

Environment Analysis & Strategic Position Part 3

Chartered Accountancy Strategic Level Strategic Management & Leadership (SML)

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STRATEGIC MANAGEMENT

&

LEADERSHIP

CA - STRATEGIC LEVEL



Environment Analysis & Strategic Position (03)

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Environment Analysis & Strategic Position – (10%)

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INTRODUCTION

In this chapter we consider ethics: what the term means and how ethics can be applied. The chapter then moves on to consider the concept of corporate social responsibility (CSR), by linking organizational behavior the effect it may have on a range of different parties (Stakeholders) both within and outside the organisation in strategically managing a business entity.



1.0 ETHICAL CONCEPTS

Ethics is a set of principles which guides the behavior of a person, organization or society.

Ethics can be defined as generally accepted principles of a person, organization or a community. Ethics are concerned with what is right and what is wrong. Ethics are relevant to all professional and organizational behavior.

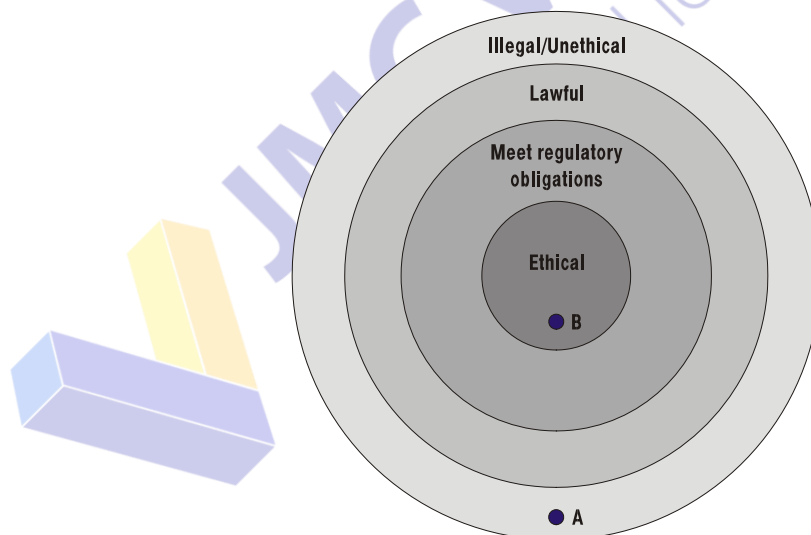
In some situations, what is 'right' and what is 'wrong' is clear and would be agreed by all, or almost all. However, in many situations what is 'right' and what is 'wrong' is subjective and a matter of opinion.

1.1 Rules & Standards

There are three main sources of rules that regulate behaviour of individuals and businesses. These are:

- The law
- Non-legal rules and regulations
- Ethics

The diagram below shows how the three sources of regulation fit together.



The law is the minimum level of behaviour required. Any standard of behaviour below it is considered illegal and warrants punishment by society.

By meeting non-legal regulations (such as the rules of your workplace), you meet a higher level of behaviour than just the legal requirements.

Ethical behaviour is seen as the highest level of behaviour that society expects. Your behaviour goes further than just meeting your legal and non-legal obligations.

1.2 Ethical Principles

The certainty of rules does not exist in ethical theory. Different ideas apply in different cultures. The two main important ideas in the Western ethical tradition are **duty** and **consequences**.

1.3 Ethics Based on Consequences

1.3.1 Egoism

Egoism states that an act is ethically justified if decision-makers freely decide to pursue their own short-term desires or their long-term self-interest. Producers of goods for example have to offer value-for-money, since competition means that customers will buy from competitors if they don't.

1.3.2 Pluralism

Pluralism accepts that different views may exist on morality and ethics but suggests a general agreement may be able to be reached in certain situations. A pluralist viewpoint is helpful in business situations where a range of perspectives have to be understood in order to establish a course of action.

1.4 Ethics Based on Duty

1.4.1 Ethical Relativism

Relativism is the view that a wide variety of acceptable ethical beliefs and practices exist. The ethics that are most appropriate in a given situation will depend on the conditions at that time. The relativist approach suggests that all moral statements are essentially subjective and arise from the culture, belief or emotion of the speaker.

1.4.1 Ethical Absolutism

Absolutism is the view that there is an unchanging set of ethical principles that will apply in all situations, at all times and in all societies. **Absolutist** approaches to ethics are built on the principle that objective, universally applicable moral truths exist and can be known. There is a set of moral rules that are always true.

1.5 Rights & Virtues

The idea that individuals have natural **inherent rights** that should not be abused is a further, long-established influence on Western ethical thinking and one that has led to the development of law to protect certain 'human rights'.

1.6 Social Attitudes

Social attitudes, such as a belief in the merits of education, progress through science and technology, and fair competition, are significant for the management of a business organisation. Other beliefs have either gained strength or been eroded in recent years:

- Work Hours
- Environmental Protection

1.7 Common Ethical Problems in Business

- (a) **Extortion.** In some countries, officials have been known to threaten companies with the complete closure of their operations unless suitable payments are made.
- (b) **Bribery.** This refers to payments for services to which a company is not legally entitled. There are some fine distinctions to be drawn; for example, some managers regard political contributions as bribery.
- (c) **Grease money.** Multinational companies are sometimes unable to obtain services to which they are legally entitled because of deliberate stalling by local officials. Cash payments to 'the right people' may be requested to oil the machinery of bureaucracy.
- (d) **Gifts.** In some cultures (such as Japan) gifts are regarded as an essential part of civilized negotiation, even in circumstances where to Western eyes they might appear ethically dubious. Managers operating in such a culture may feel an obligation to adopt the local customs.
- (e) **Conflict of interest.** A conflict of interest in business refers to a situation in which an individual's interests conflict with the interests of their employer. For example, a purchasing manager may face a situation where a friend or relative applies to become a preferred supplier to the business.

EVERY ORGANIZATION IS BOUNDED BY a Number of Social, Economic and Ethical boundaries to be met in order to manage different stakeholder needs of the business.

2.0 PERSONAL ETHICS, BUSINESS ETHICS AND PROFESSIONAL ETHICS

2.1 Personal ethics guide an individual's actions in situations that they face in their personal or non-work life.

Personal ethics refer to an individual's personal values and codes of conduct. These values are instilled in an individual through learning, experience and the influence of others such as parents, family and friends.

Ex : Honesty, Integrity, Responsibility...

2.2 Business ethics involves the application of a moral code to the management and conduct of a business.

Organisations have responded to pressure to be seen to act ethically by publishing ethical codes, setting out their values and responsibilities towards stakeholders.

2.2.1 Company Code of Ethics / Code of Conduct

An **ethical code** typically contains a **series of statements setting out the organisation's values and explaining how it sees its responsibilities towards stakeholders.**

Codes of corporate ethics normally have the following features.

- They **focus on regulating individual employee behaviour.**
- They are **formal documents.**
- They **cover specific areas** such as gifts, anti-competitive behaviour, etc.
- Employees may be **asked to sign** that they will comply.
 - They may be **developed from third-party codes** (eg regulators) or use third parties for monitoring.
- Sometimes they do **little more than describe current practices.**
- Can be used to **shift responsibility** (senior managers to operational staff).

Following are the Key Purposes of Code of having Ethics:

- Establishing Organization's Values
- Promoting Stakeholder Responsibilities

- Controlling Individual Behaviors
- Promoting Business Objectives
- Communicating Values to Stakeholders

Following Impacts can be seen in implementation of code of conduct:

A code of conduct can set out the company's expectations, and in principle a code such as that outlined above addresses many of the problems that the organisations may experience. However, **merely issuing a code is not enough.**

- (a) The **commitment of senior management** to the code needs to be real, and it needs to be very clearly communicated to all staff. Staff need to be persuaded that expectations really have changed.
- (b) Measures need to be taken to **discourage previous behaviours** that conflict with the code.
- (c) **Staff need to understand** that it is in the **organisation's best interests** to change behaviour and become committed to the same ideals.
- (d) Some employees – including very able ones – may find it very difficult to buy into a code that they **perceive may limit their own earnings** and/or restrict their freedom to do their job.
- (e) In addition to a general statement of ethical conduct, **more detailed statements** (codes of practice) will be needed to set out formal procedures that must be followed.

Following Issues / Problems may emerge as a result of Setting a Code of Ethics;

1. Code may be so rigid that it would restrict practical business behaviors.
2. Code may be unclear hence employees may decode it in a wrong way.
3. Code may be not relevant to the business
4. People may ignore the code
5. Prevailing Organizational Culture may not support it

2.3 Professional ethics guide the personal and business behaviour for members of a profession, such as accountancy.

Professional codes of ethics apply to the **individual behaviour** of professionals and are often based on principles, supplemented by guidance on **threats and safeguards**.

Core Contents of a Professional Code;

- Responsibility to safeguard public interest
- Guidance on Fundamental Ethical Principles
- A Conceptual Framework

Advantages of professional codes

- (a) Codes represent a clear statement that **professionals** are expected to act in the public interest, and act as a **benchmark** against which behaviour can be judged. They should thus enhance public confidence in the professions.
- (b) Codes emphasize the importance of professionals **considering ethical issues actively** and seeking to comply, rather than only being concerned with avoiding what is forbidden.
- (c) Codes states that it can be **applied internationally**. Local differences are not significant.
- (d) Codes can include detailed guidance, which should **assist ethical decision making**.
- (e) Codes can include **explicit prohibitions** if necessary.
- (f) Codes prescribe **minimum standards of behaviour** that are expected.

Disadvantages of professional codes

- (a) Professional codes, with their **identification of many different situations**, can lose focus on key issues.
- (b) **International codes** such as the IESBA code cannot fully capture **regional variations in beliefs and practice**.
- (c) The value of international codes may be limited by their not being legally enforceable around the world

Fundamental Principles of Professional Ethics

The IESBA *Code of Ethics for Professional Accountants* is based on the following fundamental principles, which are intended to ensure that the accountant fulfils the public interest and meets the expectations of society.

1. Professional Competence & Due Care
2. Integrity
3. Professional Behavior
4. Confidentiality
5. Objectivity

Advantages of principles-based guidance

IESBA suggests that requiring use of a principles-based conceptual framework rather than a set of specific rules is in the public interest for the following reasons.

- (a) It places the onus on the professional to **consider actively** relevant issues in a given situation, rather than just agreeing action with a checklist of forbidden items. It also requires him to **demonstrate** that a responsible conclusion has been reached about ethical issues.
- (b) It **prevents professionals from interpreting legalistic requirements narrowly** to get around the ethical requirements. There is an extent to which rules engender deception, whereas principles encourage compliance.
- (c) It **allows for variations** that are found in every **individual situation**. Each situation is likely to be different.
- (d) It can accommodate a **rapidly changing environment**, such as the one in which auditors are.
- (e) It can include **examples** to illustrate how the principles are applied.

Disadvantages of principles-based guidance

- (a) As ethical codes cannot include all circumstances and dilemmas, accountants need a very good understanding of the **underlying principles**.
- (b) A principles-based code can be difficult to enforce legally, unless the breach of the code is blatant. Most are therefore **voluntary** and perhaps therefore less effective.

Following Key Ethical Threats can be faced by Employees in work place;

1. **Self-Interest** - Financial interests, loans and guarantees, incentive compensation arrangements, personal use of corporate assets, external commercial pressures, acceptance of a gift
2. **Self-Review** - Business decisions being subject to review and justification by the same accountant responsible for making those decisions or preparing the data supporting them
3. **Advocacy** - Furthering the employer's cause aggressively without regard to reasonableness of statements made (furthering legitimate goals of employer organisation would not generally create an advocacy threat)
4. **Familiarity** - Long association of a business contact
5. **Intimidation** - Threats of dismissal from employment, influence of a dominant personality

