

Developments In Business Simulation & Experiential Exercises, Volume 22, 1995

COMPENSATION DILEMMAS: AN EXERCISE IN ETHICAL DECISION-MAKING

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ABSTRACT

The issue of ethical decision making has attracted considerable attention in recent years. However, the topic of ethics as it relates to employee compensation has been largely ignored. This paper describes an exercise that presents students with 10 different ethical compensation dilemmas and requires that they resolve them. Students learn three different ethical approaches (utilitarian, moral rights, and justice) and how to apply them to the dilemmas. They also learn about the relationship between values, ethical climates, and ethical decision making.

OVERVIEW

The subject of business ethics has gained considerable attention in the media and in academia. Indeed, ABSEL has published several works including: "Don't Teach Ethics to Business Student!" (Chiesl, 1994), "The Use of Simulation for Ethics in Education in Management," (Ullmann and Brink, 1992), and "Ethical Dilemmas in Experiential Learning: Issues and Strategies," (Maddox, Armstrong, and Wheatley, 1991).

Much has been discussed about the ethics of advertising, product quality, employee safety, stock trading and environmental management. However, little attention has been given to ethical issues related to compensation management. In actual work settings, many compensation decisions may be made without a thought given to professional and ethical standards; indeed, decisions are frequently based solely on past practices and continued because "everyone else is doing it" or out of "business necessity." Yet, many past common business practices such as not granting employees family leave and not allowing women to work overtime are now considered unethical, at least by the government.

In 1991, the Commerce Clearing House and the Society for Human Resource Management (SHRM) conducted a survey of SHRM members to identify where unethical behavior occurs in the human resource function. Ethical misconduct was thought to occur most frequently in the areas of employment and compensation. Also, the respondents believed that these two areas constituted the most serious of all the ethical violations in the field.

This paper presents an exercise designed for use in a Principles of Human Resource Administration or a Wage and Salary Administration/Compensation Management course. The exercise can be completed in either 50 or 75-minute classes and is designed to explore ethical compensation issues. More specifically, the exercise has the following goals:

1. To make students aware that many compensation decisions have ethical components that need to be addressed.
2. To familiarize students with four to ten different ethical compensation dilemmas and issues.
3. To develop critical thinking skills by requiring that students think through the results of their decisions in terms of ethics.
4. To teach students how to apply three different ethical approaches (utilitarian, moral rights, and justice approach) to ethical issues and dilemmas.
5. To examine the interrelatedness between ethical choices, individual values, and ethical organizational climates.
6. To examine the causes of ethical dilemmas.

CRITICAL CONCEPTS

During the class prior to conducting the exercise we introduce the topic by presenting a definition for the term "ethics" and by giving them some questions that need to be asked to determine if decisions are ethical. We present the following information:

One scholar (Lewis, 1985) examined the business ethics literature to find a commonly accepted definition of the term "business ethics." He found 38 categories of meaning for the term. Four categories accounted for 40% of the total definitions. The categories interpreted business ethics to mean: (a) the rules, standards, or codes governing an individual; (b) moral principles developed over a lifetime; (c) what is right and wrong in certain situations; and, (d) telling the truth.

Based on Lewis' research, the following definition of "compensation ethics" is presented to students:

Compensation ethics are the rules, standards,

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or principles that provide guidelines for morally correct behavior, and for truthfulness in the remuneration and reward of employees.

This definition expands the ethical concept beyond mere compliance with the law. Generally, scholars contend that ethics involve more than just legal compliance. Some managers choose to do more than the law requires in the field of compensation out of a sense of fairness or because it makes economic sense to do so. The law merely provides an ethical minimum in that it establishes a level of behavior that management should not fall below. Both employees and the public expect firms to adhere to standards that represent a strong sense of fair play and a consideration of the interests of multiple parties, including employees, customers, and the community.

Given this definition, we then ask students the question of how can a compensation professional know if a specific issue involves ethical considerations? Although a variety of criteria has been proposed, some consensus appears to arise based primarily on our societal concepts of morality and justice. One scholar (Hosmer, 1987) suggested that to determine if an issue involves ethical considerations, three questions should be asked about the act under consideration (or taken):

1. Does the action involve intentionally deceiving another party?
2. Does the action purposely harm or benefit another party?
3. Is the action fair and just to all concerned? The Golden Rule not only dictates that we “do unto others as we would have them do unto us” but also commands that we treat others as we might wish to be treated.

Others suggest that a manager consider the following additional questions:

1. Is the action “right?” The concept of “right” focuses on moral obligations. What obligations does an organization have to its members?
2. Would we feel comfortable if the action were reported on the front page of the newspaper?
3. Would we recommend the action to our children?
4. Will the action build good will and better relationships?

We tell students that these questions do not offer a “quick and dirty” test of whether a decision is ethical, but they give them a frame of reference for analyzing compensation decisions in terms of ethics.

This presentation is followed by a discussion of three ethical decision making approaches. The Utilitarian Approach argues that decision outcomes should result in the greatest good for the greatest number of people. The Moral Rights Approach holds that decisions should be consistent with fundamental rights and privileges as set forth in the Bill of Rights or some other document such as the United Nations’ Declaration of Human Rights. The Justice Approach stresses that decisions should be equitable and follow the distributive justice and fairness principle. We tell students that from an ethical standpoint, the ideal decision occurs when it is supported by the ethical standards of all three ethical approaches.

After presenting this information, students are assigned the task of reading the ten compensation dilemmas (See Appendix) before the next class.

CONDUCTING THE EXERCISE

At the start of class, students are divided into groups of three to five and each group is assigned one of the ten dilemmas to analyze. If the class is 75 minutes or more, all ten of the dilemmas can be used. If only 50 minutes is available, the instructor can pick out four to six of the dilemmas. Students are then asked to examine the dilemmas from the three different viewpoints discussed in the previous class (Utilitarian, Moral Rights, and Justice), to arrive at a solution, and to present their analysis to class. For instructors who wish further readings on the issue of ethical approaches, a short, non-technical explanation may be found in Management by D. Hellriegel and J. W. Slocum, Jr. (6th ed.), Addison Wesley, pp. 153-162. A more detailed explanation that addresses ethical frameworks in the Human Resource context may be found in L. T. Hosmer, “Ethical Analysis and Human Resource Management, Human Resource Management, Fall 1987, vol. 26, pp. 313-330.

Students are also asked to evaluate how important they believe the issue is that is described in the dilemma, ranging from highly important to not very important.

After each group has finished its analysis (ten minutes or less), each makes a short, two to three minute presentation to the class. This is followed by a lively debate (six to ten minutes long) that focuses on whether the proposed solution is in line with the three ethical approaches.

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DEBRIEFING THE EXERCISE

We debrief this exercise at two different times, i.e., at the end of discussing each dilemma and after all dilemmas have been discussed.

After each group presents its solution to the dilemma and other students critique it, we also add our evaluation. Specifically, we examine whether the group's solution is in line with the three ethical approaches. We also raise other ethical issues not considered by the group. At the end of the exercise, we present the following major points:

1. Most compensation decisions have ethical components because they involve issues of fairness and because if compensation is given to one person or group, it can't also be given to others (win-lose situation).
2. Ethical choices are based on the values of the individuals who make the choices. These values are often affected by the firm's ethical climate.
3. Compensation dilemmas don't just happen. They are often a result of prior decision making mistakes. Today's mistakes will lead to tomorrow's dilemmas.
4. Compensation managers may find it useful to establish pay ethics policies that provide guidelines to reduce unethical acts. A comprehensive ethics policy has at least three parts. First, the firm needs to make general statements about its commitment to ethical compensation practices. Second, the policy should develop a list of behaviors deemed unethical. Third, employees need a procedure to report unethical behavior or to discuss ethical problems. Merely suggesting that employees report problems to their immediate supervisor may be ineffective because the boss may be the source of the problem. Thus, a confidential ethics "hotline" or "Helpline" (Waste Management, Inc.), or "We Care Hotline" (American Greetings Corporation), or simply "the 800 number" (Raytheon Company), may be warranted. A hotline has the added advantage of putting everyone on notice that ethical behavior is expected and that wrongdoing will lead to disciplinary action.

APPENDIX STUDENT HANDOUT/ASSIGNMENT ETHICAL COMPENSATION ISSUES

INSTRUCTIONS TO STUDENTS: Read each of the situations below and see if you can reach a solution to them that meets the criteria suggested by the three different approaches presented in class (Utilitarian, Justice, and Moral Rights):

1. Based on an evaluation of SKA's, a company has determined that two jobs (job A and job B) are equal. However, when the firm studies the labor market, it finds that applicants for job A are plentiful whereas those for job B are very scarce. Should the firm offer less to those who apply for job A or should the pay be equal?

2. Assume that the supply of electrical technicians is low so a firm hires a group of them at \$18 per hour. Two years later, due to a recession, the supply of technicians is high so the market rate for them is now \$15 per hour. Should the firm pay new hires \$18 or \$15? Given that the firm bases pay on supply and demand, should it lower the pay of existing mechanics to \$15?

3. Jim is given an extremely large raise because of his superb work record one year. As a result he is currently earning \$55,000 whereas others at the firm holding the same job are earning \$45,000. Everyone expects Jim to continue to excel and enhance the entire unit's productivity. Unfortunately, Jim's performance drops off after the first year and his performance is now just average. What should be done about his pay? Should it be reduced to reflect his current performance or should he continue to earn more than all of the others?

4. One year, Ethan's performance is truly spectacular, just as good as Jim's had been in the previous case. Moreover, let's further assume that the company has no raise money available that year so no one, including Ethan, receives a merit raise. Given that Jim received a large raise for past performance, is this fair to Ethan?

5. Mary and Sue both work in the same department. Mary believes that Sue is being paid considerably more than she is. In fact, both employees are being paid about the same amount. Mary complains to her boss and the compensation manager and wants a pay raise. What should the compensation manager say, assuming the firm follows the policy of not revealing the pay of individual employees? Should Mary be told the amount of Sue's pay? Or, should Mary only be told that there is a "misunderstanding" and that her belief is incorrect? Or, should some other approach be taken?

6. When Mary was hired she was told verbally that she would receive a raise when she finished her college degree and yet another raise when she was given added responsibility. She accepted the job offer based on this understanding. However, during the next two

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years, the firm experienced slow sales and has asked all factory employees to accept a 12% pay decrease. But, Mary, who does not work in the factory, has finished college, and has accepted more responsibility. Should she receive a raise?

7. Two firms in the chemical solvent industry decide to merge. Employees in the testing department of firm A have enjoyed high pay for many years. However, firm A is purchased by firm B who has a history of paying low wages. As a result, employees in firm A's testing department earn on average \$1.00 more per hour than those at firm B. Upon completion of the merger, what wage levels should prevail? Should wages be cut for those who worked for firm A? Or, should wages be increased for those in firm B?

8. Sue is a fifty-five year old employee of company A. Her children are out of college and her parents have both died. Company A offers a child care program to all employees along with an elder care program. However, Sue, like many other employees, has no need for these services, neither now or in the future. Should the firm retain these programs? Should alternative benefits for employees who have no use for such services be offered?

9. Helen works as an accountant for a firm in the textile industry. During non-working hours she does extensive volunteer work for the American Red Cross, Meals on Wheels, and the American Heart Association. Helen's employer wants to maintain a favorable image in the community so it wants every employee to donate money to the United Way. Should the firm pressure Helen to donate money? Keep in mind that if Mary doesn't donate money, other employees may not either which could result in the firm having an unfavorable image in the community. On the other hand, Mary already donates time which has a monetary value and she may feel that it is unfair to be asked to donate even more.

10. Frank works 25 hours per week for a mail order firm in the packaging department. He receives no benefits other than those required by law. Frank does the same work as three other employees all of whom work full time. These employees qualify for pensions, medical care, long term disability, child care, etc.. Is this ethical? Assume that Frank would like to work full-time, really wants to receive benefits, and feels harmed because of his shortfall. On the other hand, the firm is not legally required to pay Frank benefits, Frank only works part time, and it would be expensive to pay benefits to all part-time employees, including Frank.

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