

**ORGANIZATIONAL DESIGN
AND BEHAVIOR
(87139)**

**Organizational ethics
and the environment**

**Dr Luca Carollo
luca.carollo@unibg.it**

**Office hours
Thursday, 1-2 pm**

Harvard Business Review

READ Carucci's article and answer to the following questions:

- 1) what are the problems diagnosed by Henry and the solutions he put forward?
- 2) what are instead the organizational design issues discussed by Carucci?
- 3) what is the difference in their approach?

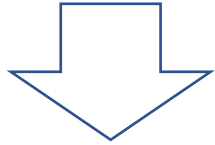
PART I
**Organizations and their
environment**

ALIGNMENT or FIT

- misalignment between the components of an organization can cause serious problems;
- there must be alignment between the internal organizational elements so that they reinforce each other;
- the entire organizational system and its components have also to be aligned to the environment so that they fit with it;
- if some problems of misalignment or lack of fit are identified, it is necessary to diagnose them and delineate a change path.

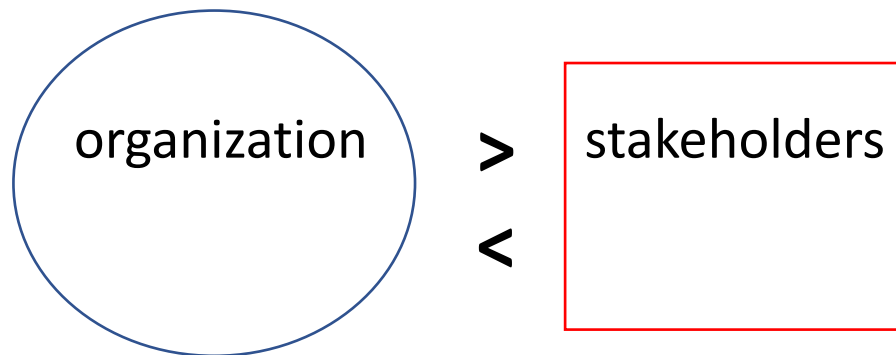


Alignment with the environment or environmental fit



Stakeholders

- people who have an interest, claim, or stake in an organization, in what it does, and in how well it performs.





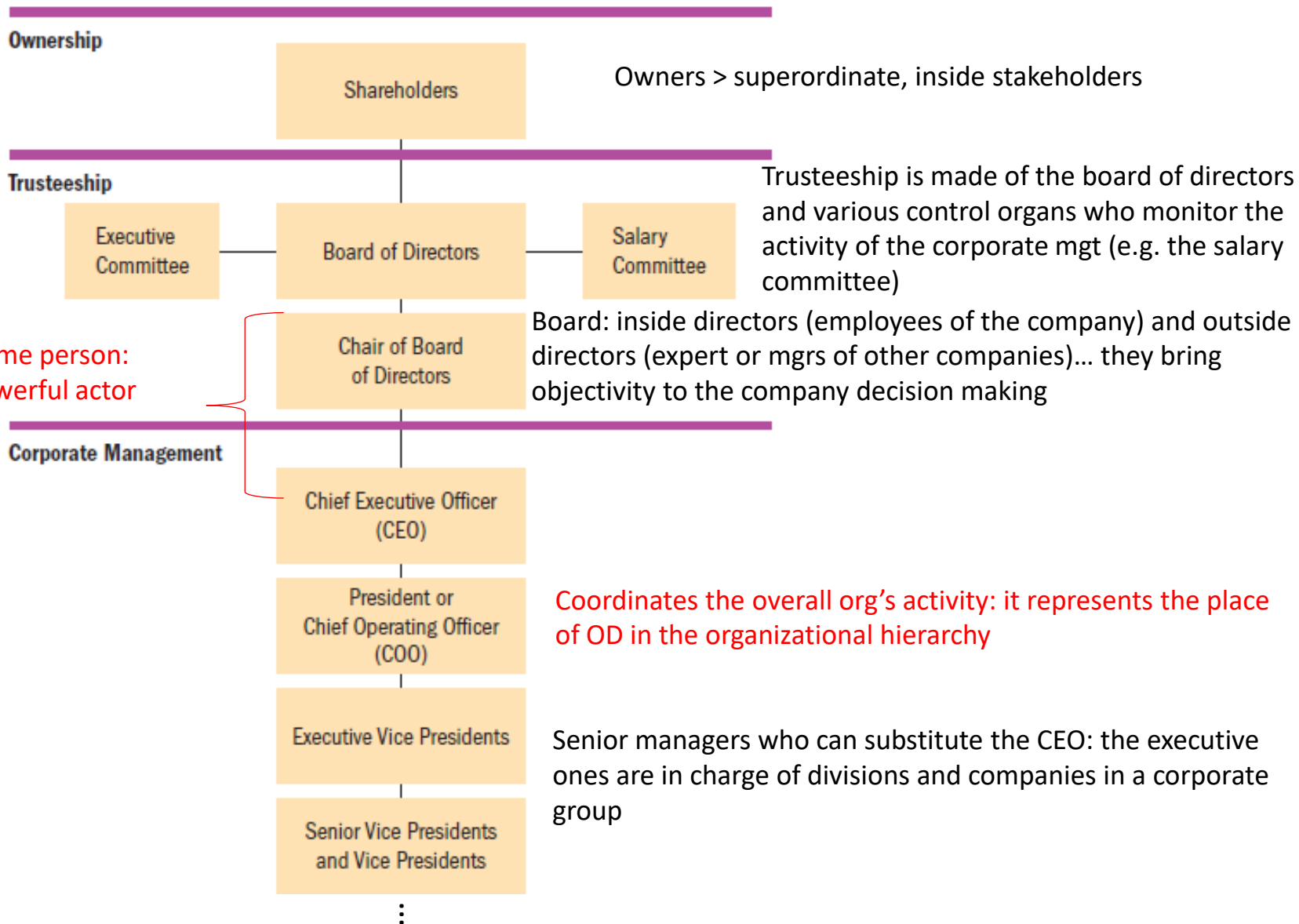
Internal stakeholders

Normally the closest ones and those who have the strongest and more direct claim on organizational resources.



- Shareholders: the owners, their claims is often considered the superior one. They invest money or buy the organization's share or stock;
- Managers: they are the agents or employees of shareholders – they have to coordinate organizational resources and assure that the goals are met;
- Workforce: non-managerial employees who use their skills and knowledge to perform required duties and responsibilities.

> Top managers



Often the same person:
the most powerful actor
in the orgz

Divisional and functional managers and all the middle managerial levels

>> The agency problem



It arises whenever an actor (the agent) is called to act on behalf of another one (the principal).

In the case of a company, the owners are the principals and the (top) managers the agents.

But who does assure that the managers make the interest of the owners?

Common solutions

- 1) **Stock-based compensation schemes:** managers receive a large part of their monetary reward in the form of stocks or stock options that are linked to the company's performance;
- 2) **Promotion tournaments or career paths:** one way of linking rewards to performance over the long term is by developing organizational career paths that allow managers to rise to the top of the organization.



Corporate governance forms

What is the most spread form of corporate governance, according to you?

- autocracy (absolute power to one person);
- technocracy (government of the experts);
- oligarchies (government of an elite club);
- co-determination (e.g. Germany's work councils);
- democracy (direct or indirect, through elected representatives).

Why is it so?

We live in democratic societies and we consider ourselves democratic people. So why do we accept to live a great part of our awoken time in organizational structures governed by oligarchies?

➤ **What are the pros and cons of democracy in organizations according to you?**

Make a list in pairs (10 mins) and then share it with the rest of the class.



Is organizational democracy worth the effort?

Jeffrey S. Harrison and R. Edward Freeman, Special Topic Guest Editors

pros	cons
Having a voice and the possibility to influence it, can foster commitment to the organization	People may choose a path not advantageous for the organization, because they lack skills or experience
Participation in decisions can aid their implementation	Democratic processes can take time, which hurt efficiency
People feel more responsible for organizational outcomes and preventing wrongdoings	It requires sweeping and change processes, difficult to make and that disrupt everyday operations
A participatory climate fosters innovation and ability to change	Resistance can come from the top levels, for the loss of authority, but also from the bottom, because of increased demands and responsibilities
Providing autonomy and discretion, it develops employees' skills and abilities more fully	It may not fit situations which require rapid choices and adjustments, as in the battlefield
It is the right thing to do, according to moral and societal values	If it hampers performance, it may not be the right thing from the point of view of many stakeholders



How would a democratic work organization look like?

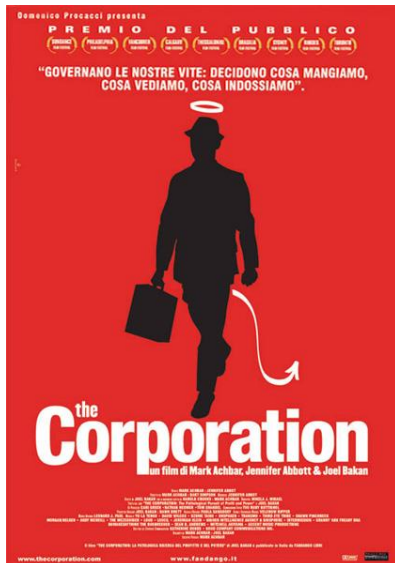


... it should be designed!

Top management and organizational ethics

After the many recent corporate scandals, it is important that managers follow ethical guidelines in their decision making when confronted with an ethical issues and dilemmas.

In the last two decades the ethics and responsibility of the whole business system has been put into discussion!



Former CEO of VW Martin Winterkorn resigned in 2015 after the outburst of the 'Dieselgate scandal'

External stakeholders

Those who do not own the organization or are not employed in it, but nevertheless are impacted by the organization's activity.

- customers;
- suppliers;
- government(s);
- trade unions;
- local communities;
- general public;
- NGOs, NPOs, social movements...

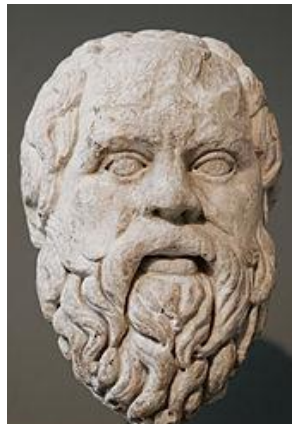


Organizational effectiveness

- an organization is viable as it satisfies its stakeholders producing value for them;
- **complementary goals** among stakeholder groups are the least problematic ones e.g. satisfying customers + increasing sales + increasing profits;
- problems arises in front of **competing goals** e.g. quality vs production costs, labour costs vs profits, financial sustainability vs social sustainability vs environmental sustainability of a company! **Not always win-win!**
- not all the stakeholder groups have the same power and the choice of which groups to prioritize has **social and political implications**.

Ethics & organizations

- (def.) inner guiding moral principles, values, and beliefs that people use to analyze or interpret a situation and then decide what is the “right” or appropriate way to behave;
- the essential problem of ethics, is that no absolute or indisputable rules or principles can be developed to decide if an action is ethical or unethical;
- how is it possible to decide whether it is “right” to favor a person (or group) over another one, even against our own self-interest?
>> **ethical dilemmas**



Socrates, one of the first philosophers that speculated on ethics

Organizational ethics & the law



- for an organization the first source of ethical principles is the law;
- but neither law nor ethics are fixed principles, they change over time;
- what to do in front of unethical laws?
- what about actions that are legal but unethical?
e.g. downsizings, delocalization, a manager favoring the hiring or promotion of a friend, companies and industries that are considered 'immoral' (gambling, tobacco, weapons... oil? etc.)

NECESSITY TO GO BEYOND COMPLIANCE!

Types of ethics #1

- **Utilitarian model.** An ethical decision is one that produces the greatest good for the greatest number of people;
x how do managers decide about the relative importance of different stakeholders? How can they calculate the good or harm their actions produce?

Types of ethics # 2

- **Moral rights model.** It is important to protect the fundamental rights of different stakeholder groups;
x whose rights to protect? e.g., protecting the privacy of people or snooping on them because maybe they are damaging or subtracting company's property? Freedom to speak up to employees or protecting the reputation of an organization?

Types of ethics #3

- **Justice model.** An ethical decision is a decision that distributes benefits and harms among stakeholders in a fair, equitable, or impartial way;
x different distributive principles e.g. meritocracy... or according to the needs, but who should determine the needs of different actors and groups?

Ethical conflicts and dilemmas

<https://www.youtube.com/watch?v=G393z8s8nFY&t=214s>



Should pharmaceutical and cosmetic companies continue animal testing to improve people's life? (utilitarian e.)

Or should they stop because animal mistreatment is unacceptable (moral rights e.)

Or should they resort to animal testing just to solve severe and urgent human problems ie ok in the pharma, not ok in cosmetics (distributive j.)

No definitive answer!

To escape radical relativism managers should:

- 1) know their own ethical positioning as regards a certain issue;**
- 2) know the positioning of the various stakeholder groups;**
- 3) evaluate the different alternatives and ethical bases of their decisions;**
- 4) make an ethically informed decision...**
- 5) knowing that every decision is normative (no 'objective truth', there are always trade-offs), and influenced by power relations!**

Sources of organizational ethics

- societal ethics;
- professional ethics (deontology);
- individual ethics;
- organizational codes of ethics;

An organization should find an **alignment** also among all its **constituents'** sources of ethics!

Creating an ethical organization


- **example and ethical leadership** of senior and top managers;
- **sustainable and ethical HRM:** recruitment, selection, training and compensation oriented towards ethical attitudes and behaviors;
- **designing an ethical structure and control system** so that concerns can be raised, investigated and misbehaviors corrected;
- **creating an ethical culture** by putting explicitly the values, norms and principles that guide the organizational action;
- **supporting the interest of stakeholder groups** through appropriate stakeholder engagement and participation tools.

bp



CASE

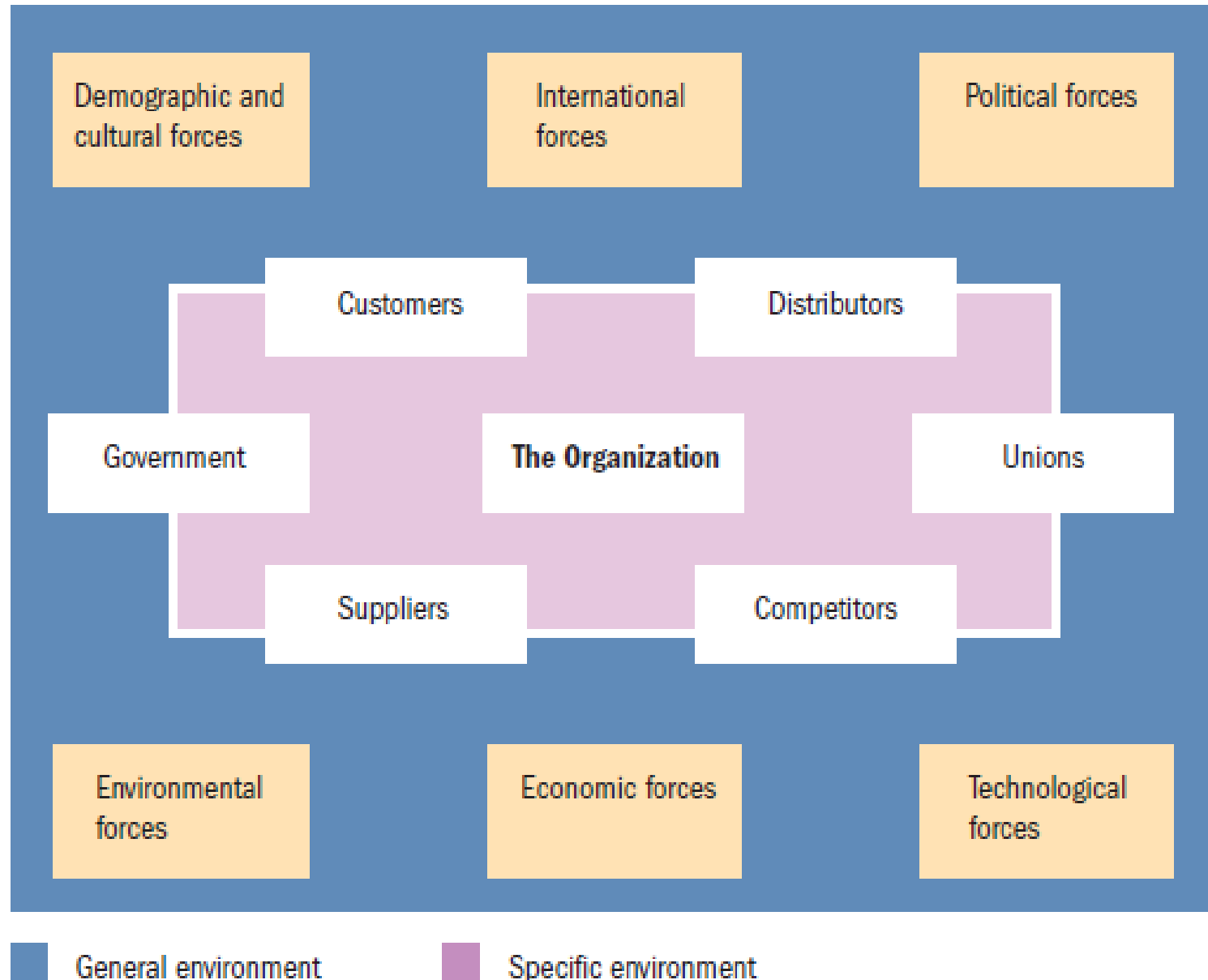
BP is not taking care
of its stakeholders



The set of forces surrounding an organization that have the potential to affect the way it operates and its access to scarce resources

ORGANIZATIONAL ENVIRONMENT

The organizational environment



The specific environment

Forces from outside stakeholder groups that directly affect an organization's ability to secure resources.

Customers, distributors, unions, competitors, suppliers, and the government are all important outside stakeholders that can influence and pressure organizations to act in certain ways.

The general environment

forces that shape the specific environment and affect the ability of all organizations in a particular environment to obtain resources

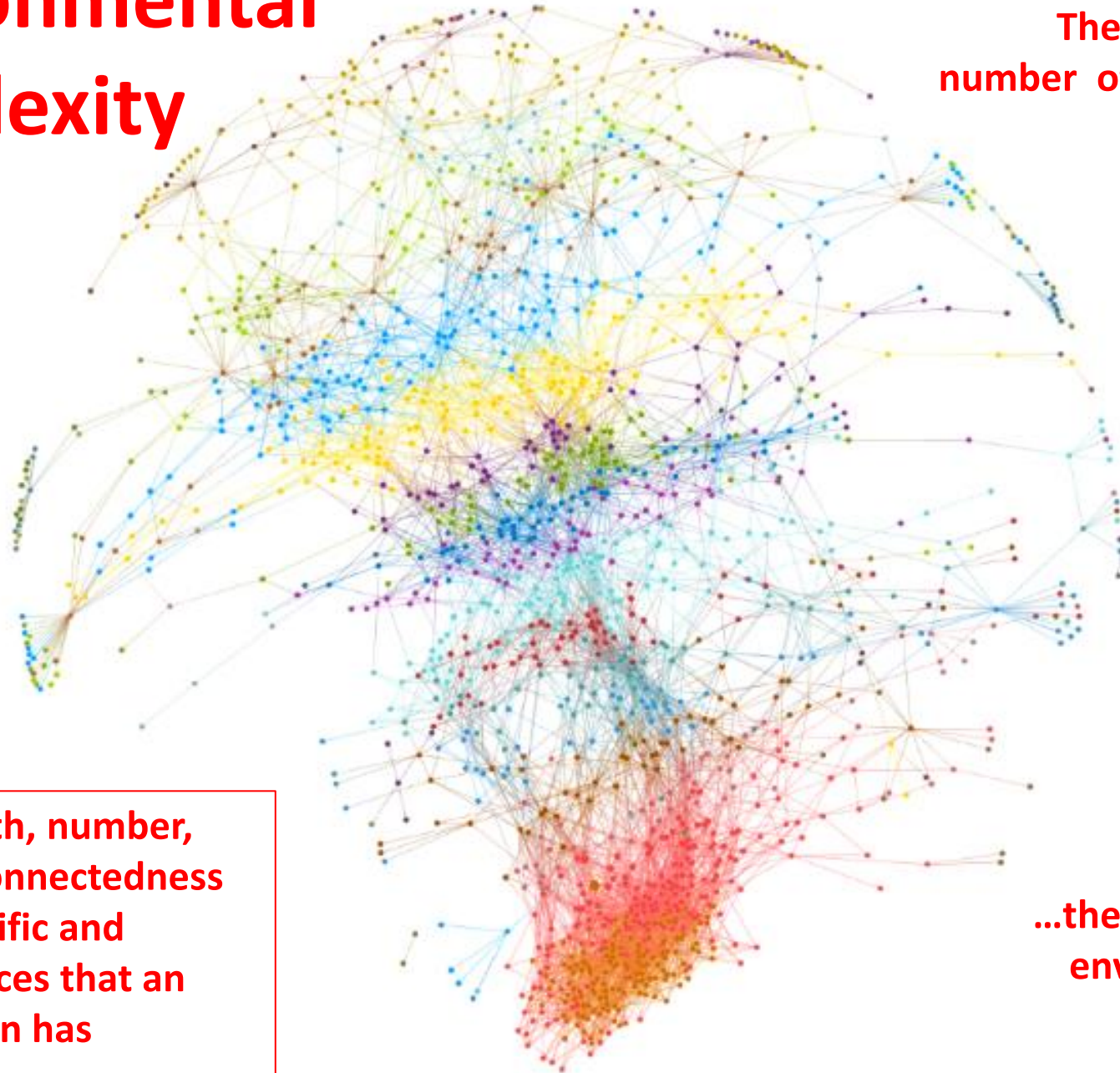
- **economic forces:** state of the economy, currency strength, interest rates, unemployment rate, raw material costs...
- **technological forces:** development of new production techniques, new information-processing equipment, knowledge management tools...

The general environment #2

- **Demographic, cultural, and social forces:** age, education, lifestyle, norms, values, and customs of a society that shape how employees and customer behave;
- **Political, ethical, and natural environment forces:** these forces influence organizations indirectly, through government policy toward organizations and their stakeholders.

Environmental complexity

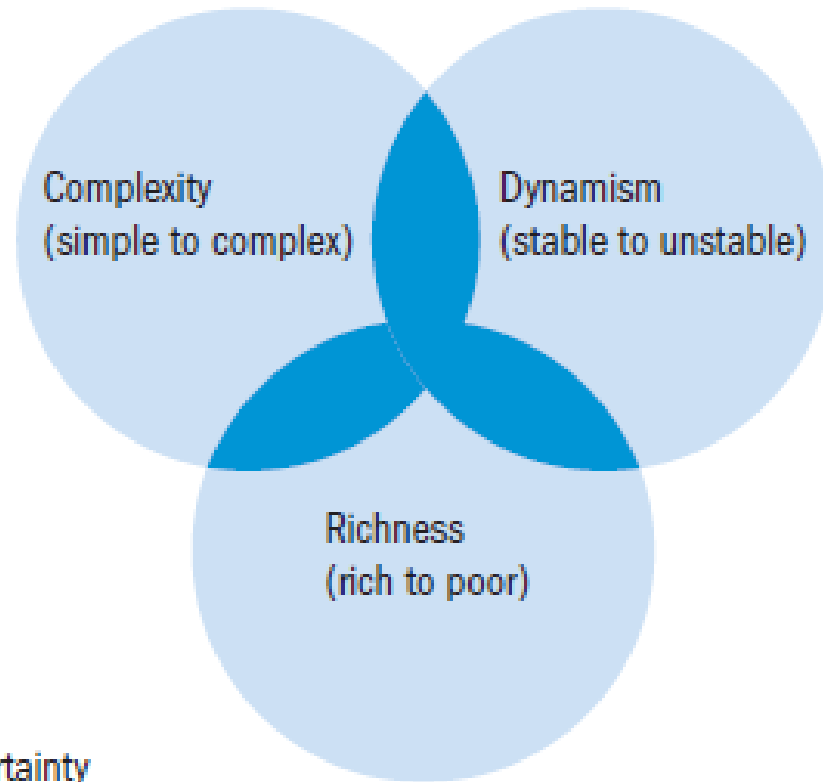
The greater the number of relations...



The strength, number, and interconnectedness of the specific and general forces that an organization has to manage

...the greater the environmental complexity

Environmental uncertainty



One tentative conclusion

- it is primarily a responsibility of the top management that organizations and their businesses “fit” with the external social, natural and economic environment;
- ethical leadership and organizational ethics is one way for organizations to relate with their environment;
- it is possible to use scenario planning and scenario analysis tools to evaluate the efficacy of your organization’s strategy, tactics and plans for the future;
- in today’s complex world, nobody can pretend to have ‘the right answer’ => involve diverse expertise and competences (from your employees), as well as multiple stakeholders in your decision-making!

Additional resources

- Harrison, J. S., & Freeman, R. E. (2004). Is organizational democracy worth the effort?. *The Academy of Management Executive*, 8(3), 49-53.
- A proposal by activists and academics for democratizing work organizations:
<https://democratizingwork.org/#english>
- On the importance of ethical leadership in contemporary business organizations:
<https://www.forbes.com/sites/forbescoachescouncil/2023/02/28/the-rise-of-ethical-leadership-in-modern-business-enterprises/?sh=5db218d737dd>
- For a critical take on corporations and corporate ethics watch the documentaries 'The Corporation' (2004) and 'The New Corporation' (2020), freely available at:
<https://www.youtube.com/watch?v=dpjywnxnS4U>
<https://www.youtube.com/watch?v=gPcHjF8RmYY>

For the next time

Lesson of Tue, May 23

Read the B.A.R. Grille and restaurant case and try to answer to its questions.