

The Individual in the Organization

Ethical issues in employee-employer relations

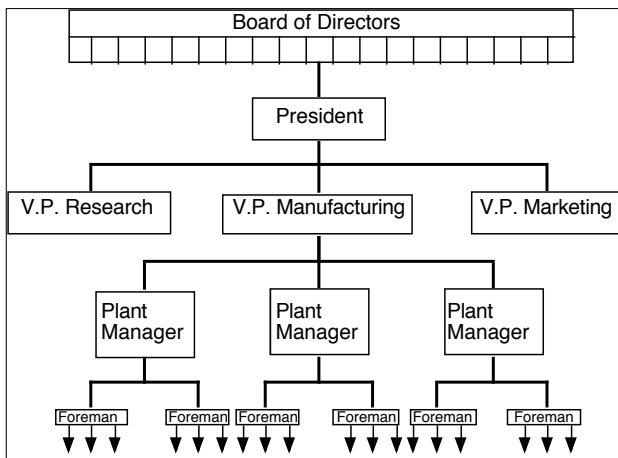
Two models of employee-employer relations in organizations:

- (i) "rational" structure
- (ii) "political" structure

8.1 THE RATIONAL ORGANIZATION

Shein's definition: "An organization is the rational coordination of the activities of a number of people for the achievement of some common explicit purpose or goal, through division of labour and function and through a hierarchy of authority and responsibility" (351)

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Assumption of model: Information flows from bottom to top managers, who make decisions; commands flow down to operating layers.

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Ideally, managerial decisions aim for economic goals: e.g., efficiency, productivity, profits, ...

Organizational goals are defined by those at the top, whose position gives them the (contractual) *right* to make these decisions

The rational organization is bound by contracts: Employees ("agents") freely accept the organization's ("principals") goals and their part in that goal, for fair wages and working conditions

8.2 THE EMPLOYEE'S OBLIGATIONS: To obey superiors, seek the organization's goals and to avoid actions that hinder these goals

Employees hinder their organization's goals by:

- (A) conflicts of interest, or
- (B) theft, or
- (C) abuse of position

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(A) Conflicts of interest: An employee's self-interest may conflict with that of the organization by:

- holding stock in competing or supplier companies (**objective conflict** = based on a financial relationship)
- holding positions in competing or supplier institutions (**objective conflict**)
- having special relationships with people in competing/supplier companies (**subjective conflict** = based on emotional connections or relationships)

Actual conflicts of interest: When the employee has a conflict of interest that could influence the organization, given the employee's actual responsibilities

Potential conflicts of interest: When the employee *could have* a conflict of interest that could influence the organization, if the employee's responsibilities were to change

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Since contracts impose moral obligations, conflicts of interest are unethical—they break promises

They can also reduce utility, by harming employers and work trust

Apparent conflicts of interest: Where there is no actual conflict of interest, but where it is natural for outsiders to believe there is a conflict, *can* also be immoral, because it may undermine trust in the contracting process

Necessary conditions for conflicts:

- (i) The employee is performing a particular task for their organization
- (ii) The employee has an "external" interest in the outcome of the task
- (iii) That external interest does or could reasonably affect that employee's judgement in performing their task

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Solutions (eliminating above elements):

- (a) e.g. state how much supplier firm stock can be held
- (b) state acceptable relationships with competitors, buyers, or suppliers
- (c) require key officers to disclose outside financial interests

Commercial Bribe: a bribe given so that the employee(s) of another firm will prefer the briber or briber's firm

Commercial Extortion: occurs when an employee demands considerations from those outside their firm to deal favourably when doing business with these outsiders

Gifts: are unethical if they create a conflict of interest (or the appearance of one)

That is, given the value, purpose, circumstances, position of recipient, accepted business practice, company policy, law involving the gift

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(B) Employee Theft: Taking more benefits and resources from an organization than the contract permits

White collar crime: "embezzlement, larceny, fraud in the handling of trusts or receiverships, and forgery" (357)

Computer Theft: Unless authorized explicitly or implicitly, viewing a firm's data bank, copying its computer programs, copying data, or even using its computer on one's own time is theft

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Trade Secrets: "non-public information that (a) concerns a company's own activities, technologies, future plans, policies, or records and that, if known by competitors, would materially affect the company's ability to compete commercially against those competitors; is owned by the company... because it was developed by the company for its private use from resources it owns or was purchased for its private use from others... and (c) the company indicates through explicit directives, security measures, or contractual agreements with employees that it does not want anyone outside the company to have that information" (357)

- So it's unethical to move to another company and use its trade secrets at the new company
- Skills developed don't count as trade secrets, because skills are not information, but are part of the person themselves
- Since it's not always easy to distinguish information from skills, some companies offer to continue to pay those who've left (usually, a year or two) not to reveal trade secrets

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(C) Abuse of position, e.g., Insider Trading:

buying and selling a company's stock using 'inside' information about the company's prospects.

Such information is not available to the public, but can have a large effect on the value of the company's stock



Unethical? Two views:

- (1) **Unethical:** Because IT involves stealing information and gaining a competitive advantage over those without it
- (2) **Acceptable:** IT signals to the public the true value of stocks, so that market value more closely resembles actual value

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(ii) IT doesn't harm anyone; those who sell at a low price are doing that because they need the money, and are getting market value; further, by buying up stock, insiders raise the price of stock for everyone

(iii) All kinds of people have advantages in the market; insider traders don't have any special advantage over, e.g., those who use expert analysts

Replies to (2): Even so, insider trading is unethical because

(a) it violates stockholders' ownership *rights* over information

(b) is *unjust* in use of information (not available to others, with equal rights to that info)

(c) decreases overall *utility*, since fewer people enter the market, and intermediaries must charge larger fees

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8.3 THE FIRM'S DUTIES TO THE EMPLOYEE

The employer provides fair wages and working conditions

Factors in a fair wage:

1. *The going wage in the industry*

2. *The firm's capabilities*

3. *The nature of the job:* e.g. greater health risks mean greater compensation

4. *Minimum wage laws*

5. *Relation to other salaries:* workers in the same firm who do similar work should receive similar salaries

6. *Fairness of wage negotiations:* threatening to relocate; threatening a failing company with a strike

7. *Local costs of living:* Wages should be sufficient to enable a family of four to meet their basic needs

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Working Conditions: Health and Safety

Job risk is morally acceptable if:

(a) workers are fully compensated for their risks; and

(b) workers freely, consciously choose to accept the risks

In the US, more than 5,000 killed on the job every year

Nearly 5 million are injured

Direct costs to economy: \$40 billion; Indirect: \$240 billion

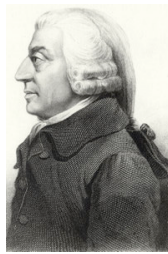
Working conditions: Job Satisfaction

Studies show that a lack of variety (horizontal specialization) and control (vertical) is harmful to workers' mental life

Justice: It is unjust that unskilled labourers have to bear both low wages and demeaning work

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Adam Smith: "In the progress of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of the people, comes to be confined to a few very simple operations, frequently to one or two. But the understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations has no occasion to exert his understanding...



He naturally loses, therefore, the habit of such exertion and generally becomes as stupid and ignorant as it is possible for a human creature to become....It corrupts even the activity of his body, and renders him incapable of exerting his strength with vigour and perseverance, on any employment than that to which he has been bred" (369-70)

Rights to appropriate work: Workers do better when they see their jobs as *meaningful*, *feel their own responsibility for the results*, and are able to see or predict the results

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Thus jobs should be expanded in:

- (1) *variety*
- (2) *task identity*
- (3) *task significance*
- (4) *autonomy*
- (5) *feedback*

So, e.g., Organizations should replace giving particular individuals repetitive tasks with giving teams responsibility for all facets of a task, with some autonomy. etc.

8.4 THE POLITICAL ORGANIZATION

The "political model...sees the organization as a system of competing power coalitions and formal and informal lines of influence and communication...from these coalitions....In the political model...individuals [group] together to form coalitions that then compete with each other for resources, benefits, and influence" (371-2)

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If so, *power*, not *formal authority* and *contractual relationship*, determines organizational structure

Two Ethical Issues regarding power:

- (a) What are the moral limits to the power managers have over their subordinates?
- (b) What are the moral limits to the power employees can use on each other?

8.5 EMPLOYEE RIGHTS: Corporations and governments each:

- (a) have centralized decision-making bodies;
- (b) enforce their decisions on subordinates (citizens);
- (c) use decisions to distribute benefits and burdens;
- (d) are the sole source of power determining these relationships

So, by analogy, the moral rights of employees may be similar to "the civil rights of citizens: the right to privacy, the right to consent, the right to freedom of speech," ... (374)

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Major objections:

- (1) Consent to be governed vs. ownership of property is relevantly distinct here; if so, managers can impose conditions on employees that governments can't on citizens
- (2) the power of corporate managers is limited by unions, so employees don't need the notion of moral rights;
- (3) though changing citizenship is very difficult, it's relatively easy to change jobs.

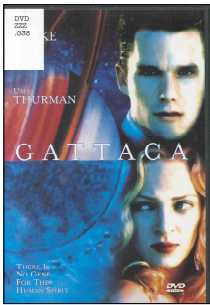
Replies to above objections:

- (1) most corporate assets aren't actually controlled by private owners; so managers aren't agents of owners;
- (2) most workers aren't protected by effective unions;
- (3) changing jobs is often very difficult

Other arguments for employee rights

Privacy rights: People have the right to control who can know which information about themselves

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Genetic testing already exists "for about 50 genetic traits that indicate that the employee will be more likely...to develop certain diseases" (375)

Why is privacy valuable? privacy allows us to protect information about ourselves that might disadvantage us; it also enables us to form special relationships

This right must be balanced by an employer's need to know, e.g., previous work history, who's stealing company supplies, etc.

Balancing factors:

Relevance: only those things that directly and seriously affect work (e.g., not political beliefs, marital problems, at least with lower level workers)

Consent: e.g., surveillance for pilfering might reveal other irrelevant, yet private facts

Methods: extraordinary methods (e.g., spies, lie-detector tests, cameras, microphones, etc.) only justified by extraordinary needs

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- e.g. (a) The problem can be solved in no other way
(b) The problem is serious and there's good reason to believe such methods will solve the problem
(c) The methods not prolonged past time required to solve problem or to prove method won't work
(d) All irrelevant information is discarded and destroyed
(e) Failure rates considered (<http://skepdic.com/polygrap.html>)

Right to Freedom of Conscience: Employees should be able to inform police etc. about illicit or otherwise harmful activities, without losing their jobs or being blackballed

Whistleblowing: "an attempt by a member or former member of an organization to disclose wrongdoing in or by the organization" (377)

Firing Mackowiak, a welding inspector at University Nuclear Systems, Inc. because he informed the Feds about not being able to properly inspect work done at nuclear facilities

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Internal vs. external Whistleblowing

Study of whistleblowers reveal that:

- typical whistle blower is a 47-year-old family man who has been a conscientious employee for 7 years, with a strong belief in universal moral principles.
- 100 percent of the whistle blowers surveyed from private businesses were fired
- 20 percent couldn't find work at the time of the survey,
- 25 percent had increased financial burdens
- 17 percent lost their homes
- 54 percent had been harassed by peers at work
- 15 percent saw their subsequent divorce as a result of their Whistleblowing
- 80 percent suffered physical deterioration

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- 86 percent reported feelings of depression, powerlessness, isolation, and anxiety
- 10 percent report having attempted suicide (*The Insider: Jeffrey Wigand*)
- Most whistleblowers say they would do it again, that they felt proud of themselves



Whistleblowing is not against contractual duty, since such duties cannot require people to perform immoral acts

When is whistleblowing obligatory?

- (a) Given the whistleblower's professional responsibilities, or when no one else can/ will prevent the wrong
- (b) the wrong involves serious harm or injustice or violation of rights

Because most companies have no safe provision for internal whistleblowing, conscientious employees either leave or blow the whistle externally

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The Right to Participate & Participatory Management

Just as rights to liberty imply that citizens should have a say in government, some say this should also apply to business organizations

Step 1: Consultation: Here, employees don't make the decisions involving them, but are involved in the process and allowed to criticize, based on accurate information

Step 2: Worker Decisions: workers can make some decisions about their own work activities (e.g., hours, rest periods, organization of tasks, scope of responsibilities)

Step 3: Company Decisions: (e.g. West Germany and codetermination) work councils include workers

This approach is not popular in the US, because "American ideology [holds that power] in political organizations should be democratic, whereas power in economic organizations should be left in the private hands of managers and owners" (381)

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Given the “dominant role that business organizations are now playing in our daily lives, democracy will soon touch only the peripheral areas of our lives if it continues to be restricted to political organizations” (381)

Participative leadership: Two basic assumptions about human nature (Donald McGregor):

- (X) people are naturally lazy, self-centred, prefer to be led, are resistant to change
- (Y) people want responsibility, are naturally ready to adopt organizational goals

Some participatory leadership trials have been spectacularly successful, others have not had much effect

Criticism: People and organizations are different; so participatory leadership will only work in the right contexts

Evaluate? Is this the only reason to use participative leadership?

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The Right to Due Process vs. Employment at Will

Employment at will: With a specific contract, an employee may be dismissed for “for good cause, for no cause, or even for causes morally wrong, without being thereby guilty of legal wrong” (383)

This view is based on the idea of ownership and the right of the owner to determine how a firm will be run, and on the idea that employees freely contract to work for the employer and to respect their authority

Attack:

- (1) A fired person often has no other job or would it would cost dearly to get one; so not really free to choose any job;
- (2) Workers often contribute conscientiously to the firm, believing they will be treated fairly; if they knew otherwise, they wouldn't work there; so there's an implied contract;
- (3) Workers have the right to be treated as free and equal (not treated arbitrarily, not caused unfair harm)

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Due process: “The right to a fair process by which decision makers impose sanctions on their subordinates” (383)

Ideally, rules should be stated in advance, and impartial hearings should check if the rules have been followed. (e.g. hearing of grievances)

Employee Rights and Plant Closings

Declining American manufacturing jobs because of:

- (1) costs
- (2) better management strategies and investment in technology
- (3) protection of vital industries
- (4) “off-shoring” of manufacturing and even service jobs

Between 1980 and 1993, the Fortune 500 industrial companies shed almost 4.4 million jobs, more than 1/4 of the 1980 total

At the same time, the compensation of the average CEO during this same period increased by 600%

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Extreme harm caused by plant closings

"Among the rights that must be respected [in the case of plant closings] are the workers' right to be treated only as they freely and knowingly consent to be treated—a right that requires they be informed about impending shutdowns that will affect them" (388)

Utility: Minimize effects of plant closings; owners have more resources and should bear a greater cost in worker retraining, etc. "Many companies have successfully implemented such programs" (482)

Justice: Worker contributions to plants means that they should be repaid by not abandoning worker pension, health, retirement plans, tax revenues, if possible.

Unions and the Right to Organize: Workers, as well as owners, have the *right to freely associate* to achieve morally legitimate, common ends. Also, a worker has the right to be treated as a *free and equal person*

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Thus, unions are a legitimate counterbalance to the power of large corporations (Implied: any company or corporation is an association of individuals with a common purpose)

Right to strike: derives from the right to cease working so long as that does not break agreements or the rights of others.

Recent History of Union Decline

1947: 35% of the workforce unionized
early 1990s: down to 16%
2004: 14%

Causes of Decline

- Increases in percent of workforce comprised of white collar & female workers
- At one time 75% of all unionization votes passed; presently 55% fail
- Decline in public confidence in unions

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Management opposition: Legal tactics include aggressive propagandizing against unionization and lobbying for "business friendly" laws impeding unions

Use of illegal tactics are also widespread, including illegal interference with organizers' rights, and reprisals against employee-organizers for attempting to exercise their right to organize

Consequences of union decline

Increasing dependence on *legislative* means to protect the rights of workers: workers are increasingly dependent on governmental regulation for protections previously afforded under union contracts.

Increasing appeals to the legislatures and courts to secure legal remedies against abuses of managerial power that the countervailing powers of unions used to provide in a more flexible and negotiable way

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Next week: The business system.

- The utilitarian and libertarian justifications for free market capitalism
- The strengths and weaknesses of the utilitarian and libertarian justifications

Readings

Velasquez, Chapter 3: "The Business System."

Case: *GlaxoSmithKline, Bristol-Meyers Squibb, and AIDS in Africa* (Text, pp 158ff)