



Business Ethics

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"What is ethics?" Simply put, ethics involves learning what is right or wrong, and then doing the right thing, but "the right thing" is not nearly as straightforward as it seems to be.

"Ethics is the careful study of standards of behavior that apply to real-world problems and decisions. It gives us insights into what we should do."

The minute we put the word 'should' in a sentence, we are probably talking about ethics. Colleges should (or should not) take race into account in admissions. Health care coverage should (or should not) be a substantial part of the state budget. Although ethics deals with right and wrong, it is not a discipline that always leads everyone to the same conclusions. It is not the captive of liberals or conservatives.

Of course, there are situations that are wrong by any standard. The recently reported advise given by former Enron Chairman Kenneth Lay to the investors to hold on their investments in the company while he himself kept selling the shares of the company is a case in point. But there are other issues where right and wrong is less clear. To guide our reflection on such difficult questions, philosophers, religious teachers and other thinkers have shaped various approaches to ethical decision-making.

Many philosophers consider ethics to be the "science of conduct." Ethics includes the fundamental ground rules by which we live our lives. Philosophers have been discussing ethics for at least 2500 years, since the time of Socrates and Plato. Many ethicists consider emerging ethical beliefs to be "state of the art" legal matters, i.e., what becomes an ethical guideline today is often translated to a law, regulation or rule tomorrow. Values, which guide how we ought to behave, are considered moral values, e.g., values such as respect, honesty, fairness, responsibility, etc. Statements around how these values are applied are sometimes called moral or ethical principles.

Most ethical dilemmas in the workplace are not simply a matter of "Should Bob steal from Jack?" or "Should Jack lie to his boss?" Business ethics are a hot topic these days. With everything from insider trading to employee theft on the rise, it is no wonder that businesses are beginning to focus on the impact of ethical leadership. But along with this new focus comes a lot of "gray area". Many times, managers are forced to decide on issues where there are arguments on both sides - a problem that makes ethical decision-making very difficult.

So what is "Business Ethics"? The concept has come to mean various things to various people, but generally it's coming to know what is right or wrong in the workplace and doing what's right -- this is in regard to effects of products/services and in relationships with stakeholders. Attention to business ethics is critical during times of fundamental change -- times much like those faced now by businesses, both nonprofit or for-profit. In times of fundamental change, values that were previously taken for granted are now strongly questioned. Many of these values are no longer followed. Consequently, there is no clear moral compass to guide leaders through complex dilemmas about what is right or wrong. Attention to



ethics in the workplace sensitizes leaders and staff to how they should act. Perhaps most important, attention to ethics in the workplaces helps ensure that when leaders and managers are struggling in times of crises and confusion, they retain a strong moral compass. However, attention to business ethics provides numerous other benefits, as well (these benefits are listed later in this document).

Many people react that business ethics, with its continuing attention to "doing the right thing," only asserts the obvious ("be good," "don't lie," etc.), and so these people don't take business ethics seriously. For many of us, these principles of the obvious can go right out the door during times of stress. Consequently, business ethics can be strong preventative medicine. Anyway, there are many other benefits of managing ethics in the workplace.

Many ethicists assert there's always a right thing to do based on moral principle, and others believe the right thing to do depends on the situation -- ultimately it's up to the individual.

Let's look at an example.

Sally started her consulting business a year ago and has been doing very well. About a month ago, she decided she needed to hire someone to help her since she was getting busier and busier. After interviewing several candidates, she decided to hire the best one of the group, Mary. She called Mary on Monday to tell her she had gotten the job. They both agreed that she would start the following Monday and that Mary could come in and fill out all of the hiring paperwork at that time.

On Tuesday, of the same week, a friend of Sally's called her to say that she had found the perfect person for Sally. Sally explained that she had already hired someone, but the friend insisted. "Just meet this girl. Who knows, maybe you might want to hire her in the future!" Rather reluctantly, Sally consented. "Alright, if she can come in tomorrow, I'll meet with her, but that's all." "Oh, I'm so glad. I just know you're going to like her!" Sally's friend exclaimed.

And Sally did like her. She likes her a lot. Sally had met with Julie on Wednesday morning. She was everything that Sally had been looking for and more. In terms of experience, Julie far surpassed any of the candidates Sally had previously interviewed, including Mary. On top of that, she was willing to bring in clients of her own that would only increase business. All in all, Sally knew this was a win-win situation. But what about Mary? She had already given her word to Mary that she could start work on Monday.

And yet she only had the resources to hire one person at this point. Clearly, the best business decision was to hire Julie. But what about the ethical decision? If her business did poorly or Mary couldn't provide enough support, the business would suffer. As a result, her family would suffer. Money was already tight, what with two boys in college. And yet she knew Mary also had a family she was supporting. Plus, she had been so enthusiastic about starting to work.

Obviously, Sally had a problem - an ethical problem. Should she hire Mary (whom she'd already given her word) or Julie (who was obviously the best person for the job)? Questions like these touch on our deepest values. Depending on whom you would ask, you would get strong arguments for both decisions. This is what we mean when we talk about "gray area". So what is the answer?



Managing ethics in the workplace holds tremendous benefit as well as challenges for leaders and managers, benefits both moral and practical. This is particularly true today when it is critical to understand and manage highly diverse values and in the workplace.

However, the field of business ethics has traditionally been the domain of philosophers, academics and social critics. Consequently, much of today's literature about business ethics is not geared toward the practical needs of leaders and managers -- the people primarily responsible for managing ethics in the workplace. The most frequent forms of business ethics literature today typically include: a) philosophical, which requires extensive orientation and analysis; b) anthologies, which require much time, review and integration; c) case studies, which require numerous cases, and much time and analyses to synthesize; and d) focus on social responsibility, which includes many examples of good and bad actions taken by companies. This lack of practical information is not the fault of philosophers, academic or social critics. The problem is the outcome of insufficient involvement of leaders and managers in discussion and literature about business ethics. More leaders and managers must become involved.

Assumptions of Business Ethics

Suppose we contend that business is indeed an honorable profession? Does this mean that people in business can do no wrong?

Clearly not, but they would normally be quite worthy of respect and even admiration, when they carry out their professional tasks conscientiously, successfully. Even without any extracurricular deeds of charity or generosity, those in business, as those in education or science, could be seen as embarking upon morally worthwhile tasks. There are, however, pitfalls in business, as in any other profession, which is why business ethics is an important field of study, a sub-field of professional ethics (which is itself a sub-field of role ethics). Though, business ethics is what so often is said about it, an oxymoron. For anything so directly concerned with self-promotion couldn't possibly be justified as being motivated impartially? With business as an honorable profession, it can now be appreciated that the field has some unique tasks where one faces temptations to go wrong, to become corrupted, no more or less so than in medicine, art, science, and education.

Business ethics as taught in our time mostly by those who make of it a kind of business bashing. What the courses and books teach is that business needs taming because it is, well, a kind of wild beast, driven by a motive of self-regard, profit, that is amoral so it needs to be civilized, socialized. Thus, much of so-called business ethics focuses on public policy -- law and government regulation. All of what in other fields may be taken to be ethical pitfalls are, in business, addressed by some government regulatory agency. This isn't so, evidently, with religion or journalism, at least in the USA, because our system of law prohibits the regimentation of professionals in these fields. But then those fields do not face the obstacle of having prudence as their main justification. If, however, we acknowledge that business is honorable -- a genuine profession that can be practice with honor -- and does not require constant paternalistic government intervention, we run afoul of a lot of political thinking loose in the halls of Ivy. The reason is not difficult to see.

What do you believe formed your ethical foundation? You can't determine that without a personal or organizational definition of what it means to you (or the firm) to behave ethically. For example, one



person might believe that egregious acts, such as murder, cross an ethical line but all else are 'fair game'. Another person might believe that to lie to someone or to gain personal profit at the expense of another is unethical, while yet another individual might fervently believe that any means are appropriate to reach an end goal that is personally satisfying.

Consider these real-world examples:

A colleague shared with us a story of a person who contacted her about how to best avoid the negative implications of bankruptcy, which he was going to pursue to relieve him of the burden of personal debts he had accumulated. His question was not, "Is it ethical to claim bankruptcy just to make it easier for me?" but rather "I know there are negative consequences of doing this; how do I avoid them?" Our colleague, not the person pondering bankruptcy-for-convenience, considered this an ethical violation, and others consider such behavior both unethical and an abdication of one's personal responsibility.

In another real-world example, a person solicited and accepted a job with a small company for the sole purpose of qualifying for a mortgage, all the while communicating his interest in staying with the firm for a long period of time. Once the mortgage was approved, within a few months of joining the firm, he gave notice of his resignation while covertly negotiating with one of the firm's clients to hire him as an independent consultant after he left the firm. The ink was still drying on his new contract while he told his soon-to-be-former colleagues he wasn't sure what he'd be doing next. In hearing this story, we must assume that this person didn't think his behavior was unethical, or at least not enough so to choose a more honest — or ethical — approach.

Ethics assumes that people have free will and that the choice between right and wrong conduct must itself be free, not coerced, compelled by others. That precludes a great deal of government intervention. What is tantamount to prior restraint -- now on the books. Even more controversially -- and here many in business join the skeptics -- there would have to be firm, stable standards by which business conduct can be guided and evaluated. Some things might well be wrong to choose, even though they could not be subject to prohibition.

One could argue, for example, that racial prejudice in business is really morally wrong, not just unlawful. Sexism, bigotry, unfairness, callous management, ripping off employers, stereotyping customers in advertising, peddling risky stuff to children, taking advantage of political favoritism, exploiting tyrannical systems abroad so as to get low cost labor, etc., could all be seen as ethically objectionable, something many people in business might not wish to give up because they gain some temporary benefits from it. (That many in business actually do not wish to take all such short cuts is evident from the fact that 26% of the 544 largest US firms do not even give money to political candidates -- e.g., IBM, Campbell Soup and Gillette). If, however, one regards business as lacking moral standing, incapable of being carried out honorably, then ethics is irrelevant and everyone in business looks only to what is legally permitted, never mind any other standard of conduct.

If China has favorite nation status, then dealing with it is OK, never mind any slave labor being used in its manufacturing plants. If South Africa is not under official sanctions, well then just take advantage of the cheap black labor there. If the law permits lobbying for protectionism, well then William F. Farley, CEO of Fruit of the Loom, can exclaim "I make no apology for fighting for the interest of Fruit of the Loom's shareholders and the American workers we employ" as he asks the government to de-ploy restraint of



trade against foreign importers, never mind that this is really nothing else than sending extortionists to level the playing field.”

In today's demanding business world of global expansion, corporate downsizing, increased government regulations and new technologies, people at all levels of an organization must make decisions quickly and perform with high levels of accuracy, efficiency and success. If their company's core business processes are not grounded in sound values, such as integrity, respect, trust and fairness, these individuals are exposed to ethical vulnerabilities that could lead to fraudulent, discriminatory, even illegal activities.

A January 1995 article in the *California Management Review* entitled, “Business Ethics: A View from the Trenches,” reported the results of in-depth interviews that had been conducted with 30 recent Harvard MBA graduates. Among their comments:

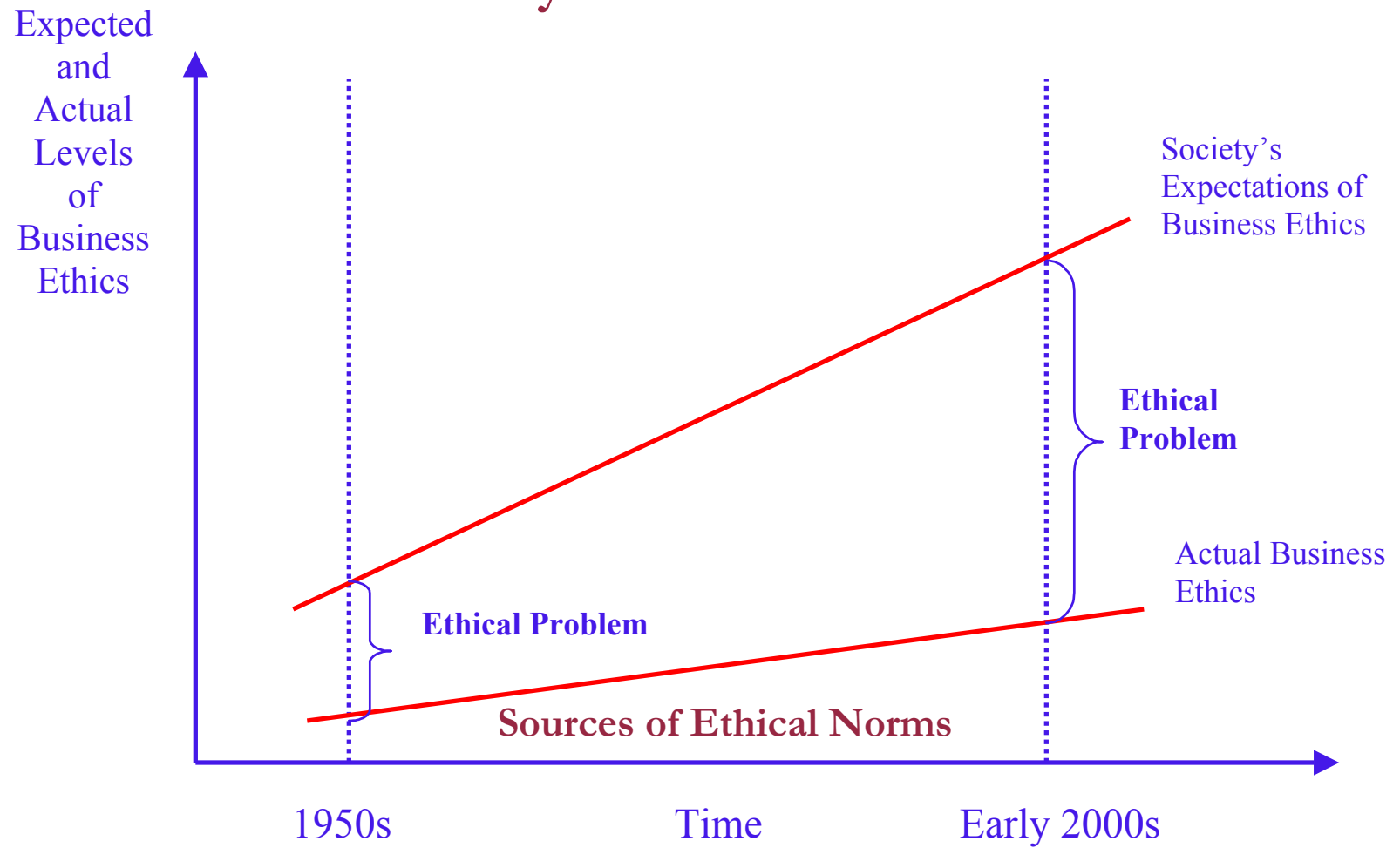
- Organizational executives are out of touch about ethical issues
- Organizational pressures as opposed to character flaws lead people to act unethically
- Whistle-blowing is a professional hazard
- Staff-level employees often receive explicit instruction from middle managers to do unethical or illegal things like overlooking kickback schemes or supporting cover-ups involving sexual harassment; and
- Questionable behavior does not hurt; in fact, in some cases it seems to accelerate career advancement.

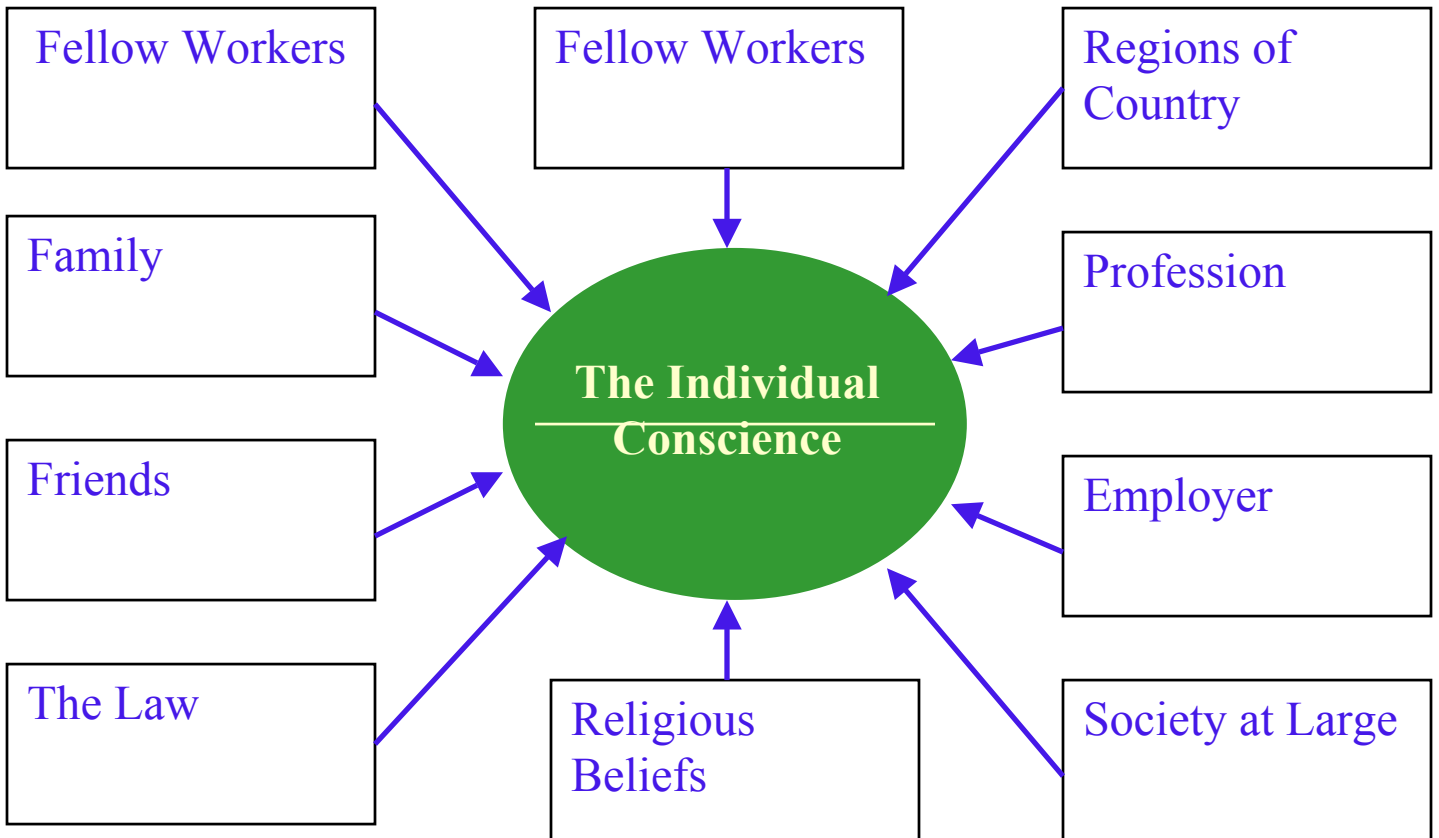
These findings are disturbing especially in light of the fact that unethical behavior among North American companies costs about \$100 billion a year to investigate and resolve the activities in question and to put mechanisms in place to ensure that problems do not reoccur. That's the bad news. The good news is that many business leaders are studying the corporate culture and climate of their organizations. As a result, they are embracing the concept of the “business ethic process.”

The expectations of the society regarding the business ethics had been considerably changing in accordance with the changed environment. As seen in the chart given below the expectations have in fact increased over time. Further scandals like Enron and Anderson has also led to people demanding more ethical behaviour from the organizations



Business Ethics: Today vs. Earlier Period





The different people as showed in the figure above influence the individual when making ethical judgments. In a workplace the fellow workers and the employer play a major role as to how an individual reacts when faced with an ethical question. Further friends and the society in which he lives has certain values which will ultimately decide as to how he will react in such a situation.

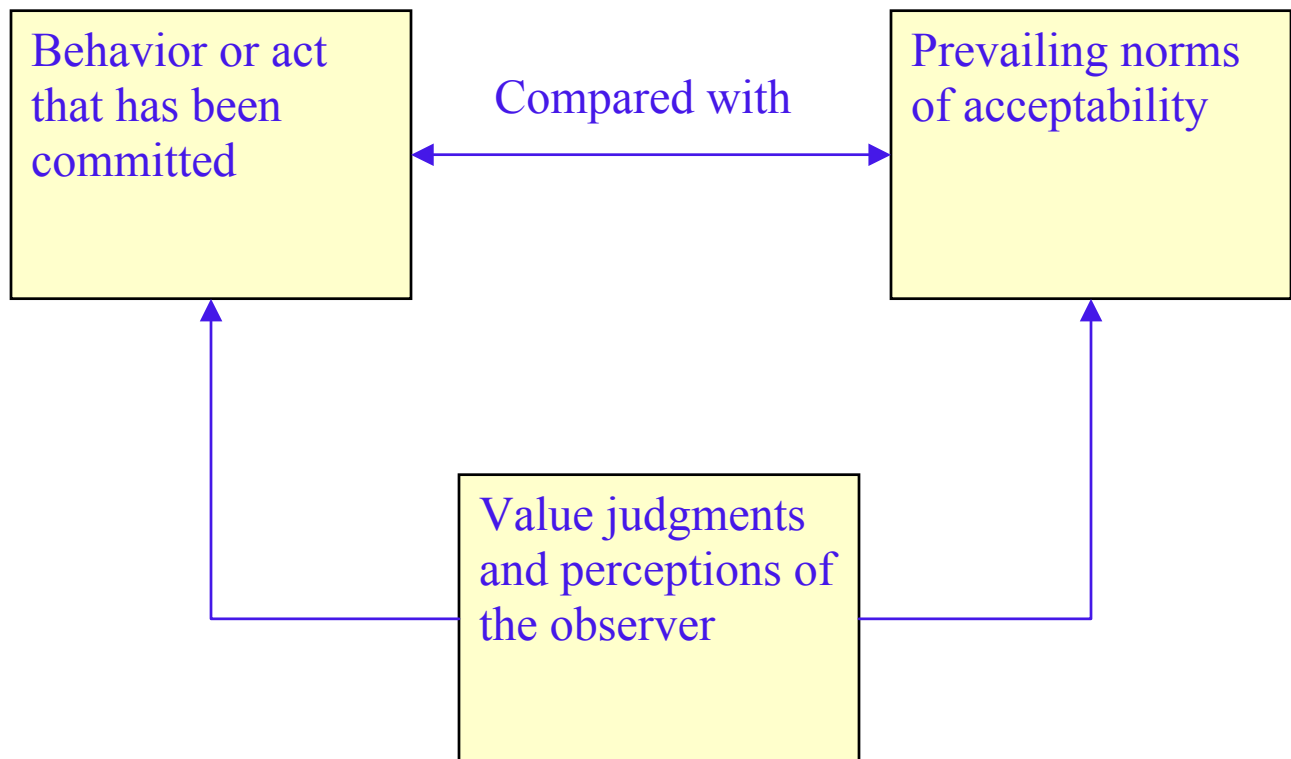
The religious beliefs will also influence the person. The profession to which a person belongs influence the way a person behaves in more than many ways. For example if a person is a Chartered Accountant he is governed by the rules and regulations of The Chartered Accountants Act, 1949. He is supposed to follow



the code of ethics as prescribed by the institute. This will influence his behavior to act in way different than that of an engineer who is not governed by any law.

Making ethical judgments by an individual will depend on certain factors that have been shown in the figure as shown below. Whenever an act or behaviour is committed it is always compared with the prevailing norms. Judgments are always formed on the basis of existing perceptions and value judgments of the observer. Ethical judgments depend upon the way events have been viewed by the observer. To some individuals some ethics may mean to have certain value and some people don't care a bit. The model shown below just shows how exactly judgments and ethics go together.

Making Ethical Judgments





According to Kenneth Blanchard and Norman Vincent Peale, authors of *The Power of Ethical Management*, there are three questions you should ask yourself whenever you are faced with an ethical dilemma.

- **Is it legal?** In other words, will you be violating any criminal laws, civil laws or company policies by engaging in this activity?
- **Is it balanced?** Is it fair to all parties concerned both in the short-term as well as the long-term? Is this a win-win situation for those directly as well as indirectly involved?
- **Is it right?** Most of us know the difference between right and wrong, but when push comes to shove, how does this decision make you feel about yourself? Are you proud of yourself for making this decision? Would you like others to know you made the decision you did?

Most of the time, when dealing with "gray decisions", just one of these questions is not enough. But by taking the time to reflect on all three, you will often times find that the answer becomes very clear.

Approaches to Ethical management:

The utilitarian approach:

Which option will do the most good and the least harm for the most people? You can see this analysis at work in discussions of smallpox vaccinations for health care workers or for all Americans. Is the risk of a terrorist attack with smallpox serious enough to justify the risk of adverse reactions to the vaccination itself?

The social justice approach:

It asks what's fair to all stakeholders. This question is always at the heart of discussions about affirmative action, a debate that resurfaced with the Supreme Court's decision to hear a case challenging race-conscious admissions policies at the University of Michigan.

The rights approach:

This focuses on the legitimate claims we make on each other, such as life and liberty. One current rights question is, Can cyber criminals be prevented from using the Internet once they have served their sentences? Courts in different areas of the country have disagreed about whether the Internet has become so integral to daily life that restricting access is too great an infringement on the ex-convicts' liberty.

The virtue approach:



It asks whether any given action demonstrates human behavior at its best, displaying compassion, courage, honesty or other ideals?

Consciously thinking through these ethical approaches can improve our understanding and our decisions. But it doesn't guarantee unambiguous answers. It's possible that the choice suggested by one approach may conflict with that suggested by another.

Each person may weigh the ethical arguments differently. But a systematic approach can clarify complex situations and help us come to an answer that represents people striving to be their best.

Ethical failures:

There are two kinds of ethics failures: *moral* and *economic*. Moral failures may or may not result in an economic cost. For moral purposes alone many ethicists argue that strong ethics standards are needed for a healthy society.

Economic ethics failures can easily justify an ethics management program. Economic ethics failures can be grouped into two categories: *external* and *internal*. Most ethics policies are directed toward preventing external failures such as legal liabilities, safety risks, theft, or any negative response from parties outside the organization. External failures are significant in their own right and cost companies billions every year.

The greatest economic benefits however of effective ethics management can be found in the *internal* failure category. These "micro" ethics failures rarely are visible on the ethics policy radar screens and typically do not result in external failure costs. They are the little noticed behavior patterns in the organization's social system, or operating culture, that result in constraints to operating performance. These little failures are responsible for over half of all Quality Costs, or 5-15% of all operating costs. Using these conservative estimates, the internal cost of poor ethics can be the single largest quality cost item in many firms.

So what do ethics failures cost companies? The answer is "much more than they realize, and certainly more than they can afford."

Myths about business ethics:

Business ethics in the workplace is about prioritizing moral values for the workplace and ensuring behaviors are aligned with those values -- it's values management. Yet, myths abound about business ethics. Some of these myths arise from general confusion about the notion of ethics. Other myths arise from narrow or simplistic views of ethical dilemmas.

Myth 1: Business ethics is more a matter of religion than management.

Altering people's values or souls isn't the aim of an organizational ethics program -- managing values and conflict among them is..."

Myth 2: Our employees are ethical so we don't need attention to business ethics.



Most of the ethical dilemmas faced by managers in the workplace are highly complex. They have a significant ethical conflict when there is presence of a) significant value conflicts among differing interests, b) real alternatives that are equally justifiable, and c) significant consequences on "stakeholders" in the situation. When the topic of business ethics comes up, people are quick to speak of the Golden Rule, honesty and courtesy. But when presented with complex ethical dilemmas, most people realize there's a wide "gray area" when trying to apply ethical principles.

Myth 3: Business ethics is a discipline best led by philosophers, academics and theologians.

Lack of involvement of leaders and managers in business ethics literature and discussions has led many to believe that business ethics is a fad or movement, having little to do with the day-to-day realities of running an organization. They believe business ethics is primarily a complex philosophical debate or a religion. However, business ethics is a management discipline with a programmatic approach that includes several practical tools. Ethics management programs have practical applications in other areas of management areas, as well.

Myth 5: Business ethics is superfluous -- it only asserts the obvious: "do good!"

Many people react that code of ethics, or lists of ethical values to which the organization aspires, are rather superfluous because they represent values to which everyone should naturally aspire. However, the value of codes of ethics to an organization is its priority and focus regarding certain ethical values in that workplace. For example, it's obvious that all people should be honest. However, if an organization is struggling around continuing occasions of deceit in the workplace, a priority on honesty is very timely -- and honesty should be listed in that organization's code of ethics. A code of ethics is an organic instrument that changes with the needs of society and the organization.

Myth 6: Business ethics is a matter of the good guys preaching to the bad guys.

Some writers do seem to claim a moral high ground while lamenting the poor condition of business and its leaders. However, those people well versed in managing organizations realize that good people can take bad actions, particularly when stressed or confused. (Stress or confusion is not excuses for unethical actions -- they are reasons.) Managing ethics in the workplace includes all of us working together to help each other remain ethical and to work through confusing and stressful ethical dilemmas.

Myth 7: Business ethics in the new policeperson on the block.

Many believe business ethics is a recent phenomenon because of increased attention to the topic in popular and management literature. However, business ethics was written about even 2,000 years ago -- at least since Cicero wrote about the topic in his *On Duties*. Business ethics has gotten more attention recently because of the social responsibility movement that started in the 1960s.

Myth 8: Ethics can't be managed.

Actually, ethics is always "managed" -- but, too often, and indirectly. For example, the behavior of the organization's founder or current leader is a strong moral influence, or directive if you will, on behavior or



employees in the workplace. Strategic priorities (profit maximization, expanding market share, cutting costs, etc.) can be very strong influences on morality. Laws, regulations and rules directly influence behaviors to be more ethical, usually in a manner that improves the general good and/or minimizes harm to the community. Some are still skeptical about business ethics, believing you can't manage values in an organization. Skeptics might consider the tremendous influence of several "codes of ethics," such as the "10 Commandments" in Christian religions or the U.S. Constitution. Codes can be very powerful in smaller "organizations" as well.

Myth 9: Business ethics and social responsibility is the same thing.

The social responsibility movement is one aspect of the overall discipline of business ethics. Business ethics also means to be: 1) an application of ethics to the corporate community, 2) a way to determine responsibility in business dealings, 3) the identification of important business and social issues, and 4) a critique of business. Writings about social responsibility often do not address practical matters of managing ethics in the workplace, e.g., developing codes, updating policies and procedures, approaches to resolving ethical dilemmas, etc.

Myth 10: Our organization is not in trouble with the law, so we're ethical.

One can often be unethical, yet operate within the limits of the law, e.g., withhold information from superiors, fudge on budgets, constantly complain about others, etc. However, breaking the law often starts with unethical behavior that has gone unnoticed. The "boil the frog" phenomena are a useful parable here: If you put a frog in hot water, it immediately jumps out. If you put a frog in cool water and slowly heat up the water, you can eventually boil the frog. The frog doesn't seem to notice the adverse change in its environment.

Myth 11: Managing ethics in the workplace has little practical relevance.

Managing ethics in the workplace involves identifying and prioritizing values to guide behaviors in the organization, and establishing associated policies and procedures to ensure those behaviors are conducted. One might call this "values management." Values management is also highly important in other management practices, e.g., managing diversity, Total Quality Management and strategic planning.

Developing an organizations Ethics Policy

There are definite advantages of wanting to establish an ethics policy in the organization. You see, ethics come from the top. Without setting an example at the top, it is often difficult, if not impossible, to convince your employees that they too should be ethical in their business dealings. A well-defined ethics policy along with an outline of related standards of conduct provides the framework for ethical, moral behavior within the organization.

What is the benefit to developing such a policy, you may be wondering. The benefit is higher employee morale and commitment, which in most cases leads to higher profits. But higher profits should not be your motivating factor in defining your ethics policy.



An ethics policy should look at the bigger picture of how we relate to society as a whole and what our responsibility is to the greater good. Of course, in these days of downsizing and increasing change, some may argue that these ideals are unrealistic. However, it is important to note that most of the opponents of good ethics are focusing on short-term versus long-term results. Many organizations that have participated in the downsizing mania are beginning to realize that they have traded long-term employee morale and productivity for short-term profit margins.

The bottom line is "what goes around, comes around." If you treat your employees with disrespect and distrust, chances are they will do the same toward you.

When you are developing your ethics policy, you must decide what it is you want your company to stand for, put it in writing, and enforce it. The ethics policy of an organization should be based on five fundamental principles:

- **Purpose.** A purpose combines both vision as well as the values you would like to see upheld in the organization. It comes from the top and outlines specifically what is considered acceptable as well as unacceptable in terms of conduct in the organization.
- **Pride.** Pride builds dignity and self-respect. If employees are proud of where they work and what they are doing, they are much more apt to act in an ethical manner.
- **Patience.** Since you must focus on long-term versus short-term results, you must develop a certain degree of patience. Without it, you will become too frustrated and will be more tempted to choose unethical alternatives.
- **Persistence.** Persistence means standing by your word. It means being committed. If you are not committed to the ethics you have outlined, then they become worthless. Stand by your word.
- **Perspective.** In a world where there is never enough time to do everything we need or want to do, it is often difficult to maintain perspective. However, stopping and reflecting on where your business is headed, why you are headed that way, and how you are going to get there allows you to make the best decisions both in the short-term as well as the long-term.

A company policy is a reflection of the values deemed important to the business. As you develop your ethics policy, focus on what you would like the world to be like, not on what others tell you it is.

Benefits of managing ethics in the first place

Many people are used to reading or hearing of the moral benefits of attention to business ethics. However, there are other types of benefits, as well. The following list describes various types of benefits from managing ethics in the workplace.

1. Attention to business ethics has substantially improved society.

A matter of decades ago, children in our country worked 16-hour days. Workers' limbs were torn off and disabled workers were condemned to poverty and often to starvation. Trusts controlled some markets to the extent that prices were fixed and small businesses choked out. Price fixing crippled normal market forces. Employees were terminated based on personalities. Influence was applied through intimidation and



harassment. Then society reacted and demanded that businesses place high value on fairness and equal rights. Anti-trust laws were instituted. Government agencies were established. Unions were organized. Laws and regulations were established.

2. Ethics programs help maintain a moral course in turbulent times.

Attention to business ethics is critical during times of fundamental change -- times much like those faced now by businesses, both nonprofit or for-profit. During times of change, there is often no clear moral compass to guide leaders through complex conflicts about what is right or wrong. Continuing attention to ethics in the workplace sensitizes leaders and staff to how they want to act -- consistently.

3. Ethics programs cultivate strong teamwork and productivity.

Ethics programs align employee behaviors with those top priorities ethical values preferred by leaders of the organization. Usually, an organization finds surprising disparity between its preferred values and the values actually reflected by behaviors in the workplace. Ongoing attention and dialogue regarding values in the workplace builds openness, integrity and community -- critical ingredients of strong teams in the workplace. Employees feel strong alignment between their values and those of the organization. They react with strong motivation and performance.

4. Ethics programs support employee growth and meaning.

Attention to ethics in the workplace helps employees face reality, both good and bad -- in the organization and themselves. Employees feel full confidence they can admit and deal with whatever comes their way. Bennett, in his article "Unethical Behavior, Stress Appear Linked" (*Wall Street Journal*, April 11, 1991, p. B1), explained that a consulting company tested a range of executives and managers. Their most striking finding: the more emotionally healthy executives, as measured on a battery of tests, the more likely they were to score high on ethics tests.

5. Ethics programs are an insurance policy -- they help ensure that policies are legal.

There is an increasing number of lawsuits in regard to personnel matters and to effects of an organization's services or products on stakeholders. As mentioned earlier in this document, ethical principles are often state-of-the-art legal matters. These principles are often applied to current, major ethical issues to become legislation. Attention to ethics ensures highly ethical policies and procedures in the workplace. It's far better to incur the cost of mechanisms to ensure ethical practices now than to incur costs of litigation later. A major intent of well-designed personnel policies is to ensure ethical treatment of employees, e.g., in matters of hiring, evaluating, disciplining, firing, etc. An employer can be subject to suit for breach of contract for failure to comply with any promise it made, so the gap between stated corporate culture and actual practice has significant legal, as well as ethical implications.

6. Ethics programs help avoid criminal acts "of omission" and can lower fines.



Ethics programs tend to detect ethical issues and violations early on so they can be reported or addressed. In some cases, when an organization is aware of an actual or potential violation and does not report it to the appropriate authorities, this can be considered a criminal act, e.g., in business dealings with certain government agencies, such as the Defense Department. However, the guidelines potentially lower fines if an organization has clearly made an effort to operate ethically.

7. Ethics programs help manage values associated with quality management, strategic planning and diversity management -- this benefit needs far more attention.

Ethics programs identify preferred values and ensuring organizational behaviors are aligned with those values. This effort includes recording the values, developing policies and procedures to align behaviors with preferred values, and then training all personnel about the policies and procedures. This overall effort is very useful for several other programs in the workplace that require behaviors to be aligned with values, including quality management, strategic planning and diversity management. Total Quality Management includes high priority on certain operating values, e.g., trust among stakeholders, performance, reliability, measurement, and feedback. Eastman and Polaroid use ethics tools in their quality programs to ensure integrity in their relationships with stakeholders.

Ethics management techniques are highly useful for managing strategic values, e.g., expand market share, reduce costs, etc. McDonnell Douglas integrates their ethics programs into their strategic planning process. Ethics management programs are also useful in managing diversity. Diversity is much more than the color of people's skin -- it's acknowledging different values and perspectives. Diversity programs require recognizing and applying diverse values and perspectives -- these activities are the basis of a sound ethics management program.

8. Ethics programs promote a strong public image.

Attention to ethics is also strong public relations -- admittedly, managing ethics should not be done primarily for reasons of public relations. But, frankly, the fact that an organization regularly gives attention to its ethics can portray a strong positive to the public. People see those organizations as valuing people more than profit, as striving to operate with the utmost of integrity and honor. Aligning behavior with values is critical to effective marketing and public relations programs. Consider how Johnson and Johnson handled the Tylenol crisis versus how Exxon handled the oil spill in Alaska. Bob Dunn, President and CEO of San Francisco-based Business for Social Responsibility, puts it best: "Ethical values, consistently applied, are the cornerstones in building a commercially successful and socially responsible business."

9. Overall benefits of ethics programs:

Business Ethics? Yes, But What Can it Do for the Bottom Line?" Managing ethical values in the workplace legitimizes managerial actions, strengthens the coherence and balance of the organization's culture, improves trust in relationships between individuals and groups, supports greater consistency in standards and qualities of products, and cultivates greater sensitivity to the impact of the enterprise's values and messages.



10. Last - and most -- formal attention to ethics in the workplace is the right thing to do.

One Description of a Highly Ethical Organization

The following are the principles for highly ethical organizations:

1. There exists a clear vision and picture of integrity throughout the organization.
2. The vision is owned and embodied by top management, over time.
3. The reward system is aligned with the vision of integrity.
4. Policies and practices of the organization are aligned with the vision; no mixed messages
5. It is understood that every significant management decision has ethical value dimensions.
6. Everyone is expected to work through conflicting-stakeholder value perspectives.
7. They are at ease interacting with diverse internal and external stakeholder groups. The ground rules of these firms make the good of these stakeholder groups part of the organizations' own good.
8. They are obsessed with fairness. Their ground rules emphasize that the other persons' interests count as much as their own.
10. Responsibility is individual rather than collective, with individuals assuming personal responsibility for actions of the organization. These organizations' ground rules mandate that individuals are responsible to themselves.
11. They see their activities in terms of purpose. This purpose is a way of operating that members of the Organization highly value. And purpose ties the organization to its environment.

The components of an effective ethics program include:

- A well-drafted and enforceable Code of Ethics and Business Conduct;
- A "protected" mechanism for bringing complaints, concerns and Code interpretation questions forward (i.e. complainants should be assured about lack of retaliation, confidentiality to the extent possible, and procedural fairness);



• An effective training and reinforcement program which seeks to communicate standards of proper business conduct;

- Agreement to comply with the Code as a condition of initial and continued employment, with compliance incorporated into business objectives as well as individual performance appraisals;
- Accountability and reporting mechanisms, including proper measurement, auditing and feedback;
- Regular reporting to the board or a special committee on matters including compliance reviews, program effectiveness and risk assessment, as well as the establishment of regular opportunities for board input
- Most importantly, a tangible commitment by senior management and leadership by the board in overseeing the corporate compliance program.

Integrating these elements into a coherent and effective values-based ethics program can accomplish a number of objectives

- First, it creates and sustains an ethical corporate culture that guides decision-making throughout the company.
- Second, it demonstrates to the public, government, regulators, employees, customers, suppliers, investors and competitors that the company's ethics program is soundly managed and that the company is trustworthy.
- Third, it promotes high levels of individual and corporate performance and compliance. Fourth, an effective ethics program educates employees and management about the company's principles and values and helps them determine appropriate business practices and behaviour.
- Lastly – and very significantly – an effective, comprehensive program helps to demonstrate that the directors are diligent in exercising their duty of care.

Ethics Management Programs: An Overview

About Ethics Management Programs

Organizations can manage ethics in their workplaces by establishing an ethics management program. Typically, ethics programs convey corporate values, often using codes and policies to guide decisions and behavior, and can include extensive training and evaluating, depending on the organization. They provide guidance in ethical dilemmas. Rarely are two programs alike. All organizations have ethics programs, but most do not know that they do. A corporate ethics program is made up of values, policies and activities that impact the propriety of organization behaviors.



Balancing competing values and reconciling them is a basic purpose of an ethics management program. Business people need more practical tools and information to understand their values and how to manage them.

Benefits of Managing Ethics as a Program

There are numerous benefits in formally managing ethics as a program, rather than as a one-shot effort when it appears to be needed.

Ethics programs:

- Establish organizational roles to manage ethics
- Schedule ongoing assessment of ethics requirements
- Establish required operating values and behaviors
- Align organizational behaviors with operating values
- Develop awareness and sensitivity to ethical issues
- Integrate ethical guidelines to decision making
- Structure mechanisms to resolving ethical dilemmas
- Facilitate ongoing evaluation and updates to the program
- Help convince employees that attention to ethics is not just a knee-jerk reaction done to get out of trouble or improve public image

Guidelines for Managing Ethics in the Workplace

The following guidelines ensure the ethics management program is operated in a meaningful fashion:

1. Recognize that managing ethics is a process.

Ethics is a matter of values and associated behaviors. Values are discerned through the process of ongoing reflection. Therefore, ethics programs may seem more process-oriented than most management practices. Managers tend to be skeptical of process-oriented activities, and instead prefer processes focused on deliverables with measurements. However, experienced managers realize that the deliverables of standard management practices (planning, organizing, motivating, controlling) are only tangible representations of very process-oriented practices. For example, the process of strategic planning is much more important than the plan produced by the process. The same is true for ethics management. Ethics programs do produce deliverables, e.g., codes, policies and procedures, budget items, meeting minutes,



authorization forms, newsletters, etc. However, the most important aspect from an ethics management program is the process of reflection and dialogue that produces these deliverables.

2. *The bottom line of an ethics program is accomplishing preferred behaviors in the workplace*

. As with any management practice, the most important outcome is behaviors preferred by the organization. The best of ethical values and intentions are relatively meaningless unless they generate fair and just behaviors in the workplace. That's why practices that generate lists of ethical values, or codes of ethics, must also generate policies, procedures and training that translate those values to appropriate behaviors.

3. *The best way to handle ethical dilemmas is to avoid their occurrence in the first place.*

That's why practices such as developing codes of ethics and codes of conduct are so important. Their development sensitizes employees to ethical considerations and minimizes the chances of unethical behavior occurring in the first place.

4. *Make ethics decisions in groups, and make decisions public, as appropriate.*

This usually produces better quality decisions by including diverse interests and perspectives, and increases the credibility of the decision process and outcome by reducing suspicion of unfair bias.

5. *Integrate ethics management with other management practices.*

When developing the values statement during strategic planning, include ethical values preferred in the workplace. When developing personnel policies, reflect on what ethical values you'd like to be most prominent in the organization's culture and then design policies to produce these behaviors.

6. *Use cross-functional teams when developing and implementing the ethics management program.*

It's vital that the organization's employees feel a sense of participation and ownership in the program if they are to adhere to its ethical values. Therefore, include employees in developing and operating the program.

7. *Value forgiveness.*

This may sound rather religious or preachy to some, but it's probably the most important component of any management practice. An ethics management program may at first actually increase the number of ethical issues to be dealt with because people are more sensitive to their occurrence. Consequently, there may be more occasions to address people's unethical behavior. The most important ingredient for remaining ethical is trying to be ethical. Therefore, help people recognize and address their mistakes and then support them to continue to try operating ethically.



8. Note that trying to operate ethically and making a few mistakes is better than not trying at all.

Some organizations have become widely known as operating in a highly ethical manner, e.g., Ben and Jerrys, Johnson and Johnson, Aveda, Hewlett Packard, etc. Unfortunately, it seems that when an organization achieves this strong public image, some business ethics writers place it on a pedestal. All organizations are comprised of people and people are not perfect. However, when a mistake is made by any of these organizations, the organization has a long way to fall. In our increasingly critical society, these organizations are accused of being hypocritical and social critics soon pillory them. Consequently, some leaders may fear sticking their necks out publicly to announce an ethics management program. This is extremely unfortunate. It's the *trying* that counts and brings peace of mind -- not achieving a heroic status in society.

Key Roles and Responsibilities in Ethics Management

Depending on the size of the organization, certain roles may prove useful in managing ethics in the workplace. These can be full-time roles or part-time functions assumed by someone already in the organization. Small organizations certainly will not have the resources to implement each the following roles using different people in the organization. However, the following functions points out responsibilities that should be included somewhere in the organization.

1. *The organization's chief executive must fully support the program.*

If the chief executive isn't fully behind the program, employees will certainly notice -- and this apparent hypocrisy may cause such cynicism that the organization may be worse off than having no formal ethics program at all. Therefore, the chief executive should announce the program, and champion its development and implementation. Most important, the chief executive should consistently aspire to lead in an ethical manner. If a mistake is made, admit it.

2. *Consider establishing an ethics committee at the board level.*

The committee would be charged to oversee development and operation of the ethics management program.

3. *Consider establishing an ethics management committee.*

It would be charged with implementing and administrating an ethics management program, including administrating and training about policies and procedures, and resolving ethical dilemmas. The committee should be comprised of senior officers.

4. *Consider assigning/developing an ethics officer.*

This role is becoming more common, particularly in larger and more progressive organizations. The ethics officer is usually trained about matters of ethics in the workplace, particularly about resolving ethical dilemmas.



5. Consider establishing an ombudsperson.

The ombudsperson is responsible to help coordinate development of the policies and procedures to institutionalize moral values in the workplace. This position usually is directly responsible for resolving ethical dilemmas by interpreting policies and procedures.

6. Note that one person must ultimately be responsible for managing the ethics management program.

It is usually the leader of the organization who is ultimately responsible and he must set an example of being so called “ethical”.

Ethics as such is very subjective but it is necessary. The more ethical the behaviour is the more acceptable it becomes to the society at large. More over the importance of ethics in business is increasing say by day as more and more people are getting integrated into the business environment.