Part Four
Implementing Business Ethics in a Global Economy

Chapter 9
Managing and Controlling Ethics Programs
Implementing Ethics Programs

- Five factors can impact success of ethics programs
  1. The content of the code of ethics
  2. The frequency of communication regarding the ethics program
  3. The quality of communication
  4. Senior management’s ability to incorporate ethics into the organization
  5. Local management’s ability to do the same
Implementing Ethics Programs

- Organizations must focus on implementation and planning an ethics program
  - Should be part of strategic planning and management activities
Process Controls for Ethics Programs

- Proper selection of employees
- Ethics training
- Structural and communication systems
  - Ethics assistance line
  - Help desk
- Management’s commitment to the program
- Comparing standards against actual behavior
  - Ethics audit
The Ethics Audit

- A systematic evaluation of an organization’s ethics program and performance to determine whether it is effective
  - Regular, complete, and documented measurements of compliance with policies and procedures
  - Can be a precursor to establishing an ethics program
  - Should be the most important part of an ethics program
  - Primary purpose is to identify risks and problems in activities and plan steps to adjust/correct/eliminate concerns
    - Recent legislation encourages greater ethics audits
The Social Audit

- The process of accessing and reporting a business’s performance in fulfilling its economic, legal, ethical, and philanthropic responsibilities expected by stakeholders
  - Broader in scope than an ethics audit
  - An ethics audit might be a component
Benefits of an Ethics Audit

- Detect misconduct before it becomes a major problem
- Identifies potential ethical issues and improve legal compliance
- Improve organizational performance
- Improve relationships with stakeholders who demand greater transparency
- Sets goals against which to measure actual performance
Top Challenges For CEOs

1. Human capital
2. Operational excellence
3. Innovation
4. Customer relationships
5. Global political/economic risk
6. Government regulation
7. Global expansion
8. Corporate brand and reputation
9. Sustainability
10. Trust in business

N = 729 total responses. Response rate varied for each challenge.

Ethical Crisis Management

- Plans to respond to and recover from disasters that can disrupt operations, destroy organizational reputation, and erode shareholder confidence

  - Involves...
    - Contingency planning
    - Assessing organizational risks
    - Planning for potential occurrences
    - Providing tools to respond
Stages of an Ethical Disaster

- Ethical misconduct disasters progress in stages
  - Ethical issue recognition
  - The decision to act unethically
  - Organization’s discovery of and response to the act

- Anticipation of and intervention can stave off organizational disasters
  - Formal mechanisms in place to detect risk
## Improving Organizational Risk Management

1. Create a Regulatory Reform Project Management Office with the appropriate governance to direct business and operating models and manage risks proportionately.

2. Chief Risk Officers should report to Group CROs or board members.

3. Involve risk and compliance at the beginning of the product development cycle.

4. Improve independent controls by setting appropriate governance frameworks with which portfolio managers need to comply.

5. Manage and optimize the use of capital.

Measuring Nonfinancial Ethical Performance

- Nonfinancial performance measures are crucial to a firm’s health
  - Measure wholeness and soundness of a company
  - “Return on integrity”

- Many organizations and regulatory frameworks offer a means of capturing ethical performance
  - Structural
  - Behavioral
## Description of Measuring Tools

<table>
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<tr>
<th>Measurement Systems</th>
<th>Description</th>
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<tr>
<td>Balanced Scorecard</td>
<td>Developed by Drs. Robert Kaplan and David Norton, the Balanced Scorecard incorporates nonfinancial performance indicators into the evaluation system to provide a more “balanced” view of organizational performance. The system uses four metrics—financial, internal business processes, learning and growth, and customer—to measure the overall performance of the firm.</td>
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<tr>
<td>Six Sigma</td>
<td>Six Sigma focuses on improving existing processes that do not meet quality specifications or that need to be improved as well as developing new processes that meet Six Sigma standards. To meet Six Sigma specifications, the process must not produce more than 3.4 defects per million opportunities.</td>
</tr>
<tr>
<td>Triple Bottom Line</td>
<td>This approach to measuring social, financial, and environmental factors (or people, places, and planet) recognizes that business has a responsibility to positively influence a variety of stakeholders, including customers, employees, shareholders, community, and the natural environment. The challenge is how to evaluate a business’s social and environmental impacts, since there are no universally standard forms of measuring these criteria.</td>
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Measuring Nonfinancial Ethical Performance

- Six Sigma
- Balanced Scorecard
- Triple Bottom Line
- Global Reporting Initiative
- AccountAbility AA1000 framework
- Open Compliance Ethics Group
AA 1000 Framework for Ethics and Social Accountability

AA 1000 Framework for Ethics and Social Accountability


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Risks in Ethics Auditing

- May uncover ethical problems a company does not wish to disclose
- May reveal a problem that cannot be remedied
- Stakeholders may be dissatisfied with the information
- Conducting ethics audits requires financial and record keeping resources
- No guarantee that auditing is the solution
- Lack of standardization in auditing
The Auditing Process

- Audits should be unique to each company
  - The following steps provide a general framework...
    - Secure management and board commitment
    - Establish an ethics audit committee
    - Define the scope of the audit
    - Review organizational mission, goals, and values
    - Collect and analyze relevant information
    - Verify the results through an outside agent
    - Report the findings
## Framework for an Ethics Audit

<table>
<thead>
<tr>
<th>Step</th>
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<tr>
<td>Secure the commitment of top managers and board of directors</td>
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<tr>
<td>Establish a committee to oversee the ethics audit</td>
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<tr>
<td>Define the scope of the audit process, including subject matter areas important to the ethics audit</td>
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<tr>
<td>Review the organization’s mission, policies, goals, and objectives and define its ethical priorities</td>
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<tr>
<td>Collect and analyze relevant information in each designated subject matter area</td>
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<tr>
<td>Have the results verified by an independent agent</td>
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<tr>
<td>Report the findings to the audit committee and, if approved, to managers and stakeholders</td>
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Secure Commitment of Top Management and the Board

- The first step in the auditing process
  - Sarbanes-Oxley requires that boards of directors provide oversight
  - The board may initiate audits
  - Managers may request an ethics audit to improve confidence in a firm’s reporting processes
Model Corporate Social Responsibility Structure

Board of Directors

Chief Executive Officer

Chief Financial Officer
Chief Operations Officer
Chief Human Resources Officer
General Counsel

Sustainability Council
Community Affairs Council

Chief Ethics and Compliance Officer
Establish an Ethics Oversight Committee

- The second step in the auditing process
  - Boards of directors financial audit committee should oversee the audit
    - Managers or ethics officers conduct it in most firms
  - Internal and external parties should be involved
    - External auditors should not have other consulting or conflict-of-interest relationships with top managers or board members
Define the Scope of the Audit

- The ethics audit committee should establish the scope of the audit and monitor its progress
- **Scope** is determined by the type of business, risks faced, and the opportunities to manage ethics
Review Organizational Mission, Values, Goals, and Policies

- An ethics audit should...
  - Include a review of the current mission statement and strategic objectives
  - Examine all formal and informal documents that make commitments with regard to ethical, legal, or social responsibility
  - A firm should define its ethical priorities at this time
Collect and Analyze Information

- Identify tools for measuring progress in improving employees’ ethical decisions
- Collect relevant subject matter
  - Internal and external documents
- Determine a baseline level of compliance
Collect and Analyze Information

- Determine all commitments
- Stakeholders yield insights
  - Integrating stakeholder feedback is crucial in an audit
- Audits should compare organizational performance to other comparable organizations
# Green Mountain Coffee’s Code of Ethics

<table>
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<tr>
<th>• Respect the rights and the property of others</th>
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<td>• Maintain accurate records and report unethical behavior</td>
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<tr>
<td>• Comply with all laws, rules, and regulatory requirements</td>
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<td>• Avoid conflicts of interest and any appearance of impropriety</td>
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<tr>
<td>• Be responsible stewards in the use, protection, and management of GMCR’s assets and resources</td>
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<td>• Understand antitrust laws and uphold fair competitive practices</td>
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<tr>
<td>• Share GMCR’s story while following the Media Relations guidelines on consistent communications</td>
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<tr>
<td>• Act with integrity while maintaining the confidentiality of GMCR information</td>
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<tr>
<td>• Support GMCR’s purpose, Principles, Policies, and Procedures and encourage GMCR’s business partners to do so as well</td>
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Where Cultures are Weaker, Misconduct is More Prevalent


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Verify the Results

- Have an independent party verify the results of the analysis
  - Companies often have results independently audited

- Verification is an assessment of the quality, accuracy, and completeness of a company’s social report
  - Should involve standard procedures to control reliability and validity of information
Report the Findings

- The final step in the auditing process
  - Spells out the purpose and scope of the audit, methods used, role of the author, and auditing and reporting guidelines
  - May be disseminated internally or externally
- Ethics audits are similar to financial audits, but forms are different
  - Unqualified opinion
  - Qualified opinion
  - Adverse opinion
  - Disclaimer of opinion
Strategic Importance of Ethics Auditing

- Should be conducted regularly
  - Provides a benchmark of overall effectiveness of ethics initiatives
    - Can be important in asset allocation and program development
  - Can demonstrate the positive impact of ethical conduct and social responsibility initiatives on the firm’s bottom line