of action leading towards their own welfare. Those choices are "just" or "right" or "proper" as long as the same opportunities for informed choices are extended to others. Justice depends upon equal opportunities for choice and exchange, not upon equal allocations of wealth and income.

The principle that helps managers in decision making is:

- **Disclosure principle:** You act on the basis of how the general public would likely to respond to the disclosure of the rationale and facts related to the decision, but not clearly illegal.

Rights theory, is concerned with respecting and protecting individual liberties and privileges such as the right to privacy, freedom of conscience, free speech, life and safety and due process. This would include, for example, protecting the free speech rights of employees who report legal violations by their employers and refusal of overtime when needed. Rights are positive and negative. Negative rights are rights that require restraint by employers. Employer should refrain from exploiting employees. Positive rights, on the other hand, imply that others have a duty to do something to or for the right holders. Employers have to create rules and regulations that facilitate a fair day's work with a fair day's pay and a climate of participation. Positive rights are more controversial than negative rights because they have implications that are counter-intuitive. Positive rights include better wages, good welfare facilities, sound training, proper supervision and right environment. Rights are legal and moral. Legal rights are rights that are created by law. Moral rights are claims that are independent of law. Utilitarian arguments generally tend to recognize a legal right. Rights are deeply rooted in the tradition of social contract theories. Humans agree to do things for a consideration. The agreement (social contract) creates obligations that are moral and legal.

The appropriate principle that aids managers in decision making is:

- *Principle of Individual Rights:* This behavior gives due respect to the rights of all the affected persons in terms of the basic human rights.

The Rights based theory by John Locke states, that human beings have duties because they have rights. Liberty is related closely with life in a community of people. Negative rights, on the other hand, place duties on other people not to interfere with one's life. One may also talk of having rights to certain goods and services, health care, a clean environment or education.

The below given Table 2 summarizes the six major ethical systems.

TABLE 2: SUMMARY OF MAJOR ETHICAL SYSTEMS

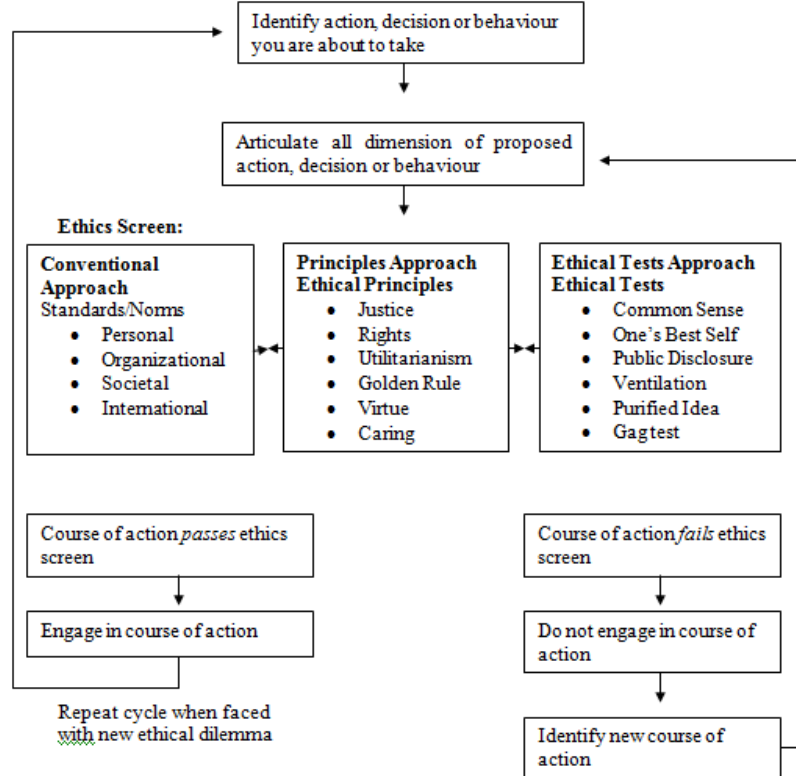
Theory	Guiding question	Nature of the Ethical Belief	Principles
Eternal Law	Is the decision based on natural human duties and rights of decision maker?	Moral standards are given in an Eternal Law, which is revealed in Scripture or apparent in nature and then interpreted by religious leaders or humanist philosophers.	Golden rule
Hedonism/ egoism	Does a given decision give maximum benefit to self or organization?	Moral standards are self serving. Maximum benefit to self or organization.	Hedonist principle, Might equal rights principle, Organization interest's principle:
Utilitarian Theory	Does a given decision result in greater benefits than damages for society as a whole, not just for our organization as part of that society?	Moral standards are applied to the outcome of an action or decision; the principle is that everyone should act to generate the greatest benefits for the largest number of people.	Means-end principle, Utilitarian principle
Universalist Theory	Is the decision self-serving, or would we be willing to have everyone else take the same action when faced with the same circumstances?	Moral standards are applied to the intent of an action or decision; the principle is that everyone should act to ensure that similar decisions would be reached by others, given similar circumstances.	Professional standards principle
Distributive Justice	Will the decision lead to social cooperation?	Moral standards are based upon the primacy of a single value, which is justice. Everyone should act to ensure a more equitable distribution of benefits, for this promotes individual self-respect, which is essential for social cooperation.	Distributive justice principle
Personal Liberty	Will the decision increase or decrease the liberty of others to act? Is the decision protecting the rights of others?	Moral standards are based upon the primacy of a single value, which is liberty. Everyone should act to ensure greater freedom of choice, for this promotes market exchange, which is essential for social productivity.	Disclosure principle Principle of individual rights

Source: Hosmer, "The Ethics of Management" Universal Book Stall, New Delhi, 1987, Pp.106.

ETHICAL DECISION MAKING MODELS

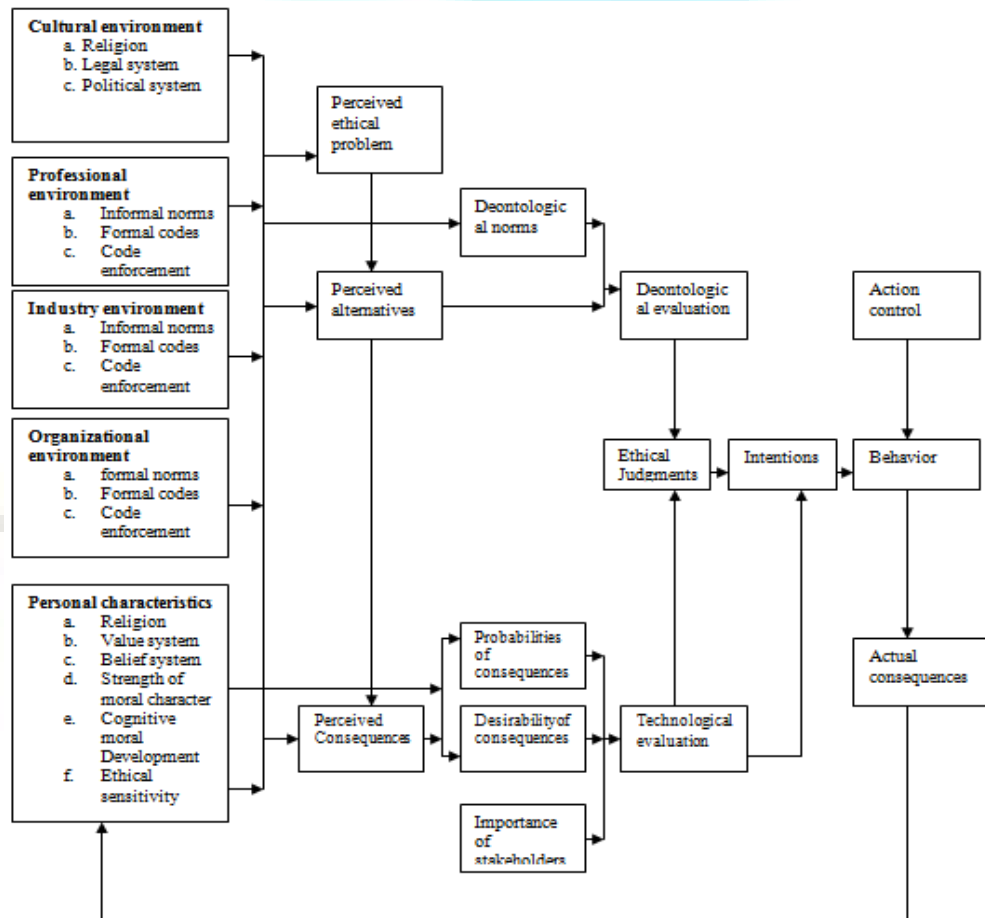
Ethical decision making is not a simple process but rather a multifaceted process which is complicated by the characteristics just described. Carroll and Buchholtz, (2003) model shown in Figure 1 identifies the decision making process as influenced by ethical screen with three variables that filter decision making: Conventional norms, principles and tests. The following Hunt – Vitell (1986) model of ethical decision making illustrates how and where such factors enter into and influence the decision making process. Moreover, Hunt-Vitell, (1986) developed a theory that provides a general model of ethical decision making that would draw on both the deontological and teleological ethical traditions in moral philosophy. This model as shown in Figure 2 addresses the situation wherein an individual confronts a problem perceived as having ethical content. This perception of an ethical problem situation triggers the process depicted by the model. If the individual does not perceive some ethical content in a problem situation, subsequent elements of the model do not come into play.

FIGURE 1: A PROCESS OF ETHICAL DECISION MAKING



Source: Carroll and Buchholtz, (2003) "Business and Society: Ethics and Stakeholder Management, Thomson Publications, 5th edition, PP.229.

FIGURE 2: HUNT - VITELL MODEL OF ETHICAL DECISION MAKING



Source: Hunt and Vitell (1986). Copyright © 1991 by Shelby D.Hunt and Scott J. Vitell as cited in *Business ethics* edited by Rober A.Peterson and O.C.Ferrell, (2005), Prentice-Hall, India, pp20.

There are six major ethical systems, as summarized in Table I. Each ethical system expresses a portion of the truth. Each system has adherents and opponents. And each, it is important to admit, is incomplete or inadequate as a means of judging the moral content of individual actions or decisions. In the same way figure 1 & 2 discloses two different models for ethical decision making which get influenced by different sets of variable. What does this mean to managers?

Moral reasoning of this nature, utilizing all five ethical systems, considering all the sets of influential variables is not simple and easy, but it is satisfying. It does work. In case of corporate businesses, their performance in ethical terms can be identified by factors such as: the nature of business, the availability and use of information, participation, employment relationships, connections with the government in power, attitudes to their staff and customers and society (degree of autonomy, warmth, support etc.) Since ethical issues pervade in all aspects of organizational activities and performance, it will be necessary to identify the nature of all the legitimate interests of all those concerned with corporate governance.

CONCLUSION

The issues connected with business ethics have recently acquired prominence in the changing business scenario. The anxiety of global investors in emerging markets is not only about the quality of management but also the ethical framework for decision-making and the collapse of the South East Asian countries has stressed the issue further. In the process of adopting new techniques and ideas for ethical decision making-let us not throw out the existing good stuff that has helped us build and shape civilization as we know and enjoy today, even in future.

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