

Ethical Philosophies and Human Capital Management

Dr. FARIDA VIRANI

Professor, HOD - HR & Behavioural Sciences

MET - INSTITUTE OF MANAGEMENT

MUMBAI

MAHARASTRA

INDIA

Ethical Philosophies and Human Capital Management

ABSTRACT

Many papers and researchers rightly conclude, that HCM holds the moral 'stewardship' of organizations, standards, values, morals and ethics (Winstanley and Woodall, 2000) as it plays an important part in building an ethical and moral climate in organizations. Each day, in the course of executing and communicating HR decisions, managers have the potential to change, shape, redirect, and fundamentally alter the course of other people's lives. For each HR practice, there are winners and there are losers. Ironically, Management of Human Capital (HRM) itself deals with a lot of ethical challenges, both at the senior levels involving strategic decisions and middle management involving treatment of individual employees. This paper is exploratory, reviews various ethical philosophies, and analyzes their deficiencies and related shortcomings while applying them to Human Capital Management (HCM) as a discipline. These ethical concerns and questions are raised to evaluate the applications of ethical philosophies to practical HCM. The paper concludes with practical recommendations for HR managers.

Key words: Ethics, Ethical Philosophies, Human Capital Management.

Ethical Philosophies and Human Capital Management

‘All HR practices have an ethical foundation. HR deals with the practical consequences of human behavior’.
(Johnson, 2003)

Human Capital Management is a hotbed for ethical challenges. Each day, in the course of executing and communicating HR decisions, managers have the potential to change, shape, redirect and fundamentally alter the course of other people’s lives. For each HR practice, there are winners and there are losers. Furthermore, Human Capital Management (HCM) is not a consistent and unitary set of principles and practices. It varies from organization to organization, from culture to culture, and can be diverse both within and between industries and sectors. HCM has evolved in multifaceted, historical, economic and social contexts.

The decline of collectivist systems of industrial relations (IR) has left many employees potentially more vulnerable to opportunistic and unethical behavior (Watson et al. 2003). Denhardt (1991: 28) stated; Ethics is not just avoidance of corruption, responsiveness to elected officials, or not keeping costs to a minimum while supplying a quality service or product. It is also the vigorous pursuit of principles such as justice, fairness, individual rights (for example, privacy and due process), equity, respect for human dignity and pursuit of the common good. While it is argued (Winstanley and Woodall, 2000) that HCM holds the moral ‘stewardship’ of organizations - interpretations of standards, values, morals and ethics have become increasingly complex in a postmodern society, where absolutes have given way to ambiguity. In this current context, it becomes most relevant to examine the ethical dimensions of HCM practice.

Ethical philosophies and HCM challenges

There is a perception that ethical decision making is just a matter of applying ethical principles and theories to situations. In reality, different ethical theories when applied to the same situation would most likely result in differing outcomes. This could be quite tricky especially in relations to HCM. The researcher has therefore tried to discuss the different ethical philosophies and argued about its application in terms of Human Capital Management

Absolutism and Relativism

Ethical absolutism believes in the notion that there are universal truths in morality that apply at all times and in all circumstances. Ethical relativism believes, there are no universal or international rights and wrongs, it all depends on a particular culture's values and beliefs and the only right and wrong are as specified by the moral code of each society.

In the world of moral relativism, the role of HR becomes predominantly challenging. Cultural relativism is the mistaken idea, that there are no objective standards by which our society can be judged because each culture is entitled to its own beliefs and accepted practices. No one can object to any society's intolerance that reflects its indigenous worldview. Because there is no objective moral truth that pertains to all people and for all times, one moral code is no better or no worse than any other. Multiculturalism, racism, postmodernism, deconstructionism, political correctness, and social engineering are among cultural relativism's "intellectual" descendants. Several ethical scholars reject ethical relativism, believing it may generate unacceptable consequences.

Many U.S. businesses frown on nepotism in hiring, fearing that it may lead to favoritism and inequity. However, in many countries, nepotism in staffing is not considered wrong. Acquiring a position in an organization based on family relationships is a common norm in collective cultures. However, in the light of these varying views the role of HR managers become particularly complex in international companies, as it is no longer clear whether local cultural solutions are acceptable or absolute universal truth should prevail.

Consequentialist Approaches (Utilitarianism)

This approach was developed by Jeremy Bentham (1748–1832) and John Stuart Mill (1806–1873). Its main premise suggests that the morality of an act is determined by its consequences: people should do that which will bring the greatest utility (which is generally understood to mean whatever the group sees as good) to the greatest number affected by a given situation. In terms of means vs. ends, it focuses exclusively on the ends, not means. However, in practice it is difficult

to measure all the good and all the costs. Some things are immeasurable. Utilitarianism has been criticized as too numeric because measuring costs and benefits omits any human element.

Beenen and Pinto (2009) identify that corrupt organizations, such as Enron, act unethically by decisions, that are usually, made by a group of senior employees to benefit the organization. Decisions made by Jeff Skilling (senior manager) to 'cook the accounting books' may have probably been, in his opinion, the 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 amounts of good for the maximum people. Rational self-interest is good however greed is eventually detrimental (DeGeorge, 2010). On the other hand, Sherron Watkins' ability to make judgment that Enron's accounting standards were immoral created a utilitarianism approach with regards to the law and the concern with fairness; seeking to benefit the majority of people. While Sherron was applauded for doing the right thing, what resulted was, her actions to disregard the corrupt senior management team (minority) for the stakeholders (majority) for more ethical workplace inflicted damage to the entire business. Cable News Network (CNN) (2002) stated; 'Enron filed for liquidation, people lost their jobs, some committed suicide and many were jobless'. Though Sherron may have been trying to do the right (and difficult) thing, it may not have been the best way to get ahead. Her decision became a consequence for the majority, as she was unable to predict the future and foresee how her decisions would affect people later in time.

A practical utilitarian approach requires the ability to predict the long-term consequences of an action and to predict those consequences with unfailing accuracy; past experience can, to some extent, guide future experience DeGeorge (2010). Yet, 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. HR practitioners, argue that in practice it is very complex to accurately determine 'what' the maximal utility would be for all affected by a situation. Who represents the 'majority'? Can we accept a situation where the benefits of the majority might mean the exploitation and suffering, of the minority? HR managers may not always have all the necessary information. The notion of utility is also very vague. Is the vision short or long term? These perspectives may lead to different conclusions and so varied HR practices.

Deontological or ‘Duty’ Ethics

This approach, associated with Immanuel Kant (1724–1804), is sometimes referred to as ‘duty ethics’. In this terminology, action is more important than the consequences. Actions in deontology are always judged independently of their outcome. Thinkers and philosophers state, duty-based ethical systems tend to focus on giving equal respect to all human beings. This provides a basis for human rights - it forces due regard to be given to the interests of a single person even when those are at odds with the interests of a larger group. Some state, Duty-based ethics doesn't deal well with the cases where duties are in conflict. One of Kant's maxim proposes that every human being should be treated as an end and not as an instrument to meet an end (Ferrell & Fraedrich, 2010). The focus of this principle is to give equal treatment to every human being (Ferrell & Fraedrich, 2010). For e.g; from an HCM perspective it would be an effective ethical and strategic decision to lay off people during down turn, as long as the employers do not deceive or coerce their employees into giving up their jobs (Painter-Morland & Werhane, 2010). Furthermore, employees too often jump jobs for better opportunities. Therefore, this makes the action of laying off employees morally correct. But critics argue that Kant's duty-based ethics permits wrong actions to occur that consequently will make the world a less happy place (Painter-Morland & Werhane, 2010). An employee laid off during economic turmoil has ruthless outcomes on individuals and families which also go against human rights framework. During this time, employees expect employers to treat them with respect and reward them for their loyalty.

Contemporary deontologists include Thomas Nagel, Thomas Scanlon, Roger Scruton and Frances Kamm. Frances Kamm's "Principle of Permissible Harm" states that one may harm in order to save more if and only if the harm is an effect or an aspect of the greater good itself. Consider HCM, in the absence of a conclusive framework, in cases of sexual harassment at work place, do we then permit harm to the victim to save the interest of the larger group; here it would mean the business reputation, image and the other stakeholders.

The Ethics of Human Rights

Human rights are the basic rights of each human being, independent of race, sex, religion, political opinion, social status, or any other characteristic. John Locke (1632–1704) was one philosopher who emphasized and elaborated an ethics based upon human rights. He argued that it is not so much the application of reason to acts that is important to morality, but an appreciation of the fair and equal treatment of all people, enshrined in the recognition of basic human rights. According to the theory of moral rights, human beings have certain fundamental rights that should be respected in all decisions: the right to free consent, privacy, and freedom of conscience, free speech, and due process (Cavanagh et al., 1981). Businesses realize the compelling reasons why they should involve human rights in their policies and practices. Businesses increasingly need a stable international environment in which to operate, with sustainable markets and a 'level playing field' of opportunities. Human rights offer a common framework for businesses to understand societies' expectations and deliver value to stakeholders in a more sustainable way.

Rights-based frameworks continue to be relevant to HRM, particularly in areas such as selection interviewing (the right to privacy and confidentiality of personal information, particularly where it is not relevant to the job e.g. female candidates asked about their marriage plans or when do they plan to start a family), occupational testing (such as the right to feedback), equal opportunities and diversity management (the right to be treated the same e.g. equal employment opportunities and pay for all genders or to be given special treatment for the differently able employees), flexible employment contracts and working time (the right to work- life practices), 'whistle blowing' (the right to speak out about wrongdoing) etc.

However there are a lot of occasions when HCM and Human Rights have been at cross roads. E.g. how do you operate within international standards of Human Rights when there are local corrupt financial practices, a lack of laws and the improper administration of justice, leading to limited respect for human rights? How do you obtain protection for personnel and plant when the state security forces are known to use excessive violence and commit other human rights abuses against the local population? Within organizations, in many cases, people who raise allegations

of human rights violations in the workplace experience negative impacts on their work life, personal life and health on top of the immediate problem of discrimination or harassment.

Virtue Ethics

Virtue ethics is an approach that is seen to originate with Aristotle (384–322 BC). It has recently regained prominence through the work of the philosopher Alasdair Macintyre (1981). Acting as a ‘good person,’ Macintyre suggests, ‘is the state of being well and doing well . . . a complete human life lived at its best’ (pp. 148–149). This is not just the simple application of rules. The virtues include both intellectual and character virtues. Macintyre includes the need to feel that what one is doing is good and right; to have an emotional as well as a cognitive appreciation of morality is an essential component of virtue. It suggests that neither good intentions nor outcome codes nor the recognition of basic rights will necessarily ensure ‘goodness’. In the final analysis, the effectiveness of an ethical system depends on the nature of the people who employ it.

Common measurements of business success are profitability, efficiency, size, growth, longevity, and contribution to customer and community welfare and satisfaction. Ziniach in his abstract state; ‘recent illicit activity among professionals, politicians, and specifically among members of the business community has made scholars skeptical of the viability of traditional consequential and deontological theories’. To correct this problem many advocate a return to virtue theory, a theory that focuses on character development and not just upon normative status of actions’. Daniel Statman claims that Virtue Ethics ‘is now recognized as a serious rival to traditional moral theories, utilitarianism and deontology’. It has an ‘attraction’, claims Statman, which ‘is due to . . . a growing dissatisfaction with some central features of modern ethical theories’.

Practically even if virtuous behavior is desirable, there is haziness and ambiguity about which virtues are desirable and functional in the ever changing dynamic business context. One of the more obvious is ‘whistleblowing’. The conflict is between the virtue of loyalty and the virtue of honesty, or at least of stopping dishonesty. That conflict is the underlying reason why whistleblower protection legislation has been introduced over recent years in many countries.

When companies face the ordeal of downsizing—where concerns with economic and competitive pressures, market positioning, and shareholder value and profitability dominate—virtuousness is not likely to be high on the list of key factors on which attention is focused. Targets and deadlines increase time pressures every- day in the competitive corporate world. Professionals who meet and exceed targets are rewarded financially and promoted to the next levels. These dynamic go getters may have little time to train their subordinates. This lack of patience which could be deemed as an expression of selfishness goes unnoticed. Periu (2011) mentions in his article, ‘patience, empathy and humility are the three virtues absent in the modern business world’. From a HR managerial perspective also supported by many researchers’, virtue ethics will not bring a form of fulfilment that will be important to many people. Nor is it an answer while making complex moral decisions and hence the claims that it makes, should be treated with great caution. Nonetheless the concept of behaving virtuously, with consideration and assistance to others, deserves support, for it will still bring many forms of personal and organizational reward.

The Stakeholder Approach

This approach has emerged from the area of applied business ethics, and proponents include Freeman (1998) and Weiss (1994). Stakeholder analysis sees morality as evolving within a community of equals, where rights and needs are recognized as residing within all individuals and groups that participate in business life. Organizations consist of many interwoven webs of relationships, rights and responsibilities. Many individuals and groups have a ‘stake’ in how an organization performs, apart from just the shareholders and members of the board. Employees, customers, suppliers and the wider community should all be considered when decisions affecting them are made. Stakeholder theory offers potential to conceptualize the organization that recognizes employee relationship as a moral relationship, and the employee as a moral ‘claimant’ of the organization.

However, there are a number of realistic problems with this approach. First, organizations must identify relevant stakeholders – and this is not always an obvious matter. Second, when stakeholders are identified, an organization has a moral compulsion to ascertain their views. This

is not always easy and incurs cost and time. An organization may, with the best of objectives, obtain a fractional view of the wishes of its stakeholders but that does not acknowledge the voices of several relevant diverse groups. Lest forgotten, even though an important stakeholder an HR manager, he is still an agent of the firm. Tough decisions in regards to employee relations would see HR making decisions aligned with the organization's interest, but not necessarily in the interests of employees, who may have their rights infringed.

Research shows that there are a number of pressures on HR managers which influence their ability to act ethically. Consider, for example the roles of 'administrative expert', 'employee champion', 'change agent', and 'strategic business partner' (Ulrich 1997). Each of these roles represent embedded conflicting interests for example, the "strategic business partner" and "administrative expert", would see the HR manager act within the interests of the organization, but not necessarily to promote ethical interests or the rights of employees. In contrast, the employee champion role would see that HR managers act within the interests of employees, and be a champion of their rights, which is perhaps more consistent with the rights based ethical justice framework espoused by Rawls (1971).

Conclusions

From the above analysis and arguments, it is evident that each philosophy examines ethics from a different perspective and no one principle captures the full range of relevant issues. There are major challenges in the application of any one or all the philosophies to HCM as a domain and therefore extensive reflection, deliberation and research on the ethical HCM schema is essential. Ethical analysis of HCM needs to be developed as an important area of inquiry both in research and practice of HRM.

'Some argue that you can't teach ethics at the high school or college level because values are primarily instilled at a young age. But character is not static. People can and do change throughout their lives... (Cooper, 2008, p. 364), therefore the first attempt would be to make business ethics resonate, relevant and remembered through the curriculum. HCM holds the moral

‘stewardship’ of organizations - standards, values, morals and ethics as it plays an important part in building an ethical and moral climate in organizations. Ethical HCM is a complex and multifaceted matter to which there are no easy solutions, few evidently correct answers and therefore the difficulty of determining the morally best HCM strategies. HR managers are advised to examine challenging ethical dilemmas applying all the principles and philosophies. When all the principles come to the same conclusion about the ethics of a course of action, then there is no apparent conflict about what is ethical. However the researcher is also mindful of the practical relevance of such an advice where time, financial results and bottom lines are all that matters.

Some business sectors share knowledge and experiences about their ethical framework, processes and procedures providing valuable tools for HR managers. A strong commitment from a company’s senior leaders is a prerequisite for embedding an ethical culture into a company’s operations and activities. Open discussions about ethical dilemmas faced within the organization would help generate frameworks for ethical decision making specific to your organization which could be documented. Cultivating ethical sensitivity and ethical reasoning amongst HR managers would go a long way to achieve ethical practices in HRM. Achieving an ethical balance in HCM is not a destination, it is a continuous journey

References

Amanda Rose (2005) *Ethics and Human Resources Management*, Chapter 2.

Bies & Shapiro, D. L. (1988). 'Voice and Justification: Their Influence on Procedural Fairness Judgments', *Academy of Management Journal*, 31(3)

Bowie, N. E. 2000. *Business Ethics, Philosophy and the Next 25 Years.*" *Business Ethics Quarterly*, 10(1): 7-20.

Bowden 2005, 'Virtue ethics, Aristotle and organizational behavior', Australian Association for Professional and Applied Ethics 12th Annual Conference

Cavanagh, G.; Moberg, D. and Vlasquez, M; 1981, 'The Ethics of Organizational Politics', *Academy of Management Review* 3, 363-74

Dennis Wittmer and Kevin O'Brien 2014, 'The Virtue of "Virtue Ethics" in Business and Business Education' *Journal of Business Ethics Education*

Denhardt, K. G. (1991), 'Ethics and fuzzy worlds', *Australian Journal of Public Administration*,

Foote, D. (2001). 'The Question of Ethical Hypocrisy in Human Resource Management in the UK and Irish Charity Sectors', *Journal of Business Ethics*, 34(1).

Foote and Robinson, I. (1999). 'The Role of the Human Resources Manager: Strategist or Conscience of the Organization?' *Business Ethics: A European View*, 8(2).

Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*. Boston, MA: Pitman (1999). 'Divergent Stakeholder Theory', *Academy of Management Review*, 24(2).

Johnson, R. (2003). 'HR must embrace ethics', *People Management*, Vol. 9, No. 1, pp.

Kohlberg, Lawrence (1981). *Essays on Moral Development, Vol. I: The Philosophy of Moral Development*. Harper & Row.

Lovell, A. (2002). 'Ethics as a Dependent Variable and Organizational Decision Making', *Journal of Business Ethics*, 37(2).

OHRC – Ontario Human Rights Commission,
<http://www.ohrc.on.ca/en/search/site/human%20rights>

Payne, S. L. and Wayland, R. F. (1999). 'Ethical Obligation and Diverse Values Assumptions in HRM', *International Journal of Manpower*, 20(5).

Pinnington & Macklin, Campbell (2007), *Human Resource Management: Ethics and Employment*, Oxford University Press, 2007

Rawls, John (1971). *A Theory of Justice*. Cambridge, MA: Belkap Press of Harvard University Press.

Schumann, P. L. (2001). 'A Moral Principles Framework for Human Resource Management Ethics', *Human Resource Management Review*, 11(1/2): 93.

SHCM (2004). Code of Ethics. Available at: <http://www.shrm.org/ethics/code-of-ethics.asp>

Trevino, L. K., Weaver, G. R., Gibson, D. G., and Toffler, B. L. (1999). 'Managing Ethics and Legal Compliance: What Works and What Hurts', *California Management Review*, 41(2).

Ulrich, D. (1997) *Human Resource Champions*. Boston, MA: Harvard Business School Press.

Watson, I., Buchanan, J., Campbell, I., and Briggs, C. (2003). *Fragmented Futures: New Challenges in Working Life*. ACIRRT, University of Sydney, NSW: The Federation Press.

Weiss, J.W. (1994). *Business Ethics: A Managerial Stakeholder Approach*, Belmont, CA: Wadsworth.

Woodall, J. and Winstanley, D. (2001). 'The Place of Ethics in HRM', in J. Storey (ed.), *Human Resource Management: A Critical Text*, 2nd edn. London: Thomson Learning,

Woodd, M. (1997). 'Human Resource Specialists—Guardians of Ethical Conduct?' *Journal of European Industrial Training*, 21(3): Personnel Review Vol 25, No 6 1996)