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Management decision-making—an ethical perspective

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Engineering organisations can improve their management decisions in the competitive global arena of today, especially for the long term. The main issue is to take into account not only economic metrics but also technological, environmental and ethical challenges. This can be achieved by corporate social responsibility in the workplace as well as being involved with, and accountable to, stakeholders. Increasingly, this seems to be the way forward as it is vital for companies and society to coexist. In this paper guidelines and criteria are explored to relate the ethical dimension to performance management in order to create inclusive value. There is a definite synergy between business excellence and good ethical practice, where the latter becomes a fundamental purpose rather than just an add-on. This is because such an approach contributes to an organisation's reputation which, thereupon, can be trusted and sustained. Thus, a performance-focused management system, in an engineering scenario, is the best vehicle for institutionalising targeted goals and galvanising action founded on high ethical standards.

1. INTRODUCTION

Successful strategic thinking necessitates the provision of efficient business processes while using key technologies in order to develop the economy and ensure a better quality of life, firstly for those working within the organisation and, secondly, for society at large. As businesses do not operate in a vacuum, how to be commercially successful in a highly competitive international arena, while at the same time balancing the concern for people, profits and ecology, is a fundamental issue facing the engineering managers of today. This is being acutely magnified because of the rapid pace of change through technological advancement, the globalisation syndrome, the rise in corporate scandals, the societal perception of unethical behaviour by organisations as well as the growing distrust of corporate activity. As Lord Thurlow (1731–1806) proclaimed, corporations have neither bodies to be punished, nor souls to be condemned; they therefore do as they like.

It is intended to highlight in this paper that, in the 'new' economy, the bottom line is changing, increasing the emphasis on corporate social responsibility and sustainable development and how this might be achieved. As Hagan and Moon[1] propound, a new economy demands new ethics. However, one must agree that there are no simple rules in dealing with ethical dilemmas. Good intentions aside, the aim for the decision-maker is to foresee the consequent impact of decisions made upon the various parties with which the organisation has a significant relationship and on which it impacts—that is, the stakeholders. Yet, the connection between technology, innovation and the natural environment has always been paradoxical. On the one hand, it can be viewed as a major cause of problems, through its applications in an unsustainable way, leading to environmental plights. Conversely, it seems that it can also resolve many of its own created difficulties, with such developments as nuclear fusion, hydrogen cells, solar power and biotechnology.

Ethics relate to the science of morals in human conduct. To promote ethical awareness has, today, become a key determinant of public perception of business. As such, it is important to positively change behaviour and encourage corporate social responsibility (CSR) in the business environment. Yet, CSR should not be seen as a veneer but should be inculcated in the organisation's structure by building systems and creating a moral corporate culture. Julio Moura, Chief Executive Officer (CEO) of GrupoNueva, Costa Rica, states that

> 'As a company, we are part of this society; we have a certain privilege; we are educated; we have access to resources, and we have been entrusted with those resources, so we have also responsibility to do something good, to make the community around us prosper.'

Similarly, Andy Grove, President and CEO of Intel, declares that

> 'the balance of forces must shift from the old structure, from the old ways of doing business and the old ways of competing to the new ... that transform the very essence of how business is conducted in an industry.'

These two complementary views reveal the very nature of an inclusive and civilised business and should be vigorously welcomed. The challenges are great, particularly in the field of engineering, because of the tradition of wealth creation, quality assurance, health and safety standards as well the ability to manage risk. It is evident that the potential rewards are there to be gleaned.

2. THE PROCESS OF ETHICAL DECISION-MAKING

Over time, religions and philosophical theories have had a role to play in making decisions as they form a basis for beliefs, values and morality. However, it must be understood that there can be disagreement between them, thus often leading the decision-maker to despair when resolving ethical issues or concluding that one resolution is as good as, or better than, another. What is *important*, in practical business situations, is the underlying knowledge that enriches the thought process and, hence, improves decision-making. The best way forward is to not only analyse to the full each issue for its own merit but also develop thorough, powerful and complete arguments for what is to be considered as the *correct judgement*.

To explore fully both the quantitative and qualitative elements of decisions, Thor[2] advocates that a family of metrics must be developed that, together, would present a comprehensive view of organisational results but, individually, also provide diagnostic merit. These should be a combination of traditional measures, such as productivity, quality and customer satisfaction, to be allied to those more avant-garde, such as societal, ethical and environmental matters. Measurement indicators would provide a strategic focus so that everyone in the organisation can understand and work towards the same objectives and goals. Properly used, they could formulate performance direction and, hence, new approaches and solutions could be introduced to either remedy or improve situations. It is essential to realise that, whether a framework is to be employed or a measurement is to be carried out, there must be effectiveness in its application and monitoring. Fig. 1 illustrates the business process in a basic but relevant manner, but it is intended to concentrate on the outcomes, as downstream from the outputs; this is because they are the ultimate result of performance and appertain to the quality-of-life dimensions in both ethical and environmental terms.

No methodology is perfect, especially in such volatile and controversial facets of the conduct of business within a multicultural global environment. Measurements are both the foundation of good management practice and a performance cycle; they should be followed by evaluation, planning and improvement. Needless to say, each organisation would adapt according to its own stakeholder demands, strategic needs and business environment. Such metrics would only be a thermometer, not a panacea. The high-performing socially responsible organisation would focus on four core features. These are not to be confined within their own silos but should interrelate to strive towards business excellence, as illustrated in Fig. 2.

The synergetic interactivity and mutuality of such interrelationships make it clear that organisations and stakeholders share the power and responsibility; such a stance influences the economic potential for the business which, in turn, would benefit society as a whole. The galvanising of these elements would provide management with an umbrella perspective. Organisations do not work in isolation and are embedded in communities and, thus, there is the definite urgency for them to find appropriate ways of improving their decision-making processes. As an overview and concurring with what Creelman

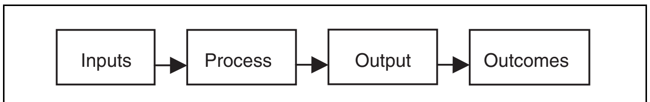

Fig. 1. A schema for the business process

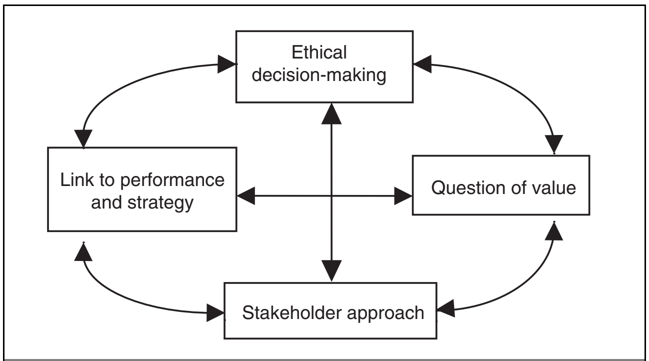

Fig. 2. Core features and their interrelationships

states,[3] the vital key is to discover how human, organisational and customer intellectual assets can be balanced so that they can combine to create value.

Miller *et al.*[4] duly stress that the intrinsic nature of making business decisions is of vital significance to stakeholders. They especially concentrate on those matters related to the larger and consequential decisions which

(*a*) govern the actions that take place
(*b*) shape the future direction of the organisation
(*c*) affect the lives of the people within it.

This is because the socially responsible company will seek to identify the concerns of its stakeholders, endeavour to treat them fairly and, in the process, would minimise reputational risks. Therefore, when making a choice from two or more alternatives, this becomes a process of identifying or analysing a situation/problem, exploring the alternatives, selecting one possibly through a weighting method, implementing it and evaluating the results. Such a managerial challenge is not simple but it could be compounded further when integrating ethical considerations. As far as French[5] is concerned, managers must

(*a*) display the ability to make rational decisions and to consider rational arguments regarding their intentions, in particular arguments about the ways to realise their long- and short-term interests
(*b*) possess the facility to respond to events and ethical criticism by altering intentions and patterns of behaviour that are harmful or offensive to others or detrimental to their own interests.

The decision-maker ought to accept responsibility in order to gain the respect of the stakeholders. Concurring with Sadler,[6] the choice of a purpose reflects the organisation's values while an exclusive focus on the 'shareholder value' bottom line simply reflects materialistic and economic criteria. It is through developing an inclusive corporate culture that the values of managers and employees alike are shaped and pointed in a common ethical direction. As a clear example, the chemicals company Eastman articulates its values as, almost, single words: honesty and integrity, fairness, trust, teamwork, diversity, employee well-being, citizenship and, lastly, winning attitude. However, the salient question remains: value to whom? Is it to the individual, to the business or to society as a whole? Ideally, values ought to become the gauge to be measured against, the influencing factor on standards of behaviour as well as the nucleus of management action. Blanchard and O'Connor[7] emphasise that the foundation of managing by values should evolve as: *Be Ethical, Be Responsive and Be Profitable*. The three-dimensional model by Carroll,[8] of a quarter of a century ago, integrates four aspects related to corporate responsibilities: economic, legal, ethical and discretionary philanthropy arranged in a hierarchical pyramid. More recently, Carroll[9] and Carroll and Buchholtz[10] argue that stakeholder thinking is a powerful way of visualising organisations and their social responsibilities.

Hence, the real challenge ahead, as Stainer and Stainer[11] believe, is the way in which values are, firstly, utilised in the overall corporate strategy and, secondly, accepted by the wider society. Organisations need to be *au courant* because the stakeholding keys will be responsible for the harvesting of economic and societal rewards, long-term prosperity and an enhanced reputation. Monitoring the ethical temperature, decisions must be taken to reflect a strategic philosophy which incorporates a balancing act between stakeholder expectations and competitive advantage.

3. THE LINK TO PERFORMANCE AND STRATEGY

Through meaningful engagement with stakeholders as well as through the realisation of how relevant the ethical perspective is to the process of decision-making, non-financial performance metrics need to emerge. These should entail the development of both quantitative, as well as qualitative, indicators to promote a viable integrated system of accountability and responsibility. This is because triple bottom line sustainable success of creating economic, social and environmental value represents the evolving performance criteria. It can be achieved through generating shared values and purpose rather than just through a purely financial focus coupled to ethical indifference.

The phrase *corporate social responsibility* can take on a new significance when it directly affects financial results. As an example, Hope[12] shows that CSR directly helps to deliver at least two top priorities for the BT Group: (*a*) a relentness focus on customer satisfaction and (*b*) financial discipline. Hence, there is the need to convince organisations, whether large, medium or small, public or private, to behave in a socially responsible manner. This is good for business, especially in the long term. After all, performance measurement is best viewed as part of a broader activity within the business and its strategic management. The main impetus would be that to do so would ensure that organisational activities would seek to increase positive impacts on stakeholders while remaining viable and competitive. However, it must be remembered that every key turns two ways; if such a stance is ignored by managers, this would be at their peril.

Non-financial measures have been emerging since the beginning of the last decade. Two pivotal models which embrace such metrics are propounded by Fitzgerald *et al.*[13] and Kaplan and Norton.[14] The former looks at performance measurement analysis as identifying the resultants of the effectiveness of a chosen strategy as well as the determinants of competitive success. The latter, a much heralded approach, relates to the balanced scorecard framework; it links four perspectives: financial, customer, internal business as well as innovation and learning. The development of such models has encouraged the debate to move forward, away from the short-term financial outlook to the strategic competitive outcomes. Although these models appear to be a step in the right direction, in general, they still fall short of embracing a more relevant and focused stakeholder dimension. As an illustrative further development and application of such frameworks, Stainer and Stainer[11] feature the metrics of customer satisfaction, employee satisfaction and societal satisfaction with total productivity, the latter seen as an important generator of stakeholder value; they provide case studies in healthcare management and engineering manufacturing.

Such control systems attempt to address the actionable steps that lead to a company's success. However, it is important to understand that they must be implemented within a well-developed acceptable overall framework which explains their interrelationships. Performance measurement should be designed to keep the focus constantly on the strategic plan and its advance, associated with the overall direction of the organisation to meet and capitalise on the market requirements. Ghobadian and O'Regan[15] reveal that high-performing companies, moreover, are required to produce yardsticks reflecting not only learning and growth but also organisational capability. In essence, it is the evolution of the latter, relating to competence and knowledge, that would emphatically support the strategic development pathway from identification of a situation, through to the decision-making and subsequent implementation, illustrated in Fig. 3.

However, measurement is not an end in itself; this is because there is no benefit in carrying it out if it is not consistent with the business vision and strategy. It is those managerial decisions and actions that would determine the long-term health of the organisation.

Looking ahead, the way in which values are utilised in the overall corporate plans and accepted by society is fundamental in achieving business success. This is illustrated by the hard lessons learnt, over time, by Royal Dutch/ShellGroup; they consciously embraced CSR in order to successfully improve their reputation and, since 1998, produced an annual report on how the organisation goes about fulfilling the obligations formulated in the Shell Business Principles. Similarly exampled, the international nuclear energy business BNFL published its first CSR Report in 2003, setting out how it intends to achieve its goal of being economically strong, environmentally aware, socially caring and fully accountable for its impact on the world. Moreover, BHP Billiton, the world's largest diversified resources company, also published its 2003 Health, Safety, Environment and Community (HSEC) Report with particular

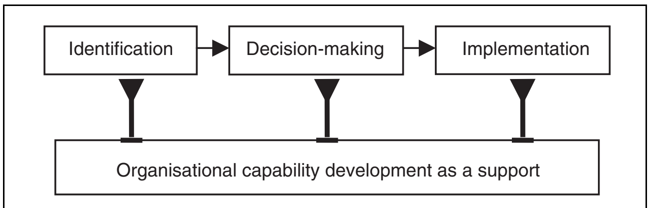

Fig. 3. A schema for strategic development

focus on translating policy into action, thus reflecting the organisation's progress on the journey towards sustainability. Through corporate governance, broadly defined as being concerned with those decisions made by senior management and their impact on stakeholder groups, it is paramount to translate good intentions into accomplishment by linking performance to strategy.

4. CONCLUSIONS

Business is not just a financial process but, with discreet moral leadership, there ought to exist a procedure by which to disseminate an ethical culture. Both individual characteristics and organisational contexts are key for the understanding of ethics-related attitudes and behaviours. An appreciation of the underlying ethical issues can assist the decision-maker to get to grips with complexity, narrow and define problems as well as develop mechanisms that produce an outlook with a fresh perspective. It also gives access to unexpected questions and ways of changing situations through the capacity of using moral reasoning in decision-making, especially when outcomes affect the wider community.

The challenge is to be confronted through 'efficient' behaviour, that is: 'think before you act'. While individuals have their own 'political' agenda, it is important to maintain an open mind through the gathering and analysis of a wealth of ideas and suggestions. The mission is to send the right signals for ethical decision-making by adopting a neutral approach; this embraces the concepts of displaying respect, empathy, tolerance and sensitivity, without the imposition of one's own ethics. It can be argued that 'total' integrity is unachievable but the decision-maker need not morally 'stutter' at being committed to corporate social responsibility and dialogue with major stakeholders. As President Lyndon Johnson once said: 'Doing the right thing is easy; it's knowing what the right thing is that is the difficult part.'

It seems, therefore, that businesses, whatever their profile, that wish to thrive in the next decade and beyond, must look for new perspectives. They ought to recognise that a shift in ethics has occurred and that value-based management has become essential. The two vital attributes, being integrity and mutual trust, will drive forward the inclusive agenda. Engineering managers should concentrate on interlinking the complex facets of decision-making in an ethical manner in the pursuit of business excellence. They ought to ensure also that they are performing their tasks in a professional and transparent way so as not to tarnish their organisation's reputation and principles. This is particularly appropriate when considering engineering approaches and solutions.

In the field of business ethics, ethical deliberations of what should or should not be done are millenia old. However, what is new and manifest is that engineers are trying to contribute to the debate which itself may not provide final answers but will enhance more consciousness. As expressed by McIntosh *et al.*[16] who have encompassed the wisdom of the United Nations Global Compact: 'In the shifting social and political geography of the 21st century, companies focusing on their relationship with society are looking for guidance.' As Michael Harrington states in an appendix to *The Other America*: 'If there is technological advance without social advance, there is almost automatically an increase in human misery.'[17] It is necessary to note, therefore, that today's problems often emanate from yesterday's solutions.

According to Stainer,[18] engineers, like all other professionals, encounter many occasions in which corporate, professional and personal objectives may conflict. For them, the way forward must be underpinned by continuing education and training to produce an environment of respect for self and others; the underlying approach should reflect professionalism and good sense to withstand both internal and public scrutiny in value-based terms. Engineering managers have, therefore, a moral duty to effectively provide support at all levels of the hierarchy as well as act as role models in both technological and ethical leadership. Interlinking responsibility to performance from both the engineering and business standpoints has never been more significant and far-reaching. This is demonstrated by the mining industry, often perceived as the 'dirtiest' sector, cultivating the Global Mining Initiative which is based on CSR criteria in the pursuit of sustainability and better image.

Leaders of advancement, with vision, must provide the means to realise strategies for a viable future, embracing economics and society and engendering technological progress. There is no escape from the fact that the triple bottom line scenario should be the supreme objective. Mellahi and Wood[19] emphasise that it is increasingly recognised that ethical management has a value of it own, both in terms of making the world 'a safe place in which to do business' and in contributing to the general well-being of wider society and the natural environment. Hopkins[20] believes that it is this synergy that is the way in which business ought to be perceived in this new 'Corporate Social Responsibility' world, where CSR matters and will matter in the future more than ever before. It appears that the two key ingredients to effectively execute ethical management decision-making are sound moral principles welded to inclusive values.

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