

# Structural causes of unethical behavior within an organization



Traditionally, organizations function within a certain set of guidelines and protocols that inherently form a structure in an organization. Pugh defines an organizational structure as a hierarchical concept of subordination of entities that collaborate and contribute to serve one common aim. Activities such as task allocation, coordination and supervision are carried out to achieve organizational goals.

Organizations are formal entities that distribute tasks through specialization and create a standard set of processes to create an efficient and effective workplace environment to increase productivity while saving costs. Standard operating procedure protocols, management protocols and standard set of rules and codes are implemented throughout the organization to ensure all employees perform their tasks as they are supposed to in the proper way. For instance, in a car assembly line, factory workers and engineers have to follow a certain set of guidelines to ensure the quality of the cars. Testing for safety and quality are standardized in every manufacturing branch not only throughout the country but internationally. Similarly, McDonald's provide standard operating procedures for every franchise throughout the globe in order to maintain quality and the company's reputation (Griffin, 2012).

Although formal organizations provide a set of guidelines and standard procedures, in a situation where ethical decision-making takes place, these standard codes fail to provide a clear cut solution to the dilemma, thus resulting in unethical behavior which are caused by the structure of the organization. Organizations do provide codes of conduct and ethical code doctrines to employees prior to their hiring but implementing those codes are entirely up to the employees and their immediate supervisors. Even the <https://assignbuster.com/structural-causes-of-unethical-behavior-within-an-organization/>

CEO of a company can make unethical decisions to his own discretion despite being bound to the ethical codes of conduct of the corporation in which he serves. Moreover, considering he is the man in charge of the entire corporation, it is even more likely that he will not be held responsible for his unethical decisions.

When the organization structure fail to prevent unethical behavior, ultimately the profitability and sustainability of a corporation will be affected. This is where strict corporate governance needs to be put in place in order to minimize unethical behavior within an organization. In order to solve unethical behavior and improve organization structure, we must first understand how a structure can fail to prevent unethical behavior.

Furthermore, we must identify the types of unethical behavior that can arise in ethical situations where an organization's structure is ineffective. Finally, we will also expound on previous researches to identify ways to minimize unethical behavior within an organization by, among other things, improving the structure of the organization.

### **1. 2. 1 Boston Consulting Group**

Founded by Bruce D. Henderson in 1963, The Boston Consulting Group (BCG) is a global management consulting firm that has successfully appeared in the top 15 of Fortune's ' Best Companies To Work For' seven years in a row. As much as it was a subsidiary of The Boston Company, BCG currently has 77 offices of its own in 42 countries all across the World.

In attempts of trying to understand the nature of pricing in a manufacturing industry and as a result of work done for a semiconductor manufacturer, The

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Boston Consulting Group came up with its first breakthrough known as the 'experience curve' in 1966. The 'experience curve' states that the unit cost of a product gradually decreases as cumulated volume and production experience increases. Ultimately, the theory stresses that it is crucial and important to enter newly introduced fields and take hold of as much market share as possible. By doing this, an organization will be able to gain advantage over other late-arriving organizations in the same field and thus, eliminating any sort of competition. (Refer to Appendix C)

The Boston Consulting Group Matrix (BCG Matrix) also known as the growth-share matrix was introduced in 1968. The framework of the BCG Matrix consists of a box with four quadrants that is represented using terms such as cash cows, dogs, question marks and stars. The terms of the framework represent growth rate, market share and negative and positive flow of cash. The main goal of the framework is to achieve a balance between cash cows, question marks and stars and to sell off the dogs. As soon as the theory was introduced, the terms of the framework quickly became fixtures in the world of business. In the same year, BCG was released as a subsidiary from The Boston Company. (Refer to Appendix D)

Despite the departure of a few prominent and top individuals, The Boston Consulting Group became an independent company in 1975. BCG was one of the first few companies to practice the Employee Retirement Income Security Act as the company recognized its benefits and was quick to take advantage of the act. Through this act, The Boston Consulting Group was allowed to establish an employee stock ownership program. The

establishment of the program made way for the process of buying BCG from <https://assignbuster.com/structural-causes-of-unethical-behavior-within-an-organization/>

The Boston Company to begin. By 1979, the buyout was completed five years ahead of the original schedule. (Refer to Appendix E)

The year 1985 paved way for some major changes at top level management for The Boston Consulting Group as its founder and then Chief Executive Officer (CEO), Bruce D. Henderson retired. He was succeeded by John Clarkeson who assumed the position of CEO and Alan Zakon who took on the position of chairman of the company's board. In 1992, Henderson died at age 77. " Few people have had as much impact on international business in the second half of the twentieth century as the founder of The Boston Consulting Group," eulogized the Financial Times upon Henderson's death. (Refer to Appendix E)

In 2003, Hans-Paul Burkener was elected the fifth President and CEO of The Boston Consulting Group by the company's partners. As of the year 2011, The Boston Consulting Group was ranked second on Fortune's ' 100 Best Companies To Work For', marking its sixth consecutive year on such a prestigious list. BCG continues to explore important topics that have significant effects around the World as the company aims to provide better and more quality service in helping organizations to combat the battle of ever changing landscapes in the management of diversity (Refer to Appendix F).

## **1. 2. 2 General Electric**

In 1890, Thomas Edison established his own company and named as Edison General Electric Company by bringing his different businesses together. Two years later, Edison General Electric Company incorporated with Thomson-

Houston Company and, then they named the new organization as General Electric Company. The new organization the General Electric Company is a diversified technology and financial services company. General Electric Company has different type of products and services. They main product and service is householder appliances and General Electric Company is one of the largest manufacturers of major appliances in the world. Besides that, General Electric Company also has other different type of products and services such as aviation, consumer electronics, customer training, electrical distribution, energy, finance-business, healthcare, oil & gas, water, lighting, software & services, rail, and other.

In the early 1890s, the first General Electric appliances electric fans were produced, and a full line of heating and cooking devices were developed in the year 1907. A few years later, General Electric Company developed the first airplane engine “ booster” for the fledgling U. S. aviation industry. Besides that, the plastic filaments for light bulbs were created in 1930, and led to the first General Electric Plastics department.

Through the years, General Electric’s leaders have built a portfolio for the diversity of management and leading businesses. That’s made the General Electric Company become a most success company that drives growth and reduces the production costs; increase financial strength and Controllershship that allow it to capitalize on opportunities through numerous cycles. And, they have a set of common values that allows it to face any environment or situation with confidence. In 1971, the General Electric Company with the helped from McKinsey developed a General Electric/McKinsey Matrix.

The General Electric/McKinsey Matrix was developed in year 1971, with the help from McKinsey and consulting firms. And, General Electric Company used it to measure or decide which Strategies Business Units (SBU) should invest, retain, or divest. The GE matrix/McKinsey matrix is one that can help to improve the company's business unit strength and help to increase business unit attractiveness. Besides that, this matrix measures the business unit through the business unit's attractiveness and business strength. When the business unit's attractiveness and strength is high, the company should keep investing for gain more profit. On the other hand, when the business unit's attractiveness and strength is medium, the company should retain or selectively invest. But, when the business unit's attractiveness and strength is low, it is the time for the company to exit that business unit or stop investing in that business unit.

The aim of this portfolio analysis is:

To decide the company should invest more or divest.

To help the new product or business unit to develop a growth strategy.

To decide which business unit should retain or not.

## **2.0 Literature Review**

### **2.1 Unethical Behavior Resulting from Failure of Organizational Structure**

Many researchers were found to focus on various aspects that management fails to prevent different types of unethical behavior within a corporation.

Some of the unethical behavior that is being studied includes conflict of

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interest, false advertising, discrimination, insider trading, and harassment among others.

For instance, Sherry, Shilbury and Wood (2007) found that as sport becomes a fully-fledged business, there is an increased complexity of ethical issues within sports management and conflict of interest presents similar structural elements as traditional businesses. Practices such as providing benefits, trust and obligation are magnified, as there are also societal expectations and values emphasized in sport and sporting organizations. To illustrate the issue of conflict of interest arising from structural failing in this matter, five of the seven board members of the Californian Horse Racing Board actively own or breed racehorses and “ at least six acknowledge that they gamble at the track” (Sherry, Shilbury, & Wood, 2007). This clearly is a conflict of interest between the board members personal interest and the interest of the corporation. Conflict of interest issues are usually not clearly outlined within the corporation, especially for people in top management and there is no obvious way to identify a person who has a conflict of interest because a hierarchical organization does not usually scrutinize an employee’s personal life. In this case, the integrity of the sport will be compromised, as society will not look with favor on the races for fear of them being cheated out of their bets.

Furthermore, despite laws and regulation outlawing discrimination while hiring, there is still a substantial informal form of discrimination in the workplace towards different races or genders. As found by Pompper (2011) after interviewing 36 middle aged, middle income women of African-

American, Asian-American and Hispanic ethnicity in the communications  
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industry, glass ceilings in communication organization remains impenetrable especially for women of these ethnicities. The research found that there is a higher level of financial uncertainty for middle aged, middle-income women of color within media organizations. None of the participants of the research reported having equal salary or status with male colleagues that do comparable work. While there have been strides to reduce employment discrimination in many countries, informal forms of discrimination that are not specifically outlined in corporate policies will still occur, especially in a society or country that inherently, in their culture, practice discrimination against gender or race.

## **2. 2. 1 Boston Consulting Group**

In a publication titled ' Strategic Business Models', Frederick Betz discusses the six different kinds of generic business models that can be used in operating a company. One of the generic business models that he highlights is The Boston Consulting Group Matrix (BCG Matrix).

Betz defines a business model as a strategic technique of how one's company now operates and how it should change to operate in the future. Also, he describes a business model as an abstraction of business identifying how that business profitably makes money.

Besides that, he identifies a business model as abstracts about how inputs to an organization are transformed to value-adding outputs. The transformation of input resources into output products or services is performed by the processes and operations of the business. Furthermore, he mentions that a strategic business model is a systematic list of policies that will guide the

future specification of inputs, outputs, processes and values of the complete operations of the business of the corporation.

In a publication titled 'Kiechel's History of Corporate Strategy', Robert J. Allio and Robert M. Randall interviewed Walter Kiechel III about his book titled 'The Lords of Strategy: The Secret Intellectual History of the New Corporate World' (Harvard Business Press, 2010). In his book, Kiechel chronicles the rise and stumbles of a number of leading consultancies - primarily Bain, Boston Consulting Group and Mc Kinsey after having interviewed originators of the core ideas behind strategy and strategic movement and executives at the companies where it was first practiced.

In his book, Walter Kiechel III regards The Boston Consulting Group as the 'Lords of Strategy'. He explains that the pioneering consulting efforts of the organization has helped instill a sense of empiricism that is a fundamental key in competing. He defines empiricism as the ability to identify and recognize facts that are essential in gaining advantage over other late-arriving organizations in the same field. Also, the concepts developed by The Boston Consulting Group are made up of easy-to-understand and familiar patterns that make the task of interpreting the data less difficult. This indirectly enables one to figure out what needs to be done.

Besides that, Kiechel did not fail to draw attention to the opinions of critics and his personal opinion about The Boston Consulting Group Matrix (BCG Matrix) in his book. Critics pointed out that a certain organization can define and characterize the shares and size of a targeted market. However, it is impractical and almost impossible for the same organization to predict the

exact growth of the market. Kiechel strongly believes that an organization should associate with the hidden message of the BCG Matrix. An organization should take the initiative to identify and accurately comprehend the competitive situation that it faces, the data for understanding the business that it is involved in and the potential that the organization possess. Otherwise, you are left at the mercy of every business unit's manager telling you that " Next year is going to be different; This baby is really set to take off." (Kiechel, 2010).

### **2. 2. 2 General Electric**

Nowadays, General Electric can be more successful. It should be related to the McKinsey and Company consulting firm. Because General Electric Company got the help from McKinsey and Company consulting firm, and developed a more complicated matrix (Figure 2. 1). Through the internet research, the General Electric Company used GE matrix/McKinsey matrix as their planning system for management of diversity. From my general knowledge about the GE matrix/McKinsey matrix, it is a strategic that will separate from the mother company into many small business units and determine which business unit should invest more, retain, or divest.

From " Strategic Management: theory and case study", by Tunchalong Rungwitoo, the General Electric / McKinsey Matrix, is a nine cell matrix from two dimensions, which is industry attractiveness and business strength. For the use of General Electric/McKinsey Matrix, they use the GE matrix/McKinsey matrix to identify whether the small business units should invest, retain, or divest. Besides that, it also can fit perfectly to the

company's strengths and helps to exploit the most attractive industries or markets.

Besides that, General Electric Company can see the status of their business units and suggest the strategy the business fell in which categories through the General Electric/McKinsey Matrix (Figure 2. 2). The vertical axis of the General Electric/McKinsey matrix is industry attractiveness, which is determined by the factors such as market growth rate, market size, demand variability, industry profitability, industry rivalry, global opportunities, and others. And, the horizontal axis of the General Electric/McKinsey matrix is the strength of the business unit. Some factors that can be used to determine business unit strength include: market share, growth in market share, brand equity, distribution channel access, production capacity, and profit margins relative to competitors.

From "International Journal of Humanities and Social science", the General Electric/McKinsey Matrix requires the identification and assessment of both external and internal factors, which are industry attractiveness and business strength on a nine-cell grid. To grow, to hold, or to harvest are the categories used to classify both attractiveness and strength (Figure 2. 2). When that is high attractiveness and high business strength (Leader), the company should seek dominance and maximize investment. When that is medium attractiveness and medium business strength (Proceed with care), the company should specialize and invest selectively. And, when that is low attractiveness and low business strength (Withdrawal), the company should attack rivals and time exit.

### **3. 0 Data Analysis and Discussion**

#### **3. 1. 1 Structural Causes and How to Solve Them**

An organization can have a centralized or a decentralized structure. A centralized organization refers to an organization in which important decision-making tasks and power are given and carried out by few leaders. As stated by Vitez (2012), centralized organization depends on a single person to give direction and make decisions for the corporation. A decentralized organization, on the other hand, give autonomy to individuals in middle and lower management levels to make critical decisions and usually carry out decisions as part of a team (Vitez, 2012). The hierarchy of the organization also tends to be much more flat compared to centralized organizations.

In a centralized organization, ethical conduct is often disseminated in the form of ethical codes of conduct and corporate policies. It is easier to control and minimize unethical behavior within an organization with a central structure as employees have clearly written guidelines to follow in the corporation and if they fail to do so, they will be reprimanded for it. However, an employee's own personal ethical standards may conflict with what is expected of him as a member of the organization and its corporate culture (Ferrell, Fraedrich, & Ferrell, 2012). Centralized organization also creates a "groupthink" environment in which in an organization culture where unethical behavior is prevalent, employees knowingly commit unethical acts or ignore unethical acts with full knowledge that these behaviors are morally wrong. As stated by Sims (2003), " the presence or absence of ethical behavior in organizational members' actions is both influenced by the prevailing culture

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(ethical climate)” and, in turn, partially determines the culture’s view of ethical issues” (Sims, 2003).

Furthermore, central codes of ethics are created out of context of ethical dilemmas and may not be suited for delicate situations with no clear-cut solution. While having an ethical code may inhibit major ethical problems such as physical and sexual harassments that are clearly morally wrong and unethical to begin with, subtle ethical problems may not be outlined in the ethical code of the company such as alienating co-workers of other races.

Conversely, a decentralized organization gives more freedom to employees to make decisions and top management usually delegate decision making to middle and low management. In this type of structure, there is more flexibility to each unit of business to carry out tasks and make decisions. According to Gitman and McDaniel (2008), decentralized organizations benefit by “ quicker decision making, increased level of innovation and creativity, greater organizational flexibility, faster development of lower-level managers, and increased level of job satisfaction and employee commitment” (Gitman & McDaniel, 2008).

Despite this, there is also a risk of unethical practices and behavior occurring in a decentralized organization. As employees are given more power to make decisions, they are now more susceptible to moral hazards in which an employee will have a higher tendency to take risks. As decentralized organizations have fewer internal controls such as corporate policies and code of ethics, these organizations rely on shared values (Ferrell, Fraedrich,

& Ferrell, 2012). Therefore, it is harder to control employee behavior especially if they do not believe in the shared values of the organization.

To solve these structural problems, an organization must first acknowledge the possibility of unethical behavior occurring within its framework. An organization must realize the flaws that each type of structure presents and ways to combat these flaws to minimize risky and unethical behavior among its employees. In this sense, organizations should look into allocating resources to study and research the structural problems and implement the solutions into the organizational structure. Organizational change is somewhat harder and more costly to implement in a centralized organization because it involves changing all policies from top to bottom within the organization as compared to a decentralized organization, which is more fluid, and adapt to change quickly. New rules, values and organizational culture to minimize unethical behavior must always be monitored to gauge the success of these new policies.

Furthermore, an organization must tailor its ethical standards to the type of structure that it uses. For instance, in a centralized organization there should be more room to maneuver ethical dilemmas that does not strictly coincide with corporate policies. Moreover, centralized organizations should provide a form of outlet for employees to air grievances about ethical dilemmas and adopt a situational approach to ethical decision making in the corporation.

On the other hand, in a decentralized organization, top management should constantly portray ethical values outwardly through their actions so that it empowers employees to follow their stride and perform ethically as well.

Leading by example is one of the approaches to keep employees from committing unethical acts in this type of organizational structure. There should also be some form of central codes of conduct, even in a decentralized organization to keep employees in check and to maintain the reputation of the corporation.

Other solutions to prevent unethical behavior are to set up a committee that will look into employees' indiscretions in the company and evaluate whether these indiscretions are justified in the given circumstances. Instead of penalizing the employee by suspending them and creating resentment, the employees should be sent to ethics classes to help them rehabilitate their behavior. Ethics classes are a good way to disseminate ethical values within an organization but having classes in which the instructor tells the employees the rules, there should be a more interactive environment where employees get to try their hand in solving ethical dilemmas in the workplace. Ethics classes and training should also be given to new hires as part of their training in the corporation. Additionally, the organization can provide motivational training for employees to get them invested in the interest of the company and the company's bottom line that is the customers. A motivated employee is a hardworking and productive employee and an employee that is less likely to make unethical decisions that may jeopardize the company and its customers.

### **3. 2. 1 Boston Consulting Group Planning System**

Large companies that have diversified its business into other strategic business units usually face challenges in allocating resources among its units. The Boston Consulting Group Matrix Growth-Share Matrix (BCG <https://assignbuster.com/structural-causes-of-unethical-behavior-within-an-organization/>)



Growth-Share Matrix) is a planning model for managing portfolio of different business units that is based on combinations of market growth rate and relative market share. The market growth rate represents industry attractiveness and relative market share represents the strength of a company within the industry relative to its competitors. Thus, the position of a company on the BCG Growth-Share Matrix indicates consumption of cash needed to diversify into a particular business and generation of cash through that particular business.

The portfolio planning model of the BCG Growth-Share Matrix is divided into four grids that are represented using four symbols; cash cow, dog, question mark and star. 'Cash cows' are used to represent a business unit in a mature industry that has a large market share. It generates more cash than it consumes which in return can be used to invest in other business units. Business units that are categorized as 'cash cows' should be 'milked' in order to gain profits while investing as little cash as possible into that particular business unit. Besides that, 'dogs' are used to represent a business unit in a mature industry that has a small market share and a low growth rate. It does not require high cash consumption nor does it result in high cash generation. Even so, business units that are categorized as 'dogs' are cash traps because the cash invested is tied up in a business unit that has little possibility. Instead, the cash invested into that particular business unit can be deployed into other more rewarding business units. (Refer to Appendix A)

In addition to that, 'question marks' are used to represent a business unit that has a small market share in a high growth market. Due to this, it <https://assignbuster.com/structural-causes-of-unethical-behavior-within-an-organization/>

consumes more cash than it generates. However, business units that are categorized as 'question marks' have the potential to become 'stars' and eventually 'cash cows' if high investments and resources to grow market shares are fueled into that particular business unit. Nevertheless, it is still a questionable decision as it is unknown if it will succeed and become 'stars' and 'cash cows'. Furthermore, 'stars' are used to represent a business unit that has a large market share in a high growth market. It requires high cash consumption but at the same time, it results in high cash generation. Thus, the flow of cash in each direction is evened out. If successful, business units that are categorized as 'stars' will eventually become 'cash cows' when its industry matures. (Refer to Appendix A)

Despite its many advantages, the BCG Growth-Share Matrix has its disadvantages as well. The main limitation that has been identified is the questionable link between market share and profitability. This is due to the fact that an increasing market share can be very expensive and may not result in high cash generation as predicted. On top of that, the matrix overlooks many factors that contribute to the profitability of a business unit. For example, market growth rate is only one of the many factors that represent industry attractiveness. Also, there are additional factors that represent the strength of a company within the industry relative to its competitors besides relative market share. (Refer to Appendix B)

Moreover, the framework of the matrix assumes that each business unit is independent and does not depend on other business units run by the company. However, in some large companies, this is most certainly not the case. For instance, business units that are categorized as 'dogs' which do <https://assignbuster.com/structural-causes-of-unethical-behavior-within-an-organization/>

not require high cash consumption nor does it result in high cash generation may have been formed in order to strategically help other business units run by a particular company. (Refer to Appendix B)

### **3. 2. 2 General Electric Planning System**

On the other hand, the General Electric also had own portfolio analysis for the diversity of management or Strategies Business Units (SBU), which is General Electric/McKinsey Matrix. General Electric/McKinsey Matrix is a business portfolio analysis on Strategies Business Units (SBU) that based on the business unit strength and the market attractiveness. The business unit strength is determined by some factors such as the market share, growth in market share, and others. And, the market attractiveness is determined by the factors such as market growth rate, market size, and others. Thus, the General Electric will invest the business unit through the market's strength and the market's attractiveness.

The General Electric/McKinsey Matrix is nine-cell portfolio matrix which will measure the business unit strength and attractiveness, and let the company know whether they should invest, retain, or divest that business unit. The advantages of this matrix are telling the company their business unit strength and attractiveness and what decision should they make. When the company should invest, retain, or divest the business unit? When the business unit falls into the categories A, B or D (Figure 2. 3) is the time for company to invest. Because at that time, the business unit has a quite strong strength and market attractiveness, so the company should invest for growth or to maintain that business unit at that kind of category. On the other hand, when the business unit falls into the categories C, E, or G (Figure <https://assignbuster.com/structural-causes-of-unethical-behavior-within-an-organization/>

2. 3) is the time for company to retain the business unit. This is because the business unit does not have quite strong business strength and market attractiveness. But, the company also can try to invest that business unit for get more earning. And, when the business unit falls into the categories F, H, or I (Figure 2. 3) is the time for company to divest that business unit or plan to exit that business unit because the business unit has weak business strength and market attractiveness.

Although the General Electric/McKinsey Matrix has many advantages such as it will looks through all the business unit sides such as market size, market growth rate, market share, and what decision should them make depend on the business unit's strength and attractiveness, it has forgot about the other competitors and the new business unit. This matrix totally forgot about other competitors and the new business unit, we should look at other competitor's strength and attractiveness too. This is because other competitors may affect own company's strength and attractiveness and the growth rate too. And, for the new business unit, what can the new business unit should do, to invest, retain, or divest?

## **4. 0 Conclusion**

### **4. 1 Organization Structure and Ethics**

**Organizations face many challenges when operating, one of which is the moral problems that can potentially occur within its structure. Organizations play an important rol**