

# 1 Ethics and Governance

## 1.1 Week 1

### 1.1.1 Lecture 1 – Introduction to Ethics & Governance

- Two components to this course:
- Ethics: whether and how ethics might apply to businesses  
Governance: specifically, corporate governance and how corporations are governed

**Ethics:** identification of behaviours, actions and standards that humans ought to pursue to obtain a good life

- the assessment of moral standards which are notions of right and wrong, good and bad
- how we **should** behave
- exercised in communities and in relationships with other people – about human impact of decisions
- human interaction creates ethical dilemmas

**Morality:** a person's or group's standards of right and wrong – usually developed passively  
Ethics is putting morality into practice, making morality applied – developed actively – we all have a sense of morality but need to learn how to apply

**Business ethics:** how we apply moral standards in businesses

Ethics relevant to businesses because it involves internal interaction as well as interaction with communities, suppliers and other stakeholders

Factors that influence business ethics: stage of development of a country, individual characteristics (of the person making decision), issue intensity (how intense a moral issue is)

- 👉 What is moral awareness? – being aware that a situation has a moral aspect to it – first step to thinking morally
- 👉 Do all decisions involve ethics? – e.g. tying your shoelaces – moving to the side to not block people – can extend to think about the impact on other people
- 👉 Am I being ethical if I do not do anything illegal? – not enough to just obey the law as it has holes and is always changing to reflect society – not static – LAW establishes minimum standards, ETHICS extends beyond legal domain

(Rachels, 1993): Two minimum criteria for Morality and being ethical

1. Reason: moral decision is based on reasons that are acceptable to other rational persons – reasonable justification
2. Impartiality: interests of all those affected by moral decision are considered – needs to be fair and perceived to be fair by others

**Governance:** the work of the board of directors or other governing body (governance circle)

**Management:** the work of the executive and management team (management triangle)

### 1.1.2 Reading 1 – Caroll (2001): Models of Management Morality for the New Millennium

*“Paper discusses three models of management morality and considers their applicability for thinking about business ethics in the new millennium.”*

Caroll thinks about management behaviour in terms of three ethical models, or archetypes – moral management, immoral management, and amoral management.

**Immoral Management:** management decisions depict a positive and active opposition to what is considered ethical.

- motives are selfish, caring about their own or their organisations' gains
- legal standards are barriers that must be overcome, need to exploit opportunities for gains

- Carroll believes there isn't much that can be done with immoral managers other than the 'spray and pray' method – hoping they will leave the company themselves

**Moral Management:** decision makers vigorously conform to high standards of ethical behaviour (both personal and organisational).

- wants to succeed but only within the confines of sound ethical precepts (e.g. pursues financial success within confines of legal obedience)

- typically regard the law as an ethical minimum and have a habit of operating beyond what the law mandates

- proactively addresses ethical problems and where they are likely to arise

**Amoral Management:** distinction needs to be made between *intentional* amoral management and *unintentional* amoral management.

**Intentionally amoral management:** consciously decide that ethics and business should not mix.

- does not factor in ethical considerations into their decision making and actions

- believes business activity resides outside the realm in which moral judgements are applied

– believes different rules apply in business

- e.g. bluffing in poker is not unethical because it is just part of the game

**Unintentionally amoral management:** these managers are casual, careless or inattentive to the fact their activities may have deleterious effects on others.

- lack ethical perception, sensitivity, or ethical awareness

- go through their organisational lives not thinking that what they are doing has an ethical facet to it

- ethical gears are non-existent – will comply with law if they are aware of them, but will do little more

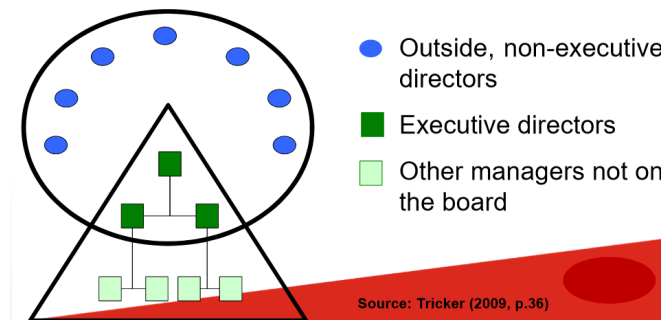
Carroll proposes two hypotheses about the existence of the three models of management in the management population

1. Population Hypothesis: the distribution of these three moral types in the total management population approximates a bell-shaped curve, with immoral managers and moral managers at the two tails of the curve. Intentionally Amoral Managers occupies the broad middle ground.
  - 🔗 no empirical data to support hypothesis – based solely on Carroll's interaction with managers and study of incidents with ethical implications in the business press
2. Individual Hypothesis: within the average manager, these three models may operate at various times and under various circumstances
  - 🔗 again no large-scale empirical evidence to support hypothesis and is based solely on Carroll's talks with managers

Conclusion: Carroll believes that business ethics is being taught because it is believed there is a fair amount of amorality that can be addressed and move them towards being moral managers, unlike immorality which cannot be made good.

### 1.1.3 Reading 2 – Tricker (2009): Directors and Board Architecture

*Architecture of corporate governance is concerned with the design and style of governance and the way its structures match form with function.*



**Executive Director:** a member of the board of directors who is also an executive manager of the company (a member of both the board circle and the management triangle)

- Chief Executive Officer (CEO): often known as the managing director, is likely to be a member of the board, but does not have to be.
- Chief Finance Officer, Chief Operating Officer and others may or may not also be executive directors.

**Non-Executive Director:** member of the board who does not hold any executive management position in the company

- Independent Non-Executive Director (INED): director with no affiliation or other relationship with the company, other than directorship, that could affect the exercise of objective, independent judgement – needs to be capable of thinking independently and being tough-minded
- Connected Non-Executive Director (CNED): not a member of the management but has some relationship with the company (e.g. director is: a retired executive of the company, a close relative of the chairman or chief executive, was nominated by a large shareholder, is linked with an important supplier)

Most codes of good corporate governance practice requires for independent directors to serve on various board committees.

Concern is expressed about INEDs who serve for long periods – the more a director becomes part of the board culture, being involved in the long-term evolution of the company, the less that director can exercise objective, independent judgement.

**Shadow Director:** a person who, though not formally a member of a board, is able to exert pressure on the decisions of that board – can be held liable as though a legally appointed director of the company.

**Governing Director:** a director with dominant powers in a private company – the Australian legislation requires such companies to have two directors but the statutes do not prevent companies from framing their articles of association to virtually give all powers to one governing director.

**Associate Director:** a person who has the title of director but is not legally a member of the board at all – do not have the rights or responsibilities of a director. Many companies create titles including the word 'director' for senior executives who are not members of either the main board or boards of subsidiary companies. – created for prestige, reward, and status.

The chairman is chairman of the board of directors, not the company. The chief executive (called managing director in some cases) is an employee of the company and a member of management.

- view of good corporate governance is that the chairmanship and chief executive roles should be separate.
- separation provides duality at the top level of the company, producing a check and balance mechanism, avoids the potential abuse of power and allows the chief executive to concentrate on managing the business whilst the chairman handles the running of the board and relations with shareholders