



ST. CLOUD STATE
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HBS ETHICS INTEGRATION HANDBOOK

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Ethics Conceptual Foundations

Ethics is fundamentally about the tension between doing good and doing well. (Baird)

Personal ethics can be defined as the values we employ to determine right from wrong. These values are shaped by our life experiences, family upbringing, and cultural and religious beliefs--and drive our behavior and establish personal expectations for how we think others should act.

Business ethics go beyond our personal moral code of right and wrong; it attempts to balance what companies are legally required to do with their desire to maintain a competitive advantage over other organizations in the same line of business. Business ethics helps build trust between consumers and corporations by increasing the predictability of transactional outcomes. Business leaders who fail to behave consistently risk damaging the trust they have built with their stakeholders.

There are 3 major ethical frameworks cited in the literature. (Sinbad Koniak, Moral Frameworks in Ethics)

- **Virtues Ethics** assumes there are certain ideals towards which all of us should strive--and asks us to behave in a manner that aligns with community belief systems that ensures our continued membership in that particular group. Community belief systems are most commonly rooted in religious principles (Ten Commandments) but can also be based on the ethics codes established by professional societies or groups. Leaders who prescribe to virtue ethics ask how their business reputation will be impacted by the choices they make.
- **Consequentialism (Utilitarianism)** is a moral framework for discovering an ethical course of action based on desired results. Ethical decision-making, therefore, involves choosing worthy goals that produce the greatest good.
- **Nonconsequential Theories**

The Duty-Based Approach (Deontological) suggests that an ethical action is based on fulfilling one's duty. Ethics is therefore based on our obligation to act.

The Rights Approach (Immanuel Kant) focuses on an individual's right to choose for him or herself--and assumes each individual has a fundamental right to have his or her choices respected by their community.

Fairness or Justice Approach suggests that the best course of action protects the rights of those who are most directly affected by a decision.

Herberger Business School Model of Ethical Decision-Making

An ethical dilemma occurs when there are several methods of solving a problem, none of which is ideal. Solving ethical dilemmas involves determining both what values are in conflict and what values should be given priority. The HBS ethical decision-making model recommends evaluating a dilemma from several different perspectives **before** deciding what is best. This five-step framework, therefore, provides a systematic way to approach ethical challenges.

1. **Determine the facts and state the problem.** People often make bad decisions when they fail to accurately define the problem. This takes time and involves separating the facts from assumptions. Claims, for example, are just claims in the absence of concrete evidence.

2. **Reflect on Personal Values.** Ethical dilemmas can trigger deep-seated values and firmly held beliefs-- which in turn can lead to impulsive decisions and unfortunate consequences. A student's ELI will help them understand their probable reaction --the values they instinctively consult when confronted with an ethical challenge--and help them to suspend judgement until different perspectives have been considered. This process may include having a conversation with others who see things differently.



3. **Consider Stakeholder Perspectives.** Stakeholders are anyone who might be directly or indirectly affected by a business decision. Employees, state/local governments, shareholders, customers, vendors and/or unintended bystanders are all business stakeholders. The question is-- who will be most directly impacted and how?

4. **Analyze Alternatives.** List 3 to 5 possible solutions that would address the stated problem. Then evaluate these alternatives by applying some or all of the following tests.

- **The Harm Test.** Who would be harmed by this decision?
- **The Legality Test.** Is this option legal? If not, eliminate it from consideration.
- **The Precedence Test.** How have similar situations been handled in the past?
- **Publicity Test.** Would I be comfortable with my decision if this decision was on the front page of a newspaper?
- **The Defensibility Test.** If I were challenged on this decision, could I provide a reasonable explanation for how and why I made it?
- **The Mom Test.** How would my mom react to my decision?
- **The Golden Rule Test.** If I were adversely affected by this decision, how would I feel about it? Would I feel it was a fair and just decision?
- **Professional Ethics Test.** What do my professional ethics suggest is the best option?
- **Colleagues Test.** Ask a few trusted colleagues what they think of the different alternatives.

5. **Decide!** Chose one of the alternatives and provide an explanation to those affected by your decision.

HBS's Ethical Decision-Making Framework	
Step	Important Criteria
Define the Ethical Issue	Describe the situation & context List facts and assumptions Identify conflicts of interest
Reflect on Personal Values	Consider your personal ethics statement Consider major ethical theories Reflect on your ethical lens (ELI) Consider discipline specific ethics (e.g. CPA)
Consider Stakeholder Perspectives	Identify relevant stakeholders and positions Consider positions of other ethical lenses (ELI) Consider entity's ethical standards
Analyze Alternatives	Develop and analyze multiple alternatives Consider strengths and weaknesses of each Consider mitigating options Seek advice - discuss with key stakeholders
Decide and Support	Disclose decision and rationale Support decision and acknowledge criticisms Reflect on results

Background of the Ethical Lens Decision-Making Model

The Ethical Lens Inventory (ELI) is an **assessment that identifies the values a person relies on to make ethical decisions**. The ELI is designed to help individuals **think critically about ethical dilemmas**; situations where no matter what course of action you take, some ethical principles will be compromised.

Based on an analysis of ethical theory, the author of the assessment—Catharyn Baird--found that **all ethical theories had two things in common—a dynamic tension between rationality and sensibility (the head and the heart), and autonomy and equality (me vs. we)**.

Ethical decision-making involves establishing a balance between protecting personal liberties (**autonomy**) and ensuring all members of a community receive comparable treatment (**equality**). By creating universal rules and structures that apply to everyone equally, **rationality** is employed to ensure fair and equal treatment. Because some people, however, would be disadvantaged if they were treated exactly the same as everyone else-- we apply **sensibility** to allow for some degree of flexibility, to adjust the rules as needed.

Who gets to decide refers to the **tension between autonomy (the individual) and equality (the community)**. Autonomy assumes that societal good will automatically occur if individuals are free to pursue their personal interests. Equality assumes the needs of the majority (community) outweigh the needs of the few—and that individuals cannot be trusted to do what is right for society as a whole.

The conflict between autonomy and equality can be illustrated by contemporary discussions about gun control. Should the US allow individuals to purchase any weapon of choice—or should society restrict individual freedoms in the interests of public safety (community)?

Too much autonomy leads to **anarchy** as each individual does only what they want without regard for anyone else. Individuals who have too little autonomy, on the other hand, cannot develop into full-functioning adults.

Communities that demand too much equality, however, create a sense of **apathy**. If people believe that the incentives for working or the consequences for not working are insufficient, they begin to expect others to take care of their needs--even when they are capable of doing it for themselves.

How we decide refers to the **tension between rationality and sensibility**. Should we rely on universal principles--or intuitive judgement? If we assume some actions are more ethical than others, then being ethical involves choosing the correct set of values to apply in a particular situation. The universal principle of justice, for example, urges us to stick to rules and principles and pursue fairness without making personal allowances in a given situation. Mercy, on the other hand, urges us to act benevolently by caring for the peculiar needs of individuals on a case-by-case basis.

The **conflict between rationality and sensibility** can be illustrated by a contemporary example. Should the US enforce immigration laws (fairness, justice), or should it open its borders and offer immigrants sanctuary in the US (compassion, mercy)?

Too much rationality can result in **immobility** as having too many rules restricts innovation and change. Too much sensibility, on the other hand, results in **chaos** because without rules, any sense of order is lost.

ELI Results

Your assessment results are neither good nor bad. They simply help you understand your values—and the strengths of those convictions.

- **Strong Preference:** The more strongly you have a preference along either of the continua, the more you need to be mindful of blind spots and the more difficult it will be to examine issues from one of the other lenses.
- **Moderate Preference:** If you find yourself in a position of moderate preference, you can nuance your actions in response to the other ethical preferences.
- **Balanced Preference:** The balanced preference is not necessarily better. It may suggest that you are able to employ all four lenses with equal proclivity--or—it may suggest that you are conflicted and have trouble making a decision.



The **rights and responsibility** lens rests on the belief that **rules** exist for a reason and **must therefore be followed, even if they have an unfavorable result**. Each individual has a duty and responsibility to enforce the rules.

The **relationship lens** puts community interests ahead of individual interests—and suggests that the most ethical response is achieved through a strong institutions that ensure **everyone is treated in a fair and just manner**. This lens assumes that if we invite everyone to the table, we will have an ethical outcome. But decisions are seldom based on everyone's input so some people inevitably get more than others--just as the wealthy get more than the poor.

The **results lens** or ends-based approach says that what determines an actions ethicality is its results. The most ethical choice is the one that does the **greatest good for the greatest number** and results from allowing everyone to do what is in their own best interests.

The **reputation lens** is the virtues lens. **What community defined virtues are an integral part of person's position or role**--which could include their job and/or other role that they play (parent, community member, etc.?) It assumes that if people live into their virtues, an ethical decision is inevitable. Much like the results and responsibility lens, the actual outcome is not as important as the reasons for the person's actions. It is possible to behave virtuously and inflict harm on others.

Every lens has its weaknesses or blind spots when taken to the extreme:

- Rights and responsibilities—adherence to the rules despite harmful results; blaming the victim for their plight (personal responsibility to the extreme)
- Results—greed, cutting corners (as long as I get what I want)
- Relationship—abuse of power (by those in charge of institutions), ignoring individual consequences in the interests of the community (Obamacare—hardships created for some individuals justified by community benefits)
- Reputation—sense of entitlement (because I am such a beacon of virtue). Becoming hard hearted as a result of unrealistic expectations of others.

Why is this important?

We are **no longer members of a homogeneous society** that keep us in check-- which means ethical outcomes are almost entirely driven by individual choice. Unfortunately, temptations abound and there is little social pressure to prevent us from crossing the line. Accountants create internal controls to remove temptations--but what else can be done? A decision-making framework like the ELI promotes critical thinking and helps us to provide a **rationale** for our decision in the event we are challenged.

Creating a **personal ethics code** that is shared with family and friends can also invite corrective feedback. If we behave in a manner that violates, our ethical principles, members of our personal community will have a **safe platform from which to challenge our behaviors**.

Mini-Case Example

THE PROBLEM

Your boss has asked you to increase the productivity of your new team of Claims Associates. To that end, you met individually with each of your team members to see how they work and to gather their ideas, suggestions, and feedback. By the time you've finished you have a pretty good idea of what—or rather, who—has been causing so many of your team's issues. Two of the most senior associates, Justin and Megan, clearly believe they deserve special treatment. Their sense of entitlement seems to have affected the entire team.

Justin's been with the company for six years. He claims your predecessor gave him a lot of freedom because he's good at his job. He insists that he knows what's best for his position and that you should concentrate on the other team members, especially Amber. And Megan, when you talked to her, said that she's always been allowed to set her own schedule and she expects the same courtesy from you.

Amber, whom Justin warned you to watch, was initially quiet at your meeting with her. When you finally got her to open up, however, she displayed the skills and zeal to be a top performer. She feels her talents have been overlooked and implied that Justin and Megan have taken credit for some of her work. The other team members stated they'd welcome clear direction, which has been lacking. You noted a consistent tone of resentment toward Megan and Justin in their comments. Given what you now know about this situation, what would you do?

The Solution

1. Determine the facts and state the problem

It is important to separate the facts from the assumptions in this case. The facts are that Justin and Megan think they deserve special treatment because they are such talented performers (They told you--so it is a fact). Other members of the staff believe there has been some inconsistency in the application of the rules and it is causing resentment (You know this from personal observation). Assumptions might include that Justin and Megan are taking credit for others work (Is this really true?), and that the other members of the team are not getting any special accommodations (Is this true?).

It would seem that the problem is that some members have received special employment accommodations based on their tenure and experience. These accommodations have now become an expectation--and are having a negative impact on the team's overall productivity.

2. Reflect on Personal Values.

The goal of this second step is to reflect on your personal values as well as those in the other three lenses of the ELI.

- **Rights and Responsibilities:** Does the company have a flex time policy? What does their employment contract say about flex time? If it is permitted, under what circumstances is it granted?
- **Results:** What are my goals? How can I best achieve these goals? What consequences am I willing to accept? Has the company created an environment where everyone can thrive--and productivity be increased?
- **Relationship:** Are all employees being treated fairly and consistently? Has the process for granting flex time been explained to all employees? Does everyone have the same opportunity? Is employee performance being fairly and consistently evaluated?
- **Reputation:** How is our business reputation being impacted by our employment practices, both inside and outside the company? Are we known as a good place to work? What virtues are expected of me as a supervisor?



3. Consider Stakeholder Perspectives. Stakeholders include company shareholders and investors, employees, suppliers, community residents, state and local government offices-- anyone who would be affected by an employee's choices and decisions. Specify who the company stakeholders are--and in what way they will be affected. More weight should be given to primary stakeholders--those who will be directly impacted--than secondary stakeholders who have a less obvious interest or stake in the outcome.

In this case, it would appear that members of your team are being directly impacted. Those who are indirectly impacted by the team's less than optimal performance are company shareholders (a smaller bottom line).

4. Analyze Alternatives. List 3 to 5 possible solutions that would address the stated problem. Then evaluate those alternatives by applying some of the tests listed on page 5.

Obviously we don't know all the facts of the situation (company policy regarding flex time, HR processes, company turnover and absenteeism rates)--but we can identify several alternatives by examining the dilemma from the four ELI dimensions.

- **Rights and Responsibilities:** In the absence of policy or contractual provision, Justin and Meagan will need to begin working the same hours and receive the same type of supervision as everyone else on the team. This would effectively address the smoldering resentment, but Justin and Meagan may decide to find other jobs--and this could, at least temporarily, diminish productivity until suitable replacements have been hired.
- **Results:** Your goal is to increase productivity--recognizing that happy employees are productive employees--so you could explore giving everyone on the team the same privileges as Justin and Meagan as long as it does not compromise the quality of their work. Perhaps the team could agree to be on-site between 10 a.m. and 2 p.m. each day--

or all day for a few days each week. Perhaps team members could be given greater freedom from supervision if they achieve certain goals. If changing some of your management practices improves morale and productivity, it might create a win-win solution.

- **Relationship:** Consistency is an important aspect of fairness. You might first review the team's performance evaluations to determine who is contributing and who isn't. If there are inconsistencies in how employees are being managed without regard to actual performance and/or some provision in their labor agreement, continuing to play favorites could result in discrimination complaints, absenteeism and turnover. To be fair and consistent, you could decide to follow company procedures--and treat all employees the same regardless of how a past supervisor decided to do their job.
- **Reputation:** As a supervisor, you decide you want to be regarded as honest, fair and reasonable. You want the company to be known for how well it treats its employees so it can continue to attract and retain the best and most competent workforce. As a result, you could talk to Justin and Meagan and explain the impact the job accommodations are having on team performance (honest). Perhaps there are other rewards you can offer for employee performance that is open to everyone (fair). Perhaps they have some ideas on what those rewards might be (reasonable).

5. Decide!

Now that your analysis is complete, it is time to decide. Based on what you know from reading this case, which approach seems to be the most reasonable and sound? And how would you explain your rationale so everyone understands why you decided as you did?

The best course of action needs to directly impact the productivity of the team. Barring any explicit reasons that would prevent me from doing so, I believe the results lens offers the best alternative. My goal is to create a good work environment so that the team's focus is on achieving its numbers. Providing flexibility to all members of the team may be an effective strategy to increase the team's overall effectiveness; as well as address issues of inconsistency in process, the business's reputation as a well-regarded employer, etc.

FAQ About Ethics

- **Are Business Ethics Consistent with Capitalism?**

Absolutely! Adam Smith believed a free market economy was the best way to obtain the greatest good for the greatest number, **assuming** the pursuit of economic self-interest is constrained by a person's *moral conscience*. Smith encouraged people to take risks to improve their lot in life, but he also believed their **behavior should be moderated by a commitment to something greater than their personal ambitions**. Getting ahead and having concern for others are not (and should not be) mutually exclusive.

To quote Adam Smith:

"To feel much for others and little for ourselves; to restrain our selfishness and exercise our benevolent affections, constitute the perfection of human nature."

- **Why Should I Behave Ethically When Others Aren't?**

Committing to an ethical path is full of challenges--but research has confirmed time and again that ethics is integral to long-term success (John Maxwell, 2003). Eventually, unethical behavior catches up to a person. How ethically a person decides to behave is a **matter of choice** and is, therefore, completely within their control

- **Isn't Ethics Managements' Responsibility?**

All employees are agents of their employer and as such have a fiduciary responsibility to put the owner's interests ahead of their own. As agents of an organization, all employees are expected to

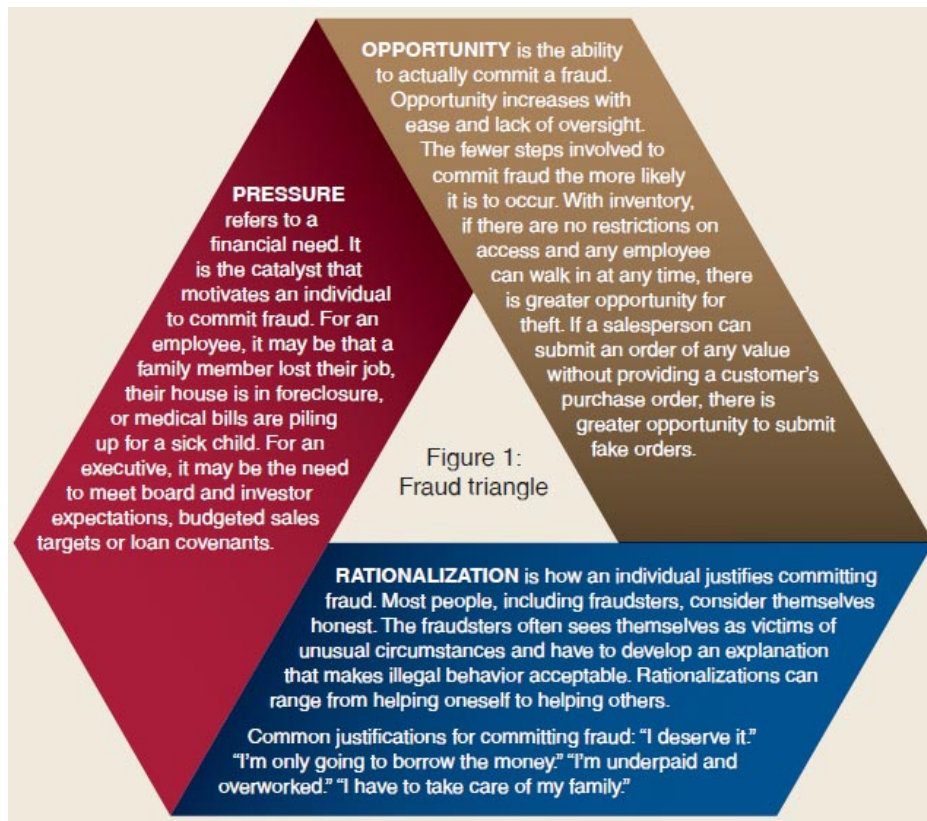
- a. Avoid taking things that don't belong to them
- b. Avoid saying things they know are untrue
- c. Avoid buying influence or engaging in conflicts of interest
- d. Avoid hiding information or divulging company records
- e. Abide by company policies and laws

Employees are also expected to report unethical actions or decisions that they observe to Human Resources, understanding that when an ethics breach occurs, everyone associated with the organization could be harmed in some manner.

What Do We Know About Unethical Behavior?

- While people are inherently no different than they were in the past, unethical behavior appears to be more common and widespread. More people seem to be acting on impulse and exercising poor judgment. With technology and electronic communication, ethical breaches can be communicated around the world in a matter of seconds.

- Unethical behavior generally starts small and snowballs over time. Once unethical behavior becomes a part of a person's lifestyle, it can be very difficult to change.
- Top leadership establishes the ethical climate of organizations and are role models of ethical standards. Executives are highly visible and under close scrutiny (much like celebrities are studied by the paparazzi) so it is critical they behave ethically to ensure others will do the same.
- The principle of social proof (the notion that we look to others to determine the appropriateness of our own behavior) suggests that both positive and negative behaviors are contagious.
- Rationalization plays a big role in unethical behavior. Some examples of rationalizations include everyone is doing it, no one will be hurt, I am doing it for you, I have it coming to me/deserve it, I am not paid enough for the work I do, etc. When a person begins to rationalize, they are generally about to cross the line.
- Behaving unethically can be traced to one of five sources. **Pressure** (to perform better than expectations); **pleasure** (the desire to live beyond one's means); **power** (an inability to manage it constructively); **pride** (an exaggerated sense of self-worth); or **priorities** (not knowing what they are--which leads to poor decision-making). The diagram below identifies key factors that lead to fraudulent behavior.



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Appendix

Rights Lens--I get to decide, you get to decide

An action is ethical if I fulfill my duties and do what I consider to be the right thing. An ethical act is one that exercises my right to decide and fulfills my responsibilities.

Questions for determining right action:

Principles: What ethical principles are present in this conversations? Which of these principles should take priority and why?

Autonomy: How does this decision protect individuals from unwarranted interference from others?

Caring: How does this ordering of principles demonstrate respect for others?

Accountability: How does this ordering of principles ensure that I have held myself accountable for my reason for acting?

Balance: How does this ordering of principles contribute to balance and joy in my life?

Values that take priority in this lens:

Life and safety: Individuals have the right to not have their lives or safety unknowingly and unnecessarily endangered.

Truthfulness: Individuals have the right not to be intentionally decided by another.

Privacy: Individuals have the right to do whatever they choose outside of working hours and to control information about their private lives.

Freedom of conscience: Individuals have a right to refrain from carrying out any order that violates those commonly accepted ethical or religious norms to which they adhere.

Freedom of Speech: Individuals have the right to criticize conscientiously and truthfully the ethics or legality of organizational actions as long as the criticism does not violate the rights of others.

Financial Transparency: Individuals who invest in companies and others to whom the firm has a fiduciary duty have the right to a fair, accurate reflection of the financial status of the firm.

Right to contract: Individual have a right to enter into contracts according to the terms that each party to the contract find agreeable.

Blind spot of this lens: Focusing on one's individual rights without concern for its results.

Results Lens--Doing What Satisfies Me Will Satisfy You

An action is ethical if it creates good results, for me and hopefully for others.

Questions for determining right action:

Goals: How does this help me realize my interests while allowing for concern about the well-being of others?

Greatest Good: How does this result produce the greatest amount of satisfaction for the greatest number of stakeholders?

Ideal goals: How does this result promote human happiness (health, wealth, friendship, knowledge)?

Harmonized goals: How does this result move toward harmonizing outcomes for other individuals in the community?

Responsible choice and creative change: How does this result support responsible choices and move toward creative change?

Values that take priority in this lens:

Maximizing satisfaction: The ethical agent should work to maximize the satisfaction of all the organization's stakeholders.

Efficiency: The members of the organization should work to achieve organizational goals by consuming as few resources as possible and minimizing the external costs which the organization imposes on others.

Loyalty: The employee should act in the best interest of the organization and not jeopardize the goals of the organization.

Avoid Conflict of Interest: The employee should not get into situations where personal interests conflict significantly with the goals of the organization.

Blind Spot: Overestimating the benefits others will accrue from the pursuit of their happiness. Greed.

Relationship Lens-- Fair and Equitable Environments Are Based on Ethics

An action is ethical if it supports a framework for continuous, systemic ethical improvement for both the organization and the institutions supporting it. An ethical act is one that sustains integrity building environments (schools, government, etc.)

Questions for determining right action:

Process: How does this process ensure all stakeholders are considered and heard?

Health institutions: How does this decision ensure that the community and its institutions remain healthy and effective?

Enhancement of relationships: How does this decision enhance the relationship of my organization to the community at large?

Values that take priority in this lens:

Fair Treatment: Persons are to be treated in accordance with the social agreements that have resulted from analyzing the situation as an impartial observer.

Fair Administration of Rules: Rules should be administered consistently, fairly and impartially.

Fair compensation: Individuals should be compensated for the cost of their injuries by the party responsible for those injuries.

Fair blame: Individuals should not be held responsible for matters over which they have no control.

Due process: Each individual has a right to a fair and impartial hearing when they are accused of wrong-doing.

Blind Spot: Supporting community values without considering their impact on individual rights; supporting flawed institutions or creating institutions whose rules apply to others but not yourself.

Reputation Lens--Doing What's Considered Virtuous in my Role

An action is ethical if it consistent with sound character traits including habits of thoughtful reflection, good intentions and noble human virtues.

An ethical act is a virtuous act that is consistent with good character; as defined by the community and the person's role.

Questions for determining right action:

Essential qualities: What qualities does a good person exhibit?

Core virtues: What respected human virtues are demonstrated by this action?

Role requirements: How does this decision demonstrate the virtues of a person who is respected in this role?

Professional virtues: How is this decision consistent with the desired qualities of professionals in this field? (commitment to public service, self-regulation, trust, integrity?)

Values that take priority in this lens:

Integrity: A person should develop habits of truthfulness

Courage: A person should embrace the opportunity to demonstrate the highest qualities of the individual or profession even if others choose another path.

Civility: A person should always behave in a way that respects the inherent dignity of people and encourages their development as persons.

Blind Spots: Expecting too much of others (unrealistic standards); believing you are entitled because of virtuous existence.