

Governance and Ethics in organisational decision-making

This week, (and next) we take a wider perspective upon decision-making within businesses and organisations - especially in relation to ethical governance. There are a variety of formal procedures (for example, Robert's Rules versus consensus methods of group decision-making). Now we turn our attention to management oversight of decision-making processes – more specifically consideration of the obligations upon companies and organisations to exercise due diligence in monitoring and controlling strategic and operational decisions.

“Governance”, in this sense, is not just about ensuring that the managerial decisions (be they strategic or operational) are optimal (of most ‘benefit’ to the business), but also that risks of acting upon decisions which are illegal or unethical (thus, potentially, damaging to the business or organisation) are minimised by robust control and monitoring of decision-making processes.

*“There are no ethics (morals) in business” is a familiar trite saying – and it is certainly **false**. Modern businesses - with high-speed online communications and vast amounts of data travelling over computer networks - are acutely aware of the legal and ethical necessity to protect personal information, to maintain control over auditing and monitoring of managers’ decisions and to ensure that regulatory standards and codes of ethical conduct are followed in all areas of decision-making. The readings and activities for this week and next are focussed upon this crucial aspect of strategic decision-making — the need for ‘**governance**’.*

Ethics in Business:

As professional business students, hoping for a management-level career in a business or an organisation, I am sure that you pride yourselves upon your lack of bias in decision-making; your objectivity in making decisions which both benefit the business or organisation and comply with the highest standards of rational forethought in planning and execution of our decisions. A little evidence from the first recommended reading for this week’s activities suggests some reasons why your pride in professional objectivity may be misplaced:

“At Harvard, Eugene Caruso, Nick Epley and Max Bazerman recently asked MBA students in study groups [group coursework assignments] to estimate what portion of their group’s work each had done. The sum of the contributions by all members, of course, must add up to 100%. But the researchers found that the totals for each study group averaged 139%. In a related study, Caruso and his colleagues uncovered rampant overestimates by academic authors of their contributions to shared research projects. Sadly, but not surprisingly, the more the sum of the total estimated group-effort exceeded 100% (in other words, the more credit each person claimed), the less the parties wanted to collaborate in the future.” (Harvard Business Review, (2011), *Making Smart Decisions*, HBS Publishing, Cambridge, Mass., p. 172).

The quotation highlights one form of ‘bias’ which may undermine the rationality (and morality) of decision-making: - a phenomenon known as “over claiming Credit”, favouring decisions which appear to bring most credit upon oneself. Over claiming

credit for work done is only one of a list of forms of bias which may (consciously or unconsciously) introduce bias, and unethical standards into a decision-making process. Each of the following sources of unethical bias are discussed in greater detail in the reading which forms the first Activity for this session's study (Harvard Business Review, (2011), *ibid.*):

Form of Bias	Description	Example
Implicit Prejudice	Bias that emerges from unconscious beliefs or associations.	Early in our childhood learning, we associate together attributes that commonly go together and expect them to go together invariably. For example, having grey hair is associated with being old - but young people having greying hair is not unusual. Most obviously, negative associations of Afro-Caribbean ethnicity with criminality is a most basic form of implicit racial prejudice.
In-group Favouritism	Bias which favours members of your own immediate peer group or those closest to you.	Few people set out to discriminate by acts of kindness towards friends, associates, working colleagues. But when those in the majority or in positions of power allocate scarce resources (promotions, bonuses) to people more like them than others, then, effectively, they discriminate against those different from them. Legally, of course, deciding in favour of those more like you is (in the UK) already an offence under the Race Relations Act (or the DDA (2005) or SDA (1975) or Equality Act (2010)).
Over claiming Credit (see above)	Bias that favours your own self-interest at the expense of others through over-estimation of one's own achievements.	In business, claiming too much credit can destabilise business partnerships. When each party in a strategic alliance claims too much credit for their own contributions (and, reciprocally, are sceptical about the others' contributions) both sides may reduce their contribution to the partnership in order to compensate — resulting in a net loss of effectiveness.

Conflict of Interest	Bias that favours those who can be of most benefit to you,	Robert's Rules for meetings involving group decision-making (see Week 2) explicitly require participants to declare interests in outcomes which may benefit themselves. Research undertaken on (US stock market) brokerage houses revealed that, during the 2000 crash during which the Nasdaq exchange fell 60% in value, 99% of brokerage analysts' recommendations to clients were to "Strongly buy", "Buy" or "Hold" stock. Typically a proportion of analysts' pay or bonuses was tied to the volume of business ('buying') each analyst contributed to brokerage revenues for the firm - giving analysts a vested interest in prolonging their relationships with clients, rather than recommending sales of stock. [No-one is suggesting the brokerage analysts were necessarily corrupt or conspiratorial; they simply had a conflict of interest between their clients' needs and the needs of their firm].
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Each of the forms of bias listed above demonstrate the need for governance of decision-making processes - at all levels of management - to eliminate prejudice and bias which, ultimately, may be detrimental to a business or organisation. The first Activity for these sessions is to work carefully through the reading from Harvard Business review entitled "How (Un)ethical Are You?" (ibid.), secondly to consider examples and cases from your own experience and work contexts where such examples of bias in decision-making may arise, finally to consider how effective governance and auditing processes are in minimising the risks associated with biased decision-making.

Activity 1:

Exercise	Task
Reading on Ethical decision-making: “How (Un)ethical are You?” in Harvard Business Review, (2011), <i>Making Smart Decisions</i> , HBS Publishing, Cambridge, Mass.	Make a careful reading of the article from the core reference from Harvard Business Review. Focus your reading and note taking on the types of unethical bias which may affect decision-making - especially amongst “middle management” grade, operational staff. Choose two of the types of bias; consider the examples given; then reflect on whether there may be similar such examples you have encountered in your own work-related experience. In what ways do the policies and procedures within your own business or organisation seek to minimise the risks of unethical decisions? Identify the policies and procedures that exist at your own workplace (or where you have previously worked). Use the online discussion forums to post your examples and comment upon whether these policies are effective in identifying and acting upon instances of unethical practice by management grade staff.

The second Activity for this session concerns the application of ethical policy in management, drawing upon a sample ethical code from the (US) Academy of Management and their summary of policy and procedure for application of the code.

The Academy of Management (AOM) in the USA is an established professional association (founded in 1936 by Professors of Business in Chicago and Michigan, now based at Pace University in New York), with a large membership of leading senior management and academic members from all business sectors. Background information about the AOM and its activities can be found [here](http://aom.org/about) (<http://aom.org/about>).

Activity 2:

Applying ethical policies:

Exercise	Task
Sample policy and procedure documents for ethical practice: • AOM Code of Ethics • AOM Ethical Policy and Procedures (Downloads from the Module Moodle site - PDF files)	Download the two (PDF) documents from this week's Moodle files - comprising the AOM Ethical Code and AOM Policy and Procedures. Obtain, if possible, copies of the Ethical Code document and procedure documents for another business or organisation. If not possible, search for examples of codes of practice and procedure documents in a business or organisation from case studies. From the list, below (extracted from the AOM Ethics Code), choose two that are relevant to your own work environment (or chosen work-related sector). Compare the specifications of ethical code and practice between the AOM documents and your own work-related documents. Comment specifically upon similarities and differences between the policies. Are there particular clauses of your work-related ethical code which relate directly to the type of business/organisation involved (for example, health-related or safety-critical requirements)? How well do your business/organisation's procedures for implementing and auditing their Ethical Code ensure fairness and due diligence in governance of management decision-making? Ethical Considerations: (from AOM Ethics Code): • 1.5 Conflicts of Interest • 1.7 Informed Consent • 2.1 Maintaining Confidentiality • 2.5 Electronic Transfer of Confidential Information • 3.1 Public Statements • 5.1 Familiarity with the Code of Ethics • 5.4 Reporting Ethical Violations of Others (cf. "whistle blowing") Identify similarities and differences (for example, are there differences resulting from the AOM code falling under US law as opposed to the legal requirements in your own country?). Post your comments and comparisons to the discussion forum for this week's activities and note the contributions of other module participants.

Summary:

In this session we have concentrated upon questions of governance and audit of management-level decision-making. The chief focus has been upon ethical codes and policies put in place to demonstrate due diligence in control of strategic and operational decision-making processes.

Summary of Activities (7)

Activity 1: Readings on Ethics and governance.

Your aim is to consider the problem of bias in decision-making as it may apply to your own business or organisation.

Activity 2: Applying ethical policies.

Compare your chosen business / organisation's ethical policies and procedures to those published by the established, well-known US association for professional managers (AOM). Consider examples where there may be a conflict between a company's ethical policies and its business interests.

Guidance:

These activities recognise that you will better understand the role of business ethics and governance of decision-making by seeking to apply them in your own business or organisational contexts. Keep your focus upon what are the problems which give rise to 'gaps' between the published ethical policies and procedures within a company and the practices of management grade staff within those companies (organisations). Consider carefully the examples of bias provided, alongside the differences between 'legal' compliance and 'ethical' practice in strategic and operational contexts of decision-making. reflect also upon your personal and social experience of how to assess the ethics of your own decisions. Usually, there will not be a single "best answer" – so interpretation of the evidence and the factors entering into decision-making processes are central to understanding the necessity for due diligence in monitoring and auditing managerial decisions.

Purpose:

The aim of these activities is to raise issues and draw comparisons amongst the various factors which affect the effectiveness of codes of ethical conduct in business decision-making. .

References used:

Academy of Management, "Code of Ethics" and "Ethical Policy and Procedures", at <http://aom.org/About-AOM/Ethics.aspx> , (Accessed: 08/11/2013).

Bate, P., "The Impact of Organizational Culture on Approaches to Organizational Problem-solving", in G. Salaman, (2002, repr. 2008), *'Decision Making for Business, A Reader'*, Chapter 12, pp.192.

Harvard Business Review, (2011), *Making Smart Decisions*, HBS Publishing, Cambridge, Mass., p. 172