Course Learning Outcomes for Unit V

Upon completion of this unit, students should be able to:

4. Describe the role of fairness and ethics in managerial decision-making.
   4.1 Summarize the concept of fairness as it relates to decisions.
   4.2 Explain how our personal and business ethics can be subconsciously overridden in decision-making.

8. Summarize best practices for managerial decision-making.
   8.1 Describe how a company's image could be improved in regard to fairness and ethics in decision-making.

Course/Unit Learning Outcomes	Learning Activity
4.1	Unit Lesson Chapter 8 Unit V Scholarly Activity
4.2	Unit Lesson Chapter 8 Unit V Scholarly Activity
8.1	Unit Lesson Chapter 8 Unit V Scholarly Activity

Reading Assignment

Chapter 8: Fairness and Ethics in Decision Making

Unit Lesson

Fairness in Decision-Making

Having a good understanding of the decision-making process requires some review of fairness and ethics. First, we will review various aspects of fairness and its application when we make decisions. Second, we will review how ethics can influence our decisions.

It is important to understand fairness and ethics because without this knowledge, we cannot fully understand decision-making. The first half of Chapter 8 focuses on how individuals perceive the fairness of the actions of others. As we will discuss, people care passionately about fairness despite the fact that economic theory dismisses such concerns as superfluous to our decisions. The second half of the chapter focuses on ethics and considers the ways in which our ethical judgments can be biased, most often in ways that we are not aware of and that benefit us.

Perceptions

Inconsistencies in the results of some economic models can be caused by fairness considerations. Employers may not cut salaries and wages in hard economic times even though sales are down and profits are thin. Even when the economic model says they should, their minds tell them it would be unfair to do so. Our rational choices may be overridden by our fairness considerations.

Is it fair to raise gas prices after a natural disaster?
(Craig, n.d.)

The textbook covers examples of how people perceive the fairness of others when prices are raised during short supply and heavy demand (e.g., increasing snow shovel prices after a devastating snowstorm, decreasing wages during an economic crisis, and increasing prices of a car in short supply) (Bazerman & Moore, 2013). Other examples include raising the price of a case of water after a hurricane or raising the price of gas after a tornado or earthquake. If a business is acting rationally following economic models, price increases are warranted based on supply and demand. However, fairness concerns by our society will generally overrule the economic model. Sometimes, our government steps in and says certain situations demand that businesses play fair or be fined or punished, especially after natural disasters like hurricanes, floods, earthquakes, and fires. Consumers will also punish businesses that they think are unfair by boycotting or spreading the word to other consumers of the unfair actions of the business.

Benchmarks for Fairness

We, as consumers, have developed a benchmark in our minds based on the manufacturer's list price of an item (Bazerman & Moore, 2013). We do not want to pay that benchmark price. We want to pay much less in order to feel like we received a good deal. This initial reference point heavily influences our decisions as an anchor for assessing the fairness of the deal. The framing effects based on the list price (studied in Unit III) influences our interpretations of fairness. As a savvy business manager or owner, we should be concerned about the perceptions of fairness from employees, partners, colleagues, and customers. Consumer emotions can far outweigh market forces in deciding what is fair. Charitable causes and a sense of social obligation can also weigh in to our societal fairness spectrum. Our sense of social good helps encourage us to be fair to others, even if it is easier to be selfish. We have an innate desire to be fair, even when we know that being unfair may have consequences of social sanctions. All of this to say that our rational models cannot predict how emotions, fairness, and desire will affect our decisions

We covered the different regions of the brain in the previous unit and discussed how certain decisions affect different regions. Now we will discuss how fair and unfair offers activate different patterns in our brains. Through research, we now know that offers we receive from a person are interpreted differently from offers we get from a computer (Bazerman & Moore, 2013). There are consistencies across cultures in the way we react to fairness scenarios. Research confirms little support for classic models that are focused on self-interest but found overwhelming evidence of support for fairness models applied to decision-making in all cultures, although implementation may vary by culture (Bazerman & Moore, 2013).

It has been determined that people are willing to expend income to punish an adversary or forgo gains to help someone for whom they care. In future units, we will learn about the different games people play, and we will see how people give up their potential gains to punish an unfair player. People also care about how their competitive state compares to others around them. Some examples that come to mind include wanting to know how our pay compares to our coworkers' pay, how one major league ballplayer's salary compares to another major league ballplayer's salary, and how one top executive's pay compares to other top executives' pay. We tend to use reference points of others in making interpersonal decisions in relation to what we consider or believe to be fair. Hopefully, we have established that fairness concerns do influence decisions, and if we ignore the fairness concerns of others, there could be consequences. We also must realize what we consider as a fair standard may be different from what others consider as a fair standard. To make better personal and professional decisions, we need to understand how people judge fairness.

Ethics in Decision-Making

The relevance of ethics in decision-making can be thought about in two ways. First, we should be making ethical decisions by making choices that are consistent with our set of moral values, standards, and norms. Second, we need to be aware of choices involving ethical dilemmas. These choices involve situations where there are competing alternatives about what is the right thing to do.

When we talk about ethical behavior, what we are really talking about are the results of ethical decisions. In addition to the choice that must be made, the person making the decision must use ethical principles for the decision to be ethical. This may be a conscious choice, such as when someone grapples with an ethical dilemma and is seeking to resolve it in accordance with some set of values, but it may also be done subconsciously or by habit when a person acts instinctively based on his or her own moral compass to make judgments and choose between alternatives.

Ethics and Decision Bias

Researchers have concluded that an overwhelming majority of unethical behaviors actually occur without consciously intending to behave unethically (Bazerman & Moore, 2013). Cognitive biases that people have can affect their moral judgment and cause ethical blind spots. These blind spots unintentionally cause the decision maker to make an unethical decision because he or she is not aware of the consequences. Traditionally, organizations have tried to promote ethical decision-making and behavior through training that emphasizes the moral components of decisions and encourages managers to choose the most ethical path. This training assumes we make explicit choices between behaving ethically and cheating on behalf of our organization or ourselves.

It is true that there will always be a small number of bad apples in organizations who consciously decide to deceive others for their own benefit, but less deliberate unethical behavior may be far more common. Indeed, all of us are susceptible to unconsciously scrubbing the ethical dimensions of decisions from our minds, a process known as *ethical fading*. Aspects of everyday work life, including goals, incentives, rewards, and organizational norms, can lead us to classify a decision as a business decision rather than as an ethical decision, a reframing that increases the likelihood that we will behave unethically. Organizational structures can create perverse incentives that led individual decision makers to behave at odds with their moral code, perhaps without consciously recognizing they were doing so.

For decades, national and international cycling associations failed to investigate widespread rumors that many of the top athletes in the sport were taking drugs to enhance their performance, which was against the rules. Investigations by outside parties revealed that Lance Armstrong and other star cyclists engaged in doping and lied in court to cover up their rule breaking, which was a major blow to the sport. Why did the cycling world ignore this unethical behavior? Decision makers likely were affected by a bias known as *motivated blindness*, which is the common failure to notice others' ethical lapses when we benefit from their behavior and when confronting that behavior would harm us. Higher-ups in cycling organizations risked harming the sport financially and potentially risked losing their jobs if they had viewed accusations of doping and cover-ups critically.

A similar situation appears to have played out in the United States in the 1990s when Arthur Andersen and other Big 5 accounting firms failed to report or even detect fraudulent behavior by clients, such as Enron, during the course of audits. Because auditors depend on their customers for future business, they face strong incentives to rationalize suspicious business practices and sign off on their financial statements. Such conflicts of interest lie at the heart of motivated blindness. It is almost impossible to view information without bias when we have a stake in the outcome.

Ethical Decision Process

The theory exists that ethical decision-making is no different from any other type of decision-making and that there is no real distinction between the process followed in ethical decision-making and the process used for other types of decision-making. Even though the structure of the decision process may be the same, what happens at each step of the process will reflect the ethical component of a decision. Recall that part of the rational decision-making model is identifying the relevant criteria on which to base the decision (Elm & Radin, 2011).

Since all types of decisions affect other people, they have ethical and moral dimensions. It follows that one criterion that should be used for every decision is whether an alternative is ethical. If such a criterion is used, then the analysis portion of decision-making that considers the ethical dimension should identify the affected parties (i.e., stakeholders) and their respective values and perspectives. It must also consider the question of obligations to those parties in the context of the consequences that affect them. These are duties owed, not because one is legally bound, such as with a fiduciary duty or the duty of care but, rather, because they are obligations that arise from a sense of right and wrong, such as being benevolent toward others or acting with integrity and trustworthiness.

How would you feel if your decision was reported in the newspaper for everyone to read? If you consider this, you are using the publicity test.
(Sebnem, 2017)

When choosing between alternatives, which is another step in the rational decision-making process, *ethical reasoning* must be applied. This involves using different frames, such as utilitarianism, social justice, or the common good perspective, to evaluate whether a choice is compatible with a set of ethical values. Other tests can be used to assess the options. In an organization, there is the question of whether the choice is consistent with a code of ethics or conduct. The publicity test asks whether you would be comfortable seeing the decision reported in a newspaper. The answer indicates whether you believe the choice is consistent with social norms. Another screen to use is the defensibility test: Could you explain the issue and the choice to colleagues, family, or friends and be comfortable with it? The reversibility test involves the following consideration: If you were the only one adversely affected by it, would you respect the rationale behind the decision?

As humans, we make systematic errors inconsistent with our ethical desires that result in decisions that can be very harmful to others. These errors in judgment are against our established ethical criterion. Our perceptions and thinking patterns are bounded in ways that contradict our typical ethical assumptions. Most people see themselves as being moral and ethical, which keeps them from really analyzing their behavior and recognizing their bounded ethicality (Bazerman & Moore, 2013). It has escaped our conscious awareness.

Click here to test your knowledge of concepts related to fairness and ethics in decision-making. Be sure you have reviewed Chapter 8 before taking this quiz.

References

Bazerman, M. H., & Moore, D. A. (2013). *Judgment in managerial decision making* (8th ed.). Hoboken, NJ: Wiley.

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