

Utilitarianism and business ethics



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Deception, greed, and extreme pressure led to the demise of Enron (Beenen and Pinto, 2009). Employees need the ability to disengage ethical issues from these complications of self-interest and provide clear definition; employees need to distinguish between negligible issues typical of work life and critical issues that threaten a company's ethical environment.

Ethical issues come with temptations and threats. By understanding threats to personnel interests, alternatives will arise to implement correction. Going along with the crowd can endorse immediate career interests whereas resisting can put status, career and family well-being at risk. By accepting ethical theory, this can act as a guideline for a human resource (HR) manager to identify and handle the issues of self-interest.

DeGeorge (2010) defines utilitarianism as an act of moral significance established by its involvement to create the most amount of good for the most number of people. This is based on the ability to foresee the consequences of an action as the choice that succumbs to the greatest benefit, to the majority of people, is the choice that is ethically correct.

Beenen and Pinto (2009) identify that corrupt organisations, such as Enron, act unethically by decisions, that are usually, made by a group of senior employees to benefit the organisation. Decisions made by Jeff Skilling (senior manager) to “cook the accounting books” may have been, in his opinion, as an ethically correct way to benefit the shareholders and stakeholders, by portraying a strong financial image. However, the consequences of this action didn't create the most amount of good for the most amount of people. Instead self-interest influenced unethical behaviour by means of greed and

pressure from Wall Street to benefit, not the organisation as a whole but, Jeff Skilling and management, personally, for financial gain. Rational self-interest is good however greed is eventually detrimental (DeGeorge, 2010).

While the theory of utilitarianism will always argue to benefit the majority, it can also neglect the minority (DeGeorge, 2010). Sherron Watkins' ability to make judgment that Enron's accounting standards were immoral created a rule utilitarianism approach with regards to the law and the concern with fairness; seeking to benefit the majority of people. Therefore, added benefits of rule utilitarianism values justice and includes beneficence at the same time.

In the eyes of a HR manager, by taking action the majority of the stakeholders would benefit from a moral organisation adhering to their code of conduct, conducting fairness in all of their business activities. However, an issue with this decision, while sherron was commended for doing the right thing, showed that her actions to neglect the corrupt senior management team (minority) for the stakeholders (majority) for a more ethical workplace started to inflicted damage to the entire business. Cable, News, Network (CNN) (2002) stated that Enron filed for liquidation, people lost their jobs, some committed suicide and many were jobless. Sherron may have been trying to do the right (and difficult) thing but it may not have been the best way to get ahead. Her self-interest was going to become a consequence for the majority and she was unable to predict the future so as to see how her decisions would affect people later on. A HR manager needs to take into consideration that there is no way of telling exactly what the costs of our

behaviour will be, we just do what we think is right at that specific time (DeGeorge, 2010).

After examining DeGeorge (2010) a utilitarian approach to this case study in handling self-interest is too impractical. This is because the practical application of the theory requires the ability to predict the long-term consequences of an action and, to predict those consequences with unflinching accuracy; past experience can, to some extent, guide future experience. However, there is never any guarantee that circumstances will turn out exactly the same (DeGeorge, 2010). This uncertainty can create unexpected results making the utilitarian approach look unethical, as the time the choice was made didn't benefit the majority for the greater good. A HR manager needs to identify that the flaw in utilitarianism theory has no consideration for the minority; however, kantian theory suggests that it doesn't neglect this issue i. e. allowing the minority to suffer for the benefit of the majority.

According to DeGeorge (2010) Kant's deontology theory is supported by the actions of an individual under consideration. A collective approach to an action suggests it can determine whether an action is moral as it allows one to portray the result of everyone universally contributing to this action.

Immanuel Kant's theory (DeGeorge, 2010) suggests that an individual must have the freedom to truly act in a moral way. In the case study, some employees understand the company is behaving unethically i. e. dodgy account standards for personal gain. A HR manager could identify that these people have a choice to voice their concern, leave the company or go along with the crowd; however self-interest and the ability to be disciplined may

pose a threat to take any action. These people have physiological needs to support family and a moral decision to voice their concerns, in this respect, could pose an issue. By being immoral or turning a blind eye, to the situation, could be the easiest option. Employees do have a choice and the freedom to make a moral decision however self-interest can sometimes turn a moral idea into an immoral decision; without the discipline there is no freedom (Wood, 2008).

A deeper analysis of Kant's theory suggests that the concept of ethics is not based on desires or circumstances. Moral law is a definite necessity because it has no precursor; there is no 'but' part in the command (DeGeorge, 2010). Sherron Watkins provided an example of how this theory works. Sherron adhered to Enron's ethical code of conduct when analysing the ethical dilemma of "accounting irregularities" that were present. By identifying this problem to her manager, Ken Lay, she fulfilled her obligations of responsibility. Upholding one's duty is what's considered ethically correct (Wood, 2008). Sherron had found the morality through rationale of her mind as she was not influenced by feelings (preference), but instead she was concerned with fixed statements of duty (I must...).

The theory suggests that an individual has no flexibility and no chance to consider one's own position (DeGeorge, 2010). Naturally, people seem to acknowledge that certain rules must have rational exceptions. For instance, with regards to Ken Lay his decision not to fire Sherron Watkins could have jeopardised Andy Fastow's position and the companies indicating individuals may need to lie to protect others. So, could a HR manager be reasonable to assume that the same rules can be applied consistently in different

circumstances? This makes Kantian ethics rigid because the consequence of an action is not necessarily separated from the action itself (DeGeorge, 2010). Unlike utilitarianism this theory is not based on social utility. It avoids the utilitarian flaw of allowing the minority to suffer for the benefit of the majority, based on free choice and similar to that of John Rawls' theory of justice.

As described by DeGeorge (2010) the egalitarian, John Rawls, devised a theoretical model that proposed an individual who, 'covered in a veil of ignorance', would recommend a just society without any understanding of their status in society. The individual would choose a system of justice that sufficiently provided for the lower end of society because the individual could end up being in that lower position so, avoids it by being just and fair.

Enron executives paid above market bonuses and salaries, they awarded unethical behaviour and punished good behaviour. In a sense many employees would have tried to do the right thing i. e. perform what was asked of them in their relevant job role. While most of these activities were contributing to the overall unethical behaviour, an employee would reasonably obtain their wage and bonus if they performed in a satisfactory or above expected manner. Self-interest presents an underlying problem here. While the pay system of any organisation should be fair and just, greed and extreme pressure to perform presented self-interest drivers that awarded immoral behaviour. Rawls' argued that regimented societies are uncommon due to the fact that what is just and unjust is usually in dispute (Rawls, 2003)

Robert Nozick's libertarian theory of ethics is similar to Rawls' in that they both believe utilitarianism is a flawed theory due to the importance on the consequences of policies and behaviour (Nozick, 1974 & Rawls, 2003). Both indicate that since utilitarianism highlights utility or contentment, within society, it cannot justify an explanation of assertions such as assertions of right which people are free to make upon the actions of others.

Consequently, each sets out to develop a political theoretical model which sufficiently suggests what Nozick depicts as, the fundamental Kantian principle that individuals are ends and not merely means (DeGeorge, 2010).

Nozick's theory suggests that people have the right to possess entitlements such as remuneration as long as it doesn't worsen the position of anyone else (Nozick, 1974). But if these entitlements were obtained unethically, does this worsen the position of anyone else? In one hand people are morally trying to do the right thing but, in the case of Cassandra, they eventually get punished; she moved to another position being seen as a threat. On the other hand people knew their actions were contributing to immoral behaviour as self-interest (greed and pressure) clouded their decision to do what is right. So what are our rights in situations such as the above? The theory of rights can give a HR manager insight into how individuals are protected in an ethically correct way.

According to DeGeorge (2010) rights are proposed by society which is protected and is given the uppermost precedence. Since society endorses rights they are considered to be ethically correct and suitable.

DeGeorge (2010) indicates that an individual must interpret what characteristics of rights are in society, as this can pose implications. The underlying issue in the case study is self-interest. Senior management is responsible to ensure that the integrity of the controls in the environment determines the effectiveness of any control system, including remuneration, leave entitlements and job opportunities. With reference to Enron's code of ethics (2000) 'dignity and mutual respect', for all employees, is a right that the company has promised to respect and uphold. Clearly, this right was not evident in this organisation. Individuals such as Sherron Watkins, Cassandra and Jeff McMahon were not given the right to be treated in a respectful manner as they were moved into different position disguised as promotions. The relevant rights in a business context to freedom of speech were noted by management, as they gave them a chance to express themselves however, this was quickly extinguished. Control systems (rules) may interfere with one's own self interest to succeed or avoid failure; controls are intended for exactly that purpose. Those who would respond to business pressures by evading controls will devise rationales and tactics to justify such an evasion for tactics of disinformation and deception that they may use (Donnelly, 2003). For rights theory to be practical it must be used in combination with another ethical theory, such as ethical relativism, that will consistently outline the objectives of society.

Ethical relativism refers to the principle that there are no commonly valid or required moral standards as any two individuals with differences in culture, who have different ethical views, regarding an action, could simultaneously be correct (DeGeorge, 2010).

Beenen and Pinto (2009) indicated that Jeff McMahon knew that Enron's accounting practices were unethical while Andy Fastow's belief indicated his way was ethically correct i. e. for the greater good of the company. While both ethical views are different they are also both correct. The underlying similarity here indicates that self-interest for personal gain was the main driver relative to their different ethical opinions. DeGeorge (2010) suggests a clear understanding of this theory must be carefully dissected when compared with cultural relativism; as cultural relativism explains the way people actually behave, and ethical relativism recommends how people ought to behave.

A HR manager should acknowledge that differences don't imply that there are no commonly valid moral standards. It teaches us that individuals may not always agree on what the principals are or should be. Relativism is a stronger claim as refutation that there are usually suitable moral standards. It is a theoretical claim about the existence of common moral standards, whether or not people believe in them (DeGeorge, 2010). Therefore, it must be verified or unproven by theoretical influences.

In summary, ethical theories need to be examined and measured against one another to tackle the issue of self-interest. No one theory on its own is truly valid, rather a collaboration of all theories should be used in order to give a professional (HR manager) the necessary tools to create strategies and examine the likelihood of unethical behaviour.

Enron ignored its ethical code of conduct, self-interest (greed and extreme pressure) influenced management in an unethical manner. For ethics to be

adhered to companies need to go beyond the notion of simple legal compliance and adopt values based on organisational culture. Ethical reasoning is not natural it's a skill that must be learned and practiced.