

HRPA Series on Professionalization, Professionalism, and Ethics  
for Human Resources Professionals

## Are professional ethics and business ethics the same thing?

As a profession that is entirely embedded in the world of business, Human Resources management needs to get clear on issues of professional and business ethics. But nothing to do with business ethics is as straightforward it would seem, even with respect to basic matters. For instance, there is a long-standing debate known as the shareholder vs. stakeholder primacy debate which is directly relevant to the relation between professional ethics and business ethics.

Shareholder primacy theory holds that the primary duty of managers is to maximize shareholder returns while respecting laws and regulations. Stakeholder primacy theory holds that the primary duty of managers is to balance the shareholders' financial interests against the interests of other stakeholders such as employees, customers and the local community, even if it reduces shareholder returns.

Although sometimes characterised this way, the shareholder primacy theory is not a "do anything you can to make a profit" or "everything is permitted, as long as you don't get caught" approach. The shareholder primacy approach respects the boundaries set by law, although some also have that exploiting loopholes, or testing the limits of what is legal is part of the game. For its part, it is not that the stakeholder primacy theory expects managers to be disinterested in the profitability of their businesses.

One difference here is that managers guided by stakeholder supremacy theory would see the serving of stakeholder interests other than shareholder interests as legitimate in their own right and not only as a means to an end. Managers guided by stakeholder supremacy theory would be concerned with the impact of policies and decisions on the welfare of workers and the community in a way that goes beyond simple legal compliance. The difference can be subtle as it can come down to intent. One business may support corporate social responsibility as a basic tenet of doing business whereas another may support corporate social responsibility simply because it is good for the bottom line.

### **Applying the shareholder vs. stakeholder debate to Human Resources Management**

Under shareholder primacy theory, the role of HR managers is to maximize shareholder returns; and the only duty HR managers have towards employees is to respect the laws such as the *Employment Standards Act, 2000*, the *Labour Relations Act, 1995*, and the *Occupational Health and Safety Act, 1990*. This does not mean that an HR manager guided by the shareholder primacy theory could not go beyond

legal compliance in dealing with employees, it is just that such an HR manager would only go beyond legal compliance in dealing with employees if this was understood to maximize shareholder returns.

Under stakeholder primacy theory, the role of HR Managers is to balance the shareholders' financial interests against the interests of other stakeholders such as employees, customers and the local community. HR manager guided by the stakeholder primacy theory would consider the impact on employees and the community in developing policies and decision-making.

An HR manager guided by shareholder primacy theory would say *'we take care of our employees because it is good for business,'* whereas an HR manager guided by stakeholder primacy theory would say *'we take care of our employees because it is the right thing to do.'*

### **The shareholder vs. stakeholder debate and the professions**

One aspect that sets professions aside from other occupations is the sense of public service or greater good. In the practice of their professions, professionals are expected consider interests beyond those of their clients or employers. These expectations are embedded in professional codes of ethics and rules of professional conduct. No profession proposes that its members be dedicated entirely to serving the interests of their employers and clients to the detriment of other affected parties. Social responsibility is built into the DNA of professions.

For instance, in the practice of law, lawyers are expected to serve the interests of employers or clients but not at the expense of other stakeholders. Lawyers are expected to practice their profession in a way that promotes fairness. Lawyers are expected to practice their profession in such a way that does not bring the administration of justice into disrepute even if those practices did not break any laws.

In business terms, professions clearly fall on the stakeholder primacy side of the debate.

### **Wither HR?**

The Human Resources profession is no different, its Code of Ethics and Rules of Professional Conduct also embed a stakeholder primacy ethic. Consider the following statements from HRPAs Rules of Professional Conduct:

*"In the practice of Human Resources Management, a member shall ensure that human resources policies and practices respect the rights and protect the dignity of all individuals involved."*

*"A member shall, as far as the member is able, contribute to the furthering of human rights, equity, dignity and respect in the workplace."*

*"A member shall not commit acts derogatory to the dignity of the profession."*

*"A member must understand that while they may be employed or retained by one concern, he or she has a duty to parties other than their employer or their client."*

The stakeholder primacy view is embedded in the profession's Code of Ethics and Rules of Professional Conduct. Of course, HR professionals are expected to respect all laws and regulations in the practice of their profession, but the HRPA Code of Ethics and Rules of Professional Conduct clearly expects more of HR professionals than simply respecting all laws and regulations.

**Does this put HR professionals at odds with their employers and clients?**

Obviously, an HR professional will feel more comfortable in a business that subscribes to the stakeholder primacy ethic than in a business that subscribes to the shareholder primacy ethic. This does not mean that HR professionals cannot work for businesses where shareholder primacy is the predominant ethic, but there will be some challenges.

For instance, whereas an HR professional guided by stakeholder primacy would take the interests of employees and the community into consideration because it is the right thing to do, this HR professional may have to 'sell' the various policies and decisions to colleagues guided by the shareholder primacy theory based on return to shareholders.

There is also a link to the concept of 'credible activist' introduced by Ulrich in the *2007 Human Resource Competency Study*. Ulrich noted that HR professionals "*need to be trusted, respected, admired, listened to, but above all, have a point of view and take a position.*" Now, there is nothing in the definition of credible activist that specifies what point of view to have and what position to take, but one can well imagine that an HR professional guided by stakeholder primacy working among peers that are guided by shareholder primacy would have plenty of opportunities to have a point of view and take a position.

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