

# Lecture 5

**Principles of Management**

Prepared and Presented by A. Elshelmani

# Next Saturday 16 December 2017

- **MID-TERM EXAM REVISION.**
- We will discuss the exam format.
- We will practice a sample, mock exam.
- Please attend **ON TIME. DOOR CLOSES AT 8:30 AM.**

# Key Terms

- Ethics الأخلاقيات
- Obligation واجب
- Business Ethics اخلاقيات الاعمال
- Individualism الفردانية
- Utilitarianism النفعية
- Outcomes نتائج
- Consequences عواقب
- Stakeholders أصحاب المصلحة
- Moral rights حقوق أخلاقية
- Decision making اخذ القرار
- Shareholder أصحاب الاسهم
- Socialization التنشئة الاجتماعية

- Free choice حرية الاختيار
- Ethical dilemma معضلة أخلاقية
- Ethical responsibilities مسؤولية أخلاقية
- Majority الاغلبية
- Cost-benefit analysis تحليل التكلفة والفائدة
- Legal responsibilities مسؤولية قانونية
- Impartiality الحيادية
- Justice العدالة
- Equity المساواة

# Key Terms:

- Means...السبل الي
- Ends النهاية/الغاية

- Charity عمل خيري
- Voluntary طوعي/تطوعي

# Lecture Objectives

## 1. Define ethics.

عرف مفهوم "الأخلاقيات".

## 2. Explain the utilitarian, individualism and moral rights and justice approaches for evaluating ethical behavior.

اشرح "مذهب المنفعة"، "الفردانية"، "الحقوق الأخلاقية"، و "منهج العدالة" التي تستخدم لتقييم مدى "أخلاقية" تصرف ما.

## 3. Describe how both individual and organizational factors shape ethical decision making.

اشرح كيف تؤثر العوامل الفردية والعوامل التنظيمية في عملية اتخاذ القرارات الأخلاقية.

# Lecture Objectives:

4. Define 'corporate social responsibility' and how to evaluate it along economic, legal, ethical and discretionary criteria/standards.

عرف "المسؤولية الاجتماعية للشركة" وجوانبها الاقتصادية، القانونية، و الأخلاقية و الطوعية.

5. Explain the concept of stakeholder and identify important stakeholders for organizations.

اشرح فكرة «صاحب المصلحة» بالشركة، وحدد اهم " أصحاب المصالح " للمنظمة التجارية.

# First....Two related questions?

1. Should companies direct their attention **fully and solely** to making profit?

هل يجب على الشركة التركيز على تكوين الأرباح **فحسب**؟

2. Companies have a responsibility to their shareholders– to make profit, but do they have a responsibility to anyone else?

الشركة لديها واجب نحو المساهمين (حاملين الأسهم) لتحقيق الأرباح، ولاكن هل لديها أي مسؤولية اجتماعية اتجاه أي اطراف أخرى؟



## The Friedman Doctrine:

According to Nobel Prize Economist, Milton Friedman  
بالنسبة لميلتون فريدمان، الشركة لديها مسؤولية واحدة و تامة  
للمساهمين. ليس لديها أي واجبات اتجاه أي اطراف أخرى.

- He believed the only responsibility a company has is to make long term profit to reward its shareholders for the risks they took when investing in the company. The only other responsibility is to respect the “rules of the game.”

كان يؤمن ان المسؤولية الوحيدة للشركة هي تحقيق الأرباح على المدى  
الطويل ولا احترام «قوانين اللعبة» أي القانون السائد.



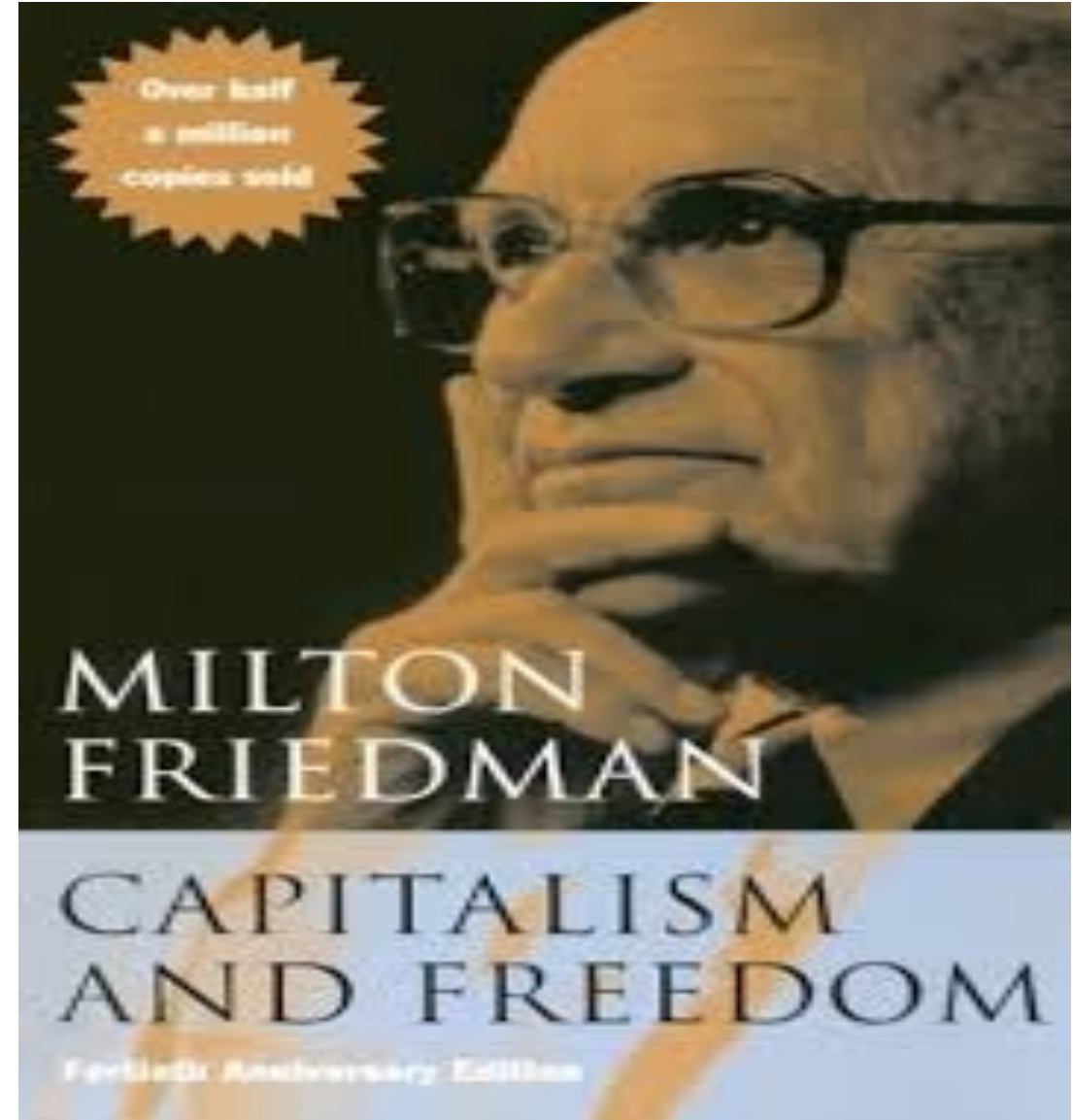
# The Friedman Doctrine:

- The manager should have no authority to spend company funds on social welfare.

لا يجب ان يكون للمدير أي صلاحية لانفاق أموال الشركة على الرعاية الاجتماعية.

- If the shareholder is interested in public welfare, they can spend their money in their own private capacity as individuals.

لو كان يهتم صاحب الأسهم بالمصلحة العامة،  
فبإمكانه الانفاق من ماله الخاص.



# Why does Friedman promote this idea?

- Friedman believes in the clear separation between public and private.  
فريدمان يؤمن بالفصل بين القطاع العام والخاص.
- Between government and market.  
الفصل بين الدولة و السوق.
- Social welfare is government job.  
الرعاية الاجتماعية من أدوار مؤسسات الدولة.

- Profit-maximization is the markets job.

تعظيم الربح هو دور قوات السوق.

- The government should not intervene in the market, because this leads to **totalitarianism**.

تدخلات الدولة في السوق غير مرغوبة وتؤدي الي الاستبداد.

- Likewise, the market should not intervene in “public matters” like poverty relief, environmental safety, schooling.

- On the other side, many believe a company has responsibilities other than profit-maximization. It has an **ethical responsibility to promote the social good.**

على الجانب الاخر، البعض يؤمن ان الشركة لديها مسؤوليات أخرى غير تعظيم الأرباح. لديها مسؤولية اخلاقية لترويج وتعزيز المصلحة العامة.

- It is responsible to **shareholders, as well as and customers, and employees, the community, and the natural environment.**

لديها مسؤولية اتجاه الزبائن، الموظفين، المجتمع المحلي و البيئة الطبيعية بالإضافة الي أصحاب الأسهم.



# Why discuss these questions?

- **Because...**many companies today still **only** think about profit-maximization. This encourages them to think short-term, take *un-ethical* actions/decisions with *disastrous consequences*.
- There are many examples of ethical disasters in the business world, and by thinking about them we can try to avoid them in the future.



# Ethical Issues in the Business Environment

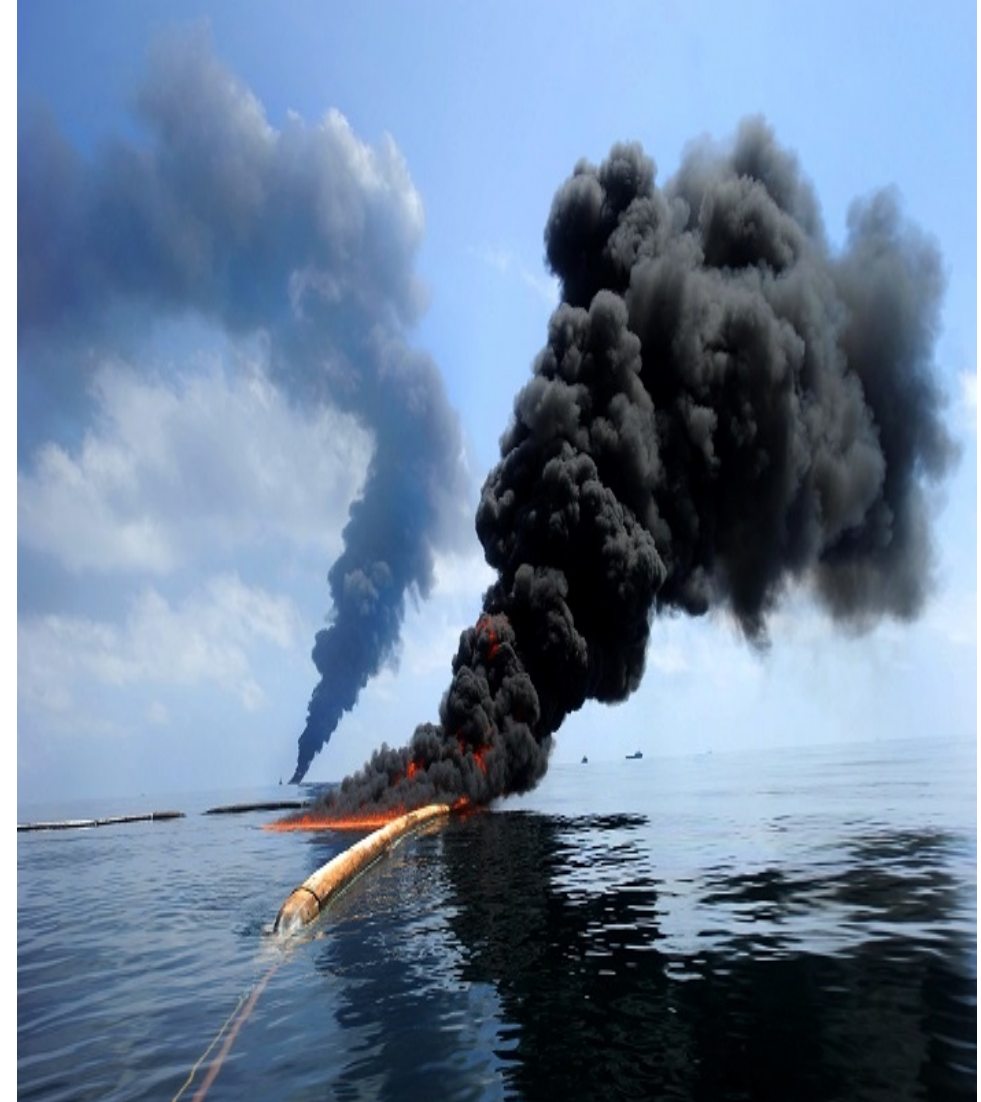
- We are interested in the ethical dilemmas that emerge in a business environment.

نحن مهتمين بالمشكلات الأخلاقية التي تنشأ في بيئة الأعمال التجارية.



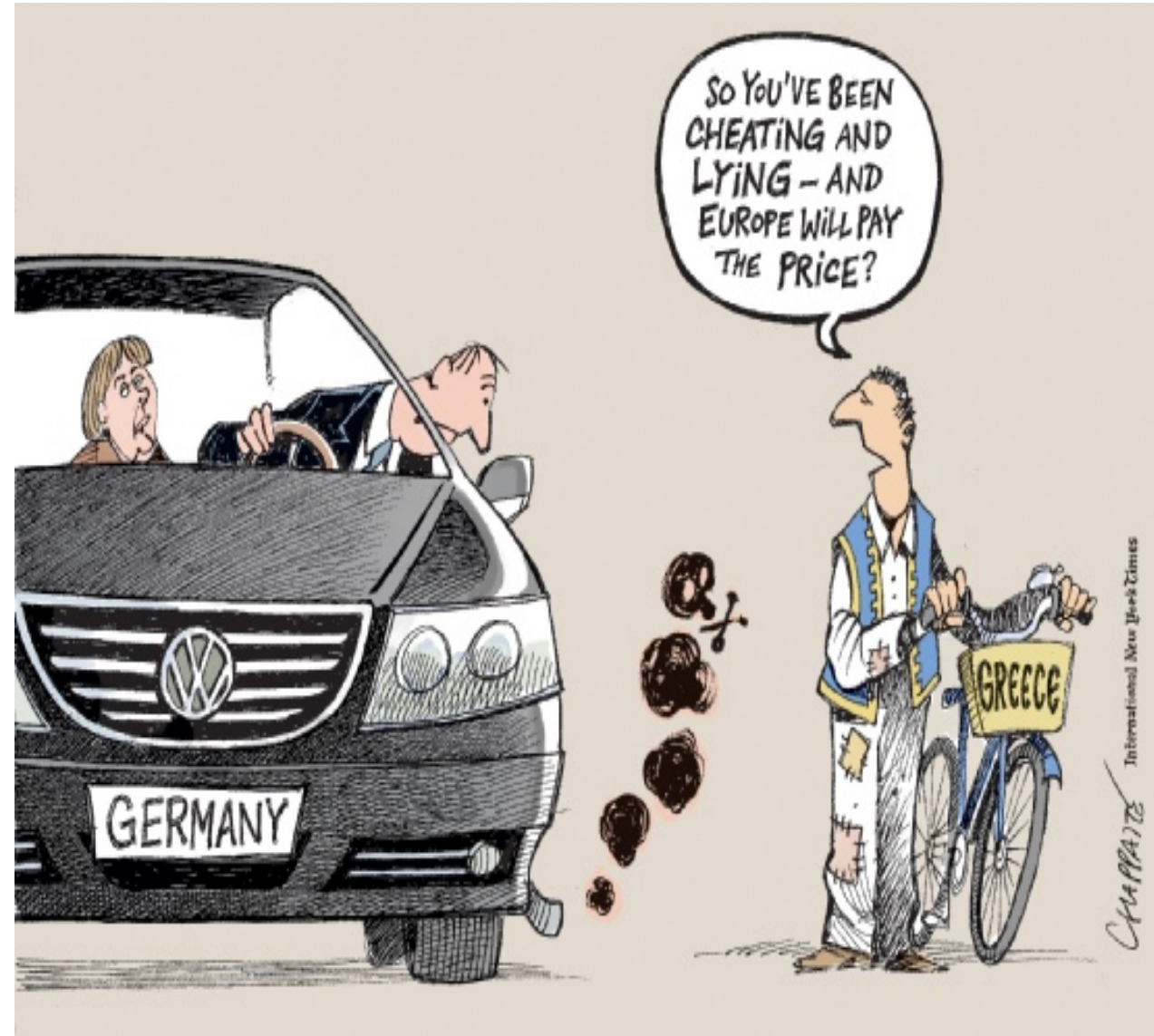
# Example 1: British Petroleum (BP) Oil Spill

- Deepwater Horizon rig explodes and sinks.
- Causes 210 million gallons of oil to spill into the gulf of Mexico (500 barrels per day).
- Worst ecological disaster in history.
- Causes: favored speed in production over safety.
- **Consequence: 11 Dead, long-term consequences for marine life, 18.7 billion in fines.**



# Example 2: Volkswagen (VW) Emissions Scandal

- One of the biggest car producers **falsifies** emission test results, to avoid special taxes between 2009-2015.
- Cars did not meet international environmental standards. They omitted 40 times more NOx chemical gas than allowed.
- **Consequence: undeclared pollution of the environment.**





# Grenfell Tower Fire

- Construction company uses cheap plastic to cover building and make it “look nice” next to luxury flats.
- Plastic coating is highly flammable.
- Not enough fire exits & water sprinklers not do not work.
- **Consequence: hundreds dead.**



# Other examples of *Unethical* behavior in Business Context

- acceptance of bribes. الرشوة
- Financial fraud. الاحتيال المالي
- Tax evasion. التهرب من الضرائب
- Mass layoffs. تسريح العمال
- Racial discrimination in the workplace. التمييز العنصري
- Emotional abuse of workers. سوء المعاملة



# Why should we discuss ethics in a business course? لماذا نناقش موضوع الاخلاقيات في الإدارة؟

- Because unethical behavior harms.....لان التصرفات الغير أخلاقية تضر...
  - the company بالشركة
  - Hurts employees, customers, suppliers, investors etc.
  - And harms society in general. والمجتمع بشكل عام
- **Companies understand today that moral practices are important.**

# 1. Define ethics

- What do we mean by ethics?
- **To keep it simple:** ethics are **principles** and **values** that govern behavior and decision making for individuals and groups and make clear what is “right” and “wrong.”
- They are guidelines for our every day life, as citizens, family members, business people etc.

الإخلاقيات هي المبادئ والقيم التي تقيد السلوك وعملية اخذ القرار للفرد والمجموعة، وتوضح ما هو السلوك/القرار “الصائب” “السوي” وما هو “الخاطئ.”



## 2. Explain the Utilitarian, Individualism and Moral Rights and Justice Approaches for Evaluating Ethical Behavior

- How do we know that a decision/action is ethical?

كيف نحدد ما اذا كان قرار/تصرف معين أخلاقي؟  
هنالك أربعة مدارس في علم الاخلاق لتقييم مدى "أخلاقية" تصرف معين:

1. utilitarian School مدرسة النفعية
2. Individualism approach الفردانية
3. The moral-rights approach الحقوق الاخلاقية
4. The justice approach. العدالة

# Utilitarian Philosophers

- John Stewart Mill
- Jeremy Bentham



# Utilitarian Approach

# المدرسة النفعية

- The utilitarian approach determines if an action is morally “right” or “wrong” by focusing on the **outcomes/consequences/the ends** of actions—not the means. (consequentialism).

المدرسة النفعية اذا مدرسة «عواقبية» لان عاقبة/نتيجة/نهاية التصرف هو المعيار الرئيسي لتحديد مدى صوابها/اخلاقيتها.

- The **ethical act** is one that produces the **greatest utility for the greatest number**.  
التصرف الأخلاقي هو التصرف الذي يحقق اكبر منفعة لأكبر عدد.
- **Maximum utility for the maximum number.**
- Utility is defined as happiness/joy or benefit **for most**.

# Dangers of the Utilitarian Approach:

- **Problem:** But what about the minority?
  - Majoritarianism. Tyranny of the majority.
  - **What about the individual?**





# Problems With the Utilitarian Approach: Example

- Company (x) is thinking about closing its small factory in USA and moving to China.
- This action will:
  - Make **500 people** unemployed in the USA.
  - But it will allow for major cost-savings and make product cheaper to buy for the company's **thousands of customers**.

تسريح 500 سيؤدي الى توفير في تكاليف الإنتاج سيخفض من سعر الوحدة لألاف الزبائن.

# Individualism

Individualism is an ethical position that affirms the value of the individual.

الفردانية هي موقف أخلاقي يؤكد على القيمة المعنوية للفرد.

Individualism views the interests of the individual above the interests of the collective and state.

الفردانية تضع مصالح الفرد فوق اعتبارات الدولة والجماعات.

- According to individualist approach, ethical acts will promote the **individuals best long-term interests**.  
التصرف الأخلاقي وفق هذه المدرسة، هو التصرف الذي يروج مصالح الفرد الطوية المدى.
- If everyone works to satisfy **their own individual needs and wants**, this will create the greater good in the long term.



- Because individuals are looking for their good in the long-term....*in theory*....they will avoid lying, cheating, and any form of harm to others.

honest.

# Moral-Rights Approach

- Ethical decisions are those that best *maintain the rights of those people affected by them.*
- An ethical business decision/action *will not interfere with the rights* of others.
- Can you give some examples of rights that businesses should uphold?

# Moral Rights Approach:

- The right to safety. (**BP**)
- The right to health. (**McDonalds**)
- The right to consent. (**Snapchat**)
- The right to privacy. (**Facebook Inc.**)
- The right to freedom of conscience.
- The right to free speech.

# Justice/Fairness Approach

- Ethical decisions must be based on **standards of equity**, fairness and impartiality.
- The most ethical decisions treat all individuals **as equally as possible**—if not treated equally, then they must be treated **fairly**.

القرارات الأخلاقية هي التي تعامل الجميع **بمساواة**.

اذ لم تعامل الجميع بمساواة، فلا بد ان يكون معيار/سبب التفرقة **عادل وعقلاني**.

- E.g. People are paid differently, according to their different levels of work.
- Is this equal? Is it fair?
- If the inequality can be justified/defended then it is fair.

### 3. Describe how *individual* and *organizational* factors shape ethical decision making.

- **Individual factors:** there are individual factors for ethical and unethical behavior.
  - A problem with an **individual manager's** character can lead to stealing, cheating, lying and other unethical patterns.
- **Organizational factors.** Unethical decisions can reflect larger organizational values , beliefs and behavior patterns.

# The Individual Manager المدير

- Every manager is different.
- Different in terms of family background, religious background, personal needs and interests, personality traits....this leads to different understanding of “right” and “wrong” (ethical judgement).

من ناحية الخلفية العائلية، الدينية، الاحتياجات الشخصية، الطباع..... هذا بطبيعة الحال يؤدي الي اختلافات في الحكم الأخلاقي.



# The Individual Manager:

- Self-confidence + independence + honesty + concern with the common good = ethical behavior.
  - This manager is at a **higher stage of personal moral development.**
- A lack of self-confidence + high dependence on others + trust-issues + concern with individual interest = unethical behavior.
  - This manager is at a **lower stage of personal moral development.**

# The Organization المنظمة

- Corporate culture can influence ethical behavior.

الثقافة التنظيمية بإمكانها التأثير على السلوك الأخلاقي.

- New employees can be *socialized* into unethical values already present in the organization.

التنشئة الاجتماعية للموظفين الجدد تتضمن تلقينهم لغة الجماعة وتعويدهم على الممارسات، العادات، والنظم السائدة بالمنظمة وتشجيعهم على السير ضمن الأطار.

- Behavior is learned through groups, and employees can become involved in unethical behavior, when they try to please their fellow employees and managers and imitate their behavior.

# **Imagine: you join a company and you find....**

- Selection and recruitment is based on status, family relations, and favors. (unethical according to the justice/fairness approach).
- The company's leader's are only concerned with meeting their individual, short-term interests, they lie, cheat, and manipulate employees. (unethical according to the individualism approach)
- There is no respect for employee privacy and emails are watched. (unethical according to the moral rights approach).

- This is an unethical organizational culture.
- It involves more than individuals...it is collective and ingrained...difficult to treat.

## 4. Define Corporate Social Responsibility.

عرف "المسؤولية الاجتماعية للشركة" وجوانبها الاقتصادية، القانونية، و الأخلاقية و الطوعية

Corporate  
Social  
Responsibility

**CSR** refers to the "obligation of the organization's management to make decisions and take actions that will enhance the public good as well as the organization."

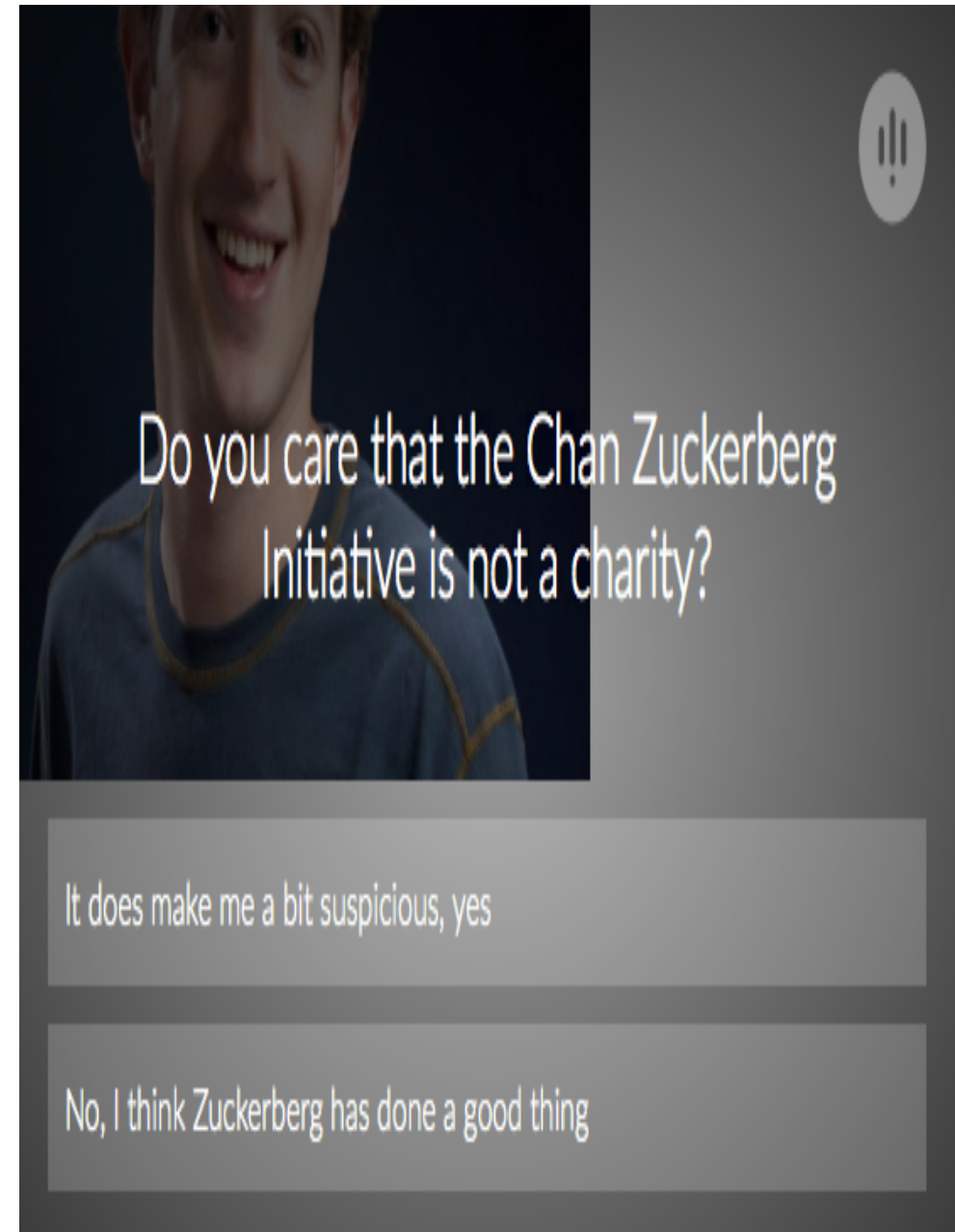
واجب إدارة الشركة هي اخذ القرارات التي تحسن من المصلحة العامة بالإضافة الى مصلحة الشركة.

# Corporate Social Responsibility

- CSR is about improving the social welfare...giving back.
- But different companies have different ideas of what will improve society's welfare.

- For Facebook Inc. CSR= Donations to charity.
- Mark Zuckerberg announced in 2015 that 99% of his personal shares in Facebook will go to charity.
- **Did they?**
- They went to a Limited Liability Company under his name, which can engage in profit gaining activity and benefit from reduced taxes.
- Is this **cosmetic or systematic** CSR?

منهجي، او سطحي؟



# Real, Systematic CSR Requires...

- Principled leadership.
- Encouragement of ethical reflection in the company. التفكير الاخلاقي
- Ethical rules and guidelines for employee behavior constantly revised.
- An institutional structure that encourages honesty and critical thinking. التفكير النقدي
- Government must be involved. Through law the government can encourage CSR.



## 5. How Can Corporate Social Responsibility Be Evaluated Along Economic, Legal, Ethical Criteria/Standards?

- A company's social responsibilities can be subdivided into 4 key types:
  1. Economic responsibilities
  2. Legal responsibilities
  3. Ethical responsibilities
  4. Discretionary responsibilities مسؤولية "طوعية"

# Carroll Model(1991)



# Economic Responsibilities:

- The first criterion is economic responsibility.
- The business is responsible for producing the goods and services that society wants, and to maximize profits for its owners and shareholders.



# Legal Responsibilities:

- All modern societies have laws and regulations issued by government.
- Businesses are expected to achieve their economic roles *within the legal framework*.



# Ethical Responsibilities

- Ethical responsibility refers to the need to act with impartiality, respect the rights of others, and fair treatment for all.



# Discretionary Responsibilities/Philanthropic

- Action that is 100% voluntary.
- Not required by law, and not forced by economics.
- Guided by free desire to make social contribution.





# Other examples:

- Apple [matches employee donations](#), giving \$50 million to international charities
- Pepsi Co. **“Food for Good”** programme served over 1.6 million free meals to inner-city children in the USA since 2009.



## 5. Explain the Concept of Stakeholder, and Identify Important Stakeholders for Organizations.

- Stake حصة
- “Groups or individuals that are affected by, or have an interest/stake in the company’s operations are called stakeholders.”

مصطلح «أصحاب المصالح» ينطبق على أي فرد، او مجموعة تتأثر بعمليات الشركة، تؤثر فيها، او لديها مصلحة/بمعنى تحقق مكسبا من عمليات الشركة. بمعنى اخر «الأطراف المعنية»

**Q. Who are the stakeholders for the Libyan International University?  
Can you Identify them?**



# Stakeholders exist...

- Inside and outside the company. كيانات داخل او خارج المنظمة.
- Can effect the company's operations positively or negatively and *vice versa*.  
يمكن ان يكون لتلك الكيانات تأثير ايجابي أو سلبي على المشروع، والعكس صحيح.

# Libyan International University's Stakeholders

- Customers/Students (Undergraduate)
- Employees
  - Head of Faculties
  - Teaching Staff
  - Educational/Training Services Staff
  - Administrative Staff
  - Technical Support Services (part-time/fulltime contracts).
- Alumni
- Competing Universities
- Regulators
- Public Policy Makers/Government.
- Donors
- Shareholders
- Creditors
- Suppliers
- Local Community/Area.
- The environment.

**Questions?**