Part Four
Implementing Business Ethics in a Global Economy

Chapter 8
Developing an Effective Ethics Program
Corporations As Moral Agents

- Corporations have the same rights and responsibilities as individuals
  - All employees must obey laws and regulations defining acceptable business conduct

- Corporate culture without values and appropriate communication about ethics can facilitate individual misconduct
  - Ethical corporate culture does not evolve, but requires ethical polices
  - Implementing a corporate ethics program promotes the corporation as a moral agent
Most Common Observed Forms of Misconduct


© 2015 Cengage Learning. All rights reserved. May not be copied, scanned, or duplicated, in whole or in part, except for use as permitted in a license distributed with a certain product or service or otherwise on a password-protected website for classroom use.
The Need for Organizational Ethics Programs

- It is nearly impossible to know all relevant laws
  - Ethics programs increase ethical awareness
- Organizations can become bad barrels
  - Pressures to succeed create opportunities rewarding unethical decisions
- Established ethics programs help employees determine what behaviors are acceptable
  - Top management must integrate these codes, values and standards into the corporate culture
Components of a Strong Ethics Program

- A strong ethics program includes
  - Written codes of conduct
  - Ethics officers to oversee the program
  - Careful delegation of authority
  - Formal ethics training
  - Rigorous auditing, monitoring, enforcement, and revision of program standards
An Effective Ethics Program

- Effective ethics program ensure that all employees understand and comply with the ethical culture
- Cannot assume employees know how to behave when entering a new job
- Ethics programs act as important deterrents to organizational misconduct
Ethics Programs and Avoiding Legal Problems

• The FSGO encourages assessing key risks
  ❖ Firms can use assessments to update their internal control mechanisms
  ❖ Ethics programs must be designed and implemented to address these risks
  ❖ Ethics programs can help a firm avoid civil liability if they show due diligence in preventing misconduct
Minimum Requirements for Ethics/Compliance

1. Standards and procedures, such as codes of ethics, that are reasonably capable of detecting and preventing misconduct

2. High-level personnel who are responsible for an ethics and compliance program

3. No substantial discretionary authority given to individuals with a propensity for misconduct

4. Standards and procedures communicated effectively via ethics training programs

5. Systems to monitor, audit, and report misconduct

6. Consistent enforcement of standards, codes, and punishment

7. Continuous improvement of the ethics and compliance program

Which is Justified to Survive

- Entertainment to win/retain business: 34%
- Cash payments to win/retain business: 15%
- Personal gifts to win/retain business: 20%
- Misstating company’s financial performance: 4%
- None of these: 51%
- Don’t know: 2%

Compliance Versus Values Orientation

- **Compliance orientation**
  - Requires employees identify with and commit to specific conduct
  - Uses legal terms, statutes, and contracts to teach the rules and penalties for noncompliance

- **Values orientation**
  - Strives to develop shared values; focuses on ideals, such as accountability and commitment
  - Is more effective at creating ethical reasoning, the foundation of an organizational ethical culture
Codes of Conduct

● Formal statements that describe what an organization expects of its employees

❖ Codes of ethics
  ➢ Most comprehensive; consists of general statements serving as principles and the basis for the rules in a code of conduct

❖ Statement of values
  ➢ Serves the general public and addresses stakeholder interests
# Benefits Of Having An Ethics Code

A Comprehensive Code of Conduct Can...

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Guide employees in situations where the ethical course of action is not immediately obvious.</td>
</tr>
<tr>
<td>2.</td>
<td>Help the company reinforce—and acquaint new employees with—its culture and values. A code can help create a climate of integrity and excellence.</td>
</tr>
<tr>
<td>3.</td>
<td>Help the company communicate its expectations for its staff to suppliers, vendors, and customers.</td>
</tr>
<tr>
<td>4.</td>
<td>Minimize subjective and inconsistent management standards.</td>
</tr>
<tr>
<td>5.</td>
<td>Help a company remain in compliance with complex government regulations.</td>
</tr>
<tr>
<td>7.</td>
<td>Offer protection in preempting or defending against lawsuits.</td>
</tr>
<tr>
<td>8.</td>
<td>Enhance morale, employee pride, loyalty, and the recruitment of outstanding employees.</td>
</tr>
<tr>
<td>9.</td>
<td>Promote constructive social change by raising awareness of the community’s needs and encouraging employees and other stakeholders to help.</td>
</tr>
<tr>
<td>10.</td>
<td>Promote market efficiency, especially in areas where laws are weak or inefficient, by rewarding the best and most ethical producers of goods and services.</td>
</tr>
</tbody>
</table>

1. Consider areas of risk and state the values as well as conduct necessary to comply with laws and regulations. Values are an important buffer in preventing serious misconduct.

2. Identify values that specifically address current ethical issues.

3. Consider values that link the organization to a stakeholder orientation. Attempt to find overlaps in organizational and stakeholder values.

4. Make the code understandable by providing examples that reflect values.

5. Communicate the code frequently and in language that employees can understand.

6. Revise the code every year with input from organizational members and stakeholders.
Corporate Codes Of Ethics

- Often contain six core values
  1. Trustworthiness
  2. Respect
  3. Responsibility
  4. Fairness
  5. Caring
  6. Citizenship
Ethics Officers

- Ethics officers are responsible for managing the ethics and legal compliance programs
  - Assess needs and risks
  - Develop and distribute the code
  - Conduct training programs for employees
  - Confidently answer employees’ questions
  - Ensure government compliance
  - Monitor and audit ethical conduct
  - Take action on possible code violations
  - Review and update the code
Ethics Training And Communication

- Ethics training can
  - Educate employees about policies, expectations, laws, regulations, and general social standards
  - Raise awareness of resources and support systems
  - Empower employees

- Top executives must communicate and enforce ethical standards

- Employees need to know whom to contact for guidance when encountering gray areas
Goals Of Successful Ethics Training Programs

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Identify key risk areas employees will face.</td>
</tr>
<tr>
<td>2.</td>
<td>Provide experience in dealing with hypothetical or disguised ethical issues within the industry through mini-cases, online challenges, DVDs, or other experiential learning opportunities.</td>
</tr>
<tr>
<td>3.</td>
<td>Let employees know wrongdoing will never be supported in the organization and employee evaluations will take their conduct in this area into consideration.</td>
</tr>
<tr>
<td>4.</td>
<td>Let employees know they are individually accountable for their behavior.</td>
</tr>
<tr>
<td>5.</td>
<td>Align employee conduct with organizational reputation and branding.</td>
</tr>
<tr>
<td>6.</td>
<td>Provide ongoing feedback to employees about how they are handling ethical issues.</td>
</tr>
<tr>
<td>7.</td>
<td>Allow a mechanism for employees to voice their concerns that is anonymous, but provides answers to key questions (24-hour hotlines).</td>
</tr>
<tr>
<td>8.</td>
<td>Provide a hierarchy of leadership for employees to contact when they are faced with an ethical dilemma they do not know how to resolve.</td>
</tr>
</tbody>
</table>
Systems to Monitor and Enforce Ethical Standards

- Effective programs employ various methods to measure effectiveness
  - Observing employees
  - Internal audits and investigations
  - Surveys
  - Reporting systems
  - External audits

- Consistent enforcement and necessary disciplinary action are essential to a functional ethics or compliance program
Continuous Improvement

- Improving a system differs little from implementing any other business strategy
  - To improve its ethical performance, a company may change how it makes decisions
    - Centralize decisions, or decentralize them
  - The key is to delegate authority carefully so the organization can achieve ethical performance
Larger Companies and Responsibility Reporting

Research performed on 3,400 global companies, including the world’s largest 250 companies

Common Design and Implementation Mistakes

- Failure to understand and appreciate goals
- Setting unrealistic/immeasurable objectives
- Unsupportive top management
- Ineffective or incomprehensible content
- Transferring an “American” program to a firm’s international operations
- Designing a program that is little more than a series of lectures resulting in low recall